

IASB Technical Update: Primary Financial Statements

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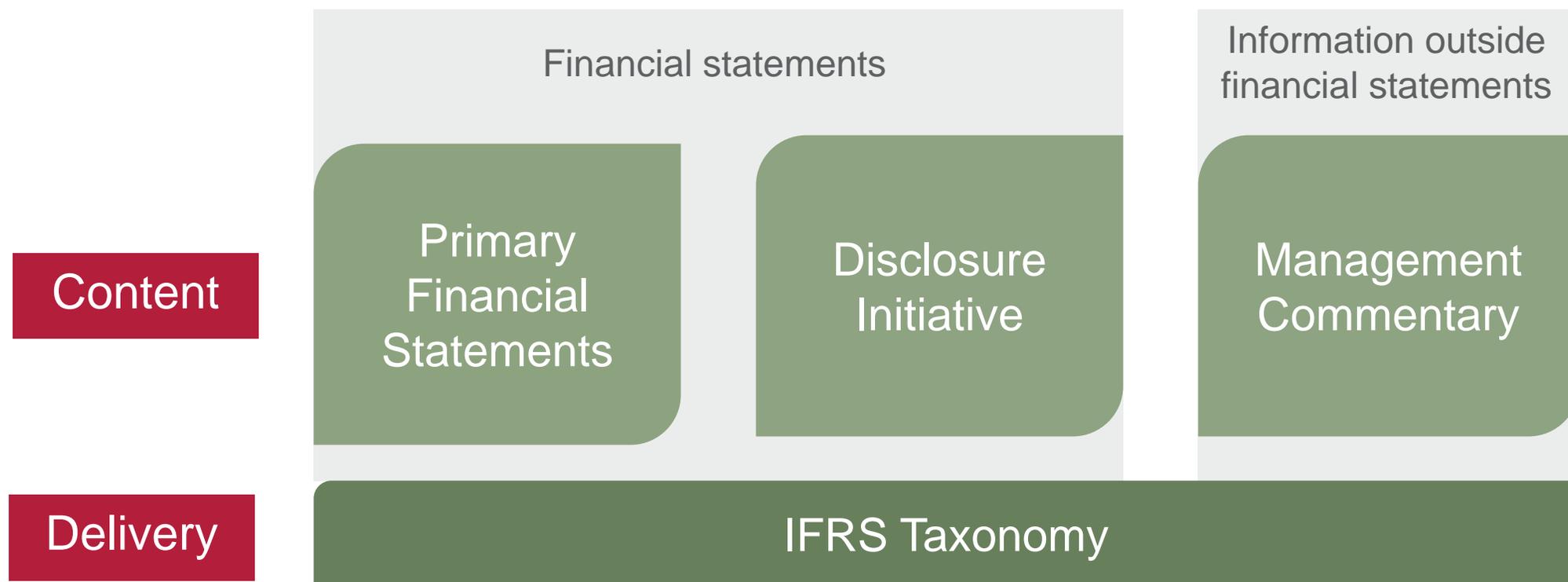
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Better Communication in Financial Reporting

- Primary Financial Statements
- Disclosure Initiative
- Management Commentary
- IFRS Taxonomy

Better Communication in Financial Reporting



Primary Financial Statements

Primary Financial Statements (PFS)—Overall project objective



Objective of the Primary Financial Statements project

Targeted improvements to the primary financial statements with a focus on the statement(s) of financial performance



Primary Financial Statements

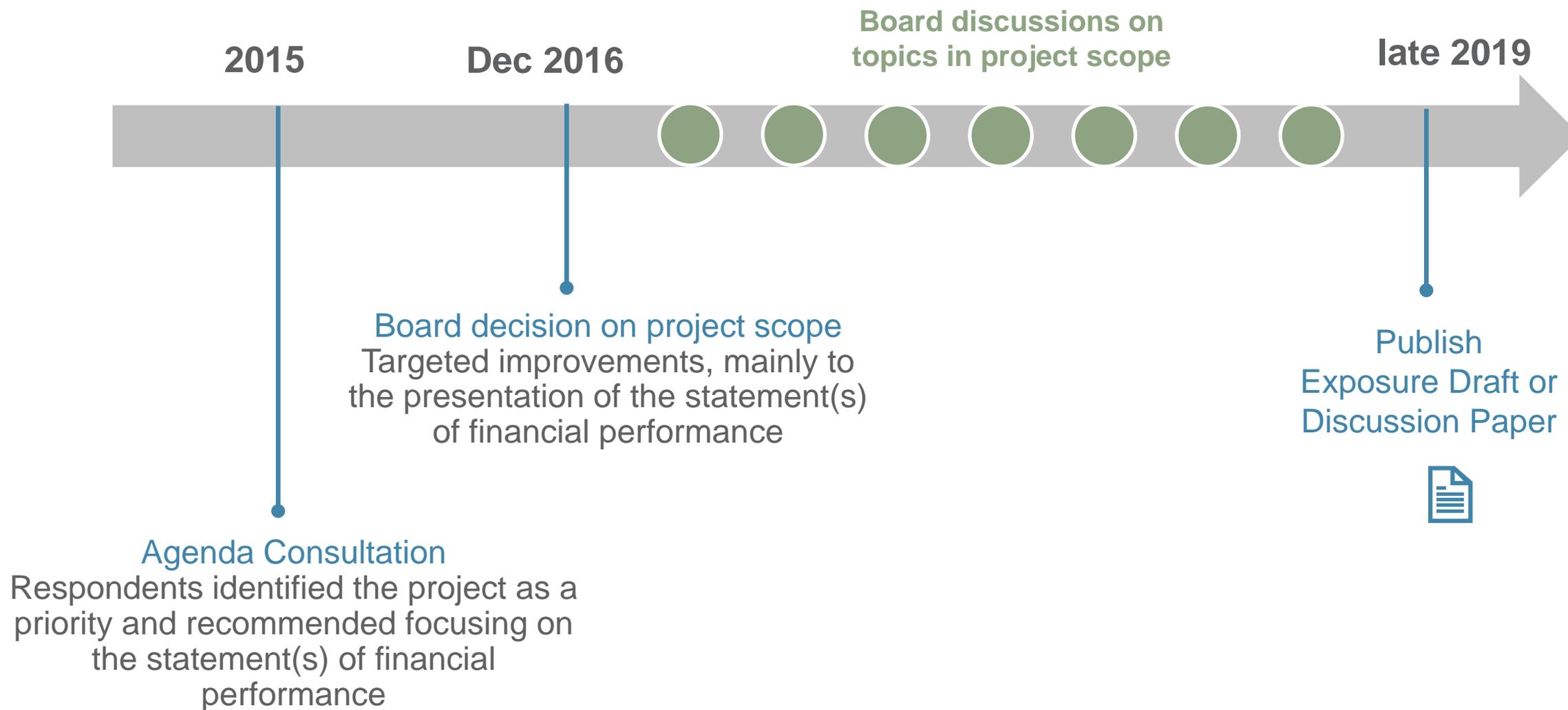
Statement(s) of financial performance

Statement of financial position

Statement of cash flows

Statement of changes in equity

PFS—Project timeline



PFS—Stakeholder feedback and key tentative Board decisions



Statements of financial performance are not sufficiently comparable between different companies

Introduce **defined subtotals** in the statement(s) of financial performance



Non-GAAP measures can provide useful information, but transparency needs to be improved

Introduce disclosure of **Management Performance Measures**



I need flexibility to tell my company's story

Improve **disaggregation**



There is insufficient disaggregation in financial statements

PFS—Full scope of the project

Statement(s) of financial performance	Statement of cash flows
Introduce subtotals & categories facilitating comparisons between entities: <ul style="list-style-type: none">• Operating, investing and financing categories• Presentation of share of profit of associates and JVs	Eliminate classification options (interest/dividends)
Introduce disclosure of management performance measures	Introduce consistent starting point for the indirect method
Improve communication of OCI	Prescribe classification of cash flows related to associates and JVs
Improving disaggregation in financial statements by:	
Introducing principles of disaggregation in financial statements	
Requiring disaggregation by nature or by function in the statement(s) of financial performance	
Requiring disclosure of unusual or infrequent items	
Requiring minimum line items in the primary financial statements	
Developing illustrative examples of primary financial statements for a small number of industries	

PFS—Introduce three defined subtotals in the statement of profit or loss

1

Operating profit

Excludes share of profit from **all** associates/JVs

2

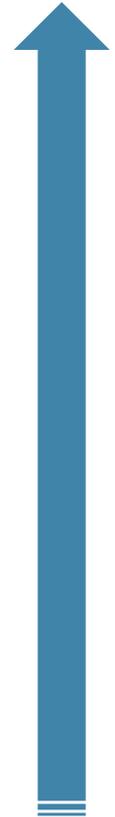
Operating profit and share of profit of integral associates/JVs

- Excludes **income/expenses from investments**, which are defined as ‘income/expenses from assets that generate a return individually and largely independently of other resources held by the entity’
- Excludes share of profit from **non-integral** associates and JVs

3

Profit before financing and income tax

- Excludes:
- Income/expenses arising from **financing activities**
 - Income from **cash and cash equivalents**
 - **Unwinding of discount** on liabilities that do not arise from financing activities



Defined bottom-up

PFS Defined subtotals —illustrative example for general corporates (by nature)

10

	Revenue	16,500
	Changes in inventories of finished goods and work in progress	(1,000)
	Raw material and consumables used	(6,000)
	Employee benefits expense	(4,000)
	Impairment of property, plant and equipment	(500)
	Depreciation expense	(1,200)
	Amortisation expense	(800)
1	Operating profit	3,000
	Share of profit of integral associates and JVs	500
2	Operating profit and share of profit or loss of integral associates and JVs	3,500
	Changes in the fair value of financial assets	250
	Dividend income	50
	Share of profit of non-integral associates and JVs	100
3	Profit before financing and income tax	3,900
	Interest income from cash and cash equivalents	100
	Expenses from financing activities	(1000)
	Unwinding of discount	(100)
	Profit before tax	2,900

PFS—Classification of income/expenses for financial entities

Starting point

(Tentative Board decisions for non-financials)

Present all 3 subtotals

All expenses from financing activities and income from cash & cash equivalents:

Financing

All income (expenses) from investments:

Investing

Tentative Board decisions for financial entities

If providing financing to customers is the main business activity, make accounting policy choice:

Allocate expenses from financing activities and income from cash & cash equivalents:

- Related to provision of financing to customers
- Not related to provision of financing to customers

Operating

Financing

OR

Present all expenses from financing activities and income from cash & cash equivalents in:

Operating

If the entity invests in the course of its main business activities:

Allocate income/expenses from investments:

- Investments in course of main business activities
- Investments not in course of main business activities

Operating

Investing

If no expenses from financing activities or income from cash & cash equivalents in financing category:

No 'profit before financing & tax' subtotal

Insurance finance expenses (income):

Operating



Preparers

I need flexibility to tell my company's story

Tentative Board decisions

Identify a measure (or measures) of profit that, in management's view, communicates the financial performance of the entity.

This measure will often be a subtotal or total specified by IFRS Standards, but could be a **management performance measure** (MPM) that complements those subtotals or totals.

If entities identify MPMs, they will usually be disclosed in the **notes**, because few will fit the structure of the statement(s) of financial performance

No specific constraints on the calculation of MPMs.



Users

Non-GAAP measures can provide useful information, but transparency needs to be improved

Tentative Board decisions

- Disclose a **reconciliation** in the **notes** between the MPM and the most directly comparable subtotal/total specified by IFRS Standards (*not* as a column on the face)
- Disclose the **effect on tax and non-controlling interests** separately for each reconciling item
- Explain any **differences** between MPMs and **segment** measures
- **Describe why** the MPMs provide management's view of performance and **how** they have been **calculated**
- **Label** MPMs in a **clear** and **understandable** way
- Explain any **changes over time** in calculation of MPMs

Tentative Board decisions

Single starting point for the indirect reconciliation: **Operating profit**

Removal of classification options for interest and dividends



Cash flow item	IAS 7 classification	Tentative Board decision— non-financial entities	Tentative Board decision— financial entities
Interest paid	Operating or financing	Financing	Operating or financing*
Dividends paid	Operating or financing	Financing	Financing
Interest received	Operating or investing	Investing	Operating, investing or financing*
Dividends received	Operating or investing	Investing	Operating or investing* (always investing for equity- accounted investments)

* Depends on classification of related income/expenses in P&L



Users

There is insufficient disaggregation in financial statements

Tentative Board decisions

Introduce improved principles, definitions and guidance on aggregation and disaggregation including specific principles to address large 'other' balances.

Require entities to disclose information about unusual and infrequent items in the notes, attributed to line items in the statement(s) of financial performance.

Require entities to present their primary analysis of expenses by nature **or** by function in the statement(s) of financial performance.

Develop illustrative examples for the primary financial statements for a small number of industries.

Board still to consider

Expanding the list of minimum required line items in the primary financial statements

Developing principle-based guidance for identifying unusual or infrequent items



New website
www.ifrs.org



Video



Leaflet
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Standards

Supporting materials sorted by Standard

IFRS Standards

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For example, for IFRS 9 *Financial Instruments*



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IFRS Standards Required 1 January 2019 (Blue Book)

The Annotated IFRS® Standards Required 2019 (Blue)

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