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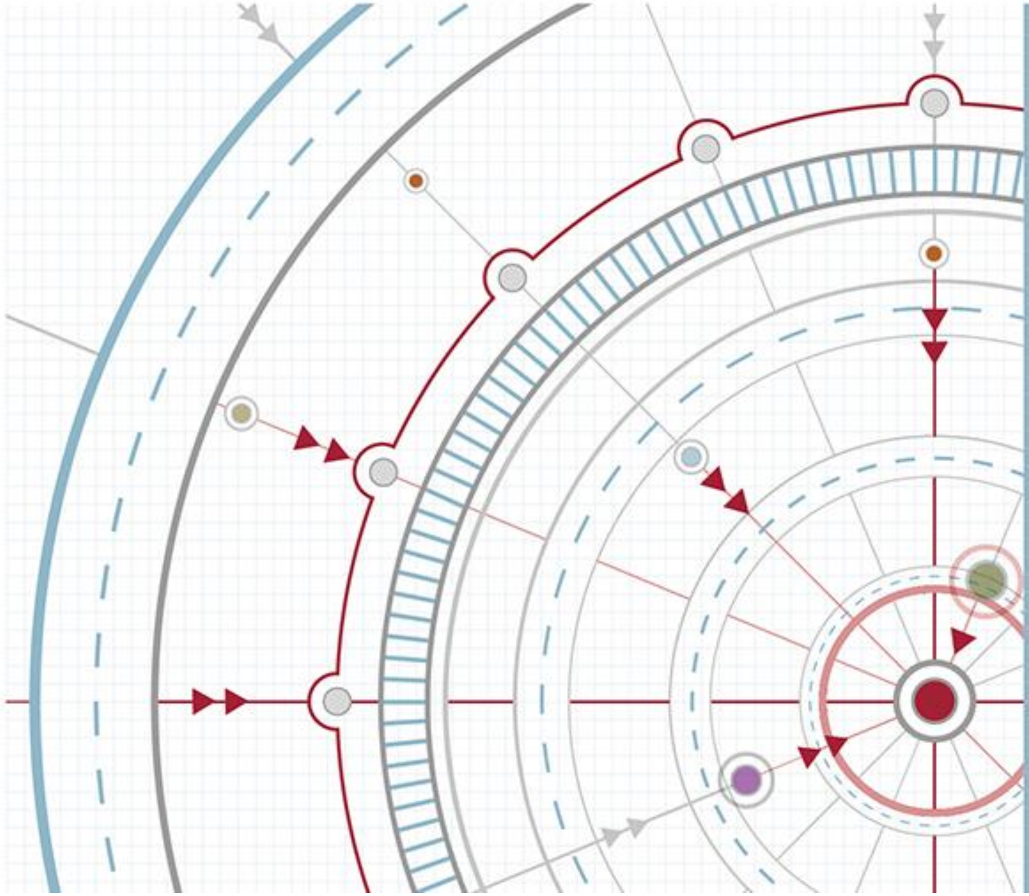

Exposure Draft

General Presentation and Disclosures

Quoted Companies Alliance, June 2020

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.

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Project background & overview

Background

- The Board published the ED in December 2019, in response to users’ demand to improve how information is communicated in the financial statements, with a focus on the statement of profit or loss.
- The Board is seeking feedback on the ED from stakeholders. The consultation period ends on 30 September 2020.
- The proposals, if finalised, would result in a new Standard and replace IAS 1 *Presentation of Financial Statements*.

Questions for discussion

- Do members have any questions or initial feedback on the Board’s proposals for:
  - subtotals in the statement of profit or loss;
  - disaggregation;
  - management performance measures; and
  - statement of cash flows

The Exposure Draft

New IFRS Standard	Proposed **new** presentation and disclosure requirements **+**	Related requirements brought forward from **IAS 1** with limited wording changes
Amendments to other Standards	• IAS 7—statement of cash flows • IFRS 12—associates and JVs • IAS 33—earnings per share • IAS 34—interim reporting	Other requirements of **IAS 1**—moved to IAS 8 and IFRS 7

→ **Withdraw IAS 1**

Key proposals in the ED & expected benefits

What users said		Key proposals	Expected benefits of proposals
Structure and content of statements of profit or loss varies between different entities, making it difficult to compare entities' performance	1	Introduce **defined subtotals** in the statement of profit or loss	Additional relevant information and a P&L structure that is more comparable between entities
Level of disaggregation does not always provide the information they need	2	Strengthen requirements for **disaggregating information**	Additional relevant information and material information not being obscured
Non-GAAP measures can provide useful information, but transparency and discipline need to be improved	3	Require companies to disclose information about **management performance measures** in the notes.	Transparency & discipline in use of such measures Disclosures in a single location
Classification and presentation options make it more difficult to compare entities	4	Introduce targeted improvements to the **statement of cash flows**	Improved comparability between entities

❶ Subtotals in the statement of profit or loss

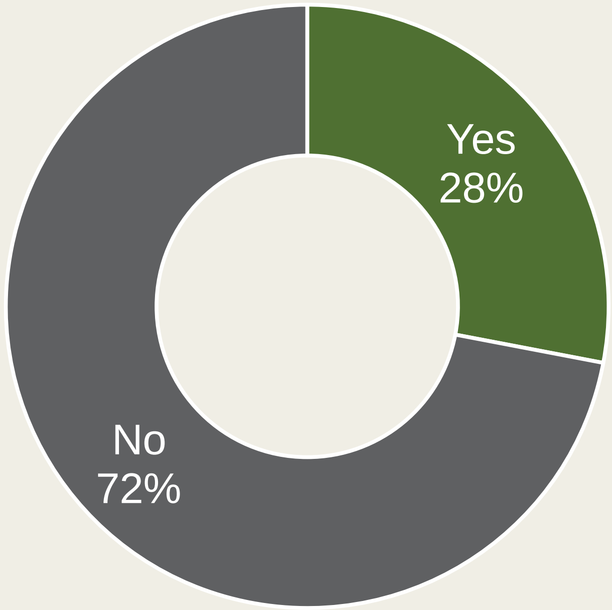
❶ What is the issue?

No subtotals defined in statement of profit or loss between 'revenue' and 'profit or loss' (ie top-line and bottom-line)

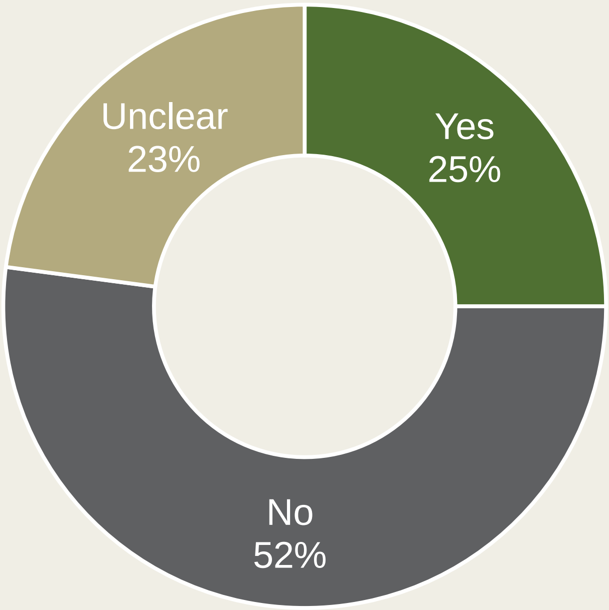
Companies calculate subtotals in different ways

In a sample of 100 companies, we found that 63 companies reported operating profit in the financial statements, using at least nine different definitions.

Share of profit or loss of associates and joint ventures included in operating profit?



Interest cost on defined benefit pension liabilities included in operating profit?



❶ Board proposals—subtotals and categories

Revenue	347,000	Operating
Other income	3,800	
Changes in inventories of finished goods and work in progress	3,000	
Raw materials used	(146,000)	
Employee benefits	(107,000)	
Depreciation	(37,000)	
Amortisation	(12,500)	
Professional fees and other expenses	(10,030)	
Operating profit	**41,270**	
Share of profit or loss of integral associates and joint ventures	(600)	Integral associates and joint ventures
Operating profit and income and expenses from integral associates and joint ventures	**40,670**	
Share of profit or loss of non-integral associates and joint ventures	3,380	Investing
Dividend income	3,550	
Profit before financing and income tax	**47,600**	
Expenses from financing activities	(3,800)	Financing
Unwinding of discount on pension liabilities and provisions	(3,000)	
Profit before tax	**40,800**	
Income tax	(7,200)	
Profit for the year	**33,600**	

➊ Presentation of associates and joint ventures

Different stakeholder views

My associates and JVs are a part of my main business, so I want to include my share of their results in operating profit.

The share of associates' and JVs' profit is after financing and after tax so I want to analyse them separately from operating profit.

Proposal—balanced approach

Companies would be required to:

- **exclude** income and expenses from **all** equity-accounted associates and joint ventures from operating profit.
- identify which of their equity-accounted associates and joint ventures are closely related ('**integral**') to their main business activities. Income and expenses from integral associates and joint ventures would be presented **immediately below operating profit**. Income and expenses from **non-integral** associates and joint ventures would be presented in the **investing** category.

➊ Example—investment and retail bank

Interest revenue calculated using the effective interest method	356,000
Interest expense	(281,000)
Net interest income	75,000
Fee and commission income	76,800
Fee and commission expenses	(45,300)
Net fee and commission income	31,500
Net trading income	9,100
Net investment income	11,600
Credit impairment losses	(17,300)
Employee benefits	(55,100)
[other line items not shown in this illustration]	(11,800)
Operating profit	43,000
Share of profit or loss of integral associates and joint ventures	(2,400)
Operating profit and income and expenses from integral associates and joint ventures	40,600
Share of profit or loss of non-integral associates and joint ventures	4,200
Profit before tax	44,800
Income tax expense	(11,200)
Profit for the year	33,600

all expenses from financing activities are classified in the operating category rather than the financing category

income (expenses) from investments made in the course of main business activities are classified in the operating category, rather than the investing category

no ‘profit before financing and income tax’ subtotal

❷ Disaggregation

❷ Disaggregation

Analysis of operating expenses by nature and by function

strengthening current requirements

Roles of the primary financial statements and the notes

Required line items

including goodwill

Unusual income and expenses

Principles for aggregation & disaggregation

Requirements for grouping dissimilar immaterial items

avoiding ‘other’ labels

② Disaggregation

Roles of the primary financial statements and the notes	• Roles of the primary financial statements and the notes clearly described. • Use the description to determine whether information should be included in the primary financial statements or in the notes.
Principles for aggregation and disaggregation	• Three-step guidance to apply the principles • Requirements for grouping dissimilar immaterial items (avoiding ‘other’)
Required line items	New required line items, including: • goodwill in the balance sheet • separate line items for integral and non-integral associates and joint ventures

❷ Analysis of operating expenses

Statement of profit or loss	Notes
Use method for analysis of operating expenses (by nature or by function) that provides the **most useful information**	Disclose analysis by **nature** in the notes if analysis by function is presented in the statement of profit or loss
• **Not a free choice**—the Board proposes to provide a set of indicators to help companies select a method. • Companies should **not mix** the two methods. • Would **remove option** to present analysis of expenses in the **notes only.**	• Analysis of **total** operating expenses—no requirement to analyse each functional line item by nature.

❷ Unusual income and expenses

Definition

Income and expenses with **limited predictive value**.
Income and expenses have limited predictive value when it is reasonable to expect that income or expenses that are similar in type and amount will not arise for several future annual reporting periods.

Income and expenses from the recurring remeasurement of items measured at a current value would not normally be classified as unusual.

Disclosures

Amount & narrative description	Amount disaggregated by: • line items presented in statement of profit or loss; and • line items disclosed in analysis of operating expenses by nature, if the entity analyses expenses by function in the statement of profit or loss

❸ Management performance measures

❸ Management performance measures (MPMs)

Disclosure in the notes of subtotals of income and expenses that:

Are used in public communications **outside financial statements**

Complement totals or subtotals specified by IFRS Standards

Communicate **management's view** of an aspect of an entity's financial performance

Accompanied by disclosures in a **single note** to **enhance transparency**

❸ Not all performance measures are MPMs

Performance measures

Non-financial performance measures

For example:
- Number of subscribers
- Customer satisfaction score
- Store surface

Financial performance measures

(Sub)totals of income and expenses

IFRS-specified

For example:
- Profit or loss
- Operating profit
- Operating profit before depreciation and amortisation

MPMs

For example:
- Adjusted profit or loss
- Adjusted operating profit
- Adjusted EBITDA

Other measures that are not subtotals of income/expenses

For example:
- Free cash flow
- Return on equity
- Net debt
- Same-store sales

❸ MPMs—proposed disclosures in the notes

A **reconciliation** between the MPM and the most directly comparable subtotal or total specified by IFRS Standards

A statement that the MPM provides **management's view** of an aspect of the entity's financial performance and is **not necessarily comparable** with measures provided by other entities

A description of why the MPM communicates management's view of performance, including an explanation of:

- **how** the MPM is **calculated**
- **how** the measure provides **useful information** about the entity's financial performance

The **income tax** effect and effect on **non-controlling interests** separately for each item disclosed in the reconciliation, and how the entity determined the income tax effect

An explanation of any **changes** in how the entity calculates its MPMs or which MPMs it provides

❹ Statement of cash flows

Statement of cash flows

Proposals

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

Removal of classification options for interest and dividends

Cash flow item	IAS 7 classification	Proposed approach	
		Most entities	Entities with particular business activities incl. banks
Interest paid	Operating or financing	Financing	Depends on the classification of the related income and expenses in the statement of profit or loss (mostly operating)
Interest received	Operating or investing	Investing	
Dividends received	Operating or investing	Investing	
Dividends paid	Operating or financing	Financing	Financing

❹ Statement of cash flows – illustration
(indirect method)

Operating profit	X
Adjustments for:	
Depreciation	X
[…]	
Income taxes paid	(X)
Net cash from operating activities	X
Acquisition of integral joint venture X	(X)
Acquisition of non-integral associate Y	(X)
Dividends received from integral associate A	X
Dividends received from non-integral associate B	X
Purchase of property, plant and equipment	(X)
[…]	
Net cash used in investing activities	(X)
Dividends paid	(X)
[…]	
Net cash used in financing activities	(X)
Net increase in cash and cash equivalents	X

Consistent starting point for indirect method for operating cash flows

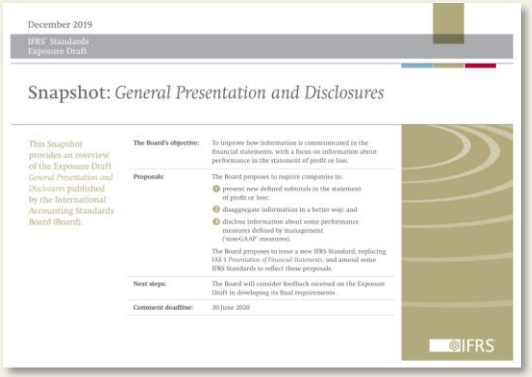
Separate presentation of cash flows from integral and non-integral associates and joint ventures within investing cash flows

Elimination of classification options for interest and dividends

Published materials

- Exposure Draft
- Basis for Conclusions
- Illustrative Examples

and a comparison of proposals with requirements of IAS 1



Snapshot

Webinar introducing the Exposure Draft

Video of Hans introducing the proposals

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