Primary Financial Statements
Update

Objective

1 The objective of this session is to discuss the recent developments undertaken by the IASB on its research project Primary Financial Statements, including:

(a) clarifying requirements for management performance measures (MPMs);

(b) management-defined adjusted earnings per share (adjusted EPS);

(c) principles for aggregation and disaggregation in the financial statements; and

(d) analysis of expenses by function or by nature.

2 This agenda paper includes three appendices

(a) Appendix 1: *Illustration* of *approaches for providing additional information by nature*; and

(b) Appendix 2: *Illustrative* example *for non-financial entities*

(c) Appendix 3: *Summary of* the *IASB tentative decisions*.

Introduction

3 The IASB's Primary Financial Statements project is currently examining potential targeted improvements to the structure and content of the primary financial statements. The IASB is exploring whether it can develop new presentation requirements for the statement(s) of financial performance and whether it can reduce presentation choices for items in the statement of financial performance and statement of cash flows to make it easier for investors to compare companies' performance and future prospects.

4 The IASB's discussion on the research project started in June 2015. EFRAG Secretariat has been providing updates to EFRAG TEG. The last update was provided by EFRAG Secretariat at the joint EFRAG CFSS-TEG meeting in April 2017.

5 This update covers the meetings held by the IASB in March and May At the time of writing the agenda papers for the IASB's June 2018 meeting had not been uploaded yet but EFRAG will provide an oral update.

6 At future meetings, the IASB plans to discuss the following remaining issues:

(a) Applying proposals to more complex scenarios, e.g. entities that provide financial services;

(b) EBITDA, after receiving the feedback on the *Principles of Disclosure* Discussion Paper.

(c) outstanding issues on subtotals: Review and labelling of categories and subtotals;

(d) Minimum line items in statement of financial performance; and

(e) Developing templates for financial statements, including status and location of such templates.

Management performance measures (MPMs)

Clarifying requirements for management performance measures

7 In April 2018, following the feedback received at March Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF) meetings, the IASB continued its discussion from the February 2018 meeting, where the IASB asked the staff to develop a simplified approach for MPMs. More specifically, the IASB discussed the IASB staff proposals to clarify the tentative decisions reached by the IASB in December 2017 and January 2018. Particularly, it discussed whether:

(a) All entities should identify a measure (or measures) of profit or comprehensive income that is (are) relevant to an understanding of the entity's financial performance and, in the view of management, best communicate to users the financial performance of the entity.

(b) No specific constraints should apply on how management determines the measure apart from the requirement that it must be relevant to an understanding of the entity's financial performance.

(c) The list of existing subtotals in paragraph 81A of IAS 1[1] should be supplemented by the following new subtotals developed as part of the project:

(i) Business profit (or operating profit from consolidated entities);

(ii) Profit before financing, investing, and tax;

(iii) Profit before financing and tax.

(d) If the measure **is not a subtotal or total required by paragraph 81A** of IAS 1 *Presentation of Financial Statements*, then the measure is an MPM and the entity should be required to:

(i) disclose in the notes a reconciliation between that measure and the most directly comparable subtotal or total required by paragraph 81A of IAS 1;

(ii) label the measure in a clear and understandable way so it is not misleading;

(iii) provide an explanation of how the measure provides relevant information about an entity's financial performance; and

(iv) include a statement that the measure provides management's view of the entity's financial performance and is not necessarily comparable with other entities;

(e) If the measure **is a subtotal or total required by paragraph 81A** of IAS 1, then the entity should identify this measure and explain why it best communicates management's view of the entity's financial performance and further disclosure requirements would not apply;

IASB discussion and tentative decisions

8 At its meeting in April 2018, all 14 IASB members agreed with the IASB staff's proposal, however they decided to clarify that:

[1] The existing subtotals are profit or loss, total other comprehensive income and comprehensive income for the period, being the total of profit or loss and other comprehensive income

(a) All entities shall identify a measure (or measures) of profit or comprehensive income that, in the view of management, communicates to users the financial performance of the entity;

(b) This measure will often be a subtotal or total required by paragraph 81A of IAS 1. If so, an entity shall identify this measure; and

(c) If it's identified by management as a measure that is not a subtotal or total required by paragraph 81A of IAS 1, but would complement those subtotals or totals then such a measure is an MPM and additional disclosure requirement (as explained in paragraph 7(c) above would apply.

9 This is because some IASB members were concerned that the IASB staff proposals on identifying a measure (or measures) of profit or comprehensive income that is (are) relevant to an understanding of the entity's financial performance could, as drafted, force entities to create new MPMs and give more prominence to MPMs than IFRS measures.

Outstanding issues on MPMs

10 In May 2018, the IASB discussed the IASB staff proposal to expand the list of subtotals in paragraph 81A of IAS 1 to include other commonly used subtotals that do not include management adjustments[2], such as:

(a) gross profit;

(b) profit before taxation;

(c) profit from continuing operations; or

(d) EBITDA.

11 In the IASB staff view, for such subtotals the additional disclosures requirements for MPMs (paragraph 7(c) above) would not provide useful financial information to users.

12 The IASB considered whether to develop a principle to identify additional subtotals to include in paragraph 81A of IAS 1. However, the IASB agreed with the IASB staff's argument that developing such a principle would be challenging.

IASB discussion and tentative decisions

13 When discussing the IASB staff proposals, some IASB members considered that it was important to clarify that the subtotals that would be added to paragraph 81A of IAS 1 were permitted but not required by IFRS Standards.

14 Accordingly, thirteen of fourteen IASB members tentatively decided to expand the list of subtotals and totals that would not be considered MPMs to include the following commonly used subtotals:

(a) profit before tax;

(b) profit from continuing operations; and

(c) gross profit, defined as revenue less cost of sales.

15 The above subtotals should be clearly distinguished from those that are specifically required to be presented by all entities in paragraph 81A of IAS 1.

EFRAG Secretariat analysis

16 The EFRAG Secretariat notes that MPMs are often used in practice and that additional guidance could bring more transparency and consistency on their use. We consider that general principles on the use of MPMs could be useful, particularly

[2] In April 2018 the IASB asked the IASB staff to bring a recommendation to expand the list of subtotals in paragraph 81A of IAS 1 so that these subtotals are not subject to additional MPM disclosures requirements.

when these measures are included in the primary financial statements and notes. For example, EFRAG Secretariat considers that it is important to clearly identify an MPM (including the basis on which it is developed) and to reconcile it with the subtotals or totals required in IFRS Standards.

17 The EFRAG Secretariat also welcomes the IASB's efforts to simplify and clarify its approach for MPMs. However, we have concerns about the presentation of an MPM in the financial statements if that MPM is used in the annual report but not aligned, or even contradicting, the accounting policies of an entity. Identifying such MPMs as 'key performance measures' may give them more prominence and result in users focusing on these non-IFRS compliant performance measures.

18 Furthermore, we have concerns regarding introducing new line item categories, additional totals and subtotals in paragraph 81A of IAS 1, which is currently focused on subtotals that entities are required to present on the face of the statement of financial performance. We think that proposals will result in increasing complexity in presentation and assessment of financial performance. In addition, EFRAG Secretariat considers that there should be caution when listing measures that currently are not explicitly defined by IFRS Standards (e.g. gross profit) and where the presentation is not mandatory. Instead, any new additional disclosures on MPMs should clearly state when they should be applied, including the measures identified by the IASB that are implicitly defined by or mentioned in IFRS Standards.

19 We also consider that the presentation of financial performance of some industries may not fit into the resulting structure of statement of financial performance, for example for industries where the financial income, gains on equity transactions and gains from other investments play a significant role in the business model. We note, that the IASB recognised the potential application issues for financial institutions, however we also point to other industries including real estate, insurance, and investment entities. This may undermine the underlying principles of the project, and lead to an extensive range of different templates.

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Questions for EFRAG TEG

21 Does EFRAG TEG have comments on the IASB's approach to the structure of the statement(s) of financial performance and the proposed requirement to disclose identified MPMs?

Adjusted Earnings per Share (EPS)

IASB discussion and tentative decisions

22 In April 2018 the IASB discussed whether it should introduce a requirement to disclose in the notes an adjusted EPS that is calculated consistently with identified MPMs.

23 Entities would be required to apply this requirement to all identified MPMs, and disclose the effects of tax and non-controlling interests separately for each of the differences between the numerator of adjusted EPS and the numerator of EPS. The IASB is proposing to prohibit the presentation of such adjusted EPS (or any other adjusted EPS) in the statement(s) of financial performance. In April 2018, the IASB tentatively decided to introduce such requirements. The IASB asked the IASB staff to bring proposals to a future meeting that considers ways to provide relief from disclosures about multiple adjusted EPS.

24 After discussing whether to provide relief from disclosure of multiple adjusted EPS when an entity has multiple MPMs, the IASB tentatively decided in May 2018 that

entities should not be required to disclose adjusted EPS that are based on the numerator being an MPM[3].

25 However, the IASB decided to require entities to disclose in the notes the effect of tax and non-controlling interests separately for each of the differences between an MPM and the most directly comparable subtotal or total in paragraph 81A.

EFRAG Secretariat analysis

26 The EFRAG Secretariat agrees that additional guidance on presentation of adjusted EPS could bring more transparency and consistency on their use and provide useful information for users.

27 However, we understand that MPMs are intended to provide information about financial performance of entity, whereas EPS (and adjusted EPS) are intended to provide information on value created for equity holders of the parent.

28 Although financial performance and created value are indirectly related, the underlying objectives do not necessarily overlap. We think that requiring the provision of adjusted EPS for all identified MPMs would not prove to provide sufficient useful information would outweigh the additional burden for preparers.

29 Moreover, we question whether providing an effect of on tax and non-controlling interests for identified MPMs would provide useful information, except for very specific situations, where an entity presents an MPM, and adjusted EPS based on a numerator equal the MPM.

30 Consequently, we disagree with the IASB decision to require disclosure of the effect of tax and non-controlling interests separately for each of the differences between an MPM and the most directly comparable subtotal or total in paragraph 81A, for each MPM. We think that the improvements could be done more simply through providing more guidance on presentation of adjusted EPS in IAS 33 *Earnings per Share*, and not to IAS 1.

Questions for EFRAG TEG

31 Does EFRAG TEG have comments on the IASB tentative decision to not require disclosure of multiple adjusted EPS when an entity has multiple MPM, and to require additional disclosures related to identified MPMs?

Aggregation and disaggregation

List of characteristics as a basis for disaggregating or aggregating

32 In May 2018, the IASB discussed possible ways to improve the level of aggregation and disaggregation of line items in the primary financial statements and in the notes. In particular, it discussed whether IAS 1 should include a non-exhaustive list of characteristics that could be used as a basis for disaggregating or aggregating financial information.

33 For that purpose, the IASB considered the existing guidance in IFRS Standards and guidance provided by other standard-setters. If introduced, the non-exhaustive list of characteristics could include:

Nature	**Function**	Size
Liquidity (including current, non-current)	Held for disposal or held for sale	Persistence (i.e. frequency, recurring or non-recurring nature)

[3] This reverses the April 2018 Board decision to require entities to disclose adjusted EPS in the notes

geographical location or regulatory environment	uncertainty, subjectivity or risks associated with an item	type (for example, of product, service, production process, financial instrument, funding arrangements, customer or supplier for products and services or of methods used to distribute products or provide services)
Measurement basis	Duration and timing	

Priority for the characteristics identified

34 As the IASB had already agreed that the characteristics ‘nature’ and ‘function’ should be used as a basis for aggregation or disaggregation of assets, liabilities, equity, income and expenses, the IASB discussed now whether it should prioritise the characteristics of other than by nature and function or allow preparers to select the characteristics when aggregating or disaggregating financial information on the basis of the entity’s own facts and circumstances.

35 The IASB staff identified several disadvantages of developing a hierarchy or ranking system and recommended that the IASB should only prioritise the characteristics of function and nature and allow preparers to select other characteristics on the basis of the entity’s own facts and circumstances.

36 Therefore, the characteristics included in the non-exhaustive list of characteristics (other than nature and function) would have equal weight and would be equally considered by a preparer when aggregating or disaggregating information in the financial statements.

Introduction of thresholds

37 The IASB discussed whether it should introduce quantitative thresholds to promote more disaggregation of groups of items, including the advantages and disadvantages of introducing quantitative thresholds.

38 The IASB staff noted that there was little support from ASAF members for introducing quantitative thresholds and that even though some standard-setters and regulators include in their local regulations quantitative thresholds that promote further disaggregation, different approaches are taken in terms of defining numerators, denominators or limits to their thresholds.

39 After considering the advantages and disadvantages of introducing quantitative thresholds, the IASB staff considered that a quantitative threshold should not override materiality judgements or deter an entity from analysing whether an item is dissimilar from another item. Therefore, the IASB staff recommended that the IASB should not introduce quantitative thresholds or rebuttable presumptions for aggregation or disaggregation of financial information.

40 Alternatively, the IASB staff recommended that the IASB develop examples of disaggregation of groups of items that could be used to illustrate when it is not acceptable to disclose large residual or ‘other’ balances.

Principles for determining the location of financial information

41 Finally, the IASB discussed whether it should include a principle to help entities decide what information should be presented on the face of the primary financial statements and what information should be disclosed in the notes.

42 Currently, paragraph 30 of IAS 1 states that ‘an item that is not sufficiently material to warrant separate presentation in those statements may warrant separate presentation in the notes’. However, the IASB staff considered that this guidance was insufficient and that the location of information in the primary financial statements or in the notes should depend on the different roles of the primary financial statements and the notes.

43 Therefore, the IASB staff recommended the development of a principle for determining the location of financial information in the primary financial statements or the notes that is based on the role of the primary financial statements and the role of the notes suggested in the Discussion Paper *Disclosure Initiative - Principles of Disclosure*.

44 That principle would not override the specific requirements of IAS 1 for the presentation of minimum line items and subtotals in the primary financial statements. An entity should also apply that principle when an IFRS Standard gives entities the choice to provide financial information in the primary financial statements or in the notes.

Results from NSS disaggregation survey

45 The IASB consulted a number of national standard setters and received feedback from 19 jurisdictions. Most responses came from jurisdictions that require or permit use of IFRS Standards.

46 The majority of the respondents replied there were no additional requirements in their jurisdiction relating to aggregation and disaggregation in the statement(s) of financial performance for entities applying IFRS Standards. Those that had additional requirements for the presentation of financial performance, referred to additional line items, templates and use of thresholds. For example, some jurisdictions require the presentation of additional subtotals such as operating profit or loss, gross profit and profit before financing. There are also cases where financial institutions applying IFRS Standards must follow templates provided by regulators. One jurisdiction requires the use of thresholds (e.g. small balances can be aggregated provided that they are described and do not exceed 10% of the value of the relevant category).

47 When referring to local GAAP, the majority of the jurisdictions either provide templates for the statement of financial performance (including for financial institutions) or require presentation of a list of 'minimum' line items. Some jurisdictions also use quantitative thresholds for the disaggregation of line items in the primary financial statements. In summary:

(a) *Templates*: some European countries provide multiple templates for each industry or business type.

(b) *Minimum line items*: the majority of the jurisdictions that provide a list of minimum line items require more than those required by IFRS Standards (e.g. non-operating income or expenses and extraordinary items). A number of NSS have specified 'operating profit' or 'profit from operating activities' as a subtotal or as one of the elements of the templates.

(c) *Thresholds*: The thresholds applied to the line items in the statement(s) of financial performance are expressed in percentages of a reference item and range from 10% to 20%, with slightly different methods of calculation among countries.

IASB discussion and tentative decisions

48 When discussing the IASB staff proposal to consolidate the aggregation and disaggregation characteristics mentioned in IAS 1 and in other IFRS Standards into a single list, only 7 of 14 Board members agreed with the IASB staff proposal.

49 Those that disagreed were concerned that including a list in IAS 1 may result in confusion for preparers and mislead them into thinking that the specific characteristics in each IFRS Standard may be overridden. Additionally it was noted that there should not be discretion around which characteristics are relevant in all scenarios.

50 Consequently, the IASB tentatively decided not to develop a single list of aggregation and disaggregation characteristics. Instead, it asked the IASB staff to continue working on proposals for improving disaggregation in the financial statements, which may include illustrating how different characteristics could be used to aggregate or disaggregate financial information. The IASB also asked the IASB staff to clarify that any further guidance developed in this respect would not override specific aggregation or disaggregation requirements in individual IFRS Standards.

51 When discussing whether to introduce thresholds or rebuttable presumptions for aggregating or disaggregating financial information, IASB Board members provided mixed views. Consequently, the IASB tentatively decided not to introduce thresholds or rebuttable presumptions for aggregating or disaggregating financial information.

52 The IASB tentatively decided:

(a) not to develop examples of the disaggregation of groups of items to illustrate when it is not acceptable to disclose large residual balances or 'other' balances. The IASB also asked the IASB staff to explore whether principle-based guidance could be developed to encourage further disaggregation of large residual balances or 'other' balances.

(b) to include a principle for determining the location of financial information in the primary financial statements or the notes that is based on the role of the primary financial statements and the role of the notes suggested in Discussion Paper *Disclosure Initiative* - Principles *of Disclosure*. That principle would not override the specific requirements of IAS 1 for the presentation of minimum line items and subtotals in the primary financial statements. An entity should also apply that principle when a Standard allows entities to determine whether to provide financial information in the primary financial statements or in the notes.

EFRAG Secretariat analysis

53 The EFRAG Secretariat considers that it is important to improve the level of aggregation and disaggregation of line items in the primary financial statements and in the notes, particularly when considering that there are entities that currently present large "other" items on the face of the primary financial statements and the lack of disclosures on them.

54 EFRAG Secretariat also considers that having the principles and characteristics for aggregation and disaggregation of line items in the primary financial statements in a single place within IAS 1, as a complement to existing guidance, could bring clarity and improve consistent application, particularly when dealing with "other" line items.

55 Nonetheless, the EFRAG Secretariat notes that as the IASB progresses on its discussions on improvements to the content and structure of the financial statements, such as those on additional subtotals, additional minimum line items, additional categories and development of illustrative example, it is likely that the pressure of having wide-ranging and prescriptive principles for aggregation and disaggregation will reduce.

56 The EFRAG Secretariat does not support introducing quantitative thresholds for disaggregation of group of items. We believe that principle-based rather than rule-base guidance should be developed to address the over-aggregation of line items.

57 The EFRAG Secretariat supports the IASB staff proposal to clarify the location of financial information on the basis of the roles of the primary financial statements and the notes. This will help entities when deciding on the location of the financial information.

Questions for EFRAG TEG

58 Does EFRAG TEG agree with the IASB's tentative decisions as described in paragraphs 48 to 52?

Analysis of expenses by function or by nature

Criteria for analysis of expenses by function or by nature

59 In May 2018, the IASB discussed whether it should change the requirements in IAS 1 to introduce factors to consider in deciding whether a by-function or by-nature methodology provides the most useful information about the financial performance of an entity. The IASB considered the following factors:

(a) **which method provides the best information about the key components or drivers of profitability** – for some entities a key driver of profitability can be a functional line item such as 'cost of sales' where the link between the generated revenue and the sale of goods is direct. For other entities a link between revenue and costs is less direct and therefore information about the nature of the components of its costs maybe more relevant to users;

(b) **which method most closely matches how management report internally to the board or key decision makers and the way the business is run –** when an entity manages its business on the basis of major functions, it is generally more useful to apply the by-function methodology which reflects how the management controls its business, whereas entities which predominantly have one function will find it more useful to have a more detailed analysis of expenses using the by-nature methodology;

(c) **peer industry practice –** the information will allow users to compare the financial performance of an entity with its peers across both function and nature of line items; and

(d) **whether the allocation of expenses to functions would be arbitrary. If this is the case, then a 'by nature' method should be favoured** – providing an arbitrary break-down of components collected by nature to an entity's different functions is unlikely to result in useful information for users when it will be so arbitrary that it will not faithfully represent the composition of an entity's functions.

60 In previous meetings, the IASB tentatively decided to introduce both a finance income/expenses category and an investing category into the statement(s) of financial performance. The IASB staff clarified that the requirements for an analysis of expenses using a classification based on either the nature or the function of the expenses would not apply to items included in those financing and investing categories. Those requirements would apply only to income and expenses presented above those categories. That is, these requirements would focus on items that are commonly presented within the operating sections of the statement(s) of performance (such as cost of sales, or selling, general and administrative expenses; or the equivalent by-nature line items).

61 The IASB staff proposed that the IASB should consider adding factors to IAS 1 because the factors referred above would make preparers think about the methodology that would provide the most useful information to users of financial statements.

Disclosures about the nature of expenses when using by function presentation.

62 The IASB also discussed whether it should require information by nature to be disaggregated for each functional line presented and, if so, how. Although functional line items are important to understand how a group of items relate to activities that

an entity undertakes, they also lead to a loss of information because users are unable to understand how different types of income and expenses relate those activities and users need to make assumptions to better predict net future cash flows.

63 In particular, the IASB considered the following approaches for providing additional information by nature of expense when an entity provides analysis of expenses using a by-function methodology:

(a) **Approach A ('flexible' approach)**: require information by nature to be disaggregated for each functional line presented and allow entities flexibility to decide which components by nature should be disclosed separately – under this approach an entity would decide which components by nature should be disclosed separately on the basis of the requirements on aggregation and disaggregation included in IAS 1;

(b) **Approach B ('standardised' approach):** require information by nature to be disaggregated for each functional line presented. This approach would specify which components should be disclosed separately by nature for specific functional lines. Similar to Approach A, Approach B would require information by nature to be disaggregated for each functional line presented on the basis of the requirements on aggregation and disaggregation included in IAS 1. However, Approach B would require, in addition, specific components to be disclosed separately by nature for specific functional line items which would provide more consistent information by nature across some functional categories leading to increased comparability across entities; and

(c) **Approach C ('mixed basis' approach):** require additional information by nature but do not require this information to be attributed to functional lines. That is, the by-nature information would be given on a total basis at the entity level, not as a breakdown of each functional line. This is similar to Approach A and Approach B, because, under Approach C an entity would be required to provide additional information by-nature when using an analysis of expenses by-function on the basis of the requirements on aggregation and disaggregation included in IAS 1. However, unlike Approach A and Approach B, an entity would not be required to attribute by-nature information to the functional lines identified by the entity but instead provide by-nature information given on a total basis at the entity level.

64 Appendix 1 provides an illustration of how the proposed above approaches would be applied in practice.

IASB discussion and tentative decisions

65 At its May meeting, the IASB tentatively decided to:

(a) add to the requirements in IAS 1 the factors listed in paragraph 59 for entities to consider when deciding whether a by-nature or by-function analysis provides more useful information about financial performance; and

(b) require additional information on the nature of the expenses when an entity provides an analysis of expenses by function by applying **approach C** in paragraph 63(c). This information would be provided at an entity level, not as a breakdown of each functional line presented.

EFRAG Secretariat analysis

66 The EFRAG Secretariat is of the view that some of the factors provided are already considered by entities when selecting a methodology to present its expenses. Thus, the EFRAG Secretariat is not convinced that including those factors would immediately result in a more consistent application of the IAS 1 requirements. It could even introduce practical difficulties as some of the factors may conflict.

Therefore, the EFRAG Secretariat considers that guidance is needed if such factors are to be included in IAS 1.

67 With respect to selecting an approach to provide additional information by nature of expense when an entity provides analysis of expenses using a by-function methodology, the EFRAG Secretariat assesses that:

(a) **Approach A**'s flexibility to decide which components by nature would not result in consistent reporting of expenses by nature and comparability across entities will not be improved as a result;

(b) **Approach B** aims at improving comparability by specifying which components by nature should be disclosed separately for specific functional line items. In the EFRAG Secretariat's view it would be difficult for many accounting systems to provide specific components by nature for each functional line items.

(c) **Approach C** is relatively easy to apply and more aligned with current practice. However, it loses the informational link between the components by nature and by function of expenses.

68 Overall, the EFRAG Secretariat considers that a mixed approach to the analysis by expenses should be permitted as it provides useful information in industries such as banking and insurance and to a limited extent for non-financial institutions.

Questions for EFRAG TEG

69 Does EFRAG TEG agree that adding to the requirements in IAS 1 the factors listed in paragraph 59 above would assist preparers to decide whether a by-function or by-nature approach to the analysis of expenses provides the most useful information about financial performance of an entity?

70 Does EFRAG TEG agree with the IASB's tentative decision to apply approach C in paragraph 63(c) and require additional information on the nature of the expenses at an entity level when the by-function methodology is used?

Appendix 1: Illustration of approaches for providing additional information by nature

Illustration of approaches identified for providing additional information by nature

Approach A ('flexible' approach)	
	2018
Cost of sales:	
Changes in inventories of finished goods and work in progress	X
Cost of raw materials and consumables used	X
Other	X
Total cost of sales	X
General and administrative expenses	
Wages and salaries	X
Depreciation and amortisation expense	X
Other expense	X
Total general and administrative expenses	X
Selling expenses	
Advertising expense	X
Other expense	X
Total selling expenses	X

Approach B ('standardised' approach)	
	2018
Cost of sales: *[required natural information]*	
Changes in inventories of finished goods and work in progress	X
Cost of raw materials and consumables used	X
Warranty provision	X
Wages and salaries	X
Pension costs	X
Impairment loss	X
Depreciation expense	X
Amortisation expense of intangible assets	X
Transportation costs	X
Other	X
Total cost of sales	X
General and administrative expenses *[required natural information]*	
Wages and salaries	X
Pension costs	X
Post-employment benefits other than pensions	X
Share-based payment expense	X
Impairment loss	X
Depreciation expense	X
Amortisation expense of intangible assets	X
Other	X
Total general and administrative expenses	X
Selling expenses	
Wages and salaries	X
Advertising expense	X
Other expense	X
Total selling expenses	X

Approach C ('mixed basis' approach)	
	2018
Expenses by nature:	
Changes in inventories of finished goods and work in progress	X
Cost of raw materials and consumables used	X
Warranty provision	X
Wages and salaries	X
Pension costs	X
Post-employment benefits other than pensions	X
Impairment loss	X
Depreciation expense	X
Amortisation expense of intangible assets	X
Other	X
Total expenses by nature	X

Source: the IASB May meeting, agenda paper 21B

Appendix 2: Illustrative example for non-financial entities

Illustrative example - Statement of Financial Performance

1 EFRAG Secretariat developed a simplified illustrative example on the presentation of the statement of financial performance reflecting its understanding of the IASB's tentative decisions regarding:

(a) tentatively introduced new subtotals;

(b) Management Performance Measures (MPMs)'

(c) Presentation of net profit from associates and JVs.

2 We note that the IASB has not yet finalised its discussion regarding the project and, therefore, the final result may be different.

3 An example of an MPM related disclosure is not provided.

Statement of Financial Performance

Revenue	x
Costs of sales	x
Administrative and selling expenses	x
Core operating profit (an example of MPM)	**X**
Restructuring expenses	x
Operating profit from consolidated entities	**X**
Share of profit of integral associates and JVs	x
Profit before investments, financing and income tax	**X**
Fair value changes in the value of investment property	x
Dividends received on equity investments	x
Interest income on long-term debt investments	x
Gain on the disposal of real estate investment	x
Rental income	x
Share of profit of non-integral associates and JVs	x
Profit before financing and income tax	**X**
Interest income from cash and cash equivalents calculated using the effective interest method	x
Other income from cash and cash equivalents and financing activities	x
Other finance income	x
Other finance expense	x
Profit before tax	**X**
Income tax expense	x
Profit for the year from continuing operations	**X**
Loss from discontinued operations	x

Appendix 3: Summary of the IASB key tentative decisions

Introduction

4 In this appendix we provide a summary of the IASB tentative decisions on Primary Financial Statements for the period December 2017 to February 2018 and some illustrative examples developed by EFRAG Secretariat

Summary of the IASB tentative decisions

<table>
<tr><th colspan="2">Summary of the IASB tentative decisions: December 2017 to May 2018</th></tr>
<tr><td rowspan="2">Statement(s) of financial performance - Management performance measure and Adjusted EPS</td>
<td>December 2017

The IASB tentatively decided that entities should be required to identify an MPM and:
(a) present that measure as a subtotal in the statement(s) of financial performance, if it fits in the IASB proposed structure for the statement(s) and satisfies the requirements in IAS 1 for subtotals;
(b) otherwise provide the MPM in a separate reconciliation of that measure with a measure that is defined in IFRS Standards.</td></tr>
<tr><td>January 2018

The IASB tentatively decided that:
(a) all entities should specify their ‘key performance measures’ in the financial statements;
(b) if any of these measures are not specified or defined in IFRS Standards, an entity should identify such measures as MPMs;
(c) the ‘key performance measures’ identified in the financial statements should include, as a minimum, the ‘key performance measures’ communicated in the annual report;
This decision subject to the staff further clarifying when a measure is ‘specified or defined in IFRS Standards’ and which types of measures would be considered ‘key performance measures’
(d) if an MPM does not fit in the statement of financial performance, a separate reconciliation between the MPM and the most appropriate measure specified or defined in IFRS Standards should be disclosed in the notes;
(e) there should be no specific constraints on MPMs provided in a separate reconciliation;
(f) the following disclosures should be required for each MPM (including an MPM presented as a subtotal in the statement of financial performance):
i. a description of why the MPM provides management’s view of performance, including an explanation of how the MPM has been calculated and why.
ii. sufficient explanation, if there is a change in how the MPM is calculated during the year, to help users understand the reasons for and effect of the change.
iii. the IASB decided not to require a five-year historical summary showing, for each year, the calculation of the MPM.</td></tr>
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	(g) the reconciliation between the MPM and the most appropriate measure specified or defined in IFRS Standards should be provided separately from the operating segment information disclosed in accordance with IFRS 8. However, entities would not be prohibited from also including MPM within the operating segment information. Furthermore, the following disclosures would be required in such cases: iv. an explanation of how the MPM differs from the total of the measures of profit or loss for the reportable segments; and v. if none of the MPM fits into the operating segment information, an explanation of why this is the case. (h) not to specify in IFRS Standards that the MPM are not measures specified or defined in IFRS Standards. The IASB tentatively decided to further clarify when a measure is 'specified or defined in IFRS Standards' and which types of measures would be considered 'key performance measures'.
	February 2018 At the meeting the Board asked the staff to develop a simplified approach to management performance measures for a future meeting. No decisions were made.
	April 2018 The IASB tentatively decided: (a) all entities shall identify a measure (or measures) of profit or comprehensive income that, in the view of management, communicates to users the financial performance of the entity. This measure will: i. often be a subtotal or total required by paragraph 81A of IAS 1 *Presentation of Financial Statements*. If so, an entity shall identify this measure. ii. sometimes be identified by management as a measure that is not a subtotal or total required by paragraph 81A of IAS 1, but would complement those subtotals or totals. Such a measure is a management performance measure. (b) the following requirements apply to management performance measures described in paragraph a(ii): i. a reconciliation would be provided in the notes between that measure and the most directly comparable subtotal or total required by paragraph 81A of IAS 1; ii. the measure would be labelled in a clear and understandable way so as not to mislead users; and iii. the following disclosures are required, in addition to the disclosures the Board tentatively decided to require at the January 2018 Board meeting: 1. an explanation of how the measure provides useful information about an entity's financial performance; and 2. a statement that the measure provides management's view of the entity's financial performance and is not

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	necessarily comparable with measures provided by other entities. For the purposes of these proposals, paragraph 81A of IAS 1 would include the existing subtotals in that paragraph and the proposed new subtotals developed as part of this project, for example, profit before investing, financing and tax. IASB members agreed with this decision subject to clarifying in drafting that management performance measures provide additional information that complements the subtotals and totals required by paragraph 81A of IAS 1, rather than provides a better view of financial performance. This tentative decision updates the IASB tentative decisions made in December 2017 and January 2018. It describes disclosure requirements for management performance measures in the notes only. Consequently, it does not affect the presentation of additional subtotals in the statement(s) of financial performance in accordance with paragraphs 85–85A of IAS 1. The IASB reconfirmed its tentative decision in January 2018 to require the reconciliation described in paragraph b(i) to be disclosed in the notes rather than be provided below the statement(s) of financial performance. The IASB tentatively decided that if an entity identifies a management performance measure, it is required to: (a) disclose in the notes adjusted EPS calculated consistently with that management performance measure. To calculate the numerator of adjusted EPS, an entity shall make the following adjustments, and no other, to the management performance measure: i. add or deduct all income or expenses between the most directly comparable subtotal or total required by paragraph 81A of IAS 1 (ie the subtotal or total used for the management performance measure reconciliation in paragraph b(i) for Agenda Paper 21A above) and profit or loss attributable to ordinary equity holders of the parent entity (ie the numerator of EPS); and ii. if the management performance measure is a pre-tax and/or pre-non-controlling interests measure, make further adjustments for the effects of tax and/or non-controlling interests on the differences between the management performance measure and the most directly comparable subtotal or total required by paragraph 81A of IAS 1. (b) disclose the effects of tax and non-controlling interests separately for each of the differences between the numerator of adjusted EPS and the numerator of EPS. Ten of 14 Board members agreed and four disagreed with this decision. The IASB tentatively decided that an entity should be prohibited from presenting adjusted EPS in the statement(s) of financial performance. The IASB tentatively decided that an entity would continue to be permitted to disclose other adjusted EPS. If an entity identifies more than one management performance measure, the above requirements would apply to all management performance measures. However, the IASB asked the staff to bring proposals to a future meeting that consider ways to provide relief from disclosures about multiple adjusted EPS.

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	May 2018 At its April 2018 meeting, the IASB tentatively decided that all entities shall identify a measure (or measures) of profit or comprehensive income that, in the view of management, communicates to users the financial performance of the entity. It also decided that if this measure is not a subtotal or total required by paragraph 81A of IAS 1, it would be a management performance measure and specific disclosure requirements would apply. For the purposes of these proposals, paragraph 81A of IAS 1 would include the existing subtotals in that paragraph and the proposed required subtotals developed as part of this project, for example, profit before investing, financing and tax. At this meeting the IASB tentatively decided to expand the list of subtotals and totals that would not be considered management performance measures to include the following commonly used subtotals: a. profit before tax; b. profit from continuing operations; and c. gross profit, defined as revenue less cost of sales. Some IASB members advised caution in drafting to clearly distinguish these three commonly used subtotals from those that are specifically required to be presented by all entities in paragraph 81A of IAS 1. Some IASB members asked the staff to consider whether to specifically require any of these three subtotals to be presented by all entities. At this meeting the IASB considered whether entities that identify more than one management performance measure would be required to disclose multiple adjusted EPSs. In the light of these discussions, the IASB tentatively decided that no entities should be required to disclose adjusted EPS. This reverses the April 2018 IASB decision to require entities to disclose adjusted EPS in the notes. However, the IASB reconfirmed the April 2018 decision to require entities to disclose in the notes the effect of tax and non-controlling interests separately for each of the differences between the management performance measure and the most directly comparable subtotal or total in paragraph 81A.
General guidance on classification, aggregation and disaggregation	**IASB March 2017 meeting** The IASB tentatively decided to develop, along the lines suggested in Agenda Paper 21C: (a) principles for aggregation and disaggregation in the financial statements; (b) definitions of the notions ‘classification’, ‘aggregation’ and ‘disaggregation; and (c) guidance on the steps involved in applying ‘classification’, ‘aggregation’ and ‘disaggregation’ when preparing financial statements.
	IASB May 2018 meeting The IASB discussed a staff proposal to consolidate the aggregation and disaggregation characteristics mentioned in IAS 1 *Presentation of Financial Statements* and in other IFRS Standards into a single list. Consequently, the IASB tentatively decided not to develop a single list of aggregation and

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	disaggregation characteristics. Instead, the IASB asked the staff to continue working on proposals for improving disaggregation in the financial statements, which may include illustrating how different characteristics could be used to aggregate or disaggregate financial information. The IASB asked the staff to clarify that any further guidance developed in this respect would not override specific aggregation or disaggregation requirements in individual IFRS Standards. The IASB also discussed whether to introduce thresholds or rebuttable presumptions for aggregating or disaggregating financial information. Seven of 14 Board members agreed with the introduction of such thresholds or rebuttable presumptions and seven disagreed. Consequently, the IASB tentatively decided not to introduce thresholds or rebuttable presumptions for aggregating or disaggregating financial information. The IASB tentatively decided: (a) not to develop examples of the disaggregation of groups of items to illustrate when it is not acceptable to disclose large residual balances or ‘other’ balances. The IASB asked the staff to explore whether principle-based guidance could be developed to encourage further disaggregation of large residual balances or ‘other’ balances. (b) to include a principle for determining the location of financial information in the primary financial statements or the notes that is based on the role of the primary financial statements and the role of the notes suggested in Discussion Paper *Disclosure Initiative—Principles of Disclosure*. That principle would not override the specific requirements of IAS 1 for the presentation of minimum line items and subtotals in the primary financial statements. An entity should also apply that principle when a Standard allows entities to determine whether to provide financial information in the primary financial statements or in the notes.
Analysis of expenses by function and by nature	**IASB September 2017 meeting** The IASB tentatively decided to: (a) describe the 'nature of expense' method and the 'function of expense' method used to analyse expenses required by paragraph 99 of IAS 1 Presentation of Financial Statements. (b) continue to require an entity to provide an analysis of expenses using the methodology, either by-function or by-nature, that provides the most useful information to users. (c) develop criteria that entities could follow to determine whether a by-function or by-nature methodology provides the most useful information to users. One of those criteria would be that a function of expense analysis would not be appropriate if an entity is unable to allocate natural components to the functions presented on a consistent and non-arbitrary basis. (d) provide no requirement for entities that use the ‘nature of expense’ method to provide additional information using the ‘function of expense’ method. (e) require an entity to present its primary analysis of expenses in the statement(s) of financial performance and disclose in a single note

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	any additional information required about expenses (ie an analysis by nature when an entity uses a 'function of expense' method).
	IASB May 2018 meeting At its September 2017 meeting, the IASB discussed proposals to improve the analysis of expenses by function and by nature required by paragraph 99 of IAS 1. At this meeting the IASB tentatively decided to: (a) add to the requirements in IAS 1 the following factors to consider in deciding whether by-function or by-nature methodology provides the most useful information about financial performance: i. which method provides the best information about the key components or drivers of profitability; ii. which method most closely matches how management reports internally to the board or key decision makers and the way the business is run; iii. peer industry practice; and iv. whether the allocation of expenses to functions would be so arbitrary that it would not provide a sufficiently faithful representation of the composition of an entity's functions. In such cases, a 'by-nature' method should be used. (b) require additional information on the nature of the expense when an entity provides an analysis of expenses using a by-function methodology. This information would be provided at an entity level, not as a breakdown of each functional line presented.