IASB Exposure Draft on General Presentation & Disclosures

FIA Technical Workshop

Saturday 14th March 2020

Korolevu, FIJI

Acknowledgements

This presentation is based on various documents including

- Exposure Draft ED/2019/7, published by IASB in December 2019 including Basis for Conclusions
- IFRS Alert on General Presentation and Disclosure, published by Grant Thornton

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Introduction

In Dec 2019 the IASB published an ED 'General Presentation and Disclosures' which proposes to replace IAS 1 'Presentation of Financial Statements' and amend several other IFRS.

The impact of the proposals would include:

- Changes to the structure of the PNL Statement
- More minimum subtotals in the PNL Statement
- New requirements on disaggregating information
- New disclosures about unusual items and analysis of expenses
- Limited changes to the Cash Flow Statement and Statement of Financial Position

Rationale for the ED

IASB undertook this project in response to concerns from investors

- about the comparability and transparency of companies' performance reporting.

In this video, IASB Chair Hans Hoogervost

- Provides an overview of the new presentation requirements proposed in the ED

ED Debrief

Summary of Key Proposals

Contained in the ED

Proposal 1

The ED proposes additional mandatory subtotals in the PNL Statement

- e.g. Operating Profit, Profit before Financing and Income Tax
- Current IFRS only requires Profit after tax

Referring to principles from the **Conceptual Framework**

Rationale

- To provide relevant information to users; and
- Create a more consistent structure to the PNL Statement across reporting entities, thereby improving comparability among companies

Proposal 2

The ED proposes disaggregation to help a company to provide relevant information, through:

1. disaggregation principles
2. disaggregation of operating expenses either by nature or function in the PNL statement
3. disaggregation of large ‘other' balances
4. disaggregated information about unusual income and expenses
5. additional minimum line items in the statement of financial position

Responding to criticism that too much information is sometimes lumped together

Proposal 3

The ED proposes disclosure of some management-defined performance measures (MPMs):

- i.e. performance measures not specified by IFRS Standards.

To promote transparency, the Board proposes reconciliations between

Facilitates audit of MPM

- some MPMs; and
- (the closest) subtotals specified by IFRS Standards

Proposal 4

The ED proposes limited changes to the Statement of Cash Flows

- e.g. classification of interest and dividends
- differential treatment for financing institutions

Rationale

- to improve consistency in classification
- by removing options

Referring to principles from the **Conceptual Framework**

Proposal 1

Structure of the PNL Statement

Proposed Changes

Proposal 1

Three New sub-totals

The ED proposes that an entity present the following new subtotals in the PNL statement

a) operating profit or loss

b) operating profit or loss and income and expenses from integral associates and joint ventures; and

c) profit or loss before financing and income tax

Summary of a PNL Statement

Revenue	**X**
Operating expenses	(X)
Operating profit or loss	**X**
Share of profit or loss of integral associates & JVS	X
Operating profit or loss AND income and expenses from integral associates and JVs	**X**
Share of profit or loss of non-integral associates & JVs	X
Income from investments	X
Profit or loss BEFORE financing and income tax	**X**
Interest revenue from cash and cash equivalents	X
Expenses from financing activities	(X)
Unwinding of discount (pension liabilities & provisions)	(X)
Profit or loss before tax	**X**

Operating

Integral Associates & JVs

Investing

Financing

Proposal 1

Four Categories

In applying these proposed new subtotals

- an entity would present income and expenses classified in the following categories:
  a) Operating
  b) Integral associates and joint ventures
  c) Investing
  d) Financing

Defined in IFRS 12

PNL Operating Category

Excludes items classified in the other 3 categories **Residual**

- Thus it includes all income and expenses from an entity's main business activities

Includes income and expenses:

a) from investments made in the course of an entity's main business activities; and

b) [if the entity provides financing to customers as a main business activity]

   - from financing activities; and
   - from cash and cash equivalents

PNL Investing Category

Includes returns from investments

- i.e. income and expenses from assets that generate a return
  - individually and
  - largely independently of other resources held by the entity

- Also includes related incremental expenses.

PNL Financing Category

Includes

a) income and expenses from cash and cash equivalents

b) income and expenses on liabilities arising from financing activities; and

c) interest income and expenses on other liabilities

- e.g. unwinding of discounts on pension liabilities and provisions

Alignment

The 4 proposed PNL categories have not been explicitly aligned with classifications across the primary financial statements

Consequently,

- items classified in the operating, investing and financing categories in the PNL Statement
- don’t necessarily correspond with the cash flows from operating, investing and financing activities in the statement of cash flows

Q1 – Operating Profit or Loss

Para 60(a) proposes that all entities present

- a PNL subtotal for operating profit or loss
- To increase comparability between entities

1. Do you agree with this proposal?
2. Why or why not?
3. If not, what alternative approach would you suggest and why?

Further Reading

Para BC53 of the Basis for Conclusions describes the IASB's reasons.

Q2 – The PNL Operating Category

Para 46 proposes that entities classify in this category

- all income and expenses not classified in the other categories such as the investing or financing category
- i.e. the category is defined as a residual

1. Do you agree with this proposal?
2. Why or why not?
3. If not, what alternative approach would you suggest and why?

Further Reading
Para BC54–BC57 of the Basis for Conclusions describe the IASB's reasons.

Q3 – The PNL Operating Category

Para 48 proposes that entities classify in this category

- income and expenses from investments
- made in the course of the entity's main business activities

1. Do you agree with this proposal?
2. Why or why not?
3. If not, what alternative approach would you suggest and why?

Further Reading

Paras BC58–BC61 of the Basis for Conclusions describe the IASB's reasons.

Q4 – The PNL Operating Category

Para 51 proposes that entities providing financing to customers as a main business activity classify in the operating category either:

- income and expenses from financing activities, and from cash and cash equivalents (C&CEs), that relate to provision of financing to customers; or
- all income and expenses from financing activities and all income and expenses from C&CEs

1. Do you agree with this proposal?
2. Why or why not?
3. If not, what alternative approach would you suggest and why?

Further Reading

Para BC62–BC69 of the Basis for Conclusions describe the IASB's reasons.

Q5 – The PNL Investing Category

Paras 47–48 propose that entities classify in this category

- income and expenses (including related incremental expenses) from assets that generate a return individually and largely independently of other resources held by the entity
- unless they are investments made in the course of the entity's main business activities

1. Do you agree with this proposal?
2. Why or why not?
3. If not, what alternative approach would you suggest and why?

Further Reading

Paras BC48–BC52 of the Basis for Conclusions describe the IASB's reasons.

Profit or Loss before financing & net income tax

Many users seek to analyse an entity's performance

- independently of how that entity is financed

To facilitate this, the ED proposes that an entity should present

- profit or loss before financing and income tax
- income and expenses classified in the following categories
  a) Financing
  b) Income tax
  c) Discontinued operations

2 similar businesses may have different capital structures

Q6 – Profit or Loss before financing & net income tax

a) Paras 60(c) and 64 propose that all entities (except those classifying all income and expenses from financing and C&CEs as operating), present a subtotal for profit/loss before financing and income tax.
b) Para 49 proposes which income and expenses an entity should classify as financing

1. Do you agree with these proposals?
2. Why or why not?
3. If not, what alternative approach would you suggest

Further Reading: **Paras BC33–BC45** of the Basis for Conclusions describe the IASB's reasons for the proposals.

Integral Associates & JVs

Definition

from IFRS 12

Associates and JVs accounted for using the equity method

- that are integral to the main business activities of an entity; and
- hence do NOT generate a return individually and largely independently of the entity's other assets

When assessing this classification, the entity shall consider all facts and circumstances.

- significant interdependency between an entity & an associate or JV would indicate that it is integral

Significant Interdependency

Examples may include:

a) having integrated lines of business with the associate or JV;

b) sharing a name or brand with the associate or JV so that externally it may appear as one business in relation to the activities of the associate or JV

- although the reporting entity may have other, separate businesses; and

c) having a supplier or customer relationship with the associate or JV that the entity would have difficulty replacing without significant business disruption

Q7–Associates & JVs

a) The proposed new paras of IFRS 12 would define 'integral/non-integral' associates and JV's and require an entity to identify them

b) Para 60(b) of the ED proposes that an entity present a PNL subtotal for operating profit or loss AND income and expenses from integral associates and JVs

c) The ED and proposed new paras of IAS 7/IFRS 12 would require an entity to provide separate info. about integral/non-integral associates and JVs

1. Do you agree with this proposal?
2. Why or why not?
3. If not, what alternative approach would you suggest and why?

Proposal 2

Roles of Financial Statements and Aggregation & Disaggregation

Proposed Changes

Proposal 2

Role of Primary Financial Statements

To provide a structured and comparable summary of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows, that is useful for:

a) obtaining an overview of these items;
b) making comparisons between entities, and between reporting periods for the same entity; and
c) identifying items or areas about which users may wish to seek additional information in the notes

Proposal 2

Role of Notes

a) To provide further information necessary for users to understand the items included in the primary financial statements; and

b) supplement the primary financial statements with other information that is necessary to meet the objective of financial statements.

Proposal 2

Aggregation

An entity shall present in the primary financial statements or disclose in the notes

- the nature and amount
- of each material class of assets, liabilities, income or expense, equity or cash flow

To provide this information

- an entity shall aggregate transactions and other events into the information it discloses in the notes and the line items it presents in the primary financial statements

Proposal 2

Principles of Aggregation

An entity shall apply the following principles:

a) Classify and aggregate items on the basis of shared characteristics (e.g. nature, function, measurement basis etc.)

b) Do NOT aggregate items that do not share characteristics

c) aggregation and disaggregation shall not obscure relevant information or reduce understandability of the information presented or disclo**sed**

Unless doing so would override specific aggregation or disaggregation requirements in IFRS Standards

Separate the line items presented in the PFS on the basis of further characteristics resulting in the **disclosure of items in the notes, if those items are material**

Q8 – Roles of Primary Financial Statements, Notes & Aggregation

a) Paras 20–21 set out the proposed description of the roles of the primary financial statements and the notes.

b) Paras 25–28 and B5–B15 set out proposals for principles and general requirements on the aggregation and disaggregation of information.

1. Do you agree with this proposal?
2. Why or why not?
3. If not, what alternative approach would you suggest and why?

Further Reading: **Paras BC19–BC27** of the Basis for Conclusions describe the IASB's reasons for these proposals.

Analysis of Operating Expenses
AND
Unusual Income & Expenses

Proposed Changes

Proposal 2

Analysis of Operating Expenses

IASB proposes to continue to require entities to present in the PNL an analysis of operating expenses either by nature or by function

- the method presented should be the one that provides the most useful information to users

An entity that presents an analysis by function

- would also be required to disclose in a single note an analysis of its total operating expenses by nature

But not vice versa

When Choosing a Method, Consider…

a) which method provides the most useful information about the key components/drivers of the entity’s profitability

b) which method most closely represents how the business is managed and how management reports internally

c) industry practice, to facilitate easier comparison across entities in the same industry.

d) whether allocation of expenses to functions would be arbitrary and thus would not provide a sufficiently faithful representation of the line items presented

Q9 – PNL Analysis of Operating Expenses

Para 68 and B45 of the ED propose requirements and application guidance to help an entity decide whether to present its operating expenses by nature or function.

- Para 72 proposes requiring an entity that provides an analysis of its operating expenses by function in the PNL statement to provide an analysis by nature in the notes

1. Do you agree with these proposals?
2. Why or why not?
3. If not, what alternative approach would you suggest and why?

Further Reading

Paras BC109–BC114 of the Basis for Conclusions describe the IASB's reasons

Proposal 2

Unusual Income and Expenses

Definition

Not expected to persist

An entity classifies income and expenses as unusual if and only if they have limited predictive value

- Income and expenses cannot be classified as unusual if it is reasonable to expect that items similar in type and amount will arise in any of several future annual reporting periods

Disclose unusual income and expenses in a single note

- Provide narrative description of how the item arose and why it meets the definition of an unusual item; and
- State which PNL line item(s) it's included in

Type & Amount

In determining whether an income or expense is unusual, an entity shall consider both the type of the item and its amount.

Items may be unusual in amount [but not by type]

- Whether an item is unusual in amount is determined by the range of outcomes reasonably expected to arise for that item in several future annual reporting periods

Items are classified as unusual based on expectations about the future rather than past occurrences.

- Hence, it is possible for income and expenses similar to items reported in previous reporting period(s) to be classified as unusual

Unusual Income and Expenses

a) Expectations about the future will depend on the facts and circumstances of an entity.
b) Income and expenses from the recurring remeasurement of items measured at current value would not normally be classified as unusual because such items are expected each period and are expected to vary from period to period
c) When an entity identifies unusual income or expenses it does not classify related income or expenses as unusual unless those items are themselves unusual
d) When an entity discloses comparative information about unusual items, it shall only classify amounts that met the definition of unusual income/expenses in the comparative period as unusual items

Q10 – Unusual Income & Expenses

a) Para 100 of the ED introduces a definition of ‘unusual income and expenses’.
b) Para 101 proposes to require all entities to disclose unusual income and expenses in a single note.
c) Para B67–B75 propose application guidance to help an entity identify its unusual income and expenses.
d) Para 101(a)–(d) propose what information should be disclosed relating to unusual income and expenses.

1. Do you agree with this proposal?
2. Why or why not?
3. If not, what alternative approach would you suggest and why?

Proposal 3

Management Performance Measures (MPMs)

Proposed Changes

Proposal 3

MPMs

Definition

MPMs are subtotals of income and expenses that:

- are used in public communications outside financial statements;
- complement totals or subtotals specified by IFRS Standards; and
- communicate to users, management's view of an aspect of an entity's financial performance.

Disclosure in a single note, how each MPM is calculated

- a reconciliation to the most directly comparable total/subtotal specified by IFRS Standards.
- how it provides useful information

MPMs

An entity must comply with the general requirements in IFRS Standards for information included in financial statements when it provides these measures

- e.g. each performance measure must faithfully represent an aspect of the financial performance of the entity
  - IASB does not propose additional restrictions on MPMs e.g. only allowing an entity to provide measures based on amounts recognised and measured in accordance with IFRS Standards

MPM & Unusual Income and Expenses

An entity's MPMs may include some, or all, of its unusual income and expenses.

In such cases, the entity may disclose the required information about those unusual income and expenses in the same note that it uses to disclose information about MPMs provided the entity either:

a) includes in that note all of the information required by para 101 for unusual income and expenses; or
b) provides a separate note that includes all of the information required for unusual income and expenses.

Q11–MPMs

a) Para 103 of the ED proposes a definition of MPMs
b) Para 106 proposes requiring an entity to disclose in a single note information about its MPMs.
c) Para 106(a)–(d) propose what information an entity would be required to disclose about its MPMs

1. Do you agree that information about MPMs as defined by IASB should be included in the financial statements?
2. Why or why not?
3. Do you agree with the proposed disclosure requirements for MPMs?
4. Why or why not?
5. If not, what alternative disclosures would you suggest and why?

Cash Flow Statement
AND
EBITDA

Proposed Changes

Proposal 4

Classification of Cash Flows

The ED contains a proposed revision to IAS 7

- An entity shall classify dividends paid as cash flows from financing activities
- An entity, other than those entities described in para 34B, shall classify:
  a) interest paid as cash flows from financing activities. This includes interest capitalised as part of the cost of an asset applying IAS 23
  b) interest and dividends received as cash flows from investing activities

Q13 – Statement of Cash Flows

a) The proposed amendment to para 18(b) of IAS 7 would require operating profit or loss to be the starting point for the indirect method of reporting cash flows from operating activities
b) The proposed new paras 33A and 34A–34D of IAS 7 would specify the classification of interest and dividend cash flows

1. Do you agree with these proposals?
2. Why or why not?
3. If not, what alternative approach would you suggest and why?

EBITDA

IASB does not propose to define earnings before interest, tax, depreciation and amortisation (EBITDA) in this project.

- It considered, but rejected, describing operating profit or loss before depreciation and amortisation as EBITDA
- However, it proposes to exempt from the disclosure requirements for MPMs a subtotal calculated as operating profit or loss before depreciation and amortisation (para 104(c))

Q12 – EBITDA

Para BC172–BC173 of the Basis for Conclusions explain why IASB has not proposed requirements relating to EBITDA

1. Do you agree?
2. Why or why not?
3. If not, what alternative approach would you suggest and why?

Q14 – Other

Do you have any other comments on the proposals in the ED, including the analysis of the effects (paras BC232–BC312 of the Basis for Conclusions, including Appendix) and Illustrative Examples accompanying the ED?

Next Step

IASB will consider comment letters and other feedback from its consultations on this ED when finalising the project proposals.

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Changes to Other Standards

The ED also includes proposed amendments to other Standards:

- IAS 7 *Statement of Cash Flows*;
- IFRS 12 *Disclosure of Interests in Other Entities*;
- IAS 33 *Earnings per Share*;
- IAS 34 *Interim Financial Reporting*;
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to include some requirements from IAS 1; and
- IFRS 7 *Financial Instruments: Disclosures* to include some requirements from IAS 1.