



# Presentation and disclosures

**Proposals for financial statements**  
IFRS® Standards



April 2020

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**New on the Horizon**

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# Re-shaping financial statement presentation

## More comparability, transparency and discipline

Investors today demand more structure and transparency in the presentation of entities' financial statements. They also want more direct comparability between financial statements and more alignment in how particular financial measures are treated.

The International Accounting Standards Board (the Board) is proposing a new standard on presentation of financial statements to improve their usefulness and relevance.

The proposals in the exposure draft *General Presentation and Disclosures* focus on the structure of the income statement. Entities would be required to present three new profit subtotals in their income statement, effectively allocating their income and expenses between four major categories, and present an analysis of their operating expenses on the face of the income statement.

Entities are increasingly using non-GAAP information to explain their financial performance. The Board's proposals acknowledge the importance of these management performance measures and investors' demand for them. The proposals could add more credibility to these measures: entities and their investors stand to gain as long as these are disclosed in an unbiased and transparent way and properly defined, explained and reconciled.

The proposals are likely to impact all entities across different industries and could present some challenges in implementation, but also an opportunity to communicate more effectively. The Board's chairman has referred to this initiative as a game changer, and that is not an understatement.

As the Board continues to seek views on its proposals (until 30 September 2020), this *New on the Horizon* explores some of the potential impacts and offers illustrative examples showing how financial statements might be prepared and presented under this future standard.

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# 1 The proposals at a glance

## 1.1

### Key facts

The Board's [ED/2019/7 General Presentation and Disclosures](#) (the ED or the proposals) aims to bring more comparability and transparency in financial statements' presentation to meet investors' demands. The proposed standard would replace the current IAS 1 *Presentation of Financial Statements*.

The key proposals for the financial statements can be summarised as follows.

Primary financial statements <sup>1</sup>	<b>Income statement</b> <b>Chapter 2</b>	<ul style="list-style-type: none"> <li>– Newly defined, mandatory subtotals</li> <li>– Allocation of income and expenses between four new major categories</li> <li>– Presentation of analysis of operating expenses on the face, either by nature or by function – mixed presentation prohibited</li> <li>– Columnar presentation of management performance measures (MPMs) prohibited</li> </ul>
	<b>Balance sheet</b> <b>Chapter 6</b>	<ul style="list-style-type: none"> <li>– New line items for goodwill and integral and non-integral associates and joint ventures</li> </ul>
	<b>Statement of changes in equity</b> <b>Chapter 4</b>	<ul style="list-style-type: none"> <li>– Largely unchanged but could be affected by new principles on aggregation and disaggregation</li> </ul>
	<b>Statement of cash flows</b> <b>Chapter 6</b>	<ul style="list-style-type: none"> <li>– Operating profit to be the starting point for the indirect method</li> <li>– Elimination of options for classifying interest and dividends</li> <li>– Separate presentation of cash flows from investments in integral associates and joint ventures from those in non-integral associates and joint ventures</li> </ul>
	<b>Notes<sup>2</sup></b> <b>Chapters 3 and 5</b>	<ul style="list-style-type: none"> <li>– New disclosure requirements for MPMs</li> <li>– New disclosures for unusual items</li> </ul>

## 1.2

ED.117, 119

### Effective date and transition

An effective date for the proposed new standard is yet to be confirmed. However, it is not expected to apply for annual reporting periods beginning before 1 January 2022. The proposed new standard would be applied retrospectively and earlier application would be permitted. If an entity chose to apply the new standard early, then it would disclose this fact in the notes to the financial statements.

1. **Primary financial statements** provide a structured and comparable summary of an entity's recognised assets, liabilities, equity, income, expenses and cash flows (ED paragraph 20).
2. **Notes to the financial statements** provide further information necessary for users of financial statements to understand the items recognised in the primary financial statements (PFS) and to supplement the PFS with other information that is necessary to meet the objective of financial statements (ED paragraph 21).

ED.118

Specific requirements would apply for entities preparing condensed financial statements in their interim financial reports in the first year of application (see Chapter 7).

## 1.3

### Key impacts

The proposals are pervasive. Many aspects of financial statement presentation would be affected, particularly the income statement. The renewed discipline and rigour that the Board is proposing could require entities to reassess how they present and disclose information in their financial statements, and what additional information is included. What is permitted currently under IAS 1 could be prohibited under the proposals, and application of the new requirements would involve potentially more judgements.

Although the current IAS 1 would be withdrawn and replaced by the proposed new standard, some of its existing requirements would continue to apply – e.g. the requirements on classifying current and non-current assets and liabilities. Aspects of IAS 1 that are outside the scope of this project and would remain unchanged are summarised in the Appendix.

 <b>Entities would no longer:</b>	 <b>Entities would now:</b>
<p><b>Income statement</b></p> <ul style="list-style-type: none"> <li> Present self-defined subtotals on the face</li> <li> Present share of profit or loss of associates and joint ventures as part of operating profit</li> <li> Present a single line item for share of profit or loss of associates and joint ventures</li> <li> Have an option to present an analysis of operating expenses only in the notes</li> <li> Present a mixed analysis of operating expenses by nature and function on the face</li> <li> Present foreign exchange differences only as part of finance costs</li> <li> Include non-GAAP measures on the face regardless of income statement structure</li> <li> Present non-GAAP measures using columns on the face</li> </ul> <p><b>Note disclosures</b></p> <ul style="list-style-type: none"> <li>-</li> <li>-</li> </ul> <p><b>Balance sheet</b></p> <ul style="list-style-type: none"> <li>-</li> </ul> <p><b>Cash flow statement</b></p> <ul style="list-style-type: none"> <li> Choose own policy for classifying interest and dividends</li> <li> Use profit or loss/profit or loss before tax as the starting point for the indirect method</li> </ul>	<p><b>Income statement</b></p> <ul style="list-style-type: none"> <li> Present a more structured income statement with new, defined subtotals on the face, including operating profit</li> <li> Present share of profit or loss of associates and joint ventures below operating profit</li> <li> Present share of profit or loss of integral and non-integral associates and joint ventures separately</li> <li> Present an analysis of operating expenses on the face</li> <li> Present an analysis of operating expenses either by nature or by function on the face</li> <li> Present foreign exchange differences in the same category as the income/expenses that gave rise to these differences</li> <li> Remove non-GAAP measures from the face unless they comprise amounts recognised and measured applying IFRS Standards and fit into the structure of the income statement</li> <li> Not use columns to present non-GAAP measures on the face</li> </ul> <p><b>Note disclosures</b></p> <ul style="list-style-type: none"> <li> Disclose information about unusual items</li> <li> Disclose MPMs in a transparent way</li> </ul> <p><b>Balance sheet</b></p> <ul style="list-style-type: none"> <li> Present goodwill and integral and non-integral associates and joint ventures separately</li> </ul> <p><b>Cash flow statement</b></p> <ul style="list-style-type: none"> <li> Classify interest and dividends according to the specific, proposed requirements</li> <li> Use operating profit or loss as the starting point for the indirect method</li> </ul>

# 2

## Income statement structure

New income statement structure with three new mandatory profit subtotals

### 2.1

ED.60

### New categories and new subtotals

The ED introduces three new defined subtotals that entities would be required to present in their income statement:

- operating profit or loss;
- operating profit or loss and income and expenses from integral associates and joint ventures; and
- profit or loss before financing and income tax.

ED.45–53, B24

This means that entities would generally need to allocate their income and expenses (other than income taxes or income and expenses related to discontinued operations) between four major categories, as illustrated below.

Example income statement		Proposed category
	20XX	
Revenue	X	} Operating
Operating expenses (analysed by nature or by function as appropriate)	(X)	
<b>Operating profit</b>	<b>X</b>	
Share of profit or loss of integral associates and joint ventures	X	} Integral associates and joint ventures
<b>Operating profit and income and expenses from integral associates and joint ventures</b>	<b>X</b>	
Share of profit or loss of non-integral associates and joint ventures	X	} Investing
Income from investments	X	
<b>Profit before financing and income tax</b>	<b>X</b>	} Financing
Interest revenue from cash and cash equivalents	X	
Expenses from financing activities	(X)	
Unwinding of discount on pension liabilities	(X)	
<b>Profit before tax</b>	<b>X</b>	
Income tax	X	
<b>Profit for the year from continuing operations</b>	<b>X</b>	
Profit for the year from discontinued operations	X	
<b>Profit for the year</b>	<b>X</b>	

This example illustrates the general model of an income statement that would apply for corporates – e.g. a manufacturer. Entities such as banks, insurers and investment entities would classify income and expenses in the categories differently. An income statement for banks is illustrated in 2.1.8.

## 2.1.1

### Allocating income and expenses between the four new categories

When classifying income and expenses into each of the categories, entities would need to consider the nature of their main business activities. For example, if an entity provides financing to customers as its main business activity (e.g. a bank), then it would classify in the operating category income and expenses from financing activities and from cash and cash equivalents that relate to providing financing to customers.

The following table shows broadly the types of income and expenses that particular entities may include in each of the categories. As it shows, some types of income or expenses could be classified differently due to the different nature of an entity's main business activities.

	Which category would income and expenses typically go into?			
	 Manufacturer	 Real estate	 Insurer	 Bank
<b>Interest expense on borrowings</b>	Financing	Financing	Financing	Operating
<b>Fair value gain on investment properties</b>	Investing	Operating	Investing*	
<b>Net interest expense on a net defined benefit liability</b>	Financing			
<b>Gain on disposal of a non-integral associate/joint venture</b>	Investing			
<b>Share of profits of integral associates/joint ventures</b>	Integral associates/joint ventures			

\* Unless it arises in the course of an entity's main business activity, when it would be classed as operating.



### What are the key changes for an entity's income statement?

Depending on their current presentation practice, entities may see significant changes in their income statement – e.g. classifying income and expenses into four new categories, presenting new subtotals and aligning any self-defined subtotals with the proposed new definitions.

The nature of an entity's business activities could determine the extent to which it is affected by the proposals. For example, investment companies could be less affected by the proposed requirement to have a separate investing category because they would continue to classify investment income and expenses in the operating category. Similarly, banks would continue to classify in the operating category the income and expenses relating to the provision of financing to customers.

However, entities with multiple business activities may need to exercise greater judgement in determining if all of their business activities would be considered 'main' business activities when classifying income and expenses.

All entities would need to present a new required subtotal of 'operating profit and income and expenses from integral associates and joint ventures' if they have equity-accounted investees that are integral to their main business activities.

If the information required to classify income and expenses into specified categories is not available through an entity's existing accounting system, then it may need to update the system to capture the relevant information.



### Do the proposed definitions of the income and expense categories align with those for cash flows?

No. The classification of income and expenses in the income statement would not necessarily coincide with the classification of the corresponding cash flows in the cash flow statement under IAS 7 *Statement of Cash Flows* (see 2.1.3).

When developing the proposals, the Board did not attempt to align classifications across the primary financial statements. Instead, it focused on providing information in the income statement that meets users' needs.

ED.BC30, BC51

## 2.1.2

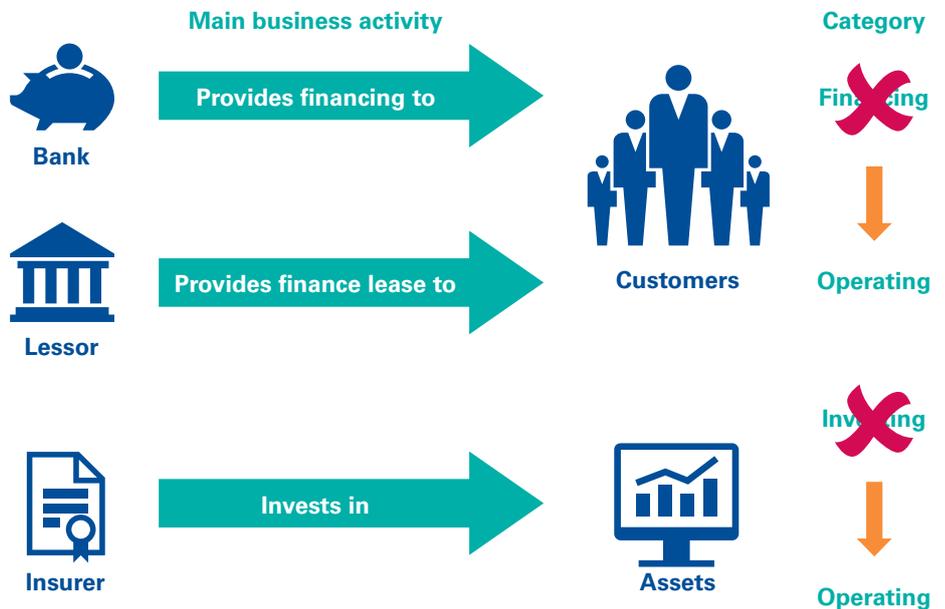
ED.46, B25–B26, BC54

ED.48, 51, 52(a), B24, B27–B30

### Operating category

The operating category, and hence the operating profit subtotal, would include income and expenses from an entity's *main business activities* and is defined indirectly in the ED as a 'residual' or 'default' category. This means that an entity would classify income and expenses in the operating category unless they fall into other categories – e.g. the investing or financing categories.

If an entity's main business activity is providing financing to customers or investing, then it would classify income and expenses from that activity in the operating category, rather than the financing or investing categories respectively, with the exception of investments in associates and joint ventures (see 2.1.5).



ED.B26

An entity may have more than one main business activity – e.g. a manufacturer that also provides financing to customers could have both manufacturing and customer financing as its main business activities.

### Operating income and expenses

Under the proposals, the following types of income and expenses would typically be classified in the operating category.

Industry	Example income and expenses	Rationale
 <b>Manufacturer</b>	Costs of raw materials	Income and expenses from main business activities
 <b>Manufacturer with financing to customers</b>	Interest income from providing financing to customers	
 <b>Real estate</b>	Fair value gain on investment properties	
 <b>Bank</b>	Interest income on loans to customers	
 <b>Insurer</b>	Asset management fee	Incremental expenses* incurred in generating income and expenses from main business activities

\* Incremental expenses are defined in the ED as expenses that would not be incurred had the investments not been made.



#### How would an entity determine its main business activity or activities?

The ED does not define 'main business activity' and includes limited guidance in this regard.

It is unclear how the concept of 'main business activities' relates to the presentation and disclosure of reportable segments under IFRS 8 *Operating Segments*. The proposals suggest that when an entity reports a segment that constitutes a single business activity, this *may* indicate that this is a main business activity. It could be inferred from this guidance that a reportable segment constituting a single business activity could, but *may not necessarily*, be a main business activity.

In addition, there is no specific requirement proposed to disclose information on the significant judgements involved.

ED.B31

### Accounting policy choice for certain entities when classifying income and expenses

- ED.51
- Entities that provide financing to customers as a main business activity would choose an accounting policy, to be applied consistently, when classifying income and expenses from cash and cash equivalents and financing activities – i.e. they could elect to classify either of the following in the operating category:
- income and expenses from cash and cash equivalents and financing activities that relate to the provision of financing to customers; or
  - all* income and expenses from cash and cash equivalents and financing activities (regardless of whether they relate to the provision of financing to customers).

ED.64

If an entity chooses option (b), then it would not present the 'profit before financing and income tax' subtotal.



For example, when a bank's main business activities include providing financing to customers and investing, and the bank elects option (b), it would classify all income and expenses from cash and cash equivalents and financing activities in the operating category. This would be regardless of whether its income and expenses from financing activities relate to its activity of providing financing to customers or investing. Consequently, it would not present a subtotal for profit before financing and income tax in its income statement.



In contrast, if a manufacturer's main business activities include manufacturing and providing financing to customers, and the manufacturer elects option (a), then it would classify in the operating category the income and expenses from cash and cash equivalents and financing activities that relate only to its provision of financing to customers. It would classify those that relate to its manufacturing activity in the financing category and present a subtotal for profit before financing and income tax in its income statement. However, it could also select option (b) and classify all income and expenses from cash and cash equivalents and financing activities in the operating category.



#### How might the accounting policy choice affect operating profit?

The proposed accounting policy choice would be relevant to entities that provide financing to customers as one of their main business activities. Those entities may engage in financing activities that are unrelated to their provision of financing to customers – e.g. treasury activities. In some cases, the entity may be unable to identify a non-arbitrary basis for allocating financing expenses between those relating to the provision of financing to customers and those to other activities.

ED.BC64–BC69

To avoid allocating financing expenses arbitrarily, the proposals allow entities to make an accounting policy choice. Those entities that provide financing to customers as a main business activity may elect not to split the financing expenses between the operating and financing categories, but rather include them all in the operating category.

The Board recognised that permitting an accounting policy choice may reduce comparability between entities. However, in view of the potential difficulty in allocating financing expenses between different categories, the Board proposed to permit but not require this allocation.

If an entity chooses to allocate *all* income and expenses from cash and cash equivalents and financing activities in the operating category, then its operating profit may include financing income and expenses that relate to other aspects of its business (i.e. other than the provision of financing to customers). Further, it would not present a subtotal for profit or loss before financing and income tax and, effectively, the income statement would not have a separate category for financing (see an example income statement in 2.1.8).

Classifying all income and expenses from cash and cash equivalents and financing activities in the operating category would impact operating profit and may not be the most informative presentation for entities with multiple business activities – e.g. a manufacturer that provides financing to customers as one of its main business activities.

### 2.1.3

ED.47–48, B27, B32–B33

### Investing category

The investing category would include information about returns from investments that are generated individually and largely independently of other resources held by an entity. This would exclude income and expenses from investments that are made in the course of an entity’s main business activities and from integral associates and joint ventures (see 2.1.5).

Under the proposals, the following types of income and expenses would typically be classified in the investing category.

Industry	Example income and expenses	Rationale
 <b>Manufacturer</b>	Dividend income from equity securities Gain on disposal of investment property	Income and expenses from investments <i>not</i> made in the course of main business activities
 <b>Real estate</b>	Dividend income from equity securities	
 <b>Bank</b>	Gain on disposal of investment property	

Industry	Example income and expenses	Rationale
 <b>Manufacturer</b>	Asset management fee	Incremental expenses incurred generating income and expenses from investments <i>not</i> made in the course of main business activities
<b>All</b>	Gain on disposal of a non-integral associate	Income and expenses from non-integral associates and joint ventures

ED.BC30, BC51



**Would the investing category in the income statement be the same as investing activities in the statement of cash flows?**

No. This means that cash proceeds from the disposal of property, plant and equipment, for example, would be classified as investing activities in the cash flow statement, but the disposal gain/loss would be classified in the operating category in the income statement. This is because property, plant and equipment are used in combination with other resources of an entity in its main business activities and do not 'generate a return individually and largely independently of other resources held by an entity'.

However, considering that the same labels are used in the income statement and the statement of cash flows, the difference in the definitions across the primary financial statements may not be well understood by users.

## 2.1.4

ED.49, B34–B37

### Financing category

The financing category aims to communicate information about income and expenses from assets and liabilities relating to an entity's financing.

The financing category would include:

- income and expenses from cash and cash equivalents;
- income and expenses on liabilities arising from *financing activities*; and
- interest income and expenses on other liabilities.

ED.50

'Financing activities' are defined in the ED as activities involving the receipt or use of a resource from a provider of finance with the expectation that:

- the resource will be returned to the provider of finance; and
- the provider of finance will be compensated through the payment of a finance charge that is dependent on both the amount of the credit and its duration.

Under the proposals, the following types of income and expenses would typically be classified in the financing category.

Industry	Example income and expenses	Rationale
 <b>Manufacturer</b>	Interest charge on bank borrowings Gain/loss on extinguishment of debt Interest charge on trade payables negotiated on extended credit terms Interest charge on lease liabilities	Income and expenses on liabilities arising from financing activities and the entity does not provide financing to customers as a main business activity
 <b>Real estate</b>	Interest charge on bank borrowings Gain/loss on extinguishment of debt Interest charge on lease liabilities	
 <b>Insurer</b>	Interest charge on bank borrowings Gain/loss on extinguishment of debt Interest charge on lease liabilities	
 <b>Manufacturer</b>	Interest income on bank deposits Gains on disposal of short-term investments that are cash equivalents	Income and expenses from cash and cash equivalents and the entity does not provide financing to customers as a main business activity
<b>All</b>	Net interest expense on a net defined benefit liability Unwinding of a discount on a decommissioning, restoration or similar liability Unwinding of discount on other long-term provisions – e.g. warranty provisions	Interest income and expenses on liabilities not arising from financing activities

 **How are finance costs presented under the proposals?**

Under IAS 1, finance costs are presented as a separate line item in the income statement but are not defined in IFRS Standards.

The proposals remove the requirement to present finance costs separately in the income statement. Instead, entities would identify income and expenses from financing activities based on the proposed new definition of financing activities and present all of these income and expenses as a separate line item (or separate line items if they fall into more than one category) in the income statement.

Although the proposals now define financing activities, it is unclear whether the ‘payment of a finance charge’ would include notional interest calculated for accounting purposes, rather than a contractual interest charge – e.g. inter-company loans that are not at a market interest rate.

IAS 1.82(b)

ED.65(a)(iii), BC105

## 2.1.5

ED.47(a), 48, 53, IFRS 12.A

### Integral and non-integral associates and joint ventures

The ED introduces a new term, 'integral associates and joint ventures'. These are equity-accounted associates and joint ventures that are integral to the main business activities of an entity and hence do not generate a return individually and largely independently of the other assets of the entity.

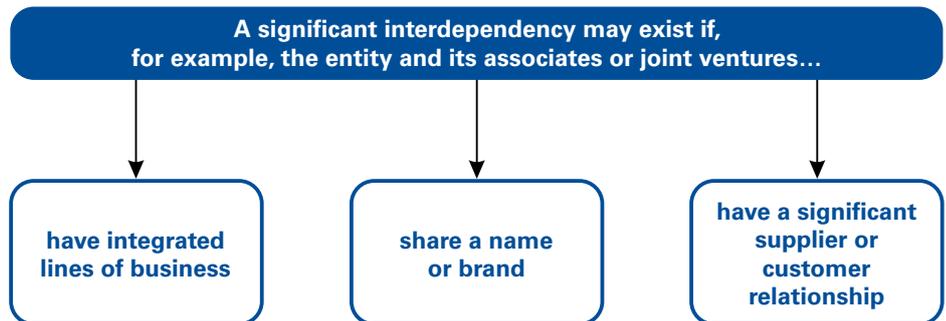
Income and expenses from integral associates and joint ventures would be presented separately and immediately below the operating profit subtotal.

'Non-integral' associates and joint ventures are those equity-accounted associates and joint ventures that are *not* integral to the main business activities of an entity and hence generate a return individually and largely independently of the other assets of the entity. Income and expenses from non-integral associates and joint ventures would be classified in the investing category (see 2.1.3).

#### Determining when an associate or joint venture is integral

ED. IFRS 12.20D

A significant interdependency between an entity and its associate or joint venture would indicate that the associate or joint venture is integral to the entity's main business activities.



Under the proposals, income and expenses from integral associates and joint ventures would include share of profit or loss, impairment losses, reversal of impairment losses and disposal gains or losses in relation to the integral associates and joint ventures.

ED. IFRS 12.7(d)

As discussed further in Section 6.4, the proposed consequential amendments to IFRS 12 *Disclosure of Interests in Other Entities* would require entities to disclose information about significant judgements that they have made in determining whether an associate or joint venture is integral or non-integral.

ED.BC78–BC83



### Could the share of profit or loss of associates and joint ventures be presented as part of operating profit?

No. In response to investors' demands, the Board is proposing not to include the share of profit or loss of associates and joint ventures in the operating category. Many investors analyse the results of investments in equity-accounted associates and joint ventures separately from the results of an entity's operating activities.

Further, some stakeholders believe that associates and joint ventures may have different characteristics, so the Board is proposing to require entities to distinguish between two types – integral and non-integral.

Determining whether an associate or joint venture is integral could be challenging, particularly when it is in a start-up stage.

Currently, there is diversity in practice over where the share of profit or loss of associates and joint ventures is presented in the income statement. Some entities present it as part of a self-defined operating profit subtotal; others do not. With the proposed specific presentation requirements, diversity in practice would be reduced.

## 2.1.6

ED.56, B35, B39



### Foreign exchange differences

The ED proposes to require entities to classify foreign exchange differences recognised in profit or loss in the same category as the income and expenses that gave rise to them.

For example, a manufacturer would classify its purchase of inventory from overseas in the operating category. It would recognise a foreign exchange difference on the corresponding trade payable, which is on normal credit terms, and would classify this also in the operating category. If the trade payable had extended credit terms, then the foreign exchange difference would be classified in the financing category.



### Would entities have a choice on where to present foreign exchange differences?

No. Under the proposals, foreign exchange differences would be presented in the same category as the income/expense on which those differences arose. They would be presented as income or expenses from financing activities only in specific circumstances.

Currently, some entities include the exchange differences as part of finance costs and some allocate the exchange differences to various line items, so the proposals could reduce this diversity in practice.

## 2.1.7

### Gains and losses on derivatives and hedging instruments

ED.57–59, B40–B43

Entities would classify fair value gains and losses on derivatives and hedging instruments depending on whether:

- the financial instruments are used to manage risks; and
- they are designated as hedging instruments under IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*.

The proposals are summarised in the table below.

ED.57–58, B40

		Gains and losses on derivatives	Gains and losses on non-derivatives
Used for risk management	Designated as a hedging instrument	Classify in the category affected by the risk that the entity manages. However, if this would involve grossing up gains and losses, then classify in the investing category. Grossing up of gains and losses would occur when a hedging instrument hedges a group of items with offsetting risk positions and the hedged items would be classified in multiple categories of the income statement – e.g. a single derivative to manage foreign currency risk on revenue (classified in the operating category) and interest expenses (classified in the financing category).	
	Not designated as a hedging instrument	Follow the same classification requirements for derivatives designated as a hedging instrument. However, if this would involve undue cost or effort, then classify in the investing category.	Apply the general requirements discussed in 2.1.2 to 2.1.4.
Not used for risk management		Classify in the investing category. However, if those derivatives are used in the course of a main business activity, then classify in the operating category.	

ED.59, B40



### Would presentation requirements differ for derivatives and non-derivatives?

ED.BC102

It depends. Classification of gains and losses on derivatives and non-derivatives used for risk management would be the same if they are designated as hedging instruments – i.e. they would be classified in the category affected by the risk the entity manages.

However, how an entity classifies gains and losses on financial instruments used for risk management that are not designated as a hedging instrument would depend on whether they are derivatives.

Entities may hold non-derivative financial instruments for multiple purposes, including risk management. Due to the costs and significant judgement involved in identifying the categories affected by the risks managed, the Board is proposing that entities would apply the general requirements for classifying income and expenses for these instruments when they are not designated as a hedging instrument (see 2.1.2 to 2.1.4).

## 2.1.8

### Special considerations for banks and similar entities

The ED includes specific provisions for entities whose main business activities are providing financing to customers and investing – e.g. investment and retail banks. In contrast to the general classification requirements of income and expenses in the ED described in 2.1.2 to 2.1.4, these entities would classify certain income and expenses in the operating category that would otherwise be classified in the investing or financing category.

ED.51, B28–B29

Under the proposals, entities with a main business activity of providing financing to customers would choose an accounting policy, to be applied consistently, to classify in the operating rather than the financing category:

- only income and expenses from cash and cash equivalents and financing activities that relate to the provision of financing to customers; or
- *all* income and expenses from cash and cash equivalents and financing activities (regardless of whether they relate to the provision of financing to customers).

ED.52(a), B24

If in the course of its main business activities, a bank invests in financial assets that generate a return individually and largely independently of other resources, then it would classify income and expenses from cash and cash equivalents in the operating rather than the financing category.

ED.64

If a bank classifies all income and expenses from cash and cash equivalents and financing activities in the operating category, then it would not present a profit before financing and income tax subtotal. This would be the case even when the bank earns or incurs interest income or expenses on other liabilities – e.g. defined benefit liabilities under IAS 19 *Employee Benefits*.

ED.48, B27

If a bank has investing as one of its main business activities, then it would classify its investing income and expenses in the operating category, even if they would otherwise meet the definition to be classified in the investing category.

A typical bank would present its income statement as follows.

Example income statement		Proposed category
	20XX	
Interest revenue calculated using the effective interest method	X	}
Interest expense	(X)	
<b>Net interest income</b>	<b>X</b>	
Fee and commission income	X	
Fee and commission expense	(X)	
<b>Net fee and commission income</b>	<b>X</b>	
Net trading income	X	
Net investment income	X	
Credit impairment losses	(X)	
Employee benefits	(X)	
Depreciation	(X)	
Amortisation	(X)	
Other operating expenses	(X)	
<b>Operating profit</b>	<b>X</b>	}
Share of profit or loss of integral associates and joint ventures	X	
<b>Operating profit and income and expenses from integral associates and joint ventures</b>	<b>X</b>	}
Share of profit or loss of non-integral associates and joint ventures	X	
<b>Profit before financing and income tax</b>	<del>X</del>	}
Unwinding of discount on pension liabilities	X	
<b>Profit before tax</b>	<b>X</b>	}
Income tax	(X)	
<b>Profit for the year</b>	<b>X</b>	



### What is meant by 'providing financing to customers'?

For banks, it is clear that their main business activities include 'providing financing to customers'. However, for some other financial institutions that do not carry out traditional lending activities, it is less clear. For example, some financial institutions may have quasi-loan arrangements under which they make payments to one party and get repaid by another. In the absence of further guidance, it could be challenging to determine whether these credit transactions would be considered as 'providing financing to customers'.

## 2.2

ED.65, 68, 72, B46, B48

### Analysis of operating expenses

The ED proposes a tightening of the requirements for presenting an analysis of operating expenses. Entities would present an analysis of their operating expenses on the face of the income statement – i.e. the option to disclose this analysis in the notes only would be removed.

Entities would present operating expenses either by nature or by function on the face of the income statement. An analysis of total operating expenses by nature would always be required – either on the face or in the notes. However, analysing operating expenses on the face of the income statement using a mixture of function and nature – so-called ‘mixed presentation’ – would be expressly prohibited and entities would need to choose the analysis that provides the ‘most useful’ information.

### Selecting the analysis that provides the ‘most useful’ information to users

Similar to IAS 1, entities would not have a free choice of method of analysis. Rather, they would be required to select the method that provides the ‘most useful’ information to financial statement users. The proposals include a list of factors for entities to consider when performing this assessment.

The table below illustrates how entities might consider the factors set out in the ED to determine which method provides the most useful information when analysing operating expenses – by nature or by function.

ED.B45

Factors	Examples
<b>Key components or drivers of the entity’s profitability</b>	<p>For a retailer, cost of sales is usually a key driver of profitability. Using the by-function method, which includes presenting cost of sales, would provide more relevant information about the direct costs incurred and the resulting profit margin.</p> <p>For a service provider, information about the expenses presented using the by-nature method – e.g. staff costs – may be more relevant.</p>
<b>The way that the business is managed and how management reports internally</b>	<p>A manufacturer managed on the basis of major functions may find that the by-function method provides more useful information.</p> <p>For an entity that has a single predominant function – e.g. an entity focused primarily on research and development – the by-nature method may provide more useful information.</p>
<b>Industry practice</b>	<p>Using similar methods to peers in the same industry may increase comparability.</p>
<b>Method of allocating expenses to various functions</b>	<p>If the allocation of expenses to different functions is done arbitrarily, then using the by-nature method would be required.</p>

ED.71–72, B48

Entities using the by-function method would be required to present cost of sales separately from other expenses on the face of the income statement. They would also be required to include an analysis of *total* operating expenses by nature in a single note to the financial statements.

ED.B47

Regardless of the method used, entities would still be required to present specified minimum line items on the face of the income statement – e.g. impairment losses determined under Section 5.5 of IFRS 9. However, no additional specific line items are proposed – i.e. the requirements as set out in paragraph 82 of IAS 1 would continue to apply under the proposed new standard.



### Would determining the appropriate method require significant judgement?

ED.B45

Although the ED includes a set of factors for entities to consider when determining which method provides the most useful information, this assessment may still require significant judgement. The ED does not attribute any weighting to the individual factors, particularly when different factors suggest different methods may be appropriate.



### How do the proposals for analysing operating expenses differ from the requirements in IAS 1?

The key differences are set out in the table below.

	Current requirements under IAS 1	ED proposals
<b>Location of analysis of operating expenses</b>	Choice between the face of the income statement and notes to the financial statements	Required on the face of the income statement
<b>Mixed analysis of operating expenses by function and nature on the face of the income statement</b>	Not explicitly prohibited, if the required analysis is included in the notes	Explicitly prohibited except for specified minimum line items
<b>Basis for determining the appropriate method for classifying income/ expenses</b>	Whichever provides information that is reliable and more relevant to users of the financial statements	Whichever provides the most useful information to users, with a list of factors entities would need to consider
<b>Disclosures required in the notes for entities using the by-function method on the face</b>	Additional information on the nature of expenses, including depreciation, amortisation and employee benefits	An analysis of total operating expenses using the by-nature method



### Could additional line items be presented if they are necessary to explain an entity's performance?

ED.42, B46

No, if doing so would lead to a mixed presentation of operating expenses on the face of the income statement. Similar to IAS 1, the proposals would require entities to present additional line items in the income statement when they are relevant to a user's understanding of the entity's financial performance.

However, given that the ED explicitly prohibits a 'mixed presentation', the additional line items presented on the face would have to fit within the operating expenses analysis. For example, an entity that presents its operating expense analysis by function would not be allowed to present an additional line item by nature, even if that line item is individually material and relevant to an understanding of the entity's financial performance.

## 2.3

### Income and expense subtotals

The proposals introduce:

- three new mandatory profit subtotals, as outlined in [Section 2.1](#);
- some potentially new considerations for presenting additional subtotals;
- a new type of subtotal: i.e. subtotals specified by IFRS Standards (specified subtotals); and
- management performance measures (MPMs) that are a subtotal of income and expenses; MPMs are discussed in more detail in [Chapter 3](#).

### 2.3.1

#### Required income and expense subtotals

Under the proposals, entities would present three new required subtotals, and three other totals/subtotals are carried forward from IAS 1.

ED.60, 73

Required subtotals	Is this new?
Operating profit or loss	Yes – newly introduced by the ED (see <a href="#">Section 2.1</a> )
Operating profit or loss and income and expenses from integral associates and joint ventures	
Profit or loss before financing and income tax*	
Profit or loss	No – carried forward from IAS 1
Total other comprehensive income	
Total comprehensive income	

\* Entities that classify all of the income and expenses from cash and cash equivalents and financing activities in the operating category would not present this subtotal (see [2.1.2](#)).

## 2.3.2

ED.42–43

### Additional income and expense subtotals

Similar to IAS 1, entities would present additional subtotals in the income statement if they are relevant to an understanding of their financial performance. The following criteria for presenting additional subtotals in IAS 1 are retained in the ED:

- they comprise line items made up of amounts recognised and measured in accordance with IFRS Standards;
- they are presented and labelled in a faithful manner;
- they are consistent from period to period; and
- they are not displayed with more prominence than required subtotals and totals.

ED.BC31, BC165

The Board explains that these subtotals:

- need to fit within the structure of the proposed income and expense categories; and
- should not disrupt the presentation of the operating expense analysis using the by-function or by-nature method (i.e. would not lead to a mixed presentation).

The proposals remove the current requirements in IAS 1 to reconcile additional subtotals to subtotals or totals required by IFRS Standards. Because an additional subtotal would be presented only when it fits within the proposed new structure of the income statement, such reconciliation would effectively be provided on the face of the income statement.



#### Would an entity be able to continue to present the same additional subtotals on the face of its income statement?

It depends. With the proposed restriction on the presentation of additional subtotals, some subtotals used currently may need to be removed from the face of the income statement – e.g. if they would disrupt the presentation of operating expenses on the face.

ED.42–43, BC31, BC165

## 2.3.3

ED.104, B78

### Specified income and expense subtotals

The proposals introduce a new type of subtotal – ‘subtotals specified by IFRS Standards’ (specified subtotals).

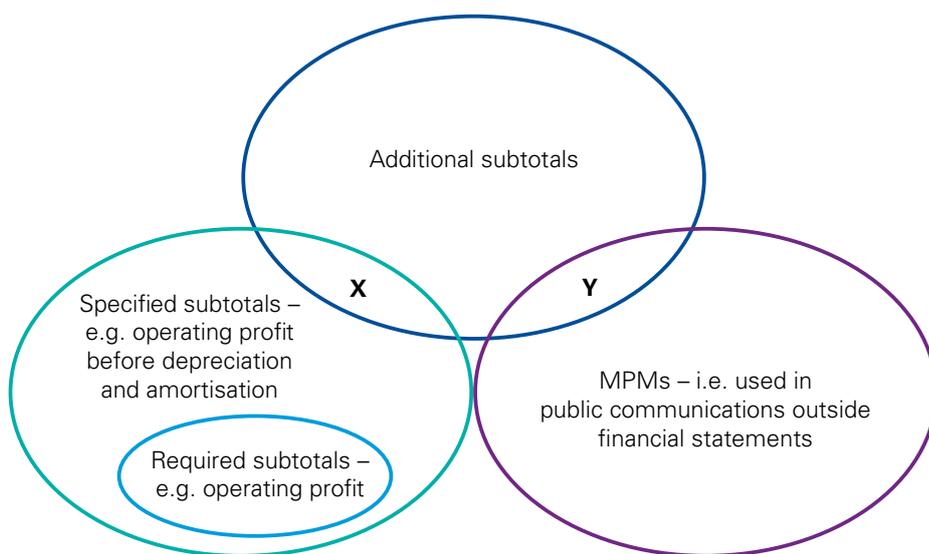
Specified subtotals would include *the required subtotals* listed in 2.3.1 above and the following commonly used subtotals:

- gross profit or loss (revenue less cost of sales) and similar subtotals: e.g. net interest income, net rental income;
- operating profit or loss before depreciation and amortisation;
- profit or loss from continuing operations; and
- profit or loss before income tax.

ED.104, 106, B77

These specified subtotals would not be considered MPMs under the proposals. Therefore, they would not be subject to the disclosure requirements for MPMs. For more discussion about MPMs, see [Chapter 3](#).

The following diagram illustrates the possible interaction between different types of subtotals discussed in the ED. The presentation and disclosure requirements for a subtotal would depend on which type/category it falls into.



The diagram shows that, under the proposals, a subtotal of income and expenses could be:

- X: i.e. both a specified subtotal and an additional subtotal. An example of X would be gross profit when an entity uses the by-function method to present its operating expense analysis; and
- Y: i.e. both an MPM and an additional subtotal. An example of Y would be operating profit before restructuring costs when:
  - it is used in public communications and therefore meets the proposed definition of an MPM;
  - the entity uses the by-nature method to present operating expenses;
  - presenting it as a subtotal would not disrupt the proposed structure of the income statement; and
  - it comprises amounts recognised and measured under IFRS Standards.

Because subtotal Y is both an MPM and an additional subtotal, an entity could present it on the face of the income statement and would need to provide additional disclosures for the MPM in the notes (see [Section 3.3](#)).

## 2.3.4

ED.BC172–BC173

### EBITDA

One of the more commonly used performance measures in financial reporting – earnings before interest, tax, depreciation and amortisation (EBITDA) – is not defined in the ED. However, the proposals introduce ‘operating profit or loss before depreciation and amortisation’ as a specified subtotal (see [2.3.3](#)).

Operating profit or loss before depreciation and amortisation would not necessarily equal EBITDA. For example, when an entity has income from equity-accounted associates or joint ventures, its operating profit would not equal earnings before interest and tax.

### Location and related disclosure

To present EBITDA on the face of the income statement, an entity would need to determine whether:

- it is an additional subtotal that is relevant to the users' understanding of the entity's financial performance; and
- it would fit within the structure of the proposed categories and would not disrupt the presentation of the operating expense analysis using either the by-function or by-nature method.

ED.103, 106

If EBITDA is used in public communications outside the financial statements and is not equal to operating profit or loss before depreciation and amortisation, then it would also be an MPM and therefore would be subject to the disclosure requirements for MPMs (see [Section 3.3](#)).



### Could EBITDA be presented on the face of the income statement?

It depends. The proposed restrictions on the presentation of additional subtotals could affect its presentation on the face of the income statement.

If an entity presents an analysis of operating expenses by function on the face, then it would not present depreciation and amortisation because these are 'by nature' expenses. Presenting EBITDA could disrupt the presentation of the operating expense analysis if the entity is using the by-function method.

It might be possible to present EBITDA on the face if an entity uses the by-nature method.

# 3 Management performance measures

Entities would be required to disclose MPMs in the financial statements in an unbiased and transparent way, and ensure that they are properly defined, explained and reconciled

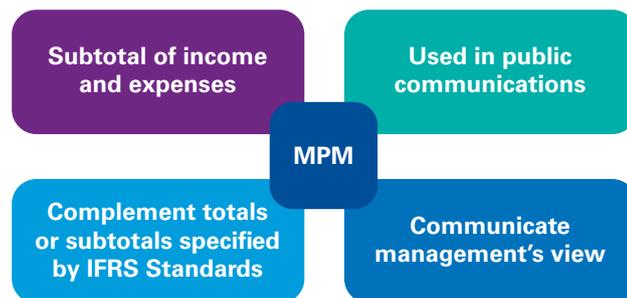
## 3.1 New definition

Acknowledging the usefulness of performance measures in communicating financial performance to users, the Board is proposing to define 'management performance measures' (MPMs) and include specific requirements for their disclosure in the notes to the financial statements.

ED.103, B79

The proposals define MPMs as *subtotals of income and expenses* that:

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



As outlined in 2.3.3, under the proposals an MPM is not a required subtotal or a specified subtotal, but it could be an additional subtotal. This distinction could affect how an MPM is presented and/or disclosed in the financial statements – i.e. whether it could be presented on the face of the income statement or only disclosed in a single note. This is discussed further in [Section 3.2](#).

**What do the proposals mean by ‘public communications outside financial statements’?**

A subtotal of income and expenses would be an MPM only if it is used in public communications outside financial statements. Apart from the examples provided in the ED of management commentary, press releases and investor presentations, it is unclear how broad the suite of public communications is or what period they should cover. For example, it is not clear if public communications would include one-off verbal comments from management in a public event or a press release that is issued after the reporting date but before the financial statements are authorised for issue.

Given the potentially wide variety of public communications outside financial statements, their timing and the periods they may cover, it could be operationally challenging to ensure the completeness of MPMs to be included in the financial statements.

*ED.105*

Under the proposals, MPMs would also need to:

- faithfully represent aspects of the financial performance of the entity; and
- be described in a clear and understandable manner that does not mislead users.

**What does ‘faithful representation’ mean in the context of MPMs?**

Under the proposals, apart from being described in a clear and understandable manner that does not mislead users, MPMs would also need to ‘faithfully represent’ aspects of the financial performance of an entity.

The ED does not include further guidance on faithful representation so determining whether an MPM provides a faithful representation of aspects of an entity’s financial performance could be highly subjective, particularly because under the proposals MPMs would not be restricted to amounts determined under IFRS Standards.

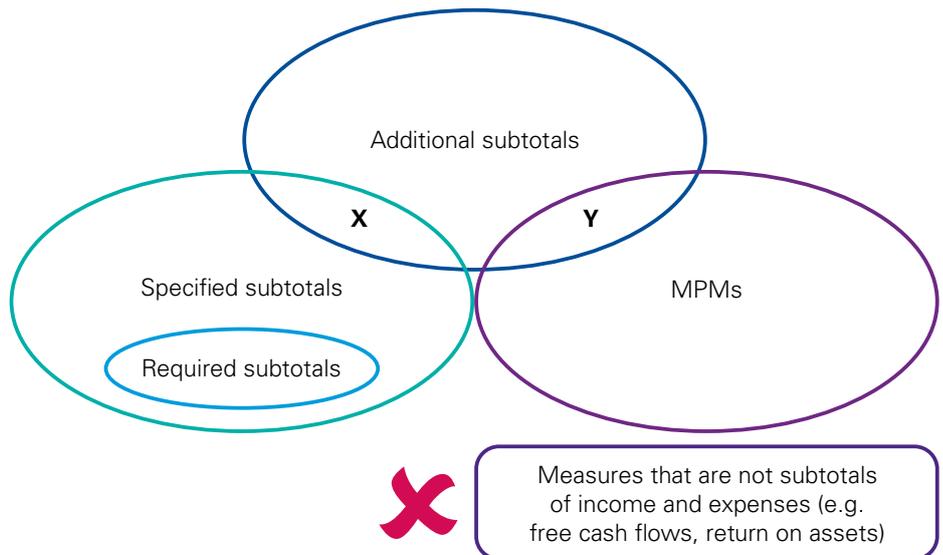
*ED.BC155, BC158, BC161***3.1.1***ED.B80***Proposed scope of MPMs**

Under the proposals, only subtotals of income and expenses would be MPMs. So-called non-GAAP measures (also commonly referred to as ‘alternative performance measures’ or ‘KPIs’) are broader than the proposed definition of MPMs. Examples of performance measures that would not be considered MPMs under these proposals (i.e. they are not subtotals of income and expenses) include:

- a total or subtotal of only income or expenses (e.g. adjusted revenue);
- assets, liabilities, equity or combinations of these elements;
- financial ratios (e.g. return on assets);
- measures of growth (e.g. lead-to-client conversion rate);
- measures of liquidity or cash flows (e.g. free cash flows); and
- non-financial measures (e.g. number of subscribers).

The diagram below illustrates the possible interaction between MPMs and other types of subtotals. An MPM could be an additional subtotal – denoted Y in the diagram below.

If an MPM is also an additional subtotal, then it could be presented on the face of the income statement (see [Section 3.2](#)).



**Are MPMs the same as so-called 'non-GAAP measures'?**

No. The proposals deal only with a subset of non-GAAP measures – subtotals of income and expenses. Other non-GAAP measures that are not a subtotal of income and expenses – e.g. return on capital employed – would not meet the proposed definition of MPMs and therefore would not be subject to the proposed disclosure requirements for MPMs.



**What is the difference between MPMs and additional subtotals?**

Both are subtotals of income and expenses but additional subtotals comprise amounts recognised and measured in accordance with IFRS Standards. In contrast, the proposals do not prohibit MPMs that are based on accounting policies that are non-compliant with IFRS Standards – e.g. measures that apply proportionate consolidation.

ED.BC155

## 3.2

ED.109, B81, BC165

### Where to include MPMs

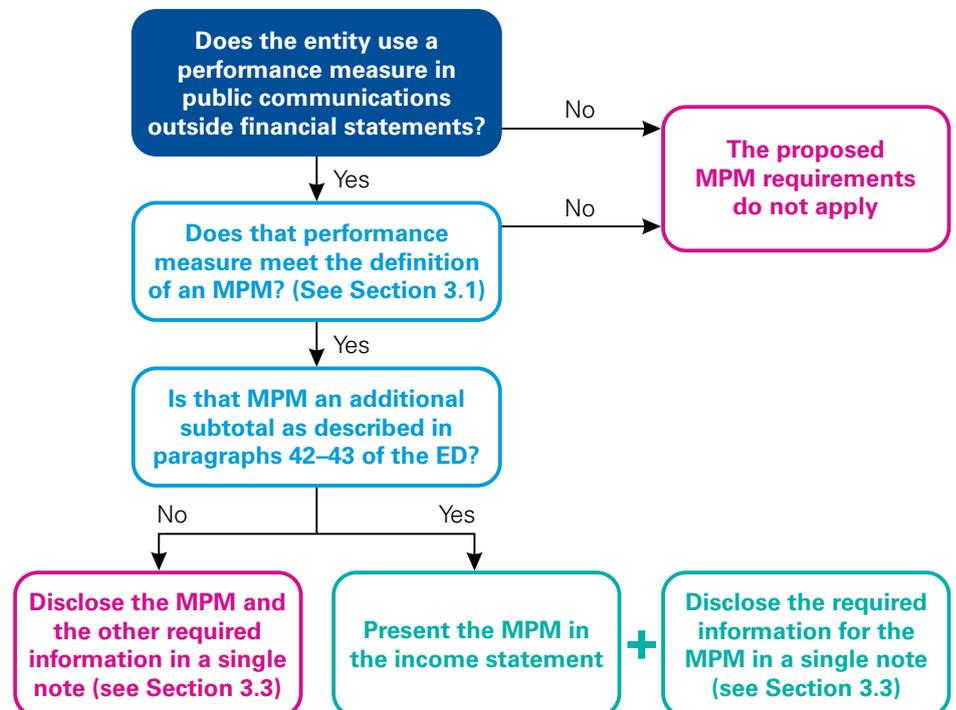
Although the Board expects that few MPMs would meet the requirements for presentation as a subtotal on the face of the income statement, as discussed in 2.3.3, an MPM could be presented on the face as an additional subtotal if it would:

- fit into the structure of the proposed categories in the income statement;
- not disrupt the presentation of the operating expense analysis using either the by-function or by-nature method; and
- comprise amounts recognised and measured in accordance with IFRS Standards.

Because of the proposed restrictions on the structure of the income statement, how an entity presents its operating expense analysis (i.e. using the by-function or by-nature method) would determine whether an MPM could be presented on the face of the income statement as an additional subtotal.

If the MPM does not meet the requirements for presentation as an additional subtotal, then it would be prohibited from being presented on the face of the income statement and would be disclosed only in the notes.

The above proposals are illustrated in the following flowchart.



ED.BC165



### Could MPMs ever be presented on the face of the income statement?

It depends. Entities that analyse their operating expenses by function could find it particularly challenging to present MPMs on the face of their income statement. This is because many commonly used performance measures – e.g. operating profit before restructuring costs – would lead to a mixed presentation, which is explicitly prohibited under the proposals.

The table below illustrates some examples of how the proposed requirements would apply *if the performance measures are used in public communications outside the financial statements*.

Example performance measures	Is the measure a required subtotal, additional subtotal, specified subtotal or MPM?	Could the measure be included on the face of the income statement or in the note?	Would the MPM disclosure requirements apply?
Profit before financing and income tax	Required subtotal	On the face	No
Operating profit or loss before depreciation and amortisation	Specified subtotal Also an additional subtotal <i>if</i> the by-nature method is used	On the face <i>if</i> the by-nature method is used, otherwise only in the note	No
EBITDA (if equal to operating profit or loss before depreciation and amortisation)	As above		
EBITDA (if different from operating profit or loss before depreciation and amortisation)	MPM	In the note only	Yes
Operating profit before restructuring costs	MPM Also an additional subtotal <i>if</i> the requirements discussed in Section 3.2 are met* Unlikely to be an additional subtotal under the by-function method	On the face <i>if</i> it is an additional subtotal*	Yes
Operating profit before research and development expenditure	MPM Also an additional subtotal <i>if</i> the requirements discussed in Section 3.2 are met* Unlikely to be an additional subtotal under the by-nature method	On the face <i>if</i> it is an additional subtotal*	Yes

Example performance measures	Is the measure a required subtotal, additional subtotal, specified subtotal or MPM?	Could the measure be included on the face of the income statement or in the note?	Would the MPM disclosure requirements apply?
Revenue including a share of revenue of associates and joint ventures	None of them	Not in the scope of the proposals	No
Free cash flow	None of them	Not in the scope of the proposals	No

- \* The requirements for presentation as an additional subtotal would be met if the subtotal would:
- fit into the structure of the proposed categories in the income statement;
  - not disrupt the presentation of operating expense analysis using either the by-function or by-nature method; and
  - comprise amounts recognised and measured in accordance with IFRS Standards.

### 3.2.1

ED.110

### Use of columns to present MPMs not allowed

The proposals would explicitly prohibit entities from using columns to present MPMs on the face of the income statement.



#### Why do the proposals prohibit columnar presentation for MPMs?

To further restrict entities from presenting MPMs on the face. This would help address the concerns of some stakeholders that doing so would give MPMs undue prominence.

Currently, the use of columns is relatively common in certain jurisdictions (e.g. the UK) and explicit prohibition would mean a change in practice for those entities that currently use this approach.

ED.BC166

## 3.3

ED.106

### What to disclose for MPMs

Under the proposals, entities would be required to disclose the following information on MPMs in a single note to the financial statements.

- A statement that the MPMs provide management's view of an aspect of the entity's financial performance and are not necessarily comparable with other entities' measures that share similar descriptions.
- A description of why the MPM communicates management's view of performance, including an explanation of:
  - how the MPM is calculated; and
  - how the measure provides useful information about the entity's performance;

- A reconciliation between the MPM and the most directly comparable subtotal or total specified by IFRS Standards (as illustrated below).
- The income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation.
- How the entity determined the income tax effect.

The ED also proposes that an entity would provide specific disclosures when it changes the calculation of its MPMs, introduces a new MPM or removes a previously disclosed MPM from its financial statements.

An illustration of the proposed reconciliation requirements is given below.

Adjusted operating profit (MPM)	X	Tax effect	Effect on NCI
Restructuring costs	(X)	X	(X)
<b>Operating profit (specified subtotal)</b>	<b>X</b>		



#### How would entities determine the tax effects of MPM adjustments?

Under the proposals, an entity would be required to disclose the tax effects for each adjustment included in the reconciliation between the MPM and the closest specified subtotal.

Entities could determine the tax effect using a reasonable pro rata allocation to reduce complexity and costs. This is similar to the approach for determining the tax effects on items of other comprehensive income in IAS 12 *Income Taxes*.

ED.BC178

## 3.4

### Interaction with regulatory requirements

In many jurisdictions, there are specific regulatory requirements on the presentation of non-GAAP measures or alternative performance measures. Although these regulations generally apply to measures disclosed outside the financial statements, in some jurisdictions they also apply to measures presented in the financial statements – e.g. US SEC requirements. Depending on the jurisdiction, the proposals could conflict with current regulatory guidance.



### Are the proposals aligned with current regulatory guidance?

Some regulators – e.g. the European Securities and Markets Authority (ESMA)<sup>3</sup> and the International Organization of Securities Commissions (IOSCO)<sup>4</sup> – have published guidance on the use of non-GAAP financial measures.

The Board’s proposals on MPMs are broadly aligned with this guidance. For example, similar to the ESMA and IOSCO guidance, the proposals would require entities to describe MPMs in a clear and understandable manner and provide a reconciliation between an MPM and the most directly comparable subtotal or total specified by IFRS Standards.

However, there are some notable differences. Unlike the ESMA and IOSCO guidance, which applies to all financial non-GAAP measures, including measures on assets/liabilities and cash flows, the Board’s proposals on MPMs cover only subtotals of income and expenses.

3. Guidance issued by ESMA: [ESMA guidelines on alternative performance measures](#).

4. Guidance issued by IOSCO: [Statement on non-GAAP financial measures](#).

## 4

# Aggregation and disaggregation

New principles focus on ‘shared characteristics’ when aggregating information in the financial statements

## 4.1

ED.25–26

### Aggregation and disaggregation based on ‘shared characteristics’

Entities aggregate information about transactions and other events to form line items in the primary financial statements and/or disclosure in the notes. The ED carries forward most of the existing guidance on aggregation and disaggregation in IAS 1 and includes additional guidance that focuses on ‘shared characteristics’ and immaterial items. The ED also introduces a new requirement – i.e. that the description of items in the primary financial statements or the notes would need to faithfully represent their characteristics.

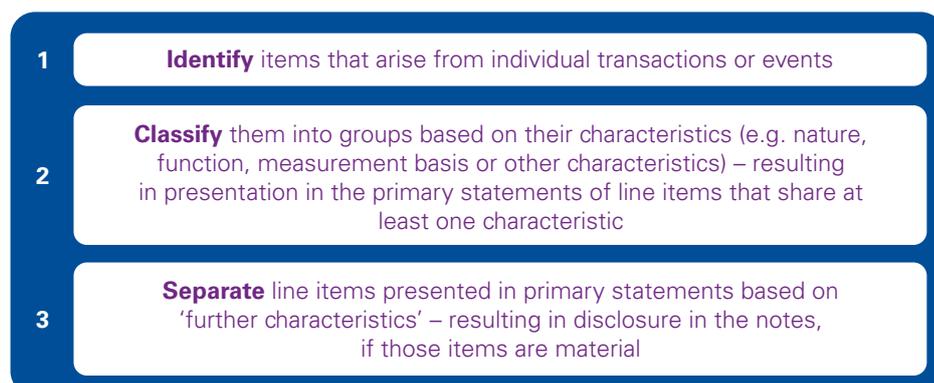
Under the proposals, entities would apply the following principles, unless this would override specific aggregation and disaggregation guidance in IFRS Standards:

- items should be classified and aggregated based on shared characteristics;
- items that do not share characteristics should not be aggregated; specific rules would apply for immaterial items (see [Section 4.2](#)); and
- aggregation and disaggregation in the financial statements should not obscure relevant information or reduce the understandability of the information presented or disclosed.

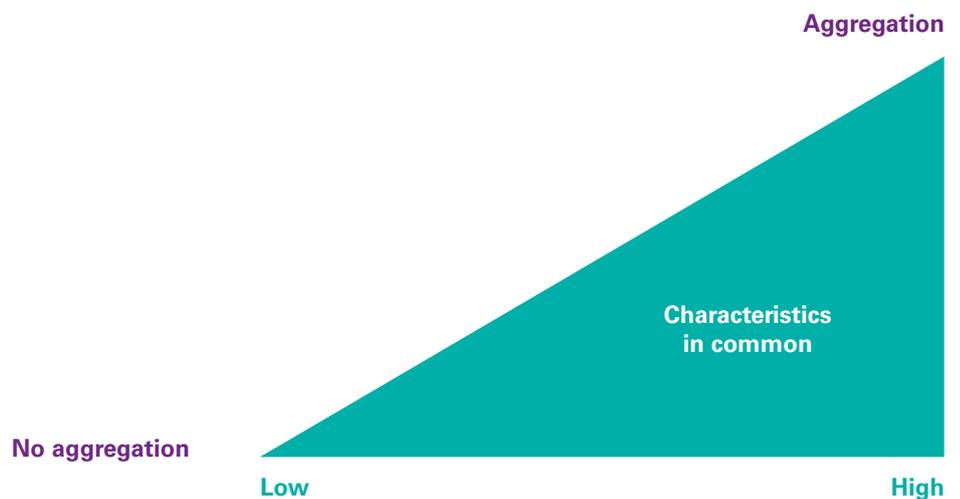
These principles would apply to both the information presented in the primary financial statements and that disclosed in the notes.

ED.B6

The ED outlines the following three steps to apply the above principles.



- ED.B7* Entities would not need to follow the above steps in order but would need to consider all of them when determining whether they have classified and aggregated items that share characteristics appropriately.
- ED.B8–B9* Items aggregated and presented as a separate line item in the primary financial statements would need to share at least one characteristic other than meeting the definition of a particular element of the financial statements. In the notes, entities would apply the concept of materiality – i.e. they would further disaggregate items with dissimilar characteristics when the resulting information is material.
- ED.B11* Entities would need to consider the balance of similar and dissimilar characteristics between aggregated items and apply judgement to decide the aggregation level that would provide useful information to financial statement users.



#### How would entities determine the appropriate level of aggregation and disaggregation in the primary financial statements?

*ED.B6, B11*

The ED proposes that entities would aggregate items that have at least one shared characteristic to form line items in the primary financial statements. This aggregation would be based on their nature, function, measurement basis or another characteristic. The proposals list these factors as examples of shared characteristics but provide no additional guidance – e.g. on the order of importance of these factors.

Without further guidance, an entity would continue to apply judgement to determine the appropriate level of aggregation and disaggregation in its financial statements.

## 4.1.1

*ED.42, 83(a), 86*

### Disaggregation in the primary financial statements

Similar to IAS 1, an entity would include additional line items, headings and subtotals in its income statement and balance sheet when they are relevant to understanding the entity's financial performance or financial position. An entity might present additional line items in the income statement and the balance sheet because of their size or nature, or to distinguish them from other items with different timing, function or liquidity, when relevant. For example, an entity that is the customer in a reverse factoring arrangement may decide to present amounts due in respect of a supplier factoring facility separately if their size or nature differs sufficiently from trade or other payables.

*ED.42, 65, B15*

The ED proposes substantial changes to the structure and presentation of the income statement, including new line items and subtotals (see [Chapter 2](#)).

*ED.82, 89*

It also introduces new line items that would require presentation in the balance sheet (see [Section 6.2](#)), but no new items for presentation in the statement of changes in equity.

## 4.2

*ED.27–28*

### Immaterial items

Under the proposals, entities would be required to provide meaningful labels when they aggregate immaterial items that are dissimilar – i.e. group items that do not share characteristics – and avoid labels such as 'other'.

Using a non-descriptive label (e.g. 'other') to describe these items would not faithfully represent them without additional information. Therefore, entities would aggregate immaterial items either:

- with other items that share similar characteristics and can be described in a manner that faithfully represents the characteristics of the aggregated items; or
- with other items that do not share similar characteristics but that may be described in a way that faithfully represents the dissimilar items.

If these steps do not result in descriptions that faithfully represent the characteristics of these items, then entities would need to disclose in the notes information about the composition of the aggregated items – e.g. that an aggregated item consists of several unrelated immaterial amounts and the nature and amount of the largest item in the aggregation.

# 5

# Unusual income and expenses

New disclosures on income and expenses with limited predictive value in a single note to the financial statements

## 5.1

ED.100, B67, BC123

### Definition

In response to stakeholders' need for information that is useful when forecasting future cash flows, the Board proposes new disclosures on unusual items to improve transparency and comparability across entities.

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

ED.B68–B70

An entity would need to consider both the type and amount of income or expenses to determine if they are unusual. This assessment would be based on expectations about the future rather than past occurrences.

When assessing whether an item of income or expense is unusual in amount, an entity would consider the range of outcomes reasonably expected to arise from that income or expense for several future annual reporting periods.

ED.102, B72

Income and expenses from the recurring remeasurement of items measured at a current value are expected to change from period to period. Therefore, under the proposals, they would not normally be classified as unusual.

ED.B68–B71

Determining if income or expenses are unusual depends on...	Examples
<b>Their type</b>	An entity has recognised an impairment loss resulting from a factory fire. In the absence of other indicators of impairment, another similar expense would not be reasonably expected to recur for several future annual reporting periods. Therefore, this loss would be unusual.
<b>Their amount</b>	An entity has incurred higher litigation costs than expected due to a particular action. If litigation costs in several future annual reporting periods are not reasonably expected to be of a similar amount, then the costs of that particular action would be unusual.

ED.B68–B71

Determining if income or expenses are unusual depends on...	Examples
<b>Expectation about the future</b>	<p>An entity has recognised an impairment loss in the previous period resulting from a factory fire and classified it in that period as unusual.</p> <p>In the current period, another fire caused an impairment at a different factory. If the two fires in close succession are not indicative of a developing pattern of fires and impairments, and the entity does not reasonably expect similar events to recur for several future annual reporting periods, then it would also classify the current-period impairment loss as unusual.</p>
<b>Facts and circumstances of an entity</b>	<p>An entity that regularly makes acquisitions that result in restructuring expenses would not classify these expenses as unusual.</p>

ED.BC132



#### What does the term 'several future annual reporting periods' mean?

An entity would classify income or expenses as unusual if it is reasonable to expect that income or expenses similar in type and amount would not arise *for several future annual reporting periods*. However, the ED does not specify what is meant by 'several'.

In the absence of any bright lines, entities would need to apply judgement to determine the future annual reporting periods over which to perform their assessment. They may also need to consider local regulatory requirements, if there are any.

ED.BC134



#### Do transactions and events that are unusual in nature always lead to unusual income or expenses?

No. Under the proposals, identifying unusual income or expenses focuses on the type and amount of the income or expense but not the nature of the underlying transactions or events that gave rise to them.

Although transactions or events that are unusual in nature often give rise to unusual income or expenses, they could give rise to 'usual' income or expenses as well. For example, an earthquake (an unusual event) may cause insurance premiums to increase in subsequent years. The increased premiums would not be an unusual expense. This is because they are reasonably expected to recur for several future annual reporting periods, despite arising from an unusual event.

ED.B69

**How would an entity determine the amount of income or expense that is classified as unusual?**

Under the proposals, an amount of income or expenses would be unusual if it is higher than its reasonably expected amount and is not expected to recur in several future annual reporting periods.

However, it is unclear whether entities would classify the entire amount or only the portion in excess of the reasonably expected amount as unusual.

For example, Company X normally incurs litigation expenses of 5 million. In the current period it incurs total litigation costs of 13 million. 10 million relates to a particular action that is not reasonably expected to recur in several future years.

It is unclear whether the unusual amount would be:

- 10 million: i.e. the entire amount of the litigation costs of that particular action; or
- 8 million: i.e. the portion in excess of the reasonably expected amount.

ED.B71

**What is the key factor in determining whether restructuring expenses would be classified as unusual?**

It remains unclear. The ED includes an example that considers different types of restructuring programmes and contrasts:

- those spanning several reporting periods or that occur regularly following an acquisition; with
- those that are not expected to create expenses of a similar type and amount in the next several reporting periods.

The ED concludes that the expenses incurred in the former case would be classified as usual; those in the latter case would be unusual.

However, under the ED's example and proposed definition of unusual expenses, it remains unclear how an entity would classify restructuring expenses that it incurs in the final year of a programme that spanned several periods.

An entity would classify the restructuring expenses as usual in the prior periods, but it is unclear how it would classify these expenses in the current period when it does not expect to incur them for several future periods.

It is also unclear how the frequency of restructuring programmes would affect the classification of related expenses as unusual.

## 5.2

ED.101

### Disclosures of unusual items

Entities would be required to disclose the following information for all unusual income and expenses in a single note:

- the amount of each item of unusual income or expense recognised in the reporting period;
- a narrative description of the transactions or other events that gave rise to that item and why it is classified as unusual;
- the line item in the income statement in which each unusual item is included; and
- an analysis of the included expenses using the by-nature method (see [Section 2.2](#)), when entities present an analysis of expenses in the income statement using the by-function method.

ED.B75

When an entity's MPMs include some, or all, of its unusual income and expenses, the entity may choose whether to provide its unusual income and expenses disclosure either in its MPMs note or in a separate note to the financial statements.



#### Would unusual items be presented separately in the income statement?

ED.101, BC140

The proposals are silent on this issue. The general presentation rules would apply and entities would present usual and unusual income and expenses in the same way in the income statement. Information on unusual income and expenses would be disclosed in the notes.

## 6

## Other proposals

Targeted improvements to the statement of cash flows and balance sheet and other amendments

## 6.1

## Statement of cash flows

To reduce diversity in the classification and presentation of cash flows and improve comparability between entities, the proposals include the following changes to the statement of cash flows.

*ED. IAS 7.18(b)*

- Use operating profit or loss as the starting point when presenting operating cash flows under the indirect method.

*ED. IAS 7.38A*

- Present cash flows from investments in integral and non-integral associates and joint ventures separately.

*ED. IAS 7.34A–D*

- Eliminate the options for the classification of interest and dividend cash flows for most companies (see 6.1.1).

## 6.1.1

## Interest and dividend cash flows

The ED proposes different classification for interest and dividend cash flows in the statement of cash flows, depending on an entity's main business activities.

Specific classification requirements would apply for non-financial entities – i.e. entities with main business activities that do not include:

- providing financing to customers (see 2.1.2); or
- investing in assets that generate a return individually and largely independently of other resources held by the entity (see 2.1.3).

This classification would differ from the current requirements in IAS 7, as summarised in the table below.

Cash flow items	Existing IAS 7*	ED proposals
<b>Interest paid</b>	Operating or financing	Financing
<b>Interest received</b>	Operating or investing	Investing
<b>Dividends received</b>	Operating or investing	Investing
<b>Dividends paid</b>	Operating or financing	Financing

\* Under current IAS 7, classification is subject to an accounting policy choice.

ED. IAS 7.33A, 34B–34C

In contrast, financial entities – i.e. entities with main business activities that include providing financing to customers or investing in assets that generate a return individually and largely independently of other resources – would classify interest paid, interest received and dividends received each in a single category of the statement of cash flows. This means that these cash flows would be classified as either operating, investing or financing activities, depending on how the related income or expenses are classified in the income statement – i.e. entities would classify the related income or expenses as follows.

Cash flow items	Classification in the income statement	Proposed classification in the statement of cash flows
Interest paid	In a single category	In the same category
Interest received Dividends received	In more than one category	An accounting policy choice to classify the corresponding cash flow in <i>one</i> of the income statement categories
Dividends paid	Financing	Financing

## 6.2

ED.82

## Balance sheet

Changes to the balance sheet are limited. The proposals expand the list of required line items to be presented in the balance sheet to include:

- goodwill;
- investments in integral\* associates and joint ventures; and
- investments in non-integral\* associates and joint ventures.

\* See 2.1.5 and 6.4.

## 6.3

ED. IAS 33.73B

## Additional EPS disclosures

Similar to current IAS 33 *Earnings per Share*, entities would be permitted to disclose additional amounts per share based on alternative measures of earnings – e.g. entities may disclose EBITDA per share. The proposals would allow entities to disclose an additional amount per share – i.e. in addition to basic and diluted EPS amounts – using the following as the numerator:

- a subtotal specified by IFRS Standards (see 2.3.3); or
- an MPM disclosed by the entity (see Section 3.3).

The numerator would be the amount attributable to ordinary equity holders of the parent entity.

*ED. IAS 33.73C(b)*

The denominator for the calculation of the additional basic and diluted per-share amounts would be the same as the weighted-average number of ordinary shares used in the basic and diluted EPS calculation, as required under IAS 33.

*ED. IAS 33.73C(a), (c)*

As with current IAS 33, if an entity discloses additional basic and diluted amounts per share, then it would need to disclose these additional amounts per share with equal prominence and in the notes to the financial statements only – i.e. it could not present them in the primary financial statements.

## 6.4

### Additional classification and disclosure requirements under IFRS 12

*ED. IFRS 12.20A–20B*

As discussed in 2.1.5, the ED introduces two new categories of equity-accounted associates and joint ventures – integral and non-integral. Entities would be required to classify, on initial recognition, their equity-accounted associates and joint ventures as integral or non-integral (see 2.1.5). Entities would change this classification only if the relationship between the reporting entity and the associate or joint venture changes.

*ED. IFRS 12.20C*

When an integral or non-integral associate or joint venture is reclassified in the period, entities would disclose how their relationship with the associate or joint venture has changed and the amount reclassified.

*ED. IFRS 12.7(d)*

As discussed in 2.1.5, determining whether an associate or joint venture is integral or non-integral would involve significant judgement and the proposals would require those judgements to be disclosed.

*IFRS 12.20, ED. IFRS 12.20E*

Under current IFRS 12, entities are required to disclose information that helps users of the financial statements to evaluate the nature of the entity's interests in joint arrangements and associates, including information on:

- the nature, extent and financial effects of the entity's interests in these investees, including the nature and effects of contractual relationships with the other investors with joint control or significant influence; and
- the nature of, and changes in, the risks associated with the entity's interests in these investees.

The ED also proposes that entities disclose this information separately for integral and non-integral associates and joint ventures.

## 7

# Interim financial reporting

IAS 34 *Interim Financial Reporting* would be amended to conform to the proposals for annual financial statements

## 7.1

IAS 34.10

ED. IAS 34.16A

### Interim financial reporting

Paragraph 10 of IAS 34 requires entities to present, as a minimum in their interim financial statements, the same headings and subtotals as in the most recent annual financial statements. Additional line items and notes would be included if their omission would make the condensed financial statements misleading.

The proposed additional disclosures for MPMs (see [Chapter 3](#)) and unusual items (see [Chapter 5](#)) in the annual financial statements would also be required in the interim financial statements. Alternatively, they could be incorporated by cross-reference from the interim financial statements to another part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.



#### How would the proposed primary financial statements' structure compare with that for interim condensed financial statements?

Paragraph 10 of current IAS 34 requires entities to present in their interim financial statements the 'headings and subtotals' included in their most recent annual financial statements. However, similar to IAS 1 the proposals provide requirements on line items, as well as headings and subtotals.

The proposed specific guidance on line items in the ED and new principles for preparing and presenting financial statements are not proposed for inclusion in IAS 34. Consequently, the existing guidance in paragraph 10 of IAS 34 – i.e. additional line items are presented if their omission makes the interim financial statements misleading – would still apply.

This means that entities would still need to apply significant judgement to determine which additional line items they would need to include in their interim financial statements. These additional line items and notes would need to provide an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the last annual reporting date.

IAS 34.10, ED.42

## 7.2

*ED.118–119*

### Transition

The ED proposes that in the first year of application of the proposed new standard, entities would present in their interim financial statements each of the headings and subtotals discussed in 2.3.1 of this publication, along with restated comparatives. However, the ED is silent on the presentation of new specified line items in the balance sheet.

# Appendix

The below table includes specific topics in current IAS 1 that are carried forward to the ED or moved to other standards without substantive changes.

Topics	Current paragraph references in IAS 1	Paragraph references in the ED or other IFRS Standards
Fair presentation and compliance with IFRS Standards	15–24	IAS 8.6A–J*
Going concern	25–26	IAS 8.6K–L
Accrual basis of accounting	27–28	IAS 8.6M–N
Offsetting	32–35	29–30, B16–B17
Frequency of reporting	36–37	31–32
Comparative information – minimum	38–38B	34–35, B19
Comparative information – additional	38C–D	B20–B21
Change in accounting policy, retrospective restatement or reclassification	40A–44	36–41, B22–B23
Consistency of presentation	45–46	33, B18
Identification of the financial statements	49–53	16–18, B1–B2
Current/non-current distinction	60–76	84–85, 87–88, B53–B65
Share capital	79–80	114–115
Statement of profit or loss and other comprehensive income	81A–81B	60, 67, 73, 76
Tax expenses	82(d)	54
A single amount for the total of discontinued operations	82(ea)	55
Information to be presented in the other comprehensive income section	82A	74–75
Profit or loss for the period	88–89	44, B49
Other comprehensive income for the period	90–96	77–81, B51–B52
Information to be presented in statement of changes in equity	106	89
Information to be presented in statement of changes in equity or in the notes	106A–110	90–94
Statement of cash flows	111	95
Notes – structures	112–116	96–98, B66
Disclosures of accounting policies	117–124	IAS 8.27A–G
Sources of estimation uncertainty	125–133	IAS 8.31A–I
Capital disclosures	134–136	111–113
Puttable financial instruments classified as equity	80A, 136A	IFRS 7.19A–B
Other disclosures	137–138	99, 116

\* IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

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Further analysis and interpretation will be needed for an entity to consider the impact of the proposals in light of its own facts, circumstances and individual transactions. The information contained in this publication is based on initial observations developed by the KPMG International Standards Group and these observations may change. Accordingly, neither this publication nor any of our other publications should be used as a substitute for referring to the standards and interpretations themselves.

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