

Performance reporting

Conceptual Framework

29 June 2015



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Would the IASB's proposals resolve the long-standing issue of performance reporting?

Highlights

- Long-standing debate – What is performance?
- The proposed approach – Not principles-based
- What else could be done – Areas to explore in developing principles
- Next steps – Shaping the future of IFRS

Long-standing debate

For a long time, the question 'what is performance?' has gone unanswered, causing heated debate: what is the dividing line between profit or loss and other comprehensive income; should some performance, namely OCI, be recycled; and is OCI just a 'dumping ground' for anything controversial, such as some balance sheet remeasurements?

Without a set of founding principles around performance, the IASB has had to decide such questions on a case-by-case basis each time it develops a new standard.

Many stakeholders, ourselves included, have high hopes for the [Conceptual Framework](#) project – the IASB's statement of the most fundamental accounting principles, to be implemented in new and revised IFRSs. It is a once-in-a-generation opportunity for the IASB to settle the debate. The exposure draft makes proposals, but would they meet these aspirations?

The proposed approach

The ED does not define performance or set any founding principles about it. Instead, it states only that income and expenses included in the statement of profit or loss are the *primary* source of information about an entity's financial performance for the period, but not the *only* source.

There would also be two presumptions that could be rebutted by the Board when drafting standards.

Presumption	Could be rebutted if ...
All income and expenses are reported in profit or loss	<p>... they relate to assets or liabilities measured at current values, and excluding them from profit or loss would enhance the relevance of that statement.</p> <p>Examples include pension remeasurements or changes in some financial instruments that are already recognised in OCI under current IFRS. So this proposal is unlikely to change the status quo.</p>
All OCI will later be recycled	<p>... there is no clear basis for identifying the period in which recycling OCI would enhance the relevance of profit or loss.</p> <p>Other than, for example, property revaluations, this proposal is also unlikely to change the list of items that are currently recycled.</p>

Would it resolve the issue or not?

On this evidence, the proposals seem unlikely to resolve the long-standing issue. Indeed, two IASB Board members did not support the proposals because they saw the ED as a missed opportunity to identify a conceptual basis for the use of OCI. They stressed that without defining financial performance or specifying the characteristics of income and expenses that require their presentation in OCI, the IASB will effectively be left in the same position as it is in now.

What else could be done

Defining performance may seem like a quest for the philosopher's stone, given the previous failed attempts; but has the IASB fully explored all its options? We think that more could be done – for example, by exploring some questions in developing principles.

One such question is whether performance should drive measurement or measurement should drive performance – if the former, then should changes that are non-performance be recognised? Other questions to explore are whether performance should reflect changes in market conditions outside management's control, and what is the right driver for 'performance' (or its disaggregation) – stewardship, the business model or changes in value.

Answering these questions may help to build the conceptual basis for performance reporting, providing a rationale for the distinction between profit or loss and OCI, and addressing the issue of recycling.

Next steps – Shaping the future of IFRS

Read our [comment letter](#).