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IFRS[®] Standards Exposure Draft ED/2019/7
Basis for Conclusions

General Presentation and Disclosures

Comments to be received by 30 September 2020

Comment deadline changed from 30 June 2020 because of the covid-19 pandemic

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**Basis for Conclusions on
Exposure Draft**

General Presentation and Disclosures

*Comments to be received by 30 September 2020
Comment deadline changed from 30 June 2020 because of
the covid-19 pandemic*

This Basis for Conclusions accompanies the Exposure Draft ED/2019/7 *General Presentation and Disclosures* (issued December 2019; see separate booklet). The proposals may be modified in the light of comments received before being issued in final form. Comments need to be received by 30 September 2020 and should be submitted in writing to the address below, by email to commentletters@ifrs.org or electronically using our 'Open for comment documents' page at: <https://www.ifrs.org/projects/open-for-comment/>.

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CONTENTS

from paragraph

**BASIS FOR CONCLUSIONS ON
EXPOSURE DRAFT *GENERAL PRESENTATION AND
DISCLOSURES***

INTRODUCTION	BC1
The need for the project	BC4
Project objective and the scope	BC12
Structure of the Exposure Draft	BC15
GENERAL PRESENTATION AND DISCLOSURE REQUIREMENTS	BC18
Objective and roles of the primary financial statements and the notes	BC19
Aggregation and disaggregation	BC21
STATEMENT(S) OF FINANCIAL PERFORMANCE	BC28
Structure of the statement of profit or loss	BC28
Financing category and the subtotal of profit or loss before financing and income tax	BC33
Investing category	BC48
Operating category and the operating profit or loss subtotal	BC53
Classification of income and expenses from associates and joint ventures accounted for using the equity method	BC77
Classification of fair value gains and losses on derivatives and of exchange differences	BC90
Line items to be presented in the statement of profit or loss	BC103
Presentation of operating expenses	BC109
Statement presenting comprehensive income	BC117
STATEMENT OF FINANCIAL POSITION	BC119
Line items to be presented in the statement of financial position	BC119
UNUSUAL INCOME AND EXPENSES	BC122
Definition of unusual income and expenses	BC129
Remeasurements	BC137
Information to be disclosed about unusual income and expenses	BC140
MANAGEMENT PERFORMANCE MEASURES	BC145
Definition and restrictions	BC153
Location of information about management performance measures	BC163
Information to be disclosed about management performance measures	BC167
Relationship of unusual income and expenses with management performance measures	BC180
EFFECTIVE DATE AND TRANSITION	BC181
PROPOSED AMENDMENTS TO OTHER IFRS STANDARDS	BC185
<i>IAS 7 Statement of Cash Flows</i>	BC185

continued...

...continued

IFRS 12 <i>Disclosure of Interests in Other Entities</i>	BC209
IAS 33 <i>Earnings per Share</i>	BC214
IAS 34 <i>Interim Financial Reporting</i>	BC219
IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	BC226
IFRS 7 <i>Financial Instruments: Disclosures</i>	BC230
EXPECTED EFFECTS OF THE PROPOSALS	BC232
Summary of effects analysis	BC236
Entities affected by the Board's proposals	BC248
The likely effects of the proposals on the quality of financial reporting	BC250
The likely effects of the proposals on how information is reported in the financial statements	BC279
The likely costs of the proposals	BC281
Other effects of the proposals	BC301
APPENDIX—ANALYSIS OF CURRENT PRACTICE	

Basis for Conclusions on Exposure Draft *General Presentation and Disclosures*

This Basis for Conclusions accompanies, but is not part of, Exposure Draft General Presentation and Disclosures. It summarises the considerations of the International Accounting Standards Board (Board) when developing the Exposure Draft. Individual Board members gave greater weight to some factors than to others.

Introduction

- BC1 The Exposure Draft sets out proposals for a draft IFRS Standard on presentation and disclosures in financial statements that, when finalised, will replace IAS 1 *Presentation of Financial Statements* (IFRS X). It also proposes amendments to IAS 7 *Statement of Cash Flows*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 33 *Earnings per Share* and IAS 34 *Interim Financial Reporting*. The Exposure Draft responds to the strong demand from users of financial statements for the Board to undertake a project on performance reporting.
- BC2 The Exposure Draft also proposes amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IFRS 7 *Financial Instruments: Disclosures* to move the requirements currently set out in IAS 1 that would be better located in those Standards.
- BC3 This Basis for Conclusions is organised as follows:
- (a) the need for the project (see paragraphs BC4–BC11);
 - (b) project objective and the scope (see paragraphs BC12–BC14);
 - (c) structure of the Exposure Draft (see paragraphs BC15–BC17);
 - (d) the proposals in the Exposure Draft (see paragraphs BC18–BC231); and
 - (e) the expected effects of the proposals (see paragraphs BC232–BC312).

The need for the project

- BC4 The Exposure Draft proposes improvements to the presentation and disclosure of information in an entity's financial statements with a focus on the statement of profit or loss. The Board developed these proposals in its Primary Financial Statements project, which is part of the Board's work on Better Communication in Financial Reporting.
- BC5 The Primary Financial Statements project was added to the Board's research agenda in July 2014 in response to the strong demand from stakeholders, and in particular users of financial statements, for the Board to undertake a project to improve the reporting of financial performance. Feedback on the Board's 2015 Agenda Consultation reinforced the view that the Primary Financial Statements project should be a high priority for the Board.

BC6 Research and outreach meetings undertaken as part of the project showed that:

- (a) the structure and content of the statement(s) of financial performance vary even among entities in the same industry. This reduces the ability of users of financial statements to compare the financial performance of entities. Therefore, many users said that they would welcome more defined subtotals and line items in that statement (see paragraphs BC7–BC8).
- (b) users would like to see greater disaggregation of information in the primary financial statements and the notes (see paragraphs BC9–BC10).
- (c) users find management-defined measures of performance, sometimes called alternative performance measures or non-GAAP measures, useful in analysing performance or making forecasts about future performance. However, sometimes entities provide these measures without defining them or explaining their intended purpose, reducing their usefulness (see paragraph BC11).

Presentation of subtotals in the statement(s) of financial performance

BC7 IAS 1 requires an entity to present profit or loss, but no other specific subtotals, in the statement(s) of financial performance. The lack of specific requirements in IAS 1 has led to diversity in the presentation and calculation of subtotals even among entities in the same industry. Subtotals with the same label are often defined differently by different entities. This diversity makes it difficult for users of financial statements to understand the information provided and compare information across entities. Comparability is important to users, in particular to buy-side investors who typically analyse many entities across different industries rather than focus on a few entities.

Presentation of information about associates and joint ventures

BC8 IAS 1 requires presentation of the share of profit or loss of associates and joint ventures accounted for using the equity method as a separate line item but does not specify its location. The Board has observed significant diversity in practice in the presentation of this information. Some entities present the share of profit or loss as part of the measure labelled operating profit or loss, some present it just below the measure labelled operating profit or loss and others present it after the tax line item. A reason for the diversity could be that some associates and joint ventures' activities are more closely related to an entity's main business activities than others. Users of financial statements expressed concerns that this diversity in practice reduces comparability, particularly of the subtotals presented in the statement of profit or loss, making their analysis more difficult and time consuming.

Disaggregation of information in the financial statements

BC9 Requirements for the disaggregation of information in the primary financial statements and the notes are sometimes not understood nor applied well in practice. This can make it difficult for users of financial statements to find and understand relevant information. An entity might also disclose in the notes large 'other' expenses with no information provided to help users understand what these items comprise.

BC10 Many entities also disclose unusual or similarly described expenses (and a few disclose unusual income) to provide information about what many refer to as underlying earnings or normalised earnings. However, users of financial statements expressed concerns that the way entities provide this information varies significantly and that it is often not clear how or why items have been identified as unusual.

Information about management-defined performance measures

BC11 Users of financial statements have stated that management-defined performance measures can provide useful information (see paragraph BC6(c)). However, users have expressed concerns that information about management-defined performance measures, including how and why they are calculated, can be difficult to find and understand. Because information about these measures is also often presented outside the financial statements, such information is typically not audited and is subject to varying regulatory requirements.

Project objective and the scope

BC12 The objective of the project is to improve how information is communicated in the financial statements, with a focus on information included in the statement of profit or loss. The Board proposes:

- (a) requiring additional subtotals in the statement of profit or loss (see paragraphs BC28–BC89). These subtotals would provide relevant information and create a more consistent structure to the statement of profit or loss, thereby improving comparability.
- (b) requiring separate presentation of the income and expenses from, investments in, and cash flows from investments in integral and non-integral associates and joint ventures (see paragraphs BC77–BC89).
- (c) requiring further disaggregation to help an entity to provide relevant information (see paragraphs BC21–BC27). The Board proposes disaggregation principles, disaggregation of operating expenses either by nature or by function in the statement of profit or loss, a requirement for disaggregation of large 'other' balances, a requirement to disaggregate information about unusual income and expenses and additional minimum line items in the statement of financial position.

- (d) requiring disclosure of some management-defined performance measures, that is performance measures not specified by IFRS Standards (see paragraphs BC145–BC180). To promote transparency, the Board proposes reconciliations between some management-defined performance measures and subtotals specified by IFRS Standards.
- (e) limited changes to the statement of cash flows to improve consistency in classification by removing options (see paragraphs BC185–BC208).

BC13 The Board decided not to consider changes as part of this project to:

- (a) segment reporting and the presentation of discontinued operations. The Board decided not to consider these areas as part of this project because doing so would significantly widen the scope of the project, potentially delaying improvements to the structure and content of the statement of profit or loss.
- (b) the statement of changes in equity. The Board may consider changes to that statement in its project on Financial Instruments with Characteristics of Equity.

BC14 The Board decided not to reconsider when income or expenses should be reported in other comprehensive income or when such items should be reclassified to the statement of profit or loss. It had already considered this topic as part of its *Conceptual Framework for Financial Reporting (Conceptual Framework)*. However, the Exposure Draft includes proposals designed to improve the communication of information about income and expenses included in other comprehensive income (see paragraphs BC117–BC118).

Structure of the Exposure Draft

BC15 The Exposure Draft includes:

- (a) a draft new Standard that sets out:
 - (i) proposed new requirements on presentation and disclosures in an entity's financial statements; and
 - (ii) requirements brought forward from IAS 1 with only limited changes to the wording; and
- (b) proposed amendments to other Standards:
 - (i) IAS 7 (see paragraphs BC185–BC208);
 - (ii) IFRS 12 (see paragraphs BC209–BC213);
 - (iii) IAS 33 (see paragraphs BC214–BC218);
 - (iv) IAS 34 (see paragraphs BC219–BC225);
 - (v) IAS 8 to include some requirements from IAS 1 (see paragraphs BC226–BC229); and
 - (vi) IFRS 7 to include some requirements from IAS 1 (see paragraphs BC230–BC231).

- BC16 The changes described in paragraph BC15(a)(ii) are limited to changes to ensure consistency with other proposals in the Exposure Draft and with the *Conceptual Framework*. These proposed changes are not intended to modify any requirements. The text of these requirements brought forward from IAS 1 is coloured in grey in the Exposure Draft. A document providing a mark-up of changes to those IAS 1 paragraphs is included in the Exposure Draft package.
- BC17 The Board decided to combine the paragraphs it proposes to bring forward from IAS 1 with new requirements to create a coherent set of general and specific requirements relating to presentation and disclosure in a draft Standard. As a result:
- (a) some requirements in IAS 1 are replaced or made redundant by the proposed new requirements and the order of the requirements brought forward from IAS 1 differs from their order in IAS 1;
 - (b) some requirements in IAS 1 have been moved to IAS 8 and IFRS 7 because they relate more closely to the matters addressed in those Standards than to the matters addressed in draft IFRS [X]; and
 - (c) the Board proposes to withdraw IAS 1.

General presentation and disclosure requirements

- BC18 To help entities exercise judgement when deciding whether to provide information in the primary financial statements or in the notes and when deciding what amount of detail is needed to provide useful information to users of financial statements, the Board proposes:
- (a) describing the roles of the primary financial statements and the notes (see paragraphs BC19–BC20); and
 - (b) adding definitions, principles and requirements for aggregation and disaggregation (see paragraphs BC21–BC27).

Objective and roles of the primary financial statements and the notes (paragraphs 19–24 and B3–B4)

- BC19 The Board proposes to describe the roles of the primary financial statements and the notes. The proposed descriptions are based on those in Section 3 of the 2017 Discussion Paper *Disclosure Initiative – Principles of Disclosure*. The feedback received on the Discussion Paper was broadly supportive. Respondents commented that the descriptions would help preparers of financial statements decide whether information should be provided in an entity's primary financial statements or in the notes.
- BC20 Such descriptions would also help the Board when developing new or revised IFRS Standards.

Aggregation and disaggregation (paragraphs 25–28 and B5–B15)

- BC21 The Board’s proposals include principles for aggregation and disaggregation, supporting definitions and specific requirements. The principles state, in summary, that items with shared characteristics should be grouped together and those that do not share characteristics should be separated.
- BC22 These principles are derived from the descriptions of classification and aggregation in the *Conceptual Framework* which emphasise the existence of shared characteristics as a condition for classifying and aggregating items. Aggregating items that have shared characteristics makes large volumes of information understandable and avoids obscuring relevant information. Similarly, disaggregating items with dissimilar characteristics provides users of financial statements with relevant information and avoids obscuring material information.
- BC23 Definitions of classification, aggregation and disaggregation are proposed to support the principles of aggregation. These definitions are based on the definitions in the *Conceptual Framework*. To help entities apply the principles, the Board also proposes requirements on the steps involved in deciding whether to aggregate or disaggregate the effects of transactions or other events.
- BC24 The proposals respond to feedback from users of financial statements in the 2015 Agenda Consultation that financial statements do not always include information that is appropriately aggregated or disaggregated. For example, an entity might present in the statement of profit or loss all its operating expenses as a single line item, or an entity might disclose in the notes large ‘other’ expenses with no information provided to help users understand what these items comprise. In contrast, some users were concerned that some entities disclose too much detail, thereby obscuring material information. Providing the appropriate amount of detail will better enable users to compare information for the same entity between reporting periods and across different entities.
- BC25 The Board also recognised that an entity may need to aggregate immaterial items with dissimilar characteristics to avoid obscuring relevant information and that aggregation in this way may result in items that cannot be faithfully represented without further information. In response to the concerns of users of financial statements about such items, which are often described as ‘other’, the Board proposes specific requirements to provide more useful information about aggregations of dissimilar immaterial items.
- BC26 The Board considered providing quantitative thresholds for disaggregation, for example, requiring separate disclosure of any balances over 10% of an entity’s revenue or requiring entities to review whether balances exceeding such threshold should be disaggregated. However, it rejected this approach to avoid conflict with the definition of materiality and the guidance that an entity’s judgement of materiality should include a qualitative assessment. Also, the Board concluded that it would be difficult to determine an appropriate threshold that would apply in all cases.

- BC27 The Board considered introducing mandatory templates that would require specified line items. However, it rejected this approach because it would not be possible to develop templates applicable to all types of entities or business activities or to all methods of reporting. Additionally, mandatory templates may conflict with local laws and regulations in some jurisdictions. The Board has, however, developed a set of draft non-mandatory illustrative examples to help stakeholders understand the proposals and illustrate how they could be applied.

Statement(s) of financial performance

Structure of the statement of profit or loss (paragraphs 44–72)

- BC28 The Board proposes that an entity classify income and expenses included in profit or loss, other than income or expenses related to income taxes or discontinued operations, into the following categories in its statement of profit or loss:
- (a) the operating category (see paragraphs BC53–BC76);
 - (b) the integral associates and joint ventures category (see paragraphs BC77–BC89);
 - (c) the investing category (see paragraphs BC48–BC52); and
 - (d) the financing category (see paragraphs BC33–BC47).
- BC29 The Board also proposes to require an entity, except in circumstances discussed in paragraph BC69, to present the following new subtotals in its statement of profit or loss:
- (a) operating profit or loss (see paragraphs BC53–BC76);
 - (b) operating profit or loss and income and expenses from integral associates and joint ventures (see paragraphs BC77–BC89); and
 - (c) profit or loss before financing and income tax (see paragraphs BC33–BC47).
- BC30 The Board developed proposals for the categories in the statement of profit or loss without trying to align classifications across the primary financial statements. Instead, the Board focused on providing information in the statement of profit or loss that meets the needs of users of financial statements for that statement.
- BC31 The Board proposes to retain the requirement for entities to present additional subtotals when relevant to understanding the entity's financial performance. The Board noted that any additional subtotals can be presented only if they fit in the proposed structure of the statement(s) of financial performance. The Board proposes to remove the requirement that any additional subtotals need to reconcile with the required subtotals because the proposed structure and content of the statement(s) of financial performance make this requirement redundant.

BC32 The Board began work on the subtotals by developing the proposal for profit or loss before financing and income tax, followed by proposals for the investing category and integral associates and joint ventures, and finally the operating profit or loss subtotal. The following sections explain the basis for the Board's proposals.

Financing category and the subtotal of profit or loss before financing and income tax (paragraphs 49–52 and B34–B37)

BC33 Many users of financial statements seek to analyse an entity's performance independently of how that entity is financed. To facilitate such analysis, the Board proposes to require an entity to classify specified income and expenses into a financing category and to present a profit or loss before financing and income tax subtotal in its statement of profit or loss.

BC34 To meet the objective of providing a useful basis for comparing an entity's performance independently of how that entity is financed, the proposed subtotal would present profit or loss of the entity before income and expenses classified in the following categories:

- (a) financing (see paragraphs BC35–BC47);
- (b) income tax; and
- (c) discontinued operations.

BC35 The financing category includes:

- (a) income and expenses on liabilities arising from financing activities (see paragraph BC37);
- (b) income and expenses from cash and cash equivalents (see paragraphs BC38–BC41); and
- (c) interest income and expenses on liabilities that do not arise from financing activities (see paragraphs BC42–BC45).

BC36 The Board proposes to require some entities, depending on their main business activities, to classify some or all income and expenses that meet the definition of income and expenses from financing activities in the operating category instead of the financing category in the statement of profit or loss. This is discussed in paragraphs BC62–BC69.

Income and expenses from financing activities

BC37 To describe which income and expenses arise from financing activities, the Board proposes to expand and clarify the definition of financing activities in IAS 7 and apply it to the statement of profit or loss. The Board based its proposed definition on the work of the IFRS Interpretations Committee in March 2013. The Committee explored how the definitions in IAS 7 of financing activities and borrowing could be clarified, and thus achieve greater consistency in their application. Providing a clear definition of financing

activities is also expected to result in more transparency about the classification of items in the financing category.

Income and expenses from cash and cash equivalents

BC38 The Board proposes that income and expenses from cash and cash equivalents should be classified in the financing category (see paragraphs BC39–BC41), except for in some cases, depending on an entity’s main business activities, as discussed in paragraphs BC70–BC72.

BC39 Typically, users of an entity’s financial statements treat excess cash and temporary investments of excess cash as part of the entity’s financing. This treatment is typical because how an entity manages such assets is interrelated with its decisions about debt and equity financing. Excess cash can, for instance, be used to pay dividends, repay debt or buy back shares.

BC40 The Board proposes to classify income and expenses from cash and cash equivalents in the financing category because:

- (a) cash and cash equivalents represent a reasonable proxy for excess cash and the temporary investments of excess cash for many entities (see paragraphs BC70–BC72 for a discussion of the Board’s proposal when this is not the case).
- (b) cash and cash equivalents are defined in IAS 7. Using existing definitions that are well understood helps to ensure that the requirement is applied consistently and that the amounts classified in the financing category are comparable.
- (c) while most entities require some cash for operational purposes (for example, as a part of working capital) requiring entities to split cash and cash equivalents between amounts used for operational purposes and excess cash would impose undue cost or effort.

BC41 The Board acknowledges that some users of financial statements view investments other than cash and cash equivalents as part of an entity’s financing—for example, some liquid financial assets. However, the Board’s proposal to require an entity to provide information about income and expenses from investments in the investing category should enable users to make adjustments in their analysis if they regard a particular investment as part of the entity’s financing. For example, a user could reclassify items of income from the investing category and include them in the financing category.

Interest income and expenses on liabilities that do not arise from financing activities

BC42 The Board proposes that the unwinding of a discount on liabilities that do not arise from financing activities be classified in the financing category.

BC43 This proposal is intended to capture income and expenses that reflect the effect of the time value of money on liabilities that do not arise from financing activities. These include, for example, net defined benefit liabilities (or assets) and decommissioning liabilities. Many users of financial statements

consider such income and expenses to be similar to income or expenses from financing activities.

- BC44 The Board recognises that not all users of financial statements consider such income or expenses to be similar to income or expenses from financing activities. However, the Board's proposal provides a consistent basis for the presentation of information related to financing and the related disclosures should enable users that disagree with the classification of these income and expenses as financing to adjust the profit or loss before financing and income tax subtotal if they wish to do so.
- BC45 The Board's proposed subtotal of profit or loss before financing and income tax precedes the financing category. The financing category incorporates definitions of items that users of financial statements commonly regard as part of an entity's financing. This approach provides a consistent basis for the presentation of the information related to an entity's financing, resulting in a comparable subtotal. The requirements for separate presentation of items classified in the financing category enable users, when doing their own analyses, to adjust the amounts classified in this category if they have different views about whether those items form part of an entity's financing.

The EBIT subtotal

- BC46 Today, many users of financial statements use subtotals such as earnings before interest and tax (EBIT) to compare the financial performance of entities that are financed differently. However, EBIT and similar subtotals are not comparable between entities because of the diverse ways in which entities classify items between finance income and expenses and other income and expenses. Many calculations of EBIT also include some interest items, which is incompatible with describing EBIT as a subtotal *before* interest. The proposed subtotal of profit or loss before financing and income tax would be comparable between entities.
- BC47 The proposed subtotal serves a similar purpose to a consistently defined EBIT subtotal—it allows users of financial statements to analyse an entity's performance independently of how that entity is financed. However, the Board decided not to describe the proposed subtotal as EBIT because such a description would imply that all interest is excluded from the subtotal, and that the subtotal only excludes interest and tax and nothing else. This may not be the case and so the description would be misleading. Under the Board's proposals interest may be included in profit or loss before financing and income tax because most interest revenue would be classified in the investing category. Furthermore, interest revenue may be classified in the operating category, for example when an entity provides financing to customers as a main business activity. Profit or loss before financing and income tax also excludes expenses from financing activities other than interest, for example exchange rate differences on foreign currency denominated liabilities.

Investing category (paragraphs 47–48 and B32–B33)

- BC48 The Board proposes to require entities to present an investing category in the statement of profit or loss. This category would include income and expenses from investments and incremental expenses related to those investments. Income and expenses from investments comprise income and expenses from assets that generate a return individually and largely independently of other resources held by the entity.
- BC49 The objective of the investing category is to identify returns from investments that are not part of the entity's main business activities. For example, equity or debt investments typically generate dividend or interest returns individually and largely independently of an entity's other assets. Information about the income or expenses arising from such assets would provide useful information to users of financial statements who often analyse returns from an entity's investments separately from the entity's operations.
- BC50 The Board proposes that the investing category include incremental expenses related to the investments only – expenses that would not have been incurred had the investment not been made. The Board considered whether it should include all expenses directly related to investments in this category. However, it rejected this approach because it would result in expense allocations that could be complex and costly. For example, expenses directly related to an investment may include an allocation of labour costs if some employees of an entity are engaged in both operating and investing activities. The Board's objective for the investing category is not to present the profit from an entity's investing activities, but to separate investing income and expenses from operating income and expenses without imposing undue cost or effort on preparers of financial statements. Therefore, the Board decided to limit the allocation to the investing category to incremental expenses related to the investments.
- BC51 The investing category in the statement of profit or loss is different from investing activities as defined in IAS 7. The objective of the IAS 7 classification is to identify investments made in long-term assets that will generate future returns. Some of these investments may include assets whose returns would be classified in the investing category in the statement of profit or loss. However, the definition of investing activities in IAS 7 would also include investments in operating assets, such as property, plant and equipment. Because income and expenses related to such assets reflect an entity's main business activities, they would be classified in the operating category of the statement of profit or loss.
- BC52 The Board also proposes that income and expenses from non-integral associates and joint ventures are classified in the investing category. The Board's proposals for the presentation of information about associates and joint ventures are discussed in paragraphs BC77–BC89 and BC209–BC213.

Operating category and the operating profit or loss subtotal (paragraphs 46, 48, 51–52 and B25–B31)

- BC53 To increase comparability between entities, the Board proposes to require entities to classify specified income and expenses into an operating category and present an operating profit or loss subtotal in the statement of profit or loss. This may require some entities to change which income and expenses they include in operating profit or loss as they currently define it, as discussed in the effects analysis (see paragraphs BC232–BC312).
- BC54 The operating category comprises all income and expenses included in profit or loss that are not classified as income or expenses from integral associates and joint ventures, investing or financing, and those that are not classified in income taxes or discontinued operations—that is, operating profit or loss is defined as a default or a residual category. However, the Board considers that, because of the way in which amounts excluded from operating profit or loss are defined, the operating category would include income and expenses from an entity's main business activities.
- BC55 Some stakeholders have told the Board that operating profit or loss is such an important measure of performance that it should be defined directly. However, the Board concluded that defining operating profit or loss as a default category would result in a faithful representation of an entity's activities, because:
- (a) the Board's view is that all income and expenses included in profit or loss, other than those related to financing, tax, some investments or discontinued operations, arise from an entity's operations. The definitions of financing and investing include exceptions for entities for which investing and financing are main business activities, resulting in an operating profit category that includes all income and expenses that relate to an entity's main business activities (see paragraphs BC58–BC76).
 - (b) defining operating profit or loss as a default category is simpler than using a direct definition. This is because entities have various business activities making it difficult to arrive at a direct definition that could be applied consistently, even between entities in the same industry. Furthermore, the Board noted that previous attempts at developing a direct definition were not successful.
 - (c) defining operating profit or loss as a default category is also simpler for entities to apply because determining which income and expenses are classified in the investing or financing categories is expected to require less judgement than applying a direct definition of operating. There is also likely to be more agreement on proposed classification in investing and financing categories than any direct definition of operating. Therefore, the proposed definition is more likely to be consistently applied, resulting in more comparable information to users of financial statements.

- BC56 The operating category includes unusual income and expenses, which have limited predictive value. The Board does not view predictive value as a characteristic that differentiates whether income or expenses are operating (or any other category). However, the Board is aware that users of financial statements find information about unusual income and expenses useful; it has created a separate proposal to require entities to provide this information (see paragraphs BC122–BC144).
- BC57 The operating category is designed to include all income and expenses from an entity’s main business activities, even if such income or expenses meet the definitions of income or expenses from investing or financing activities. For example, a bank would classify interest expense used to finance lending to its customers in the operating category, even when such expense meets the definition of expense from financing activities. The Board has, therefore, specified circumstances in which an entity would not classify income or expenses in the financing or investing categories and instead classify them as operating. These circumstances are as follows:
- (a) income and expenses from investments are classified in the operating category, when an entity, in the course of its main business activities, invests in assets that generate returns individually and largely independently of the entity’s other resources (see paragraphs BC58–BC61); and
 - (b) some income and expenses from the financing category are classified in the operating category when:
 - (i) an entity provides financing to customers as a main business activity (see paragraphs BC62–BC69);
 - (ii) an entity’s cash and cash equivalents are closely linked to income and expenses from investments included in operating profit or loss (see paragraphs BC70–BC72);
 - (iii) an entity recognises insurance finance income or expenses as defined by IFRS 17 *Insurance Contracts* (see paragraph BC73); and
 - (iv) an entity incurs expenses related to liabilities arising from investment contracts with participation features that are in the scope of IFRS 9 *Financial Instruments* (see paragraphs BC74–BC76).

Income and expenses from investments classified in the operating category (paragraph 48)

- BC58 The Board proposes that an entity classify in the operating category income and expenses from investments made in the course of its main business activities.
- BC59 When an entity, in the course of its main business activities, invests in assets that generate a return individually and largely independently of its other resources, the investment returns are an important indicator of operating performance. For some entities, presenting investment returns separately from operating profit or loss would mean that operating profit or loss would

only include expenses. For example, an investment property entity's operating profit or loss would exclude rental income and remeasurements of investment properties. For such entities, a subtotal of operating profit or loss that excludes returns from those investments would not faithfully represent that entity's main business activities. The Board's proposals are designed so that operating profit or loss provides useful information in such circumstances.

BC60 For some entities, such as insurers, investing in assets that generate returns individually and largely independently of entity's other resources is an important activity performed in the course of their main business activities although it may not be their main business activity. For example, an insurer's main business activity may be underwriting, but it may invest in assets that generate returns individually and largely independently of its other resources in the course of its underwriting business activity. To classify income and expenses from such assets in the operating category, the proposals refer to 'activities that are conducted in the course of an entity's main business activities' rather than to an entity's main business activities. This proposal would also capture entities for whom such activities are their main business activity, for example, investment entities.

BC61 The Board's proposal relates only to returns from investments made in the course of an entity's main business activities. Entities with such investments may also have investments that are not made in the course of their main business activities. Income or expenses arising from such investments are classified in the investing category. The Board recognises that this would require entities to separate returns from investments made in the course of their main business activities from those that are not. However, the Board concluded that this would not cause significant incremental costs as entities are likely to have this information to manage their business. Also, users of financial statements would benefit from separate information about returns from investments that are unrelated to an entity's main business activities for all entities.

Income and expenses from financing activities classified in the operating category (paragraph 51)

BC62 The Board proposes to require entities with a main business activity of providing financing to customers to classify in the operating category income and expenses from financing activities and income and expenses from cash and cash equivalents.

BC63 When an entity provides financing to customers as a main business activity, the difference between the interest revenue from that activity and the related interest expense—a cost of earning that income—is an important indicator of operating performance. For example, in the lending business, a main business activity is earning interest revenue from providing financing to customers. The difference between interest revenue and interest expense incurred to obtain some or all of the financing needed for that main business activity is a key performance measure for financial institutions and is used by users of financial statements when analysing the performance of such entities. The

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

Board's proposal would enable entities such as banks to continue presenting a net interest income subtotal.

- BC64 When an entity that provides financing to customers has more than one main business activity, it may have financing activities that are unrelated to the provision of financing to customers. In some such situations, the entity may be unable to identify which income and expenses from financing activities and income and expenses from cash and cash equivalents relate to the provision of financing to customers and which do not without undue cost or effort.
- BC65 For example, an entity with a central treasury that raises funding for all of the entity's activities and allocates those costs internally may not be able to identify a non-arbitrary basis for allocating financing expenses between those that do or do not relate to the provision of financing to customers.
- BC66 Some entities both provide financing to customers and invest in the course of their main business activities. It may be difficult to allocate expenses from financing activities to these two activities. For example, a bank that provides financing to customers, but also invests in equity instruments, may not be able to identify a non-arbitrary basis for allocating interest expense from its financing activities between these two activities.
- BC67 Therefore, the Board proposes that when an entity provides financing to customers, it should make an accounting policy choice between classifying in the operating category:
- (a) only income and expenses that arise from financing activities and income and expenses from cash and cash equivalents relating to its provision of financing to customers; or
 - (b) all income and expenses from financing activities and all income and expenses from cash and cash equivalents.
- BC68 The Board recognised that permitting an accounting policy choice may result in some loss of comparability between entities and that classifying in the operating category only the income and expenses arising from financing activities related to providing financing to customers would provide more useful information. However, because of the difficulty in some cases in allocating income or expenses between the categories, the Board concluded that allocation should not be required but should be permitted.
- BC69 The Board concluded that presenting a subtotal of profit or loss before financing and income tax would be misleading if all of an entity's expenses from financing activities were included in that subtotal. The Board, therefore, proposes that an entity that classifies all expenses from financing activities in the operating category shall not present a subtotal of profit or loss before financing and income tax.

Income and expenses from cash and cash equivalents classified in the operating category (paragraph 52(a))

BC70 As discussed in paragraph BC40, the Board concluded that, for most entities, cash and cash equivalents are a reasonable proxy for excess cash and investments of excess cash and that income and expenses from cash and cash equivalents should therefore be classified in the financing category. However, the Board observed that some entities require a significant balance of cash and cash equivalents for operational purposes. The Board concluded that for such entities cash and cash equivalents are not a reasonable proxy of excess cash and investments of excess cash. For example:

- (a) insurers need to maintain a significant balance of cash and cash equivalents to be able to pay out insurance claims;
- (b) insurers and investment funds often have significant balances of cash and cash equivalents as a result of continuously rebalancing their investment portfolios; and
- (c) open-ended investment funds need to maintain a significant balance of cash and cash equivalents to be able to buy back shares from investors who wish to redeem their shares.

BC71 In cases where an entity needs a significant balance of cash and cash equivalents for operational purposes, classifying the income and expenses from cash and cash equivalents in the operating category provides more useful information than classifying such income and expenses in the financing category. Therefore, the Board proposes to address this issue.

BC72 The Board considered different ways to describe entities that would classify income and expenses from cash and cash equivalents in the operating category. The Board decided to limit the scope of that requirement to entities that invest in financial assets in the course of their main business activities. Feedback from users of financial statements suggested that for entities that only invest in non-financial assets in the course of their main business activities, such as property companies, classifying income and expenses from cash and cash equivalents in the operating category would not be useful. The Board concluded that such classification would not be useful because entities such as property companies invest in non-current assets and therefore cash is less likely to be interchangeable with their investments.

Insurance finance income and expenses (paragraph 52(c))

BC73 The Board proposes classifying insurance finance income and expenses as defined in IFRS 17 in the operating category. Insurance finance income and expenses arise from insurance contracts and investment contracts with direct participation features accounted for applying IFRS 17. Because insurance finance income and expenses relate to the main business activities of insurers, the Board concluded that insurance finance income and expenses should be classified in operating profit or loss, noting that IFRS 17 requires them to be presented separately from the insurance service result. This proposal also enables an insurer to present its insurance service result and insurance finance result in the operating category.

Income and expenses from investment contracts with participation features

- BC74 In the course of their main business activities, some entities issue investment contracts within the scope of IFRS 9 with participation features—that is, contracts specifying that the compensation owed to the investor varies with the returns on underlying items. For some of these contracts, the entity issuing the contract recognises the investors' claim as a liability and the investments linked to the contract as assets.
- BC75 Applying the Board's proposals, the income or expenses from the investment contract liability that represent the investors' claim may meet the definition of income and expenses from financing activities and would be classified in the financing category, and the returns on the underlying investments would be classified in the operating category. However, the difference between the investment returns and the expense on the investment contract liability is an important indicator of the operating performance of the entity. Classifying the income and expenses on these liabilities in operating profit or loss would provide more useful information than would classifying them in the financing category.
- BC76 Therefore, the Board proposes that income and expenses related to liabilities arising from issued investment contracts with participation features that are accounted for applying IFRS 9 are classified in the operating category. The Board considered different approaches to determining when entities that do not provide financing to customers should classify income and expenses from financing activities in the operating category. A possible approach would be a principle that income and expenses related to financing *from* customers should be classified in the operating category. Such a principle would be likely to cover the specific proposals for insurance finance income and expense (see paragraph BC73) as well as the income and expenses on liabilities arising from investment contracts with participation features accounted for applying IFRS 9. However, the Board concluded that such a principle would be likely to have too broad an effect in that it would also apply to entities for whom such an outcome would not provide useful information, for example for construction companies recognising interest expense on customer prepayments.

Classification of income and expenses from associates and joint ventures accounted for using the equity method (paragraphs 53, 60, 62–63 and B38)

- BC77 As discussed in paragraph BC8, the Board has observed significant diversity in practice in the presentation of an entity's share of the profit or loss of associates and joint ventures accounted for using the equity method. Therefore, the Board considered specifying where in the statement of profit or loss an entity should present its share of the profit or loss of associates and joint ventures accounted for using the equity method.

- BC78 The Board considered requiring entities to present their share of the profit or loss of associates and joint ventures in a single location in the statement of profit or loss—the investing category. However, stakeholder feedback suggests some associates and joint ventures may have important differences in characteristics in that:
- (a) the activities of some associates and joint ventures are integral to the reporting entity's main business activities. Feedback suggests this characteristic is common in joint ventures.
 - (b) the activities of some associates and joint ventures are not integral to the reporting entity's main business activities, that is they have little or no effect on those activities.
- BC79 Therefore, the Board proposes to require entities to classify their associates and joint ventures as either integral or non-integral associates and joint ventures and present separately the share of profit or loss of these different types of associates and joint ventures. To achieve this the Board proposes to amend IFRS 12 to define integral and non-integral associates and joint ventures and to provide indicators to help entities apply those definitions, as well as requirements for when a change in classification may be appropriate (see paragraphs BC209–BC213).
- BC80 The Board concluded that the share of profit or loss of non-integral associates and joint ventures meets the definition of income and expenses from investments and therefore proposes to classify it in the investing category.
- BC81 In contrast, the Board concluded that an entity should not classify the share of profit or loss of integral associates and joint ventures in the investing category because such income and expenses are not largely independent from income and expenses classified in the operating category. In other words, they do not meet the definition of income or expenses from investments.
- BC82 The Board considered whether to require entities to classify the share of profit or loss of integral associates and joint ventures in the operating category. Such an approach would be a response to the views of some stakeholders that entities may invest in integral associates and joint ventures in the course of their main business activities. However, it rejected this approach because many users of financial statements analyse the results of investments in associates and joint ventures accounted for using the equity method separately from the results of an entity's operating activities. Users explain that this is because:
- (a) the equity method of accounting combines income and expenses that users would normally analyse separately, including financing expenses and income taxes.
 - (b) classifying the share of profit or loss of associates and joint ventures in the operating category would significantly disrupt users' analyses of operating margins. For example, the revenue line does not include revenue from associates and joint ventures.

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

- (c) the entity does not control the activities of associates and joint ventures as it controls the other activities giving rise to income and expenses classified in the operating category and only exercises joint control over the activities of joint ventures.
- BC83 Instead of classifying the share of profit or loss of integral associates and joint ventures in the operating category, the Board proposes to create a separate category for income and expenses from integral associates and joint ventures and to require entities to:
- (a) classify income and expenses from integral associates and joint ventures in this proposed category; and
- (b) present an operating profit or loss and income and expenses from integral associates and joint ventures subtotal.
- BC84 The Board discussed whether, in addition to the share of profit or loss of integral associates and joint ventures, the integral associates and joint ventures category should include:
- (a) impairment losses and reversals of impairment losses on integral associates and joint ventures; and
- (b) gains or losses on disposals of integral associates and joint ventures.
- BC85 One view was that integral associates and joint ventures contribute in combination with other assets to an entity's main business activities, creating synergies that have an impact on the entity's operating profit or loss. Consequently, any income and expense relating to these investments should, in principle, be classified as operating. According to this view, presentation of the share of profit or loss of integral associates and joint ventures separately from the operating category should be regarded as an exception (justified in paragraph BC82). However, that exception should not be extended to income and expenses listed in paragraph BC84.
- BC86 The Board proposes, however, to classify the income and expenses from integral associates and joint ventures listed in paragraph BC84 in the integral associates and joint ventures category because:
- (a) this is consistent with the Board's general approach to classifying related income and expenses in the statement of profit or loss. Including such income and expenses in separate categories could lead to accounting mismatches.
- (b) this would respond to the views of users of financial statements who do not want to include any income and expenses relating to associates and joint ventures in the operating category because they would analyse returns on these investments separately from operating profit or loss.
- (c) although investments in integral associates and joint ventures may give rise to economic benefits arising from synergies with an entity's main business activities, classifying income and expenses from these investments in the operating category would nevertheless disrupt

users' analyses of operating margins. This is because the revenue line, for example, does not include revenue from associates and joint ventures.

BC87 The Board noted that some users of financial statements have said that, for reasons similar to those described in paragraph BC82, they would not use the proposed subtotal of operating profit or loss and income and expenses from integral associates and joint ventures. The Board however concluded that the proposed presentation and the subtotal requirement balance the needs for:

- (a) an operating profit or loss that excludes any income or expenses from financing, investing and income taxes, and provides a comparable basis for calculating operating margins; and
- (b) separate presentation of income and expenses from associates and joint ventures that are integral to the entity's main business activities.

BC88 Some stakeholders have asked the Board to require entities to disaggregate the share of profit or loss of integral associates and joint ventures between different categories in the statement of profit or loss. The Board, however, concluded that such a proposal would go beyond the scope of this project because it would involve a fundamental reconsideration of the requirements of IFRS 11 *Joint Arrangements*, IFRS 12 and IAS 28 *Investments in Associates and Joint Ventures*.

BC89 Consistent with its proposal to require entities to present the share of profit or loss of integral associates and joint ventures separately from the share of profit or loss of non-integral associates and joint ventures, the Board also proposes to amend:

- (a) IAS 7 to require that cash flows from investments in integral associates and joint ventures are presented separately from cash flows from investments in non-integral associates and joint ventures (see paragraphs BC205–BC208).
- (b) IFRS 12 to, in addition to requirements relating to the definition of integral and non-integral associates and joint ventures (see paragraph BC79), require separate disclosures about integral and non-integral associates and joint ventures. See paragraphs BC209–BC213 for discussion about proposed amendments to IFRS 12.

Classification of fair value gains and losses on derivatives and of exchange differences (paragraphs 56–59 and B39–B43)

BC90 The Board concluded that applying the proposed definitions of the financing, investing and operating categories, it was not clear how an entity would classify fair value gains and losses on derivatives or exchange differences. The Board has, therefore, developed specific proposals for how an entity would classify such income and expenses.

- BC91 The Board proposes that an entity classify foreign exchange differences in the same category of the statement of profit or loss as the income and expenses from the items that give rise to the foreign exchange differences. For example, foreign exchange differences relating to revenue would be classified in the operating category whereas foreign exchange differences on foreign currency denominated loans would be classified in the financing category (unless those loans relate to provision of finance to customers and are classified as operating, as discussed in paragraphs BC62–BC69).
- BC92 Classifying exchange differences in the same category of the statement of profit or loss as the income and expenses from the items that give rise to them contributes to a faithful representation of an entity's business activities. For example, in the Board's view, an entity would provide an incomplete picture of the performance of its main business activities if it excluded exchange differences related to the main business activities from operating profit or loss and classified them in a different category.
- BC93 Classification of gains or losses on derivatives is not straightforward. Derivatives generally generate returns individually and largely independently of the entity's other resources. Consequently, fair value gains and losses on a derivative arguably most closely align with the definition of income and expenses from investments. However, when derivatives are used for risk management there is a link between the derivative and the income or expenses, or assets or liabilities affected by the risk that is being managed.
- BC94 The Board proposes that an entity classify gains and losses on financial instruments designated as hedging instruments applying IFRS 9¹ in the:
- (a) operating category, if the instrument is used to manage risks relating to income or expenses classified in the operating category—except when doing so would require the grossing up of gains and losses (see paragraph BC97);
 - (b) financing category, if the instrument is used to manage risks relating to income or expenses classified in the financing category—except when doing so would require the grossing up of gains and losses; and
 - (c) investing category in all other cases—including in the circumstances set out in (a) and (b) involving the grossing up of gains and losses.
- BC95 An entity would also apply the proposal set out in paragraph BC94 to derivatives used to manage risks and not designated as hedging instruments applying IFRS 9 except when doing so would involve undue cost or effort. In such cases, an entity would classify in the investing category all gains and losses on the derivatives. Derivatives that are not used for risk management and that are not used in the course of an entity's main business activities would also be classified in the investing category because, as explained in paragraph BC93, derivatives most closely align with the definition of income and expenses from investments.

¹ And IAS 39 *Financial Instruments: Recognition and Measurement* during the period that entities are allowed to continue using that hedge accounting model.

- BC96 The Board concluded that classifying fair value gains or losses on derivatives in a manner that reflects an entity's risk management instead of classifying them in a single category would provide a more faithful representation of an entity's activities.
- BC97 However, when a hedging instrument hedges a group of items with offsetting risk positions and the hedged items are classified in multiple categories of the statement of profit or loss, applying the proposals in paragraphs BC90–BC95 would require grossing up of the fair value gains or losses. In such circumstances, paragraphs 6.6.4 and B6.6.15 of IFRS 9 require entities to present gains or losses on the hedging instrument in a separate line item to avoid the grossing up of gains and losses from a single hedging instrument. Therefore, the Board proposes that if the proposals in paragraphs BC90–BC95 would result in the grossing up of gains or losses, those gains or losses should instead be classified in the investing category. The Board proposes that these items be classified in the investing category because, as explained in paragraph BC93, derivatives most closely align with the definition of income and expenses from investments.
- BC98 When an entity designates derivatives in a hedging relationship applying IFRS 9, the link between the derivative and the risk it is used to manage is clear because of the eligibility criteria and documentation requirements for hedge accounting. However, an entity may use a derivative to manage a risk without designating a hedging relationship for the purposes of IFRS 9. When an entity does not apply hedge accounting to a derivative, the link between the derivative and the managed risk may be less clear. In some cases, identifying the categories affected by the risk(s) managed using non-designated derivatives may involve undue cost or effort—for example, when risks are managed by a central treasury. For such cases, the Board proposes to require entities to classify gains and losses in the investing category.
- BC99 Some stakeholders were concerned that the Board's proposals for classification treat derivatives designated as hedging instruments in the same way as non-designated derivatives which could be seen as undermining the hedge accounting requirements. The Board noted that the recognition and measurement requirements for derivatives including the hedge accounting requirements are unchanged by these proposals.
- BC100 Also, the Board's proposals do not affect constraints in IFRS Standards on the presentation of gains or losses on derivatives and other financial instruments used for risk management. Specifically, IFRS Standards only permit entities to include components of fair value gains and losses in the line item 'interest revenue calculated using the effective interest method' if those arise from designated hedging instruments.
- BC101 The Board has concluded that the proposals described in paragraph BC94 should also apply to fair value gains and losses on non-derivative financial instruments designated as hedging instruments applying IFRS 9. The Board believes that this approach appropriately reflects the entity's risk management activities in the classification of income and expenses in the

statement of profit or loss. This approach is also consistent with current practice for many entities.

- BC102 The Board considered applying a similar approach to that described in paragraph BC94 to non-derivative financial instruments used for risk management that are not designated as hedging instruments applying IFRS 9. However, the Board rejected this approach because it may be costly for an entity to identify the categories affected by the risk(s) managed and monitor whether the entity is holding the financial instrument for risk management. This is because entities may hold non-derivative financial instruments for multiple purposes, including risk management. This is different from derivatives, which are often held only for the purpose of risk management. Applying a similar approach to that described in paragraph BC94 to non-derivative financial instruments not designated as hedging instruments may also involve significant judgement, leading to inconsistent application and reduced comparability. Income and expenses on these non-derivative financial instruments would be classified in the operating, investing or financing categories applying the Board's general proposals.

Line items to be presented in the statement of profit or loss (paragraphs 65–67 and B44)

- BC103 The Board proposes to require entities to present income or expenses from financing activities as a line item in the statement of profit or loss. The separate line item would enable users of financial statements to identify income and expenses that arise from financing activities separately from other income and expenses classified in the financing category, facilitating their analysis of the entity's financing.
- BC104 The Board also considered requiring entities to present the other income and expenses classified in the financing category as separate line items in the statement of profit or loss. However, the Board concluded such a requirement would be unnecessary because:
- (a) IFRS Standards already require the separate presentation of interest revenue accounted for using the effective interest method. Consequently, entities would be required to present a separate line item for interest revenue on cash and cash equivalents.
 - (b) the proposed requirements for disaggregation would apply to other income and expenses classified in the financing category.
- BC105 Due to the Board's proposal to require entities to present income or expenses from financing activities as a separate line item, the requirement in IAS 1 to present finance costs would be redundant and is proposed to be withdrawn.
- BC106 Following on from the proposals for integral and non-integral associates and joint ventures (see paragraphs BC77–BC89), the Board proposes to remove the requirement to present a single line item for the share of profit or loss from associates and joint ventures accounted for using the equity method and replace it with a requirement to present the share of profit or loss from

integral associates and joint ventures separately from the share of profit or loss from non-integral associates and joint ventures.

- BC107 In response to requests from some users of financial statements, the Board considered whether to require entities to present depreciation, amortisation and research and development expenses as separate line items in the statement of profit or loss. The Board rejected such a requirement because it would not, in all cases, result in useful information. For example, for entities that present their primary analysis of expenses using the function of expense method, a requirement to present depreciation as a separate line item would mean the cost of sales would exclude depreciation, potentially understating the cost of sales for that entity. Also, research and development expenses may include allocations of natural expenses such as employee benefits and depreciation. Requiring an entity that presents its primary analysis of expenses using the nature of expense method to present a research and development expenses line item could result in misleading information about the line items presented using the nature of expense method—for example the line item ‘employee benefits’ would not include employee benefits relating to research and development.

Relationship between required line items and the proposed categories in the statement of profit or loss

- BC108 The Board considered how the proposed new categories and subtotals would affect the way entities apply requirements for presentation of line items in the statement of profit or loss. The Board noted that, applying the proposed classification requirements, an entity might be required to disaggregate a required line item, for example impairment losses on financial instruments, and present it in different categories of the statement of profit or loss. The Board concluded such an outcome is appropriate because it would help achieve a faithful representation of each of the categories in the statement of profit or loss.

Presentation of operating expenses (paragraphs 68–72 and B45–B48)

- BC109 The Board proposes that an entity present in the statement of profit or loss an analysis of expenses included in operating profit or loss based on either the nature or the function of the expenses, using whichever method provides the most useful information.
- BC110 Both the nature of expense and the function of expense methods of analysis can provide useful information. Information about the nature of expenses allows users of financial statements to analyse the detailed components of an entity’s operating expenses, helping them to forecast those expenses for future periods. Information that aggregates expenses by function facilitates the calculation of some performance metrics and margins. However, users have raised concerns that useful information can be lost because entities choose which method to use and because, in practice, many entities use a mixture of both methods. IAS 1 requires an entity to choose a method that is reliable and more relevant. The Board proposes to strengthen this by requiring

an entity to use the single method that would provide the most useful information to the users of its financial statements, considering the entity's particular circumstances. To help entities assess which method is most useful in their circumstances, the Board proposes to provide a set of factors for entities to consider when making this assessment.

- BC111 IAS 1 requires an entity presenting an analysis of expenses using the function of expense method to provide information about the nature of its expenses. The Board proposes to strengthen this by requiring such entities to, in a single note to the financial statements, disclose an analysis of its total operating expenses using the nature of expense method. This proposal reflects feedback from users of financial statements that analysing expenses using the function of expense method can lead to a loss of useful information. Information is lost because functional line items combine expense items with different natures that respond differently to changes in the economic environment, making it difficult for users to forecast future operating expenses. Information about the nature of operating expenses also enables direct comparison with information provided in the statement of cash flows.
- BC112 The Board considered requiring an entity that presents its primary analysis of expenses using the function of expense method to disclose an analysis of each functional line item by nature. Requiring this analysis would provide users of financial statements with information to help them better forecast an entity's functional line items. However, feedback from preparers of financial statements suggested that this approach would be significantly more complex and costly to apply than the Board's proposed approach. Therefore, the Board decided to limit the requirement to an analysis of total operating expenses using the nature of expense method.
- BC113 The Board heard from some preparers of financial statements that even the proposed requirement may be costly for entities to implement, particularly for those that operate multiple purchase systems making it difficult to track information about the nature of the total costs incurred. Such entities may not always retain information about the nature of the costs capitalised and, therefore, may find it difficult to disclose an analysis of expenses by nature. Other preparers, however, either provide this analysis today or could provide it with limited costs. The strong support for this proposal from users of financial statements has led the Board to conclude that the benefits of having information about operating expenses by nature would be likely to exceed the costs. The Board intends to seek further feedback on the likely costs and benefits of this proposal during consultation on the Exposure Draft.
- BC114 The Board considered requiring an entity that presents its primary analysis of expenses using the nature of expense method to disclose in the notes an analysis of expenses using the function of expense method. However, it rejected such a requirement because there was no evidence of demand from users of financial statements for this disclosure.

Relationship between required line items and the requirements for presentation of operating expenses

- BC115 The Board noted that expense line items required to be presented in the statement of profit or loss by paragraph 68 are expenses analysed by nature applying the Board's description of the nature of expense method.
- BC116 To ensure that these line items continue to be presented prominently, the Board proposes to require entities to present them separately in the statement of profit or loss whichever method of analysis of operating expenses is used.

Statement presenting comprehensive income (paragraphs 73–81 and B49–B52)

- BC117 IAS 1 requires income and expenses included in other comprehensive income to be categorised into income and expenses that may be reclassified (recycled) to profit or loss in subsequent periods and items that are permanently reported outside profit or loss and will not be reclassified. This creates two categories of income and expenses included in other comprehensive income. To increase the understandability of amounts included in other comprehensive income, the Board proposes to create more descriptive labels for these two categories of other comprehensive income, that is, income and expenses to be included in profit or loss in the future when specific conditions are met and remeasurements permanently reported outside profit or loss.
- BC118 The Board considered requiring an entity to present a subtotal of profit or loss and remeasurements permanently reported outside profit or loss. However, the Board concluded that such a subtotal would not provide useful information to users of financial statements.

Statement of financial position

Line items to be presented in the statement of financial position (paragraphs 82 and B12–B14)

- BC119 The Board proposes to require an entity to present goodwill separately from intangible assets in its statement of financial position. Goodwill is an asset that is not identifiable and is measured only as a residual; it cannot be measured directly. Therefore, the Board considers that the characteristics of goodwill are sufficiently different from those of intangible assets to warrant separate presentation.²
- BC120 To help users of financial statements to analyse returns from integral associates and joint ventures separately from other investments, the Board proposes to require an entity to present investments in integral associates and joint ventures separately from investments in non-integral associates and joint ventures. Paragraphs BC77–BC89 discuss the basis for the split between integral and non-integral associates and joint ventures.

² For similar reasons, in its Goodwill and Impairment project, the Board is exploring whether it should require an entity to present an amount representing total equity before goodwill in its statement of financial position.

- BC121 As a result of proposals for integral and non-integral associates and joint ventures, the Board proposes to remove the requirement to present a single line item representing investments accounted for using the equity method.

Unusual income and expenses

- BC122 The Board observed that many entities disclose unusual or similarly described expenses (and a few disclose unusual income). However, the way entities provide this information varies significantly and it is often not clear how or why items have been identified as unusual.
- BC123 Stakeholders commented on the use of the terms ‘unusual’ and ‘infrequent’ and discussed possible definitions in feedback on the 2017 Discussion Paper *Disclosure Initiative – Principles of Disclosure*:
- (a) many users of financial statements agreed that the Board should develop requirements for the disclosure of unusual income and expenses because the separate presentation or disclosure of unusual or infrequent income and expenses provides information that is useful in making forecasts about future cash flows. Also, definitions and requirements developed by the Board could make such income and expenses more transparent and comparable across entities and could reduce entities’ opportunistic classification of expenses as unusual. However, a few users commented that defining unusual or infrequent income and expenses may be difficult because they are entity-specific and identifying them would involve significant judgement.
 - (b) many respondents that are not users said that the Board should not develop definitions for unusual or infrequent income and expenses because those items vary across entities and industries and their identification involves significant judgement. They suggested that the Board could consider instead developing general requirements for the disclosure and faithful representation of such items, for example, requiring them to be classified and presented consistently over time or labelled in a clear and non-misleading way.
- BC124 The Board acknowledges that any requirement to disclose unusual income and expenses would require entities to exercise judgement in deciding which income and expenses are unusual. However, the Board proposes to define and require entities to disclose unusual income and expenses to provide information to users of financial statements about the persistence of income and expenses. The proposed disclosure would enable users to identify income and expenses which may not persist and to analyse them separately when predicting an entity’s future cash flows.
- BC125 The Board proposes that information about unusual income and expenses should be disclosed in the notes rather than presented in the statement(s) of financial performance. The Board concluded that disclosure in the notes would enable entities to provide a more complete description and analysis of such income and expenses. Disclosure in the notes also provides users of financial statements with a single location to find information about such

income and expenses and addresses some stakeholders' concerns that unusual income and expenses may be given more prominence than other information in the statement(s) of financial performance.

- BC126 Some stakeholders suggested that, given the importance some users of financial statements attach to the disclosure of unusual income and expenses, operating profit before unusual income and expenses should be added to the list of subtotals specified by IFRS Standards and the requirements relating to analysis of operating expenses by function or by nature adjusted accordingly. In their view, no longer being able to present an operating profit subtotal before unusual items would be a significant step back from current practice. The Board has not proposed adding this subtotal because, in some cases, presentation of an operating profit before unusual income and expenses subtotal could result in a presentation that mixes natural and functional line items. Users have told the Board that they do not find mixed presentation useful and want to see all operating expenses analysed by one characteristic (nature or function).
- BC127 In developing its proposals for unusual income and expenses, the Board considered:
- (a) how to define unusual income and expenses (see paragraphs BC129–BC136);
 - (b) whether remeasurements are unusual income and expenses (see paragraphs BC137–BC139);
 - (c) what information an entity should provide about unusual income and expenses and where that information should be provided (see paragraphs BC140–BC144); and
 - (d) how unusual income and expenses relate to management performance measures (see paragraph BC180).
- BC128 The Board noted that its proposal for unusual income and expenses is different from the requirement for presentation of extraordinary items that was removed from IAS 8 in 2003. Extraordinary items were defined as clearly distinct from the ordinary activities of an entity and were presented in their own category after tax, separately from profit or loss from ordinary activities. Unusual income and expenses, on the other hand, are classified in categories in the statement(s) of financial performance together with 'usual' income and expenses, according to their nature, function or other characteristics. The notion of extraordinary items is not referred to in the Exposure Draft. The Board noted that, as a result of proposals for categories in the statement of profit or loss, entities would be required to classify all income and expenses in one of the categories and would be prohibited from creating a separate category for extraordinary items.

Definition of unusual income and expenses (paragraph 100)

- BC129 The Board proposes to define unusual income and expenses as income and expenses with limited predictive value. The Board decided that defining unusual items in this way would:
- (a) address the need of users of financial statements for information about income and expenses that are unlikely to persist and so have limited predictive value (see paragraph BC124); and
 - (b) help preparers of financial statements identify unusual income and expenses by providing them with a concept that underpins the identification of unusual income and expenses.
- BC130 Though most unusual items currently disclosed are unusual expenses, entities can have unusual income. Disclosure of both unusual income and unusual expenses contributes to a faithful representation of an entity's performance, helping to ensure that entities provide information that is neutral and complete. Therefore, the definition of unusual items refers to both income and expenses. The Board considered specifying that information about unusual items should be neutral but rejected this as unnecessary because neutrality applies to all items included in the financial statements.
- BC131 The proposed definition of unusual income and expenses requires an entity to assess whether it is reasonable to expect that income and expenses similar in type or amount will not arise for several future annual reporting periods. The Board proposes using the term 'reasonable to expect' because this term is used in other IFRS Standards and so should be familiar to entities applying the requirement.
- BC132 The Board did not indicate a specific period over which an entity should assess whether it is reasonable to expect that similar income or expenses will not arise. However, it did not intend to require an entity to consider all possible future reporting periods nor to consider only a short period. Considering all possible future reporting periods would be impractical and would result in few cases of income or expenses being identified as unusual and resulting in a loss of potentially useful information. Considering only a short period could result in income and expenses that have predictive value being identified as unusual. Specifying the period over which an entity should consider whether a similar income or expense will arise would be arbitrary and might not lead to the identification of all income and expenses that have limited predictive value.
- BC133 The Board recognises that, when assessing whether income and expenses are unusual, it may be helpful to consider the nature of transactions or other events that gave rise to the income or expenses. For example, an entity might conclude that income or expenses (for example, impairment losses) are:

- (a) not reasonably expected to arise for several future annual reporting periods and, therefore, should be classified as unusual income and expenses, and the transactions or other events that gave rise to the income or expenses are unusual in nature (for example, an earthquake in a non-earthquake prone zone); and
- (b) reasonably expected to arise for several future annual reporting periods and, therefore, should not be classified as unusual income or expenses and the transactions or other events that gave rise to the income or expenses are usual in nature (for example, a drop in product prices).

BC134 However, the Board concluded that although unusual income or expenses often result from transactions or other events that are unusual in nature, this is not always the case. Transactions or other events that are unusual in nature can give rise to 'usual' income or expenses. For example, an earthquake may give rise to increased costs that are expected to arise for a number of years, and as such are not unusual expenses. Therefore, the Board did not include reference to the nature of underlying transactions and other events in the definition of unusual income and expenses.

BC135 The Board noted that an entity need not consider individual transactions when assessing whether income or expenses are unusual. A type of income or expense arising from a group of transactions may be assessed as unusual income or expense.

BC136 The proposed definition requires entities to consider whether similar income or expense will recur in the future. It does not require entities to consider whether a similar income or expense has occurred in the past. The occurrence of income or expense in the past does not necessarily indicate that similar income or expense will occur in the future. Therefore, an item of income or expense that occurred in a previous period but is not reasonably expected to recur for several future reporting periods would be identified as an unusual income or expense.

Remeasurements (paragraphs 102 and B72)

BC137 The Board proposes that recurring measurements of assets or liabilities measured at current value would not normally be classified as unusual. This is the case even when amounts of income or expense recognised are expected to vary from period to period.

BC138 Some users of financial statements view gains or losses arising from changes in current value measurements (including fair value measurements) as having limited predictive value. However, current values are likely to change each reporting period and therefore gains or losses from remeasurement are expected to arise in each reporting period. Consequently, such gains or losses are likely to be similar in type to gains or losses expected in future reporting periods and would not normally meet the definition of unusual income and expenses.

- BC139 Because of the potential volatility of gains or losses from remeasurements, the range of the amount reasonably expected to arise in future reporting periods may be wider than that for other categories of income or expense. Consequently, a wide range of gains or losses may be considered similar in amount.

Information to be disclosed about unusual income and expenses (paragraph 101)

- BC140 The Board proposes that, in the note disclosure about unusual income and expenses, an entity attribute unusual income and expenses to the line items presented in the statement(s) of financial performance, thus enabling users of financial statements to assess the effect of unusual income and expenses on those line items and on subtotals.
- BC141 Some unusual expenses—for example, unusual restructuring costs—can include expenses with different natures (for example, staff costs, impairments and legal costs). Users of financial statements said they find the information provided by the nature of expense method useful. Therefore, the Board proposes that an entity also attribute unusual expenses to the line items using the nature of expense method it presents in the statement of profit or loss or discloses in the notes (see paragraphs BC109–BC114).
- BC142 The Board proposes that an entity provide a description of the underlying transactions or other events that gave rise to unusual income or expenses. Information about the underlying transactions or other events that gave rise to unusual income or expenses is useful because it enables users of financial statements to understand what caused the unusual income or expense and to assess the entity's classification of the income or expense as unusual.
- BC143 The Board considered requiring entities to identify income and expenses related to unusual income and expenses. Transactions or other events that give rise to unusual income and expenses may also give rise to related income or expenses that do not meet the proposed definition of unusual income and expenses. For example, a sale may give rise to unusual revenue. In earning that revenue, the entity may incur related costs, including staff costs, inventory cost and taxes, which may not meet the definition of unusual expenses. Users of financial statements may find information about the related income and expenses useful even though they do not meet the definition of unusual income and expenses.
- BC144 However, the Board rejected this approach because it may be difficult for preparers of financial statements to identify related income and expenses and it may be costly to track them. Such difficulties and costs may lead to inconsistent application of the requirement, making the resulting information less useful. Therefore, the Board does not propose to require an entity to provide information about income and expenses related to unusual income or expenses unless the related income or expenses are themselves unusual.

Management performance measures

- BC145 When an entity provides one or more performance measures that meet the definition of management performance measures, the Board proposes to require entities to disclose information about such measures in their financial statements.
- BC146 Research undertaken as part of the Primary Financial Statements project, feedback received on the 2017 Discussion Paper *Disclosure Initiative – Principles of Disclosure* and the 2015 Agenda Consultation indicated that:
- (a) many entities disclose financial information outside the financial statements by providing management-defined performance measures in communications with users of financial statements; and
 - (b) users consider that information provided by such measures can be useful because it provides insight into:
 - (i) how management views the entity's financial performance;
 - (ii) how a business is managed; and
 - (iii) the persistence or sustainability of an entity's financial performance.
- BC147 However, users of financial statements expressed concerns about the quality of disclosures provided about these measures. According to users, in some cases, the disclosures:
- (a) lack transparency in how the management-defined performance measures are calculated;
 - (b) lack clarity regarding why these measures provide management's view of the entity's performance;
 - (c) create difficulties for users trying to reconcile the measures to the related measures specified by IFRS Standards; and
 - (d) are reported inconsistently from period to period.
- BC148 Including disclosures about these measures in the financial statements could help address some of the concerns expressed by users of financial statements. However, some stakeholders raised concerns about including management-defined performance measures in financial statements prepared applying IFRS Standards, which were that:
- (a) management-defined performance measures may be incomplete or biased and therefore including them in the financial statements may be misleading to users of financial statements;
 - (b) management-defined performance measures may be given undue prominence or legitimacy by including them in the financial statements; and

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

- (c) some adjustments made in calculating management-defined performance measures may be difficult to audit—for example, adjustments made when an entity calculates its performance measures using accounting policies that do not comply with IFRS Standards.
- BC149 The Board considered the concerns raised, noting that management-defined performance measures that meet the definition of management performance measures, and would thus be included in the financial statements:
- (a) would be subject to the general requirement for information to faithfully represent what it purports to represent, which would not be met if measures were misleading (see paragraph BC158).
- (b) would rarely be presented in the statement(s) of financial performance (see paragraphs BC163–BC166).
- (c) are similar to segment measures of profit or loss in that they are based on management’s view. Segment measures of performance are included in the financial statements and are audited.
- BC150 Some stakeholders also expressed concerns that management performance measures may proliferate if they are included in the financial statements. The Board noted that it is difficult to predict the effect of the proposals on the number of management performance measures an entity would use. While it is possible that the use of such measures would increase as a result of the Board’s proposals, it is also possible that the use of management performance measures would decline if entities choose to use the proposed new subtotals to communicate their performance instead. Paragraphs BC304–BC307 include further discussion of the expected effects of the proposals for management performance measures on the use of performance measures defined by management.
- BC151 The Board acknowledges the concerns of some stakeholders, but concluded that management performance measures can complement measures specified by IFRS Standards, providing users of financial statements with useful insight into management’s view of performance and its management of the business. Including these measures in the financial statements would make them subject to the same requirements regardless of the entity’s jurisdiction and would improve the discipline with which they are prepared and improve their transparency.
- BC152 In developing the requirements for management performance measures, the Board considered:
- (a) how to define management performance measures (see paragraphs BC153–BC162);
- (b) where in the financial statements to include information about management performance measures (see paragraphs BC163–BC166); and
- (c) what information an entity should be required to provide about management performance measures (see paragraphs BC167–BC179).

Definition and restrictions (paragraphs 103–105 and B76–B81)

- BC153 The Board proposes to define management performance measures as subtotals of income and expenses that:
- (a) are used in public communications, outside financial statements;
 - (b) complement totals or subtotals specified by IFRS Standards (see paragraphs BC168–BC173 for discussion of the proposed specified subtotals); and
 - (c) in management’s view, communicate to users of financial statements an aspect of an entity’s financial performance.
- BC154 Feedback from users of financial statements led the Board to focus on improvements to the reporting of financial performance in the statement(s) of financial performance and the related notes. Therefore, the Board’s proposed definition for management performance measures is limited to subtotals of income and expenses. Thus, other financial measures (such as currency adjusted revenue or return on capital employed) and non-financial measures (such as customer retention rate) are not management performance measures and would not be included in the proposed disclosure.
- BC155 To address concerns that management performance measures might be misleading, the Board considered whether any specific restrictions should be applied to the calculation of these measures, such as restricting measures to those based on amounts recognised and measured in accordance with IFRS Standards. Such a restriction would have prohibited measures based on accounting policies that do not comply with IFRS Standards, such as measures that apply proportionate consolidation. However, the Board rejected imposing such specific restrictions on how management performance measures are calculated because:
- (a) such restrictions might prevent entities from disclosing measures that users of financial statements find useful, for example, measures that adjust for some effects of acquisition accounting to facilitate trend analysis;
 - (b) such restrictions might prevent entities from disclosing industry-defined performance measures;
 - (c) such restrictions might create conflict with regulatory guidance that permits or requires some or all of these measures; and
 - (d) the requirement would be inconsistent with the objective of providing management’s view of performance.
- BC156 The Board’s view is that performance measures used in public communications outside the financial statements should be consistent with the performance measures disclosed in the financial statements because:
- (a) it is hard to justify that a measure, in management’s view, communicates performance if an entity is not using it in communicating performance; and

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

- (b) it would be confusing if one entity were to provide two sets of management-defined measures, one within and one outside the financial statements.
- BC157 The Board considered defining management performance measures as all subtotals of income and expense included in an entity's annual report. The Board rejected such an approach because:
- (a) consistent with the feedback received in response to the Exposure Draft on proposed amendments to IFRS 8 *Operating Segments*, it may not be clear what constitutes an annual report; and
- (b) management may include performance measures in an entity's annual report to comply with regulatory or other requirements.
- BC158 The Board noted that management performance measures disclosed in the notes to the financial statements would need to comply with the general requirements for information included in financial statements. That is:
- (a) the management performance measure must faithfully represent the aspect of financial performance of the entity it purports to represent;
- (b) the disclosures supporting the management performance measure must comply with the proposed guidance on aggregation and disaggregation, for example, when disclosing reconciling items;
- (c) comparative information should be provided for the management performance measure and related disclosures; and
- (d) the management performance measure should be calculated consistently from one period to the next and be subject to change only if the new measure provides more useful information.
- BC159 Some stakeholders argue that there should be no restriction on when an entity can disclose information about its management performance measures. In their view, one of the main objectives of the management performance measure proposals is to provide users of financial statements with enough information to prevent them from being misled by these measures. They argue that restricting the disclosure of information about management performance measures to situations when those measures faithfully represent an aspect of an entity's performance is inconsistent with that objective because:
- (a) the requirements of IFRS Standards cannot prevent disclosure of potentially misleading measures outside the financial statements. While in some jurisdictions local law or regulation may prevent the disclosure of such measures, this is not always the case.
- (b) the requirement that a management performance measure must faithfully represent an aspect of an entity's performance would prevent the disclosure of useful information about such measures in circumstances when users are most likely to be misled.

- (c) entities wishing to avoid the proposed disclosure requirements could do so by disclosing performance measures outside the financial statements that they believe would be assessed by their auditors or regulators as not providing a faithful representation.
- BC160 These stakeholders also note that IFRS 8 does not place a similar explicit restriction on the disclosure of segment information which reflects the views of management.
- BC161 The Board acknowledges that including information about such measures in the financial statements may increase transparency about these measures. However, the Board thinks that all information included in the financial statements should provide a faithful representation of what it purports to represent. A management-defined performance measure that does not faithfully represent an aspect of an entity's performance should not be included in the financial statements as a management performance measure.
- BC162 The Board also considered whether it should specifically state that management performance measures should not be misleading. The Board rejected such a proposal as unnecessary because misleading measures would not provide a faithful representation of the financial performance of the entity.

Location of information about management performance measures (paragraphs 106, 110 and B82–B85)

- BC163 The Board proposes that an entity disclose management performance measures and all related information in a single note. Disclosing management performance measures and the related information in a single location improves the transparency of those measures by:
- (a) providing management performance measures together with the information needed to understand those measures; and
 - (b) helping users of financial statements to identify and locate the related information.
- BC164 To address the concerns of some stakeholders that management performance measures could be misleading and should not be given prominence, the Board considered prohibiting entities from presenting management performance measures in the statement(s) of financial performance. However, paragraphs the Board proposes to move from IAS 1 to the draft IFRS [X] require entities to present line items, headings and subtotals in the statement(s) of financial performance that are not required by IFRS Standards if that information is relevant to an understanding of the entity's financial performance. Prohibiting an entity from presenting management performance measures in the statement(s) of financial performance may prevent them from complying with this requirement. Therefore, the Board does not propose prohibiting an entity from presenting management performance measures in the statement(s) of financial performance.

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

- BC165 However, the Board expects that few management performance measures would meet the requirements for presentation as a subtotal in the statement(s) of financial performance. To meet the requirements, such subtotals must:
- (a) fit into the structure of the proposed categories (see paragraph BC28);
 - (b) not disrupt the presentation of an analysis of expenses in the operating category using either the function of expense or nature of expense method (see paragraph BC109); and
 - (c) comprise amounts recognised and measured applying IFRS Standards.
- BC166 The Board is, however, proposing to prohibit entities from using columns to present a management performance measure in the statement(s) of financial performance. Prohibiting the use of columns further restricts the circumstances in which such measures may be presented in the statement(s) of financial performance, which helps address the concerns of some stakeholders that doing so would give them undue prominence. Additionally, this restriction is consistent with the Board's objective of improving the comparability of information provided in the statement(s) of financial performance.

Information to be disclosed about management performance measures (paragraphs 106–108)

- BC167 Transparency is enhanced by an entity clearly stating the purpose and limitations of management performance measures. In presenting management's view, a management performance measure is entity-specific and requires management's judgements about what is useful to users of financial statements. Users require sufficient information about those judgements to understand the information the management performance measure provides and how it provides a faithful representation of an aspect of an entity's performance. Therefore, the Board proposes that an entity disclose a description of each management performance measure, explaining how it has been calculated, and why and how it communicates information about an entity's performance. An entity would also be required to explain that the management performance measure is entity-specific by disclosing that the measure provides a management view of financial performance and stating that it is not necessarily comparable with measures used by other entities.
- BC168 The Board proposes that an entity provide a reconciliation to the most directly comparable total or subtotal specified by IFRS Standards for each management performance measure, making these measures more transparent. The Board also noted that, because the Board's proposals increase the number of subtotals specified by IFRS Standards, these reconciliations would contain fewer reconciling items than today making them more understandable.
- BC169 Because a management performance measure is complementary to the totals or subtotals in IFRS Standards, it is important for users of financial statements to understand how such measures relate to these totals or subtotals. A reconciliation provides users with information about how the management

performance measure is calculated and how the measure compares to similar measures provided by other entities. The reconciliation also provides users with the information required to make their own adjustments to the management performance measure, should they decide that adjustments are needed.

- BC170 However, the Board recognises that some subtotals currently not specified by IFRS Standards are commonly used in the financial statements and are well understood by users of financial statements. Providing a reconciliation for such measures would not provide additional information because their purposes and relationship to totals or subtotals specified by IFRS Standards are well understood and would usually be apparent from their presentation in the statement(s) of financial performance.
- BC171 Therefore, the Board proposes to specify a list of subtotals that are not considered management performance measures including gross profit or loss (revenue less cost of sales) and similar subtotals, operating profit or loss before depreciation and amortisation, profit or loss from continuing operations, and profit or loss before income tax. These subtotals would thus be specified by IFRS Standards and management performance measures could be reconciled to these subtotals.
- BC172 The Board also considered whether to define earnings before interest, tax, depreciation and amortisation (EBITDA). However, the Board noted that, although EBITDA is one of the most commonly used measures in communications with users of financial statements, it is not used in some industries such as finance. Furthermore, users have no consensus about what EBITDA represents, other than it being a useful starting point for various analyses. Its calculation is diverse in practice. Consequently, EBITDA measures may meet the definition of management performance measures.
- BC173 The Board also considered whether a measure calculated as operating profit or loss before depreciation and amortisation would provide similar information to many of the EBITDA measures that are currently provided. However, the Board concluded it should not describe operating profit or loss before depreciation and amortisation as EBITDA. To do so would imply that operating profit or loss is the same as earnings before interest and tax which is not the case because operating profit or loss does not include, for example, income from investments or from equity-accounted associates and joint ventures. In other words, the Board was concerned about the difference between what the measure represents and the meaning of the EBITDA acronym. However, as discussed in paragraph BC171, the Board has included operating profit or loss before depreciation and amortisation in the list of IFRS specified subtotals. Consequently, an EBITDA measure equal to that amount would not be a management performance measure.
- BC174 The Board proposes an entity provide sufficient explanation to help users of financial statements understand any changes in management performance measures or in how they are calculated; the entity would also quantify the effect of such changes. Comparability from period to period is enhanced by the provision of information about changes in these measures.

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

- BC175 The Board considered whether it should require a five-year historical summary of management performance measures. However, it rejected this requirement because changes in accounting standards may make it difficult or costly for entities to disclose comparable measures beyond the time frame set out in those changes.
- BC176 IAS 33 requires some entities to disclose their earnings per share and permits an entity to disclose adjusted earnings per share measure(s). The Board considered whether an adjusted earnings per share that is based on the entity's management performance measures should be required. It rejected this approach because it would introduce complexity when entities have more than one management performance measure, if these measures are not calculated consistently.
- BC177 However, the Board considered feedback that earnings per share information was important to users of financial statements and that one of the benefits of management performance measures to users is the detailed information that can be used to calculate a related earnings per share figure. To calculate such an earnings per share figure, users need information about the earnings adjustments attributable to the parent and the tax effects of those adjustments. Therefore, the Board proposes an entity should disclose separately the effect of income tax and the amount attributable to non-controlling interests for each reconciling item between a management performance measure and the most directly comparable total or subtotal specified by IFRS Standards. The Board decided to propose this disclosure at the level of individual adjustments made in calculating a management performance measure rather than at the level of the total adjustment because it gives users information needed to select which adjustments they want to consider in arriving at an adjusted earnings per share measure used in their analysis.
- BC178 The Board noted that some preparers of financial statements have said the disclosure of the tax and non-controlling interest effects for individual adjustments may be complex and costly. To alleviate the costs of preparing disclosures about the tax effect of management performance measure adjustments, the Board proposes a simplified approach for calculating the income tax effect of the reconciling items. The Board concluded that this simplified approach would provide users of financial statements with a reasonable estimate of the income tax effect of adjustments, making it clear when the tax effect of an adjustment is materially different to the effect calculated applying the entity's effective tax rate. The Board noted that this approach is similar to the approach for determining the income tax effect on items of other comprehensive income set out in IAS 12 *Income Taxes*.
- BC179 The Board considered, but rejected, requiring an entity to disclose the reasons for any differences between its management performance measures and its operating segment measures of performance. The Board concluded that, based on evidence of current practice and feedback from outreach meetings, such disclosure would not provide useful information, might result in boilerplate disclosures and would add unnecessary complexity to the proposals.

Relationship of unusual income and expenses with management performance measures (paragraph B75)

- BC180 The Board noted that entities often adjust for unusual income and expenses when disclosing management-defined performance measures and that, in some cases, such an adjustment may make the separate disclosure of unusual income or expenses unnecessary. However, the Board proposes to require all entities to disclose information about unusual income and expenses because:
- (a) not all entities communicate performance using management-defined performance measures. Therefore, not all entities would be required to provide the proposed disclosures for management performance measures. Such entities would have no management performance measures and, hence, would not provide information about unusual income and expenses unless the Board required such information.
 - (b) the proposals for management performance measures do not require entities to adjust for unusual income and expenses. Therefore, users would not be provided with the information that they need about such income and expenses on a consistent basis.

Effective date and transition

- BC181 The Board proposes to require entities to apply draft IFRS [X] after a transition period of 18–24 months starting on the date of publication, with retrospective application.
- BC182 In deciding on a transition period, the Board noted that because its proposals affect presentation and disclosure only, they should be more straightforward to implement than changes affecting recognition and measurement. Consequently, the Board concluded that the proposed transition period of 18–24 months would allow sufficient time for entities to make any necessary updates to their systems, collect the information needed to restate comparatives, and resolve any operational challenges.
- BC183 The Board's proposals are expected to result in extensive changes to the statement(s) of financial performance. If comparatives in that statement(s) are not restated, there is a risk that the information included in the statement(s) of financial performance could be misleading. Also, because the proposals affect presentation and disclosure requirements only, entities would not need to consider periods before the start of the earliest comparative period. So, restatement of comparatives should be relatively straightforward. Therefore, the Board proposes retrospective application.
- BC184 Paragraph 10 of IAS 34 requires an entity to present, at a minimum, the same subtotals as in the most recent annual financial statements. In the first year of application of this proposed Standard, an entity may have different subtotals in its most recent annual financial statements from those required by the proposed Standard. Consequently, the entity would be prevented from presenting the subtotals required by the proposed Standard in its interim financial report. The Board concluded that presenting the subtotals required by the proposed Standard would provide useful information to users of

financial statements. Therefore, the Board proposes that, in the first year of application of the proposed Standard, an entity present the proposed headings and subtotals in condensed financial statements in interim financial report(s), for both the current and comparative periods.

Proposed amendments to other IFRS Standards

IAS 7 *Statement of Cash Flows*

BC185 As discussed in paragraph BC12, the Board proposes only limited changes to the statement of cash flows. Those changes include:

- (a) specifying a consistent starting point for the indirect method of reporting cash flows from operating activities (see paragraphs BC186–BC188);
- (b) eliminating options for the classification of interest and dividend cash flows (see paragraphs BC189–BC204); and
- (c) introducing new requirements for the classification of cash flows from investments in associates and joint ventures (see paragraphs BC205–BC208).

Starting point for the indirect method

BC186 The Board observed that entities use different starting points for the indirect method for reporting operating cash flows such as profit or loss, profit or loss from continuing operations, profit or loss before tax or operating profit or loss.

BC187 The Board proposes to require all entities to use the same starting point for the indirect method because users of financial statements have indicated that the diversity in practice reduces comparability between entities, making their analyses more difficult.

BC188 The Board proposes to use operating profit or loss as the starting point rather than profit or loss because:

- (a) using operating profit or loss, an entity needs to present fewer adjustments to the starting point, which simplifies the presentation of the operating cash flows category. This is because, compared to profit or loss, operating profit or loss includes fewer income and expenses for which the cash effects are classified as investing or financing cash flows. For example, operating profit or loss does not include the share of profit or loss of associates and joint ventures.
- (b) the difference between cash flows from operating activities and operating profit or loss provides a measure of operating accruals. Some users of financial statements find such a measure useful because it helps them understand how operating profit or loss is converted into cash flows.

Classification of interest and dividend cash flows

- BC189 IAS 7 permits entities to choose an accounting policy for classifying interest and dividend cash flows in the statement of cash flows. As a result, classification varies, even among entities in the same industry.
- BC190 The Board proposes to remove this classification choice for most entities, because users of financial statements have indicated that the diversity in classification between entities in the same industry:
- (a) reduces comparability, making their analysis more difficult; and
 - (b) is often not meaningful—that is, the different classifications of these cash flows do not necessarily convey information about the role of interest and dividends in the entity’s business activities.

Dividends paid

- BC191 The Board proposes that all entities should classify dividends paid as cash flows from financing activities because dividends paid are a price of obtaining financing.
- BC192 IAS 7 currently allows classification of dividends paid as cash flows from operating activities. Paragraph 34 of IAS 7 explains that classifying dividends paid as cash flows from operating activities may assist users of financial statements with determining an entity’s ability to pay dividends out of operating cash flows. However, the Board no longer supports that rationale for classifying dividends paid as cash flows from operating activities because:
- (a) classifying dividends paid in this way does not provide a faithful representation of the operating cash flows. Dividend payments are financing in nature.
 - (b) when assessing cash flows available to pay dividends, users tend to use other measures, such as free cash flow, which take into account cash needed for capital expenditure.
 - (c) users can continue comparing dividends paid with cash flows from operating activities if they wish, because IAS 7 requires the disclosure of dividends paid.

Dividends received and interest paid and received

- BC193 The Board considered two approaches for classifying dividends received and interest paid and received:
- (a) seeking to align, to the extent possible, the classification in the statement of profit or loss with the classification in the statement of cash flows. Doing so would mean the classification of dividends received and interest paid and received would depend on the entity’s main business activities (see paragraphs BC194–BC202).
 - (b) requiring all entities to classify dividends received, interest paid and interest received as operating cash flows (see paragraphs BC203–BC204).

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

- BC194 The Board proposes the approach described in paragraph BC193(a) because, when alignment can be achieved, it can increase the understandability of the resulting information. However, the Board is not proposing full alignment between the categories in the statement of profit or loss and the statement of cash flows (see paragraph BC30).
- BC195 As it did for classification in the statement of profit or loss, the Board distinguished the following types of entities in developing its proposed approach for the statement of cash flows:
- (a) entities that provide financing to customers as a main business activity or invest in the course of their main business activities in assets that generate a return individually and largely independently of other entity resources (see paragraphs BC198–BC202); and
 - (b) entities whose main business activities do not include any of those described in (a) (see paragraphs BC196–BC197).
- BC196 The Board proposes that the entities described in paragraph BC195(b) classify:
- (a) cash receipts from interest and dividends as cash flows from investing activities. The Board proposes this classification because, in most cases, the related income is expected to be classified in the investing category in the statement of profit or loss.
 - (b) cash payments arising from interest incurred as cash flows from financing activities. The Board proposes this classification because interest paid represents the cost of obtaining financing. The related interest expenses are classified in the financing category in the statement of profit or loss by such entities (see paragraph BC37).
 - (c) cash payments arising from interest capitalised applying IAS 23 *Borrowing Costs* as part of the cost of an asset as cash flows from financing activities. The Board proposes this classification to avoid requiring potentially arbitrary allocations between operating and investing activities and because this approach would result in the consistent classification of interest paid, regardless of whether it has been capitalised.³
- BC197 The Board expects the proposed approach in paragraph BC196 to align the classification of interest and dividends in the statement of cash flows with the classification in the statement of profit or loss in most cases. The Board acknowledges that this approach does not achieve full alignment. For example:

³ The Exposure Draft *Annual Improvements to IFRSs 2010–2012 Cycle* issued in May 2012 proposed to amend IAS 7 *Statement of Cash Flows* to require that interest paid that is capitalised be classified either as operating or investing in line with the nature of the underlying asset to which those payments were capitalised—for example, inventory (operating), and property, plant and equipment (investing). The Board did not proceed with the amendments because of concerns raised about the implementation of the amendment, including concerns that applying the requirements would result in arbitrary allocations.

- (a) interest revenue from cash and cash equivalents is classified in the financing category in the statement of profit or loss, whereas all interest received is classified as cash flows from investing activities in the statement of cash flows; and
- (b) interest capitalised as part of the cost of an item of property, plant and equipment would be recognised in profit or loss through depreciation expenses, which would be included in operating profit or loss, whereas capitalised interest paid would be included in cash flows from financing activities.

However, the Board concluded that classification of interest or dividend cash flows in a single category in the statement of cash flows is more useful than full alignment.

BC198 The Board noted that the proposed approach described in paragraph BC196 could not be applied without modification to the entities described in paragraph BC195(a). This is because applying the approach to such entities without modification:

- (a) would result in cash flows that are operating in nature being classified as investing or financing cash flows (for example, interest paid on deposits would be classified as financing by a bank); and
- (b) may not result in alignment with the classification of related dividend and interest income and expenses in the statement of profit or loss.

BC199 The Board considered whether to require the entities described in paragraph BC195(a) to fully align the classification of dividends received and interest paid and received with the classification of the related income and expenses in the statement of profit or loss. However, the Board rejected this approach because it may be costly for entities to split dividends received and interest paid and received between different categories of the statement of cash flows when the related income and expenses are classified in multiple categories of the statement of profit or loss. The Board also understands that some users of financial statements question the usefulness of the statement of cash flows for entities of the type described in paragraph BC195(a) and, therefore, the benefits of such an approach may not outweigh the costs.

BC200 Instead, the Board proposes to require the entities described in paragraph BC195(a) to classify each type of cash flow (dividends received, interest paid and interest received) in a single category of the statement of cash flows, even if related income and expenses are in more than one category in the statement of profit or loss. The Board prefers this approach over full alignment because:

- (a) the presentation of cash flows is simplified, in that each type of cash flow is classified in a single category of the statement of cash flows; and
- (b) the classification of each type of cash flow in a single category is consistent with current practice and with the Board's proposed approach in paragraph BC196.

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

- BC201 Applying the Board's proposed approach described in paragraph BC200, the Board considered requiring an entity to determine the single category for classification of each type of cash flow either by making an accounting policy choice or by reference to the category in the statement of profit or loss that includes most of the related income or expenses. The Board proposes the first approach because the second approach could result in the inconsistent classification of cash flows over time.
- BC202 Applying the proposed approach, the Board expects that, in most cases, interest payments would be classified in the same category of the statement of cash flows as repayment of the principal. Consequently, the Board proposes to delete the example in paragraph 12 of IAS 7 that illustrates when an entity might classify cash flows from a single transaction in multiple categories in the statement of cash flows.
- BC203 The Board also considered an alternative approach described in paragraph BC193(b), which would be requiring all entities to classify dividends received, interest paid and interest received as operating cash flows. This approach would have had some advantages:
- (a) it would have achieved the Board's objective of eliminating options for the classification of interest and dividend cash flows.
 - (b) it would have allowed users of financial statements to easily identify where in the statement of cash flows interest received and paid and dividends received had been classified, because they would all have been classified as operating cash flows. This would have been particularly beneficial to users comparing a large number of companies using electronic reports.
 - (c) it would have been consistent with the principle in IAS 7 that cash flows from transactions and other events that enter into the determination of profit or loss should be classified in operating activities.
 - (d) unlike the Board's proposed approach, it would not have required amending the definition of investing activities to include the receipt of interest and dividends.
 - (e) it would have been less costly for preparers of financial statements to apply because:
 - (i) classifying these cash flows would have been less complex than applying the Board's proposed approach; and
 - (ii) for many entities this approach would not have resulted in a change to existing practice.
- BC204 However, the Board rejected the approach described in paragraph BC193(b) because:

- (a) the approach would be inconsistent with the proposed definition of financing activities in IAS 7. The definition in IAS 7 captures interest paid, but applying this approach interest paid would be classified as cash flows from operating activities.
- (b) the approach would not align operating profit or loss with the operating cash flows category of the statement of cash flows (see paragraph BC194). As a consequence, the difference between cash flows from operating activities and operating profit or loss would be a poorer measure of operating accruals than the difference that would result from applying the Board's proposed approach (see paragraph BC188(b)).

Classification of cash flows from investments in associates and joint ventures

- BC205 The Board proposes to require an entity to present the share of profit or loss of integral associates and joint ventures separately from the share of profit or loss of non-integral associates and joint ventures in the statement of profit or loss. The Board also proposes to require a split between integral and non-integral associates and joint ventures in the statement of cash flows because the link between income and expenses and their related cash flows is important to many users of financial statements.
- BC206 The Board proposes that an entity should classify, as cash flows from investing activities, cash flows from the acquisition and sale of investments in associates and joint ventures. This is consistent with the IAS 7 definition of cash flows from investing activities. The Board proposes that all entities should classify as cash flows from investing activities dividends received from associates and joint ventures accounted for using the equity method. This is consistent with its proposal to require all entities to exclude the share of profit or loss of associates and joint ventures from the operating profit or loss subtotal in the statement of profit or loss (see paragraph BC83).
- BC207 The Board considered alternative approaches for classifying cash flows from the acquisition and disposal of, and dividends received from, integral associates and joint ventures. The approaches would be to present the cash flows:
- (a) as operating activities to respond to the views of some stakeholders that the operating category better represents the nature of these transactions.
 - (b) in a separate category of the statement of cash flows closer to operating activities. This would be similar to the Board's approach for integral associates and joint ventures in the statement of profit or loss.
- BC208 However, the Board rejected the approach in paragraph BC207(a) because classifying these cash flows in the operating category would be inconsistent with the definitions of investing and operating cash flows in IAS 7. It would also be inconsistent with the Board's proposal to exclude the share of profit or loss of integral associates and joint ventures from the operating profit or loss subtotal. The Board rejected the approach in paragraph BC207(b) because it

would result in investing cash flows, as defined in IAS 7, being presented outside the investing category. A new category would also result in increased complexity in the statement of cash flows.

IFRS 12 *Disclosure of Interests in Other Entities*

- BC209 As discussed in paragraph BC79, the Board proposes to require an entity to classify its investments in associates and joint ventures accounted for using the equity method as either integral to an entity's main business activities or non-integral to those activities.
- BC210 To achieve this, the Board proposes to amend IFRS 12 to introduce a definition of integral and non-integral associates and joint ventures. The proposed definition is based on the proposed definition of income and expenses from investments. The purpose of this approach is for income and expenses from associates and joint ventures to be classified in the investing category only when they would meet the definition of income and expenses from investments. This approach is also easier and more understandable than developing a definition for integral and non-integral associates and joint ventures that is not based on an existing definition.
- BC211 The Board further proposes introducing a set of indicators to help an entity determine which associates and joint ventures are integral to an entity's main business activities. Given the wide range of possible business relationships between an entity and its associate or joint venture, the Board concluded that it is not possible to develop an exhaustive list of criteria that could encompass all possible business scenarios and has instead proposed a list of indicators. During Board deliberations concerns were expressed whether, given the importance of the consistent classification of income and expenses, the proposed definitions and indicators would be sufficient to enable an entity to distinguish between integral and non-integral associates and joint ventures on a consistent basis.
- BC212 The Board also proposes amending IFRS 12 to require separate disclosures about integral and non-integral associates and joint ventures.
- BC213 To help users of financial statements understand the judgements made by an entity, the Board further proposes requiring an entity to disclose significant judgements and assumptions it made to assess whether associates and joint ventures accounted for using the equity method are integral or not, and disclosure requirements relating to any changes in classification.

IAS 33 *Earnings per Share*

- BC214 The Board proposes amending IAS 33 to restrict the numerator used to calculate adjusted earnings per share to subtotals presented in IFRS Standards or a management performance measure that is attributable to holders of equity claims of the parent.

- BC215 Currently, applying the IAS 33 requirements, an adjusted earnings per share could be calculated based on any component of the statement(s) of financial performance. The numerator used in an adjusted earnings per share need not be a subtotal specified by IFRS Standards or a management performance measure. Because adjusted earnings per share result in fewer disclosure requirements than those for management performance measures, users of financial statements would receive less information if an entity chose to disclose an adjusted earnings per share instead of a management performance measure. Restricting the numerator used in adjusted earnings per share to subtotals presented in IFRS Standards or a management performance measure attributable to holders of equity claims of the parent means that users should receive the same information about adjusted earnings per share as they receive for management performance measures.
- BC216 The Board has decided that adjusted earnings per share based on management performance measures may provide useful information to users of financial statements. Therefore, it proposes to state that management performance measures can be used as numerators when an entity discloses adjusted earnings per share.
- BC217 The Board considered the implications of the earnings per share proposal in paragraph BC214 for entities required by local law or regulation to disclose an adjusted earnings per share. If such an entity concludes that the numerator used in the earnings per share measure required by local law or regulation meets the definition of a management performance measure, that entity would be permitted to disclose the measure in its financial statements. If, however, the entity does not identify the numerator as a management performance measure, the earnings per share measure required by local law or regulation would be disclosed only outside the financial statements.
- BC218 The Board also proposes to specify that adjusted earnings per share can only be disclosed in the notes and cannot be presented in the primary financial statements. To be understood by users of financial statements, adjusted earnings per share calculations require additional information and reconciliation to the measures presented in the primary financial statements. This additional information and reconciliations can only be provided in the notes. Disclosure in the notes also addresses the concerns of some stakeholders that adjusted measures of performance should not be given more prominence than measures specified by IFRS Standards.

IAS 34 Interim Financial Reporting

- BC219 The Board proposes amending IAS 34 to require disclosure of information about management performance measures in the notes to an entity's condensed interim financial statements.
- BC220 Some users of financial statements requested that information about management performance measures be disclosed in the notes to all interim financial reports, including when entities present a set of condensed financial statements. Such disclosures would allow users to better understand management performance information released at the same time as the

interim financial report. Requiring information about management performance measures in interim financial reports would provide users with transparent information about management performance measures and allow them to analyse all aspects of an entity's performance on a timely basis.

- BC221 Consistent with the objective of condensed interim financial reports an entity would not need to duplicate previously reported information about management performance measures—for example, information about why management thinks a management performance measure communicates aspects of the entity's performance.
- BC222 In response to the concerns of some preparers of financial statements regarding the costs of preparing the disclosure of the income tax and non-controlling interest effects of reconciling items between the management performance measure and the subtotals specified by IFRS Standards, the Board considered not requiring this disclosure in condensed financial statements. However, it rejected this approach because omitting this information from condensed financial statements could undermine the usefulness of the management performance measure disclosures. The Board noted that its proposed requirements for determining the tax effect of management performance measure adjustments should also reduce the costs of providing this information (see paragraph BC178).
- BC223 The Board also proposes to amend IAS 34 to align the description of unusual items in that Standard with the Board's proposed definition of unusual income and expenses.
- BC224 Some users of financial statements have told the Board they want information presented or disclosed using the nature of expense method in the condensed financial statements. The Board has decided not to propose such a requirement because it would be inconsistent with the objective of condensed financial statements, which is to provide an update on the latest complete set of annual financial statements.
- BC225 The Board proposes requirements for the presentation of headings and subtotals in condensed financial statements in condensed interim financial report(s) in the first year an entity applies draft IFRS [X] (see paragraph BC184).

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

- BC226 IAS 1 includes requirements relating to the general features of financial statements as well as general presentation and disclosure requirements. The Board proposes to move the paragraphs setting out general features of financial statements from IAS 1 to IAS 8 as well as some disclosure requirements and to withdraw IAS 1.
- BC227 The paragraphs the Board proposes to move to IAS 8 unchanged include:
- (a) the definition of material (part of paragraph 7 of IAS 1);
 - (b) the requirements relating to fair presentation and compliance with IFRS Standards (paragraphs 15–24 of IAS 1);

- (c) the requirements relating to going concern (paragraphs 25–26 of IAS 1);
 - (d) the requirements relating to the accrual basis of accounting (paragraphs 27–28 of IAS 1); and
 - (e) the requirements relating to disclosures of accounting policies and sources of estimation uncertainty (paragraphs 117–133 of IAS 1).
- BC228 The Board considered retaining these requirements in IAS 1 or moving the requirements to the proposed draft IFRS [X] on presentation and disclosure, but concluded that they would fit better with the content of IAS 8.
- BC229 In the light of proposed additions to IAS 8, the Board is also proposing to amend IAS 8 to:
- (a) change the title of the Standard to *Basis of Preparation, Accounting Policies, Changes in Accounting Estimates and Errors*; and
 - (b) revise the objective and scope paragraphs.

IFRS 7 *Financial Instruments: Disclosures*

- BC230 The Board proposes to move paragraphs 80A and 136A from IAS 1 to IFRS 7. These paragraphs set out requirements for disclosures relating to puttable instruments classified as equity in accordance with paragraphs 16A–16B of paragraphs 16C–16D of IAS 32 *Financial Instruments: Presentation*. The Board concluded that disclosure requirements specific to a type of financial instrument would better fit in an IFRS Standard dealing with other financial instruments than in a general presentation and disclosure Standard.
- BC231 As equity instruments subject to these disclosure requirements are currently outside the scope of IFRS 7, the Board also proposes to amend the scope of IFRS 7 to reflect the relocation of those paragraphs.

Expected effects of the proposals

- BC232 The Board is committed to assessing and sharing knowledge about the likely costs of implementing proposed new requirements and the likely ongoing application costs and benefits of those requirements—these costs and benefits are collectively referred to as ‘effects’. The Board gains insight on the likely effects of proposed new requirements through its formal exposure of the proposals and through its fieldwork, analysis and consultations.
- BC233 The paragraphs that follow discuss the likely effects of the proposed requirements, including:
- (a) a summary of effects analysis (see paragraphs BC236–BC247);
 - (b) entities affected by the Board’s proposals (see paragraphs BC248–BC249);
 - (c) the likely effects of the proposals on the quality of financial reporting (see paragraphs BC250–BC277);

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

- (d) the likely effects of the proposals on how information is reported in the financial statements (see paragraphs BC279–BC280);
- (e) the likely costs of the proposals (see paragraphs BC281–BC300); and
- (f) other effects of the proposals (including the likely effects on electronic reporting, use of management-defined performance measures, and consequences for contracts and agreements) (see paragraphs BC301–BC312).

BC234 The analysis of these effects (the effects analysis) is mainly qualitative, rather than quantitative. Initial and subsequent costs and benefits are likely to vary among stakeholders. Quantifying costs and, particularly, benefits, is both a subjective and a difficult process. No sufficiently well-established and reliable techniques quantify either costs or benefits in this type of analysis. The analysis is also of the likely effects of the proposed requirements rather than the actual effects, because these cannot be known prior to application. The actual effects are one aspect that is considered through the Board's post-implementation reviews.

BC235 The Board has sought to understand the potential effects of its proposals throughout the development of the Exposure Draft. The project and its likely effects were discussed on 23 separate occasions with the Board's advisory bodies and standing consultative groups, including the Capital Markets Advisory Committee, the Global Preparers Forum, the Emerging Economies Group and the Accounting Standards Advisory Forum. The implications of the proposals for electronic reporting were discussed with the IFRS Taxonomy Consultative Group. Furthermore, Board members and staff performed extensive outreach with external stakeholders from February 2016 to June 2019. Over 100 outreach meetings were conducted with stakeholders; more than 50 of those meetings were with users of financial statements. Other meetings included preparers of financial statements, academics, regional standard-setters, regulators and other stakeholders. The Board also considered the results from:

- (a) an analysis of the reporting practices of 100 entities in various industries;
- (b) a review of selected academic literature and reports and guidance published by other organisations; and
- (c) research on regulatory requirements in different jurisdictions in relation to measures defined by management.

Summary of effects analysis

What are the main changes expected to the financial statements?

BC236 The Board's proposals are expected to result in changes to:

- (a) the presentation of subtotals in the statement of profit or loss;
- (b) the presentation of information about associates and joint ventures accounted for using the equity method;

- (c) the disaggregation of information in the financial statements, including unusual income and expenses;
- (d) the information provided about management-defined performance measures; and
- (e) the presentation of information in the statement of cash flows.

BC237 Table 1 summarises the expected effects of the Board’s proposals on each of the components of the financial statements. Only the Board’s proposals on the disaggregation of financial information are expected to affect the statement of changes in equity.

Table 1 Summary of expected effects on the financial statements

Key proposals	Likely effects on how information is reported in the financial statements
Expected effects on the statement of profit or loss	
Requiring defined subtotals and categories in the statement of profit or loss	<ul style="list-style-type: none"> • Presenting an ‘operating profit or loss’ subtotal would be new for some entities. In addition, many of the entities that already present the measure labelled operating profit or loss would need to change how they calculate it. • Distinguishing between ‘integral’ and ‘non-integral’ associates and joint ventures and presenting an ‘operating profit or loss and income and expenses from integral associates and joint ventures’ subtotal would be new for almost all entities that have investments in associates and joint ventures. • The investing category would be new for most entities. However, entities who invest in the course of their main business activities such as banks and insurers are expected to be less affected by this requirement. • Presenting a financing category and a ‘profit or loss before financing and income tax’ subtotal would be new for most entities. However, entities such as banks are likely to be exempt from this requirement. In addition, many of the entities that already present such a subtotal today would need to change how they calculate it.
Analysis of operating expenses by nature or by function	<ul style="list-style-type: none"> • Some entities would need to change the method they use to analyse operating expenses. • Some entities would need to stop using a mixed approach to analyse operating expenses.

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BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

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Key proposals	Likely effects on how information is reported in the financial statements
Expected effects on the statement of cash flows	
Starting point for the indirect method	<ul style="list-style-type: none"> Using operating profit or loss as the starting point for the indirect method would be a change for most entities.
Classification of interest and dividends	<ul style="list-style-type: none"> Many entities would need to change the classification of interest received and interest paid. Some entities would need to change the classification of dividends received. For those entities, cash flows from operating activities would change. A few entities would need to change the classification of dividends paid.
Expected effects on the notes	
Unusual income and expenses	<ul style="list-style-type: none"> Disclosing information about unusual income and expenses would be new for many entities. Many of the entities that already disclose such information today would need to change how they identify unusual income and expenses and would need to provide additional information about such items.
Management performance measures	<ul style="list-style-type: none"> Some entities would need to include management performance measures in the notes, rather than only outside the financial statements. Most entities would need to provide more disclosures about their management performance measures than they do today, including a reconciliation and the tax and non-controlling interests effect for each adjustment. Some entities would need to provide such disclosures in the financial statements, rather than only outside the financial statements. Some entities do not use management performance measures as defined and would not be affected by the proposals.
Analysis of operating expenses by nature or by function	<ul style="list-style-type: none"> Many of the entities that present their primary analysis of expenses by function would need to provide additional information in the notes about the nature of operating expenses.

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Key proposals	Likely effects on how information is reported in the financial statements
Expected effects on aggregation and disaggregation in the financial statements	
Role of primary financial statements and notes and aggregation and disaggregation	<ul style="list-style-type: none"> Many entities are expected to change the level of disaggregation provided both in the primary financial statements and the notes.

What are the expected benefits to users of financial statements?

BC238 The Board's proposals would provide users of financial statements with better information to make economic decisions, with a focus on improving the information included in the statement of profit or loss. In particular, the proposals aim to improve how information is communicated in the financial statements and thus improve the quality of financial reporting by:

- (a) providing additional relevant information, particularly about financial performance;
- (b) enhancing comparability across entities; and
- (c) improving the transparency and discipline of reporting about some management-defined performance measures.

BC239 Specifically, the main expected benefits are:

- (a) providing users of financial statements with additional relevant information about an entity's performance, including information about:
 - (i) the operating performance of an entity, including its main business activities, through the operating profit or loss subtotal, for all entities;
 - (ii) the performance of an entity before the effect of financing decisions, through the profit or loss before financing and income tax subtotal, for most entities;
 - (iii) returns from an entity's investments, through separate presentation in the investing category, for most entities;
 - (iv) the performance of investments accounted for using the equity method—with separate information about investments integral to an entity's main business activities and about investments that are not;
 - (v) unusual income and expenses, which would help users of financial statements assess the persistence of the entity's earnings and, therefore, assess expected future cash flows; and
 - (vi) management performance measures.

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

- (b) providing additional relevant information through improved disaggregation, including disaggregation of total operating expenses by nature and disaggregation of large 'other' balances.
- (c) enabling users to find and compare information between entities and between periods, including the information described in (a), by:
 - (i) defining three new subtotals in the statement of profit or loss;
 - (ii) defining unusual income and expenses;
 - (iii) strengthening requirements for disaggregation;
 - (iv) removing options for the classification of interest and dividend cash flows in the statement of cash flows; and
 - (v) requiring a consistent starting point for the indirect method of reporting cash flows from operating activities.
- (d) introducing transparency and discipline in the reporting of some management-defined performance measures. The proposals for management performance measures would enable users to analyse and adjust entity-specific information about performance. Users would know where to find information about management-defined performance measures and would have more complete information about these measures including how and why they are prepared. In addition, information about the effect on tax and non-controlling interests of these adjustments would enable users to accept or reject adjustments and calculate their own measure of adjusted earnings per share.

What are the expected costs of implementation and application?

- BC240 The Board's proposals would only affect presentation and disclosure requirements—they would not affect recognition and measurement requirements. Therefore, in general, the proposals would be likely to have fewer significant system implications for entities than new or amended IFRS Standards that affect recognition and measurement requirements.
- BC241 Entities' costs to implement and apply the proposed requirements would vary because their practices now vary. For example, the Board's proposals could be similar to the existing reporting practices of some entities, and such entities would incur limited costs. Also, some entities may have most of the required information available through their existing systems and, as such, would incur limited costs.
- BC242 The feedback received in outreach so far indicates that the proposals that could be costly to implement in particular circumstances include the following:
 - (a) classifying income and expenses in the operating, investing and financing categories in the statement of profit or loss;

- (b) disclosing an analysis of total operating expenses by nature, if an entity that presents its analysis of expenses by function currently discloses limited information about the nature of their expenses;
- (c) identifying the effect on tax and non-controlling interests of the adjustments made in calculating management performance measures; and
- (d) applying judgement, for example, in identifying which associates and joint ventures are integral or non-integral or in identifying unusual income and expenses.

BC243 The Board has proposed simplified approaches where it assessed that the approach that would provide the most useful information to users of financial statements would result in costs that would exceed the benefits. For example, the Board proposes simplified approaches to calculating the tax effect of management performance measure adjustments (see paragraph BC178), and to allocating some income and expenses to the categories in the statement of profit or loss (see paragraph BC95). The Board also proposes simplified requirements for analysis of expenses by nature (see paragraphs BC109–BC114). For proposals that require the application of judgement, the Board proposes application guidance to facilitate the process, for example relating to unusual income and expenses and definitions of integral and non-integral associates and joint ventures.

BC244 Most of the costs for entities would relate to process changes required to implement the proposals and some entities may need to adjust their systems. Some of the proposals, particularly the proposed disclosures about unusual income and expenses and management performance measures, would also result in ongoing process costs.

BC245 The proposals would also add costs for users of financial statements—mostly implementation costs required for adjusting models and analyses to the proposed new structure of the financial statements. The Board expects the implementation of the proposals by entities to ultimately save costs for users by enabling them to spend less time obtaining the information they need for their analyses than is currently the case.

Overall assessment

BC246 The Board concluded that the benefits in terms of expected improvements to financial reporting as a result of proposals in draft IFRS [X] outweigh the expected costs of implementing and applying the proposals.

BC247 Paragraphs BC248–BC312 provide a more detailed analysis of the expected effects of the Board’s proposals.

Entities affected by the Board’s proposals

BC248 The draft IFRS [X] would apply to all entities preparing financial statements applying IFRS Standards.

- BC249 The magnitude of change introduced by the proposals would differ depending on the presentation and disclosure practices currently used by entities and the nature and range of their business activities. As explained in paragraph BC240, the proposals would not affect recognition and measurement of any assets, liabilities, equity, income or expenses.

The likely effects of the proposals on the quality of financial reporting

- BC250 Assessing how the proposed requirements are likely to affect the quality of financial reporting, the Board has identified improvements regarding:
- (a) the relevance of information about financial performance (see paragraphs BC251–BC264);
 - (b) the comparability of information (see paragraphs BC265–BC274); and
 - (c) the transparency of information about financial performance (see paragraphs BC275–BC277).

How the proposals would provide relevant information about financial performance

- BC251 The Board's proposals would result in entities providing additional relevant information, mostly about financial performance, which includes information about:
- (a) the operating performance of an entity, including its main business activities, through the operating profit or loss subtotal, for all entities;
 - (b) the performance of an entity before the effect of financing decisions, through the profit or loss before financing and income tax subtotal, for most entities;
 - (c) returns from an entity's investments, through separate presentation in the investing category, for most entities;
 - (d) the performance of investments accounted for using the equity method—with separate information about investments integral to an entity's main business activities and about investments that are not;
 - (e) unusual income and expenses, which would help users of financial statements assess the persistence of an entity's earnings and, therefore, assess expected future cash flows; and
 - (f) income, expenses, assets, liabilities and equity through improved disaggregation, including the disaggregation of total operating expenses by nature and the disaggregation of large 'other' balances.
- BC252 Feedback from users of financial statements suggests that management-defined performance measures that entities currently use to communicate with users can provide relevant information. However, as these measures are defined by entities and not by IFRS Standards, the Board's proposals for management performance measures focus on their transparency (see paragraphs BC146–BC148).

Operating profit or loss

BC253 Operating profit or loss is one of the most commonly presented subtotals in the financial statements. For example, in the 100 sample entities the Board analysed (see Table A.1 in the Appendix), 63 entities presented the measure labelled operating profit or loss. The majority of users of financial statements who responded to a survey by the CFA Institute wanted standard-setters to define key subtotals for entities to present in the primary financial statements, such as operating profit or loss.⁴ Research on the line items and subtotals presented by entities from 46 countries showed that value relevance is highest for measures in the middle of the income statement, for example, the operating profit or loss subtotal.⁵ By requiring all entities to present a consistently defined operating profit or loss subtotal, the Board's proposals would provide users with relevant information about an entity's financial performance.

Profit or loss before financing and income tax

BC254 EBIT is another widely used performance measure that aims to distinguish an entity's value-generating activities from its value distribution to capital providers and tax authorities. A study of EUROSTOXX 50 companies by Mazars in 2016 reported that the 34 industrial companies surveyed reported EBIT, usually as a subtotal in the statement(s) of financial performance. EBIT is commonly used for screening and ratio analysis, or as a starting point for forecasting cash flows.⁶ A survey by the CFA Institute in 2016 found that 45.9% of 431 (mostly buy-side respondents) investors use EBIT in their analysis.⁷

BC255 Although the Board proposes to require and define profit or loss before financing and income tax rather than EBIT, for the reasons explained in paragraph BC47, the Board expects users of financial statements will use the proposed subtotal as they currently use the subtotals (such as EBIT) that seek to portray the performance of entities before financing and income tax, and, as such, the subtotal will provide relevant information to users.

Investing category

BC256 Users of financial statements told the Board that they consider income and expenses arising from some items (for example, income from some investments) separately from those that reflect an entity's day-to-day business operations (some users refer to these as 'non-core' or 'non-operating' items). Users value these items using different valuation assumptions to the operating items (in terms of cash, risk and growth profiles). The Board's proposal to require separate information about income and expenses from investments

4 CFA Institute, 'Bridging the Gap: Ensuring Effective Non-GAAP and Performance Reporting', November 2016. Available here.

5 Barton J., Hansen, T. B., and Pownall, G., 'Which Performance Measures Do Investors Around the World Value the Most – and Why?', *The Accounting Review*, vol 85, no 3, May 2010, pp 753–89.

6 Mazars, 'The use of alternative performance measures in financial information current practice of European listed companies', as of 30 June 2016 and 31 December 2015. Available here.

7 CFA Institute, 'Bridging the Gap: Ensuring Effective Non-GAAP and Performance Reporting', November 2016.

would help ensure this information is consistently defined and disaggregated from operating activities, providing users with relevant information for their analysis.

Integral and non-integral associates and joint ventures

- BC257 The Board's proposals for presentation of integral and non-integral associates and joint ventures should provide users of financial statements with the information to analyse results from associates and joint ventures whose business activities are integral to the entity's business activities, and distinguish those results from income and expenses from other investments.
- BC258 The proposals to separately present results, assets and cash flows arising from integral and non-integral associates and joint ventures should enable entities to faithfully represent the performance of different business activities.

Unusual income and expenses

- BC259 Analysts believe earnings are high quality if they are backed by operating cash flows, are sustainable and repeatable, reflect economic reality, and reflect consistent reporting choices over time.⁸ In other words, users of financial statements are seeking to identify the extent to which the earnings are likely to recur. The Board expects that the note disclosure of unusual income and expenses can provide relevant information to users, by helping them identify the extent to which income and expenses reported in one period are expected to arise in future periods.
- BC260 The Board proposes that an entity shall disclose in the notes a narrative description of the transactions or other events that give rise to unusual income and expenses that are not expected to arise for several future annual reporting periods. The proposal would require disclosure of all unusual income and expenses so the Board expects this to enable users of financial statements to obtain complete information about unusual income and expenses, thus contributing to a faithful representation of the entity's performance.

Disaggregation

- BC261 Users of financial statements have told the Board that information is sometimes aggregated to the extent that relevant information is omitted.
- BC262 To help preparers of financial statements provide relevant information, the Board proposes to describe the steps involved in and considerations for determining appropriate aggregation and disaggregation. The Board expects that the proposals would help an entity identify and disclose material information, which in turn, would provide users of financial statements with relevant information for making economic decisions.

⁸ Brown, L. D., Call, A. C., Clement, M. B., and Sharp, N. Y., 'Inside the "Black Box" of Sell-Side Financial Analysts', *Journal of Accounting Research*, vol 53, no 1, March 2015, pp 1–47.

BC263 The Board further expects that the proposed specific requirements for disaggregating large balances consisting of individually immaterial items would lead to entities providing more explanation of what is included in these items and thus achieve a more complete, and therefore a more faithful, representation of such items.

BC264 The Board also found that many entities that present the analysis of their expenses by function disclose in the notes limited additional information on the nature of their expenses. Users of financial statements have told the Board that they find an analysis of expenses by nature useful but that it is sometimes missing or incomplete. The requirement for entities that present the analysis of their operating expenses by function to provide an analysis of total operating expenses by nature would provide users with additional relevant information needed for their analyses.

How the proposals would improve comparability

Comparability between entities

BC265 Users of financial statements have told the Board that the structure and content of the statement(s) of financial performance vary even among entities operating in the same industry. This diversity makes it difficult for users to compare financial performance between entities. Users have told the Board they need comparable subtotals in the statement(s) of financial performance for screening, ratio analyses and as a starting point for their own analyses. These users observed that, while many entities already present additional subtotal(s) in accordance with paragraph 85 of IAS 1, these additional subtotal(s) are not comparable because entities present different subtotals or calculate similarly labelled subtotal(s) differently. By defining and requiring some of the most relevant measures of performance, the proposals would enable users to compare different aspects of performance between entities, for example:

- (a) the operating profit or loss subtotal should enable users to compare results from main business activities of entities in the same industry and of entities in different industries; and
- (b) the profit or loss before financing and taxes subtotal should enable users to compare the performance of entities before the effect of financing.

BC266 Users of financial statements have also told the Board that inconsistencies in classification of income and expenses can reduce comparability. For example, some entities include interest expense on a net defined benefit liability in the measure labelled operating profit or loss while others include the expense in finance costs. The proposals would require more consistent classification of such income and expenses, which should improve comparability. Consistent classification should also enable users to more easily adjust the amounts presented if the required classification of particular income or expenses differs from those users' need for analyses.

- BC267 Appropriate disaggregation can enhance the comparability of information available to users of financial statements. For example, academic research indicates that imprecision in requirements on the disaggregation of financial information affects the content of financial statements and can have a major effect on the comparability of entities operating in different jurisdictions.⁹ The Board's specific proposals on disaggregation (relating to subtotals and minimum line items), together with the proposed definitions, principles and requirements for aggregation and disaggregation, should result in information being provided that will significantly improve users' ability to compare information between entities and for the same entity over time.
- BC268 Users of financial statements have told the Board that information about unusual income and expenses is useful for assessing the persistence or sustainability of an entity's financial performance. However, users observed variability in the way entities currently define and include in the financial statements information about unusual income and expenses. The Board expects that:
- (a) the proposed definition of unusual income and expenses and the proposed required disclosure of such items in the notes would result in more comparable information across entities, which would help users with their analyses; and
 - (b) the proposed requirement to disclose unusual income and expenses in a single location in the notes would make it easier for users to find and compare such items.
- BC269 As discussed in paragraph BC111, having information about the nature of operating expenses for all entities would enable users of financial statements to compare inputs used in operations, regardless of whether entities present an analysis of expenses by nature or by function in their statement of profit or loss.
- BC270 The Board observed diversity in practice—entities currently use different starting points for the indirect method of reporting cash flows from operating activities, which users of financial statements say hinders comparisons and analyses. The Board expects that the proposal for using the operating profit or loss subtotal as a consistent starting point for the indirect method of reporting cash flows from operating activities would address diversity in practice and, therefore, help users analyse and compare entities' operating cash flows.
- BC271 Academic research shows that the presentation options in IAS 7 lead to diversity in the presentation of interest and dividend cash flows. A study of 798 entities from 13 European countries found that 76% included interest paid in cash flows from operating activities, 60% included interest received and 50% included dividends received. The study concluded that such diversity in presentation hinders the comparability of reported cash flows from

⁹ Libby, R., and Emett, S. A., 'Earnings Presentation Effects on Manager Reporting Choices and Investor Decisions', *Accounting and Business Research*, vol 44, no 4, July 2014, pp 410–38.

operating activities.¹⁰ The Board has also observed significant diversity in practice in the presentation of cash flows arising from interest and dividends (see Tables A.7.1–A.7.4 in the Appendix). Many users of financial statements told the Board that they would prefer not to have to spend as much time searching for information about interest and dividend cash flows, and making such information more comparable. Therefore, the Board proposes to remove options for the classification of interest and dividends paid or received in the statement of cash flows and to prescribe a single classification for each of these items.

- BC272 The Board proposes that an entity would be required to present additional minimum line items in the statement of financial position for goodwill, investments in integral associates and joint ventures (accounted for using the equity method), and investments in non-integral associates and joint ventures (accounted for using the equity method). Entities would also be required to separately present the share of profit or loss of, and cash flows from investments in, integral and non-integral associates and joint ventures in the statement of profit or loss and the statement of cash flows, respectively. These additional minimum line items should reduce diversity in the location and disaggregation of these items, and, therefore improve comparability between entities.

Comparability from period to period for an individual entity

- BC273 Users of financial statements expressed concerns that the classification of unusual income and expenses by entities is inconsistent over time. The Board expects that the proposed definition of unusual income and expenses, together with the related requirements, would result in more consistent classification of unusual income and expenses. Applying the proposed definition and related requirements would, therefore, provide users with information they can compare from period to period for an individual entity.
- BC274 Users of financial statements also expressed concerns that it is not always clear from the disclosures currently provided by many entities how and why the calculation of management-defined performance measures has changed since a previous reporting period. The Board proposes that management performance measures would be subject to the general requirements for consistency of presentation and classification over time. Applying the proposal, if the way management performance measures are calculated changes, sufficient explanation would be required to help users understand the reasons for, and the effect of, the change. Such explanation, along with the required restatement of comparative information, would improve the comparability of information from period to period for an individual entity.

¹⁰ Gordon, E. A., Henry, E., Jorgensen, B. N., and Linthicum, C. L., 'Flexibility in Cash-flow Classification Under IFRS: Determinants and Consequences', *Review of Accounting Studies*, vol 22, no 2, June 2017, pp 839–72.

How the proposals would improve transparency of reporting of management-defined performance measures

- BC275 As discussed in paragraph BC252, management-defined performance measures may provide relevant information. For example, a survey by the CFA Institute showed that users of financial statements found management-defined performance measures useful in many ways, including as a valuation input, as an indicator of accounting quality and as a starting point for analysis.¹¹ The Board's proposals focus on improving the transparency of management-defined performance measures thus enabling users to better assess their relevance.
- BC276 Users of financial statements:
- (a) said that the calculation of management-defined performance measures and the reasons for providing those measures sometimes lack transparency.
 - (b) said that, when provided, this information is often difficult to find, as it may be scattered across different parts of the annual report.
 - (c) said that the quality of the disclosures provided about management-defined performance measures varies between jurisdictions and depends on whether the measures are subject to regulation, the nature of those regulations and how strictly the regulations are enforced. For example, it is not always clear from the disclosures in the financial statements how these measures relate to measures defined in IFRS Standards.
 - (d) said that they often do not have enough information to make their own adjustments when they disagree with items adjusted for in these measures.
 - (e) are not always aware that information about management-defined performance measures provided outside the financial statements is usually not audited.
- BC277 The Board expects that the proposals to define management performance measures and require disclosure of information about those measures in the financial statements would improve the discipline in using such measures (including bringing the measure within the scope of an audit in some jurisdictions) and improve their transparency. In particular requiring disclosure of:
- (a) information about management performance measures in a single location, including the reconciliation to the most directly comparable total or subtotal specified by IFRS Standards, should allow users of financial statements to more easily obtain complete information about such measures; and

¹¹ CFA Institute, 'Investor Uses, Expectations and Concerns on Non-GAAP Financial Measures', September 2016. Available here.

- (b) the effect on tax and non-controlling interests of management performance measure adjustments would enable users to change the treatment of particular adjustments in their analysis of earnings if they disagree with the treatment of that adjustment.

BC278 The Board’s proposals are consistent with the findings of another survey by the CFA Institute that showed that users of financial statements supported reporting management-defined performance measures in the financial statements.¹²

The likely effects of the proposals on how information is reported in the financial statements

BC279 The tables in this section summarise the expected effect of the Board’s proposals on how information is reported in the financial statements. The Board expects no significant change to the statement of changes in equity to result from the proposals other than changes arising from the proposed requirements for disaggregation.

BC280 The Board analysed a sample of 100 annual reports for 2017–18, prepared applying IFRS Standards. The results of this analysis are summarised in the Appendix. The tables below include cross-references to the findings, where applicable.

Table 2 Expected effects on the statement(s) of financial performance

Current situation	Likely effects of the proposals on how information is reported
Operating profit or loss	
<ul style="list-style-type: none"> • Operating profit or loss is not defined or required by IFRS Standards. • Many entities present a subtotal labelled operating profit or loss in the statement of profit or loss (see Table A.1 in Appendix). • Those subtotals are not comparable between entities, even within the same industry (in the sample of 100 entities the Board analysed, there are at least nine different definitions of operating profit or loss). • In some cases, it is unclear how entities have defined operating profit or loss. 	<ul style="list-style-type: none"> • Operating profit or loss would be defined and required by IFRS Standards. • All entities would present an operating profit or loss subtotal. The presentation of an operating profit or loss subtotal would be new for some entities. • The Board’s proposed definition is likely to be different from the definitions many entities currently use. Consequently, entities’ operating profit or loss applying the Board’s proposals could be different from the operating profit or loss subtotal they currently use. • Important subtotals similar to gross profit, such as net interest income for banks can continue to be presented, above operating profit or loss.

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12 CFA Institute, ‘Bridging the Gap: Ensuring Effective Non-GAAP and Performance Reporting’, November 2016.

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

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Current situation	Likely effects of the proposals on how information is reported
Income and expenses from associates and joint ventures	
<ul style="list-style-type: none"> • IAS 1 requires presentation of the share of profit or loss of associates and joint ventures as a separate line item but does not specify its location. • Most entities present a single line item and do not distinguish between different types of associates and joint ventures. • There is diversity in the classification of this line item—some entities include it in the measure labelled operating profit or loss, others present it below the measure labelled operating profit or loss (see Table A.2 in the Appendix). 	<ul style="list-style-type: none"> • All entities would consistently classify income and expenses from associates and joint ventures in the categories of the statement of profit or loss. • Operating profit or loss would exclude the share of profit or loss of all associates and joint ventures accounted for using the equity method, which would be a change for some entities. Consequently, those entities' operating profit or loss would change applying the Board's proposals. • Making a distinction between integral and non-integral associates and joint ventures and presenting the operating profit or loss and income and expenses from integral associates and joint ventures subtotal would be new for most entities.
Investing category	
<ul style="list-style-type: none"> • IFRS Standards currently do not require presentation of or define income and expenses from investments. • Some entities include income and expenses from investments in the measure labelled operating profit or loss (labelled other income, for example), other entities include these income and expenses items from investments in a financing category below the measure labelled operating profit or loss. Few entities present a separate investing category. 	<ul style="list-style-type: none"> • The investing category would be required and defined by IFRS Standards. • Presentation of a separate investing category would be new for most entities. • Entities such as investment companies may not be affected or be less affected by this proposal.

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Current situation	Likely effects of the proposals on how information is reported
Financing category and the subtotal of profit or loss before financing and income tax	
<ul style="list-style-type: none"> • IAS 1 requires that finance costs are presented as a separate line item, but IFRS Standards do not define finance costs. • Some entities present a subtotal labelled profit before interest and tax (or EBIT) (see Table A.3 in the Appendix). Such a subtotal is rarely presented by banks and insurers. • Such subtotals and line items are not comparable between entities. • A common source of diversity is the classification of net interest on net defined benefit liabilities (see Table A.4 in the Appendix). 	<ul style="list-style-type: none"> • The financing category and the profit or loss before financing and income tax subtotal would be defined and required by IFRS Standards. • Most entities would present a profit or loss before financing and income tax subtotal. The presentation of such a subtotal would be new for many entities. • The Board's proposed definition for the subtotal is likely to be different from the definitions entities currently use. • The finance costs line item would be replaced by the expenses from financing activities line item. The content of those line items is expected to be broadly similar, though there may be some differences. • Net interest on net defined benefit liabilities would be classified in the financing category—this would be a change for entities that currently classify it in the measure labelled operating profit or loss. • Some entities that provide financing to customers as a main business activity would not present a profit or loss before financing and income tax subtotal which is expected to be consistent with current practice so this aspect of the proposals is expected to have a limited effect on these entities.

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BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

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Current situation	Likely effects of the proposals on how information is reported
Analysis of operating expenses by nature or by function	
<ul style="list-style-type: none"> • IAS 1 requires entities to select a method for analysing their expenses and allows entities to present their analyses in the statement of profit or loss or disclose it in the notes. When an entity presents its analysis by function, IAS 1 requires disclosure of additional information by nature in the notes. • Most entities present their analyses of expenses in the statement of profit or loss. Many entities present an analysis of expenses by function, some present an analysis by nature and some use a mixed approach (see Table A.5.1 in the Appendix). • Entities that do not present an analysis of expenses by nature in the statement of profit or loss provide additional information by nature in the notes, with varying level of detail. Only some provide a complete analysis of expenses by nature in the notes (see Table A.5.2 in the Appendix). 	<ul style="list-style-type: none"> • All entities would present the analysis of operating expenses in the statement of profit or loss, which would be a change for a few entities. • Entities would need to reassess which method to use for the analysis of operating expenses (by nature or by function) based on what is useful for users of financial statements, using the Board's proposed factors. This may lead some entities to change the method they use. • An analysis of operating expenses using a mixed method in the statement of profit or loss would be prohibited. Entities that use a mixed method would need to change to the required single approach. • Entities that present in the statement of profit or loss their analyses of operating expenses by function would need to disclose in the notes an analysis of their total operating expenses using the nature of expense method. This means some entities that currently disclose in the notes only limited information about the nature of their expenses would need to provide more information.
Minimum line items in the statement of profit or loss	
<ul style="list-style-type: none"> • IAS 1 requires minimum line items to be presented in the statement of profit or loss but does not specify their location. For example, an entity is required to present: <ul style="list-style-type: none"> • interest revenue calculated using the effective interest method; and • impairment losses determined in accordance with Section 5.5 of IFRS 9. 	<ul style="list-style-type: none"> • An entity may need to present a minimum line item in more than one category if the item is comprised of income and expenses that are required to be classified in more than one category.

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Current situation	Likely effects of the proposals on how information is reported
Renaming the categories of other comprehensive income	
<ul style="list-style-type: none"> • IAS 1 requires the presentation of two categories in other comprehensive income: <ul style="list-style-type: none"> • other comprehensive income items that will not be reclassified subsequently to profit or loss; and • other comprehensive income items that will be reclassified subsequently to profit or loss when specific conditions are met. 	<ul style="list-style-type: none"> • The two categories would be relabelled as: <ul style="list-style-type: none"> • remeasurements reported permanently outside profit or loss; and • income and expenses to be included in profit or loss in the future when specific conditions are met. • This proposal would change the description but would not affect which items are presented in other comprehensive income or the classification of other comprehensive income items between the two categories.

Table 3 Expected effects on the statement of cash flows

Current situation	Likely effects of the proposals on how information is reported
Starting point for the indirect method	
<ul style="list-style-type: none"> • IAS 7 refers to the profit or loss total as the starting point for the indirect method for reporting cash flows from operating activities. However, the Illustrative Examples accompanying IAS 7 use the profit before tax subtotal as the starting point. • Entities use different starting points for the indirect method, for example, profit or loss, profit before tax or operating profit or loss (see Table A.6 in the Appendix). 	<ul style="list-style-type: none"> • Entities would be required to use operating profit or loss as the starting point for the indirect method, which would be a change for many entities. • The reconciliation of cash flows might be simplified by removing some reconciling items that some entities currently present.

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BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

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Current situation	Likely effects of the proposals on how information is reported
Classification of interest and dividend cash flows	
<ul style="list-style-type: none"> • IAS 7 allows options for classification of interest and dividend cash flows. • There is diversity in the classification of these cash flows as operating, financing or investing cash flows (see Tables A.7.1–A.7.4 in the Appendix). 	<ul style="list-style-type: none"> • The proposals would result in a more consistent classification of interest and dividend cash flows. • Applying the Board's proposals, entities (except those that provide financing to customers as a main business activity or invest in the course of their main business activities) would be required to classify interest and dividends received as investing cash flows and interest paid as financing cash flows. This would be a change for entities that currently classify such cash flows as cash flows from operating activities. Consequently, those entities' reported cash flows from operating activities may change applying the Board's proposals. • Entities such as banks and investment companies may not be affected or be less affected by this proposal. • Few entities would need to change the classification of dividends paid.
Cash flows from investments in integral and non-integral associates and joint ventures	
<ul style="list-style-type: none"> • IAS 7 provides a few examples of cash flows that arise between the entity and its investments in associates and joint ventures but does not provide classification guidance for those cash flows. • Entities generally do not distinguish different types of associates and joint ventures in the statement of cash flows. In a sample of 100 entities, 77 entities had cash flows from investments in associates and joint ventures and none made such a distinction. 	<ul style="list-style-type: none"> • The separate presentation of cash flows from investments in integral and non-integral associates and joint ventures would be new for most entities.

Table 4 Expected effects on the statement of financial position

Current situation	Likely effects of the proposals on how information is reported
Presentation of goodwill	
<ul style="list-style-type: none"> • IAS 1 does not require goodwill to be separately presented. • Many entities currently present goodwill as a separate line item in the statement of financial position and others disclose it in the notes (see Table A.8 in the Appendix). 	<ul style="list-style-type: none"> • Entities would be required to separately present goodwill as a line item in the statement of financial position, which would be a change for some entities.
Presentation of investments in integral and non-integral associates and joint ventures	
<ul style="list-style-type: none"> • IAS 1 requires presentation of investments accounted for using the equity method as a line item, but does not require entities to distinguish between integral and non-integral associates and joint ventures. • Entities generally do not make such a distinction in the statement of financial position. In a sample of 100 entities, 77 entities had investments in associates and joint ventures and none of them made such a distinction. One entity disclosed in the notes information about amounts of investments in associates and joint ventures that represent an extension of the entity's business separately from those associates and joint ventures that do not. 	<ul style="list-style-type: none"> • Entities would be required to present in the statement of financial position investments in integral associates and joint ventures separately from investments in non-integral associates and joint ventures, which would be a change for most entities.

Table 5 Expected effects on the notes

Current situation	Likely effects of the proposals on how information is reported
Unusual income and expenses	
<ul style="list-style-type: none"> • IAS 1 does not provide specific requirements for the disclosure in the notes of unusual income and expenses nor is this term defined. • Some entities present in the statement(s) of financial performance or disclose in the notes information about unusual or similarly labelled items (as defined by the entity). Of those entities, many disclose unusual items as adjustments for management-defined performance measures (see Table A.15 in the Appendix). • Items excluded from management-defined performance measures are commonly labelled as non-recurring, exceptional, special or one-time items. • The way entities present information about unusual or infrequent items varies significantly. 	<ul style="list-style-type: none"> • All entities would be required to identify unusual income and expenses applying the proposed definition, and disclose in the notes additional information about these income and expenses, which would be a change for many entities. • For some entities, the proposals would mean a change in items that they currently describe as non-recurring, infrequent or unusual. • Disclosing unusual income and expenses in a separate note might be a change from current practice when entities present unusual income and expenses in the statement(s) of financial performance.

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Current situation	Likely effects of the proposals on how information is reported
Management performance measures	
<ul style="list-style-type: none"> • There are no specific requirements in IFRS Standards about management-defined performance measures that are not subtotals presented in accordance with paragraph 85 of IAS 1 or segment measures. • Many entities provide management-defined performance measures, such as adjusted operating profit or loss and adjusted profit or loss (see Table A.10 in the Appendix). • Entities use such measures in the financial statements and in other communications with users of financial statements (see Table A.11 in the Appendix). • Some entities present such measures as a subtotal in the statement of profit or loss; a few entities use a columnar approach to present these measures (see Table A.11 in the Appendix). • In the calculation of their management-defined performance measures entities commonly adjust for items such as restructuring costs with gain or losses on disposal and acquisition-related costs (see Table A.13 in the Appendix). 	<ul style="list-style-type: none"> • Entities would be required to include measures that they identify as meeting the definition of management performance measures in the notes. This would be a change for entities that currently only include such measures in communications other than financial statements. • Entities would not be permitted to present management performance measures using columns in the statement(s) of financial performance, which would be a change for some entities—particularly entities operating in jurisdictions where the use of columns is common. • The proposals on subtotals and disaggregation would prevent entities from presenting some management-defined performance measures in the statement(s) of financial performance, which might be a change for some entities. • The introduction of newly defined subtotals in IFRS Standards may reduce the use of some management-defined performance measures once these new subtotals become established.

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BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

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Current situation	Likely effects of the proposals on how information is reported
<ul style="list-style-type: none"> • Many entities reconcile such measures to measures specified by IFRS Standards, applying regulatory requirements in their jurisdiction. • A few entities provide the effect of tax and non-controlling interest for each reconciling item (see Table A.12 in the Appendix). 	<ul style="list-style-type: none"> • Entities using management performance measures would be required to provide a note in the financial statements about these measures. Most entities do not currently provide a note about management-defined performance measures so providing a note would be a change for most entities. For entities that do provide a note the contents of the note would likely change. • Entities would be required to provide a reconciliation in the notes of their management performance measures to the most directly comparable total or subtotal specified by IFRS Standards. Many entities already provide such reconciliations, although they are sometimes only provided outside the financial statements. • The reconciliation provided may change as a result of the requirements to reconcile to the most directly comparable total or subtotal specified by IFRS Standards (including newly proposed subtotals). • For many entities, the disclosure of the effect on tax and non-controlling interests of each reconciling item would be new. For some this would require disaggregating information about tax and non-controlling interest they currently provide in aggregate.

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Current situation	Likely effects of the proposals on how information is reported
<ul style="list-style-type: none"> • IFRS Standards currently do not define or require presentation of EBITDA. • Many entities use EBITDA in financial statements or in other communications with users of financial statements (see Table A.9 in the Appendix). 	<ul style="list-style-type: none"> • If an entity identifies EBITDA as a management performance measure, it would need to provide the disclosures in the notes required for management performance measures, including the reconciliation. • However, if an entity discloses in the notes a measure that is calculated as operating profit or loss before depreciation and amortisation, that measure would not be considered a management performance measure and the disclosures for management performance measures would not be required.
Adjusted earnings per share	
<ul style="list-style-type: none"> • IAS 33 requires entities to present basic and diluted earnings per share. • An entity is permitted to disclose, in addition to basic and diluted earnings per share, amounts per share using a reported component of the statement(s) of financial performance other than one required by IAS 33. Entities are required to provide a reconciliation of the numerator to a line item in the statement(s) of financial performance. • Of the entities that disclose management-defined performance measures, many disclose adjusted earnings per share. • Entities that disclose adjusted earnings per share generally calculate it using numerators that are based on management-defined performance measures (see Table A.14.2 in the Appendix). 	<ul style="list-style-type: none"> • An entity would still be permitted to disclose in the notes, in addition to basic and diluted earnings per share, per share measures of performance using a numerator different from that required by IAS 33. • However, such numerator(s) would be limited to amounts based on a subtotal or total specified by IFRS Standards or management performance measures. As a result, the same constraints and disclosure requirements would apply to adjusted earnings per share as to management performance measures. • Some entities that currently disclose adjusted earnings per share calculated using a numerator that is not a management performance measure would need to change their disclosure.

Table 6 Expected effects on aggregation and disaggregation in the primary financial statements and the notes

Current situation	Likely effects of the proposals on how information is reported
<ul style="list-style-type: none"> • IAS 1 requires separate presentation of each material class of similar items and material items of a dissimilar nature or function. • Information provided by some line items is sometimes too highly aggregated to be useful for users of financial statements. For example, some entities present 'other' categories in the primary financial statements without providing further disaggregation (see Tables A.16.1–A.16.2 in the Appendix). 	<ul style="list-style-type: none"> • Some entities would be required to change disaggregation of groups of items in the financial statements, including additional disaggregation of groups of items currently labelled as other.

The likely costs of the proposals

- BC281 As discussed in paragraph BC240, the proposals do not affect recognition and measurement. Therefore, the Board expects that the proposals would be less likely to affect systems and have fewer process implications for entities than new or amended IFRS Standards that affect recognition and measurement requirements. Hence, the Board expects the proposals would be less costly to implement than changes that affect recognition and measurement requirements.
- BC282 However, all entities would incur some costs to implement and apply the proposed requirements. These costs would vary depending on the entity's current reporting practices and their type and range of business activities. For some entities, the proposed requirements would be similar to their current reporting practice and, for such entities, the implementation costs are not expected to be significant. The Board expects that:
- (a) most of the proposed requirements' implementation costs for preparers of financial statements would relate to:
 - (i) the process changes and possible system changes the implementation would require (see paragraphs BC284–BC295); and
 - (ii) training for staff and updating internal procedures, and communicating changes to reported information to external parties (see paragraph BC296); and
 - (b) some of the proposed requirements would also result in ongoing costs, particularly the processes required to prepare proposed disclosures about management performance measures and unusual income and expenses (see paragraph BC297).

BC283 Other stakeholders would also incur some costs relating to the proposals, as discussed in paragraphs BC298–BC299.

Implementation costs for preparers of financial statements

BC284 The Board expects that implementation costs would arise mainly from the proposed requirements to:

- (a) classify income and expenses in the operating, investing and financing categories in the statement of profit or loss;
- (b) identify integral and non-integral associates and joint ventures;
- (c) identify unusual income and expenses;
- (d) apply the requirements for disaggregation;
- (e) analyse total operating expenses by their nature, when entities present their primary analysis of expenses by function; and
- (f) identify and provide disclosures in the notes for management performance measures, including disclosure of the effect on tax and non-controlling interests for adjustments made in calculating management performance measures.

Operating, investing and financing categories

BC285 Entities may need to change their internal processes and possibly adapt their accounting systems to classify their income and expenses into the proposed categories in the statement of profit or loss. The costs of these changes may be higher for entities that:

- (a) have more than one business activity, including providing finance to customers or investing—such entities may need to use judgement to assess whether providing finance to customers or investing are their main business activities (or they invest in the course of their main business activities). Such entities may also incur costs to classify income and expenses between the operating, investing and financing categories. For example, some entities may incur costs when allocating expenses from financing activities between those expenses that relate to the provision of finance to customers and those that do not (however, such entities could choose to classify all such expenses in the operating category, as discussed in paragraph BC300(a)).
- (b) have a centralised treasury function managing financing activities and risks—for example, such entities might incur additional costs to classify foreign exchange differences and derivatives to the categories of the statement of profit or loss.

BC286 However, the Board noted that classification may be less costly for some entities, including entities that:

- (a) have only one main business activity;
- (b) do not provide financing to customers as a main business activity and do not invest in the course of their main business activities; and

- (c) provide financing to customers as one of their main business activities and make an accounting policy choice to classify all income and expenses from financing in the operating category.

Integral and non-integral associates and joint ventures

- BC287 Entities may incur costs to implement the proposal to identify integral associates and joint ventures, and to present the operating profit or loss and income and expenses from integral associates and joint ventures subtotal. Entities would need to establish processes to make the distinction between integral and non-integral associates and joint ventures and they would also need to make judgements. To help an entity distinguish associates and joint ventures that are integral from those that are non-integral, the Board proposes a non-exhaustive list of indicators.

Unusual income and expenses

- BC288 Entities may incur costs to implement the proposal to require disclosure in the notes of unusual income and expenses. Processes will need to be established and judgement will be required to identify unusual income and expenses. Some entities already provide similar disclosures and have processes established to identify unusual items; their costs would comprise process adjustments required to apply the Board's proposed definition of unusual income and expenses.

Analysis of total operating expenses by nature when the primary analysis of expenses is by function

- BC289 The proposal to disaggregate total operating expenses by nature when the primary analysis of operating expenses is presented by function in the statement of profit or loss might be costly to implement for entities that currently disclose only limited information about the nature of their operating expenses. Such entities may have to adjust their accounting systems to enable them to obtain more detailed information about the nature of inputs used, for example, raw materials used. As discussed in paragraph BC112, so that entities will not have to unbundle cost allocations, for example, amounts allocated to cost of sales, the Board is proposing to require an analysis by nature of total operating expenses, rather than an analysis of operating expenses by nature for each functional expense item presented.

Note disclosures of management performance measures

- BC290 Entities that do not communicate using management-defined performance measures would have no management performance measures and therefore incur no costs related to the Board's proposals for management performance measures. In addition, if an entity communicates using measures that are not management performance measures as defined in the proposals, they would not incur costs related to these aspects of the proposals.

- BC291 Entities that communicate using measures that meet the definition of management performance measures are expected to incur costs to implement the Board's proposals. The costs will vary. Many entities that communicate using management-defined performance measures provide a reconciliation between their management-defined performance measures and subtotals or totals specified by IFRS Standards, as well as some of the related note disclosures the Board is proposing for management performance measures. For entities currently making these disclosures, the incremental costs of including these disclosures in the financial statements are likely to be limited.
- BC292 Few entities currently provide information about the effect on tax and non-controlling interests of management performance measure adjustments. Most entities that provide information about tax in relation to management-defined performance measures do so in aggregate. Therefore, the proposed requirement to disclose in the notes the effect on tax and non-controlling interests of the adjustments made in calculating management performance measures would result in costs for many entities. Determining the effect on tax could be difficult when an entity has subsidiaries in many jurisdictions. To alleviate these costs, the Board proposes a simplified approach to calculating the effect on tax (see paragraph BC300(c)).

Other costs

- BC293 The Board expects that the proposed principles and general requirements for aggregation and disaggregation would result in incremental costs for most entities. For some entities, the costs would only be the cost of implementing a process to ensure their disaggregation is consistent with the proposed requirements. For other entities, additional costs may be incurred to apply the requirements, for example, to disaggregate some balances described as other.
- BC294 The Board expects that, once an entity has developed processes for classifying income and expenses in the proposed categories, the cost of implementing the proposals for subtotals would be limited. The proposals to present new subtotals and line items would also require entities that report electronically, for example, using the IFRS Taxonomy, to retag their financial statements for those subtotals and related items. Retagging may be a significant one-off exercise.
- BC295 The Board expects that the proposal to require operating profit or loss as a consistent starting point for the indirect method of reporting cash flows from operating activities, and the proposals on the classification of interest and dividend cash flows, would not be costly to implement. Entities would already have the information needed to implement these changes.

Education and communication

- BC296 The Board expects that entities would incur costs in educating staff and updating internal procedures. The Board expects that education would be required, for example, in identifying whether associates and joint ventures are integral or non-integral, whether income and expenses are unusual, and in classifying income and expenses in the operating, investing and financing categories. The Board also expects that an entity would incur costs in

communicating changes to their reported information to external parties (for example, investors and lenders). These costs are expected to be incurred when first implementing the proposals.

Ongoing costs for preparers of financial statements

BC297 The Board expects that most costs related to the proposals would be one-off implementation costs. However, there would also be ongoing costs arising from proposals that require the exercise of judgement and processes to apply the requirements, including:

- (a) identifying unusual income and expenses;
- (b) providing disclosures relating to management performance measures, particularly the calculation of the income tax effect on the adjustments made in calculating management performance measures;
- (c) applying disaggregation requirements; and
- (d) classifying income and expenses into categories of the statement of profit or loss following a business combination or other major business change.

Costs for users of financial statements

BC298 The Board expects that users of financial statements would incur costs as a result of its proposals. However, these are mostly initial implementation costs required to adjust their models and analysis methods to the new structure of the financial statements and additional information provided. The Board expects that its proposals would ultimately save costs for users by providing them more directly with the information that they need for their analysis.

Costs for regulators

BC299 In some jurisdictions, some of the amounts reported in accordance with IFRS Standards support regulatory objectives such as prudential requirements. Therefore, the proposed changes to presentation and disclosure might affect regulatory treatments for some entities. Regulators use different frameworks in different jurisdictions, and different effects would be expected in those different jurisdictions. The Board expects that regulators might incur costs relating to the proposed requirements. This is because they may need to consider the effect of these changes in presentation and disclosure on their requirements. The associated costs would be expected to vary by jurisdiction based on local requirements. However, as the Board's proposals do not affect recognition and measurement the Board does not expect the proposals to have a significant effect on regulatory requirements. Therefore, the Board expects limited effects on costs for regulators.

Cost reliefs

BC300 The Board does not propose specific exemptions to alleviate the costs of application; however, the proposals include simplifications and practical expedients, which are that:

- (a) if an entity that provides financing to customers as a main business activity has more than one main business activity, it can elect to classify in the operating category *all* income and expenses from financing activities and *all* income and expenses from cash and cash equivalents, instead of classifying only those income and expenses from financing activities relating to the provision of financing to customers and income and expenses from cash and cash equivalents relating to the provision of financing to customers;
- (b) for derivatives not designated as hedging instruments in accordance with IFRS 9, an entity would be able to classify *all* gains and losses on those derivatives in the investing category if it concludes that it would incur undue cost or effort by classifying gains and losses on those derivatives between three categories in the statement of profit or loss on the basis of its risk management activities; and
- (c) an entity would determine the income tax effect for each item disclosed in the reconciliation between the management performance measure and the most directly comparable subtotal or total specified by IFRS Standards on the basis of a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction(s) concerned.

Other effects of the proposals

How the proposals would improve the quality of electronic reporting

- BC301 Users of financial statements require electronic data that is:
- (a) comparable across entities and over time;
 - (b) entity-specific;
 - (c) available in a format that is easy to use;
 - (d) consistently available; and
 - (e) free from errors.¹³
- BC302 However, reported electronic data does not always meet the requirements in paragraph BC301. As a result, few users of financial statements use electronic data directly. Many users instead rely on paid services from information intermediaries, such as data aggregators, to cleanse, supplement, aggregate and standardise the tagged data.
- BC303 The Board expects the proposals in the draft IFRS [X] would contribute to improving the quality of electronic data. Table 7 analyses the expected effects of each proposal.

¹³ The Board does not have any evidence that the proposals would have a significant effect on the number of errors.

Table 7 Summary of effects on the quality of electronic data

User requirement	Current situation	Likely effects of the proposals in the draft IFRS [X]
Comparable across entities and over time	<p>Different reporting practices result in entities tagging:</p> <ul style="list-style-type: none"> • comparable data in different ways; and • non-comparable data in the same way. <p>Users of financial statements may assume information tagged using the same IFRS Taxonomy element is comparable across entities when it is not.</p>	<p>The new proposed structure for the statement of profit or loss and illustrative examples would reduce diversity in reporting practices, which in turn would reduce diversity in tagging.</p> <p>The new proposed defined subtotals should be comparable across entities.</p>
Entity-specific	<p>Entity-specific information, such as unusual income and expenses and management-defined performance measures, is:</p> <ul style="list-style-type: none"> • tagged using extensions; or • not tagged at all—some management-defined performance measures are reported outside financial statements and, therefore, are not required to be tagged by some regulators. <p>Therefore, such information is difficult to extract and analyse.</p>	<p>Unusual income and expenses and disclosures about management performance measures (including the reconciliation to subtotals specified by IFRS Standards) would be included in the financial statements, so they would be more likely to be tagged.</p> <p>New IFRS Taxonomy elements resulting from the proposed new disclosure requirements should reduce the need for entities to create their own extensions.</p>
Available in a format that is easy to use	<p>Users of financial statements either use information intermediaries or need to spend significant resources—using XBRL calculations and manual adjustments to:</p> <ul style="list-style-type: none"> • make subtotals comparable; and • identify unusual income and expenses and normalise data. 	<p>The cost of using electronic data would be reduced through:</p> <ul style="list-style-type: none"> • enhanced comparability of subtotals across entities; and • required disclosure of unusual income and expenses and management performance measures in a single note, which would make them easier to extract.

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User requirement	Current situation	Likely effects of the proposals in the draft IFRS [X]
Consistently available	<p>The IFRS Taxonomy has elements for commonly-reported line items and subtotals such as operating profit or loss.</p> <p>However, not all entities report such line items and subtotals due to different reporting practices. This makes it difficult to compare a large sample of entities based on the same criteria.</p>	Defined and comparable subtotals should be consistently available for all entities.

Effects on the use of management-defined performance measures and financial metrics

- BC304 Many entities that apply IFRS Standards communicate performance using management-defined performance measures. The objective of the Board's proposals for these measures is not to increase or decrease their use. However, the Board considered what effects the proposals might have on the use of such measures outside financial statements.
- BC305 In particular, the Board considered the effect of these proposals on entities that currently:
- (a) do not communicate with users of financial statements using management-defined performance measures. Such entities would not be required to disclose in the notes management performance measures applying the Board's proposals.
 - (b) provide management-defined performance measures that would meet the definition of management performance measures. The effects of these proposals could vary, for example:
 - (i) the proposals for new subtotals may make some management performance measures unnecessary. For example, the Board identified operating profit or loss as one of most commonly used management-defined performance measures. Some entities may decide to communicate using the Board's defined operating profit or loss and to stop using a management-defined performance measure representing adjusted operating profit or loss.
 - (ii) the proposals may lead to some entities using fewer management-defined performance measures, due to the costs associated with complying with the disclosure requirements and the costs of auditing the disclosures.

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

- (iii) the proposals may lead to entities communicating using more measures that meet the definition of management performance measures because the proposals may normalise their use in jurisdictions that currently do not use management-defined performance measures in the financial statements.

BC306 The Board's proposals would not affect the recognition and measurement of any assets, liabilities, equity, income or expenses and therefore, in principle, would not affect the calculation of financial metrics. However, the introduction of new subtotals may lead some entities to redefine or re-evaluate their financial metrics. For example, measures that use the effect of financing activities as a component may or may not be adjusted to reflect the Board's proposed definition of financing activities.

BC307 The Board's proposals for management performance measures are intended to increase the transparency about these measures and improve the discipline with which these measures are provided.

Effects on non-professional investors

BC308 The Board noted that the proposals for management performance measures might affect non-professional investors differently from professional investors and that there are a range of possible effects, which are that the proposals might have:

- (a) positive effects on some non-professional investors because the proposals could help them better understand measures that meet the definition of management performance measures they already use. In addition, the proposals may encourage non-professional investors to make greater use of the information in the financial statements by providing them with better information than they have today. The fact that information about management performance measures is required to be provided in a single note, should also help non-professional investors access this information more easily.
- (b) negative effects on some non-professional investors because the proposals could encourage greater use of measures that meet the definition of management performance measures by non-professional investors who may not be able to understand these measures.
- (c) no effect on some non-professional investors because they are less likely than other investors to use the financial statements.

BC309 While any of the effects outlined in paragraph BC308 are possible, the Board expects the risk of the negative effect described in paragraph BC308(b) to be low, because non-professional investors already rely on management-defined performance measures. Academic research indicates that non-professional investors may rely more on management-defined measures than other investors.¹⁴

¹⁴ Bhattacharya, N., Black, E. L., Christensen, T. E., and Mergenthaler, R. D., 'Who Trades on Pro Forma Earnings Information?', *The Accounting Review*, vol 82, no 3, May 2007, pp 581–619.

BC310 Overall, the Board expects that the proposals for management performance measures would create an opportunity for more transparency about these measures in communications both within and outside financial statements, thus potentially benefitting even those investors that currently do not focus on financial statements.

Effects on contracts and agreements

BC311 The Board considered the likely effects that the proposals might have on contracts and agreements. Although the proposals only affect the presentation and disclosure of financial information, and therefore, do not affect entities' financial performance and financial position, the Board noted that, when information reported in financial statements is used to monitor compliance with contracts and agreements, new requirements might affect those contracts and agreements.

BC312 For example, covenants in banking and loan agreements may impose minimum requirements on measures, such as the operating profit or loss subtotal shown in a borrower's financial statements. Many entities that currently present such subtotals may need to change what they include in the subtotals to align them with the proposed definitions of those subtotals (see Table A.1 in the Appendix). In such cases, the parties to a contract or agreement will need to consider how the changes to presentation and disclosure could affect that contract or agreement. However, sometimes loan covenants specify the calculation of such requirements and, therefore, would not be affected by changes in presentation and disclosure.

Appendix—Analysis of current practice

- A1 The Board analysed a sample of 2017–18 annual reports prepared applying IFRS Standards. The sample comprised 100 listed entities with a large market capitalisation across 26 jurisdictions and 12 industries. The tables below report the Board’s findings.
- A2 The industries covered were healthcare (10), energy (10), materials (10), industrials (10), IT (10), consumer staples (10), consumer discretionary (10), real estate (5), utilities (5), telecommunication (5), banking (10) and insurance (5). The regions covered were Europe (57), Asia-Oceania (30), Americas (8), and Africa and Middle East (5).
- A3 The Board acknowledges that the entities selected and industries represented in the sample may not be a sufficiently representative sample for determining the effect of its proposals globally. However, the Board expects that the analysis to be useful in indicating types of changes that might be expected in practice as a result of the proposals.

Statement of profit or loss

Table A.1—Use of measures labelled operating profit or loss (or a similar label)	Number of entities
Used in the financial statements and presented as a subtotal in the statement of profit or loss	63
Used <i>only</i> in sections of the annual report other than the financial statements	3
Not used in the annual report	34
Total	100

Table A.2—Location of share of profit or loss of associates and joint ventures	Above	Below	Total number of entities
Location of share of profit or loss of associates and joint ventures relative to the measure labelled operating profit or loss by entities	14	36	50
Location of share of profit or loss of associates and joint ventures relative to the measure labelled EBIT by entities	2	3	5
Entities that did not present measures labelled EBIT or operating profit or loss or did not present the share of profit or loss of associates and joint ventures	NA	NA	45
Total			100

One entity presented the following two subtotals in the statement of profit or loss and disclosed in the notes information about associates and joint ventures that represent an extension of the entity’s business separately from those associates and joint ventures that do not:

- operating profit or loss before share of profit or loss of associates and joint ventures; and
- operating profit or loss after share of profit or loss of associates and joint ventures.

EXPOSURE DRAFT—DECEMBER 2019

Table A.3—Use of measure labelled profit before financing or EBIT	Banking and insurance	Other industries	Total number of entities
Used in the financial statements		21	21
<i>Of which presented as a subtotal in the statement of profit or loss</i>		15	15
<i>Of which disclosed as a segment measure of performance or in note about financial covenants</i>	-	20	20
Used <i>only</i> in sections of the annual report other than the financial statements	-	1	1
Not used in the annual report	15	63	78
Total	15	85	100

Table A.4—Classification of net interest on net defined benefit liabilities	Number of entities
Classified in the measure labelled operating profit or loss	12
Classified in finance costs, below the measure labelled operating profit or loss	25
Classification unclear	11
Did not present a measure labelled operating profit or loss, nor disclose net interest on net defined benefit liabilities	52
Total	100

Table A.5.1—Analysis of operating expenses in the statement of profit or loss	Number of entities
By nature	21
By function	41
Mixed method	33
No analysis of expenses presented in the statement of profit or loss	5
Total	100

Table A.5.2—Analysis of operating expenses by nature	Number of entities
Analysis of expenses by nature in the statement of profit or loss (see Table A.5.1)	21
Complete analysis of expenses by nature in the notes	27
Limited analysis of expenses by nature in the notes	52
Total	100

Statement of cash flows

Table A.6—Starting point for the indirect method	Number of entities
Profit or loss	38
Profit before tax	30
Operating profit or loss	10
Other subtotals	15
Entities using the direct method	7
Total	100

Table A.7.1—Classification of interest received in the statement of cash flows	Banking and insurance	Other industries	Total number of entities
Operating cash flows	9	47	56
Investing cash flows	1	29	30
Financing cash flows	-	1	1
Classification unclear	5	8	13
Total	15	85	100

Table A.7.2—Classification of interest paid in the statement of cash flows	Banking and insurance	Other industries	Total number of entities
Operating cash flows	8	51	59
Investing cash flows	-	-	-
Financing cash flows	3	31	34
Classification unclear	4	3	7
Total	15	85	100

Table A.7.3—Classification of dividends received in the statement of cash flows	Banking and insurance	Other industries	Total number of entities
Operating cash flows	6	32	38
Investing cash flows	3	38	41
Financing cash flows	-	-	-
Classification unclear	6	15	21
Total	15	85	100

EXPOSURE DRAFT—DECEMBER 2019

Table A.7.4—Classification of dividends paid in the statement of cash flows	Banking and insurance	Other industries	Total number of entities
Operating cash flows	1	2	3
Investing cash flows	-	-	-
Financing cash flows	11	78	89
Classification unclear	3	5	8
Total	15	85	100

Statement of financial position

Table A.8—Presentation or disclosure of carrying amount of goodwill	Number of entities
Goodwill presented separately in the statement of financial position	59
Goodwill disclosed in the notes	35
Goodwill not presented separately or disclosed (may not be material)	6
Total	100

Management-defined performance measures¹⁵

Table A.9—Use of measure labelled EBITDA	Banking and insurance	Other industries	Total number of entities
Total used in the financial statements	-	42	42
<i>Of which presented as a subtotal in the statement of profit or loss</i>	-	4	4
<i>Of which disclosed as a segment measure of performance or in the note about capital structure and debt</i>	-	40	40
<i>Of which presented as a subtotal in the statement of cash flows using the indirect method</i>	-	2	2
Used <i>only</i> in sections of the annual report other than the financial statements	-	30	30
Not used in the annual report	15	13	28
Total	15	85	100

¹⁵ See Tables A.1 and A.3 for the use of measures labelled operating profit or loss and profit before financing or EBIT. Such measures are not specified by IFRS Standards and may or may not meet the definition of management performance measures applying the Board's proposals. The analysis in tables A.9–A.14.2 focuses on income and expenses subtotals, other than those measures.

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

Table A.10—Most common management-defined performance measures <i>other than</i> those labelled operating profit or loss, EBIT, profit before financing or EBITDA	Number of entities^(a)
Adjusted profit or similar labels	33
Adjusted operating profit or similar labels	29
Adjusted EBITDA or similar labels	20
Adjusted EBIT or similar labels	11
Adjusted profit before tax or similar labels	9
(a) Some entities used more than one measure so the total is greater than the sample size.	

Table A.11—Use of measures <i>other than</i> those labelled operating profit or loss, EBIT, profit before financing or EBITDA	Number of entities
Used in the financial statements ^(a)	31
Used <i>only</i> in sections of the annual report other than the financial statements	36
Not used in the annual report	33
Total	100
(a) Two entities presented the measures using columns in the statement of profit or loss.	

Table A.12—Reconciliation of measures <i>other than</i> those labelled operating profit or loss, EBIT, profit before financing or EBITDA	Number of entities
Total reconciliation provided to measures specified by IFRS Standards	60
<i>Of which provided tax effect per reconciling item</i>	<i>13</i>
<i>Of which provided tax effect in aggregate</i>	<i>13</i>
No reconciliation provided	7
N/A (entity did not use such measures in annual report)	33
Total	100

Table A.13—Most common adjustments made in calculation of management-defined performance measures	Number of entities^(a)
Restructuring costs	32
Gains or losses on disposal	31
Impairment and amortisation of intangible assets	21
Acquisition-related costs	19
Fair value changes for financial instruments	16
Impairment of property, plant and equipment	15
Legal expenses	12
Share-based payment expense	9
(a) Some entities made more than one of the adjustments listed so the total is greater than the sample size.	

EXPOSURE DRAFT—DECEMBER 2019

Table A.14.1—Use of adjusted earnings per share	Number of entities
Used in the financial statements	12
Used <i>only</i> in sections of the annual report other than the financial statements	33
Not used in the annual report	55
Total	100

Table A.14.2—Alignment of adjusted earnings per share with management-defined performance measures	Number of entities
Adjusted earnings per share calculated consistently with a management-defined performance measure	38
Adjusted earnings per share calculated inconsistently with a management-defined performance measure	2
Unclear whether adjusted earnings per share is calculated consistently with a management-defined performance measure	3
Adjusted earnings per share disclosed without accompanying management-defined performance measure	2
Total adjusted earnings per share used in the annual report	45
No adjusted earnings per share measure used in the annual report	55
Total	100

Unusual income and expenses

Table A.15—Unusual, infrequent or non-recurring items	Number of entities
Information provided in the financial statements about unusual, infrequent or non-recurring items	48
<i>Of which disclosed as adjustments to management-defined performance measures</i>	26
No information in the financial statements about unusual, infrequent or non-recurring items	52
Total	100

General aggregation and disaggregation

Table A.16.1—Aggregation in the statement(s) of financial performance	Number of entities
Line items labelled other presented in the statement(s) of financial performance, with further explanation in the notes	68
Line items labelled other presented in the statement(s) of financial performance, without further explanation in the notes (some of which may be immaterial)	22
No line items labelled other presented in the statement(s) of financial performance	10
Total	100

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

Table A.16.2—Aggregation in the statement of financial position	Number of entities
Line items labelled other presented in the statement of financial position, with further explanation in the notes	88
Line items labelled other presented in the statement of financial position, without further explanation in the notes (some of which may be immaterial)	10
No line items labelled other presented in the statement of financial position	2
Total	100



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