

STAFF PAPER

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Project	Performance Reporting		
Paper topic	Scope and Objectives		
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The purpose of the session

1. The IASB added *Performance Reporting* project to its Research Programme in July 2014. We are currently developing a paper on the scope and objectives of the project to discuss with the IASB (the Board) in June this year. The purpose of this session is to seek your input on how you think we should shape the Performance Reporting project.
2. In addition, this paper provides information about how the Performance Reporting project fits in with the Disclosure Initiative, the *Conceptual Framework* project and the previous Financial Statement Presentation project, which was suspended in 2010.

Concerns raised that led to a project on performance reporting

3. Over the years there has been a strong demand (mainly from users of the financial statements) for the IASB to undertake a project on performance reporting, because of a number of concerns identified on how items—particularly income and expenses—are displayed in the financial statements.

The role of profit or loss, OCI and recycling of OCI

4. In the current performance reporting model, items of income and expenses are aggregated to distinguish a ‘profit or loss’ line subtotal from items included as

part of other comprehensive income (OCI). However, the existing *Conceptual Framework* does not define profit or loss or comprehensive income, nor does it provide criteria for distinguishing the characteristics of items that should be included in profit or loss or in OCI.

5. Users view the split between profit or loss and OCI as an artificial separation of income and expenses and think that there is a lack of clarity of the roles of profit or loss when measuring and reporting an entity's performance. They also think that there is a lack of clarity on the role of OCI, which has been perceived as a 'dumping ground' for anything controversial (ie to omit large gains and losses that would otherwise distort earnings). This has also resulted in inconsistencies in the recognition of some items; for example, changes in pension liabilities due to interest rate changes (assuming the corridor method is not used) are recognised outside earnings under IFRS; however identical changes in any other long-term liability are recognised in earnings.
6. The notion of recycling, and when or which OCI items should be recycled, also remains unclear.
7. Some think that describing what financial performance is would provide the basis for distinguishing between items that should be recognised in profit or loss and items that should be recognised in OCI.

Structure (form and content) of the financial statements

8. Users think that the way in which items are disaggregated, grouped together and totalled in the financial statements may not maximise the usefulness of the information being provided.

Work undertaken so far

9. The *Conceptual Framework for Financial Reporting* ('*Conceptual Framework*') and the *Disclosure Initiative* are currently addressing some of the concerns raised by users about the financial statements, as we explain below.

Conceptual Framework

10. The Exposure Draft for the revised Conceptual Framework (CF ED) will contain a section on *Presentation and Disclosure*. That section will include a discussion on the section of the statement of financial performance that presents profit or loss.¹
11. The CF ED will state that income and expenses included in the statement of profit or loss are the primary source of information about an entity's financial performance for the period. It provides a highly summarised depiction of the entity's financial performance for the period.
12. Users from all sectors incorporate profit or loss in their analysis, either as a starting point for further analysis or as the main indicator of the entity's financial performance for the period and use it as the basis for assessing prospects for future cash flows and management's stewardship of the entity's resources.
13. Because the statement of profit or loss is the primary source of information about an entity's financial performance for the period, the Conceptual Framework puts in place the presumption that all income and all expenses will be included in profit or loss—ie the sub-total that excludes other comprehensive income.

Disclosure Initiative

14. The Disclosure Initiative project amended IAS 1 *Presentation of Financial Statements* in December 2014 to clarify:
 - (a) the materiality requirements in IAS 1;
 - (b) the disaggregation of specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position;
 - (c) how an entity should present subtotals in the statement(s) of profit or loss and other comprehensive income and the statement of financial position; and
 - (d) the order in which entities present the notes to the financial statements.

¹ Profit or Loss might be presented as a separate statement along with a statement of other comprehensive income.

15. The Disclosure Initiative—Principles of Disclosure (POD) project is currently developing content and communication principles for how information should be presented consistently across the financial statements and how it should be aggregated in a meaningful way. The Disclosure Initiative is also planning to discuss the use of non-IFRS information in a complete set of financial statements.²

Performance Reporting Project

Project objective

16. The project on performance reporting will address the classification and display of items within the primary financial statements, including summarised amounts, to ensure that information is disaggregated and categorised in a useful way. The proposals in this project would establish a structure for the financial statements, possibly by requiring sections, categories or subcategories and related subtotals.

Benefits

17. The proposals developed in this project would help:
- (a) preparers to communicate important aspects of the entity's performance management to the users of its financial statements; and
 - (b) users in their decision-making process.

Focus

18. A comprehensive discussion on performance reporting should focus on the statement of comprehensive income, the statement of cash flows and the statement of financial position. The statements are interrelated and any discussion should address this interrelationship. The IASB has already tentatively decided, as part of the Disclosure Initiative discussions for the POD DP, that these financial statements are designed to be read together. This suggests that there should be consistent grouping of information in some cases—the obvious candidates are the

² Refer to IASB Update (January 2015): <http://media.ifrs.org/2015/IASB/January/IASB-Update-January-2015.html#4>

income and cash flow statements. In the FSP project this was reflected in the cohesiveness principle. The IASB is wary of the concerns that this principle generated when it was proposed in the FSP project and does not plan to develop this as a prescriptively as some read the FSP expression to be.³

Issues that could be debated

19. The following are among the key issues that the project could consider and answer.

Identification of key lines and content

20. Display of specified line items, subtotals and totals (those related to metrics used by investors and creditors in assessing financial performance). For example: operating income or income from *core* activities, earnings before interest, taxes, depreciation and amortisation (EBITDA) or operating cash flows.
21. Is 'profit or loss' (in its current form) a meaningful and necessary notion? If so, what should it represent and how are items included in profit or loss to be differentiated from other items of income and expense?
22. What is the underlying nature of the adjustments made by entities when reporting non-GAAP measures in their communications with the markets? What are the adjustments seeking to achieve? Should any of these non-GAAP measures be incorporated into the IFRS financial reporting model? If that would be desirable, is it feasible and how should it be done?
23. Are changes required to existing Standards to require the classification and display of specified line items (eg EBITDA) to be presented in a consistent manner?
24. Does the bottom line of a statement of comprehensive income bear more weight and significance than other lines of the statement(s) simply by virtue of being at the bottom?

³ Cohesiveness was viewed as forcing entities to align the income statement, cash flow statement and statement of financial position. The feedback from outreach on FSP indicated that many preparers considered the resulting presentation to be counter-intuitive and did not reflect how they managed their activities.

Recycling

25. Is recycling needed? If so, what should it be used for and on what criteria should it be based?

Standardisation of financial statements

26. In determining the optimum degree of standardisation of the financial statements, what is the right balance between comparability and flexibility? In other words, is the general level of standardisation in the current IAS 1 appropriate or should more precise formats be prescribed?

Aggregation criteria

27. Which of the following criteria or factors should shape how the primary financial statements are organised (aggregated):
- (a) Functional - operating vs. non-operating; or operating vs. financing vs. other?
 - (b) Nature- fixed vs. variable; recurring vs. non-recurring; realised vs. unrealised; core vs. non-core; cash flow vs. accruals; remeasurement vs. before remeasurement?
28. We will assess whether some categorisations should take primacy over others. For example, if the view is taken that a conceptual distinction can be made between 'operating' and 'financing' it would then be possible to categorise line items further—perhaps operating activities should be organised by the nature of their occurrences or 'realised' and 'unrealised' or 'fixed' and 'variable'.

Netting of items

29. Are the current IFRS provisions in relation to the netting of items appropriate?

Segment reporting

30. Consider amending segment reporting to align this information with the proposals on performance reporting.

Changes in measurement and recognition in other Standards

31. The project on performance reporting will not address matters of recognition and measurement of items in the financial statements. However, the discussion on

recycling and disaggregation model could involve some consideration of changes in recognition and measurement in other Standards.

Link with the other projects

Conceptual Framework and Disclosure Initiative projects

32. The scope and approach of the project on performance reporting should consider any relevant research and recommendations from the *Conceptual Framework* and Disclosure Initiative projects and benefit from their current work.
33. In our view, the work from the *Conceptual Framework* and the Disclosure Initiative—POD (*principles of disclosure*) should provide a departure point for analysis or a ‘toolkit’ for the project on performance reporting. For example:
 - (a) if the Disclosure Initiative—POD prescribes the need to disaggregate/aggregate items in the financial statements: the project on performance reporting could further analyse how to perform this disaggregation/aggregation in the financial statements by prescribing specific sections and categories, or prescribed totals and subtotals.
 - (b) if the *Conceptual Framework* requires a split between profit or loss and OCI in the statement of comprehensive income; the project on performance reporting could look into which specific components should be presented in profit or loss or OCI.

Financial Statement Presentation (FSP)

34. The project on performance reporting should benefit from the IASB’s earlier work on FSP. This project identified and documented the main problems regarding the structure of the financial statements, which means that the work of the project on performance reporting could use that earlier work and develop solutions.
35. The project on performance reporting is narrower in scope than the FSP project was, because it will not develop core principles for the presentation of financial statements. These principles will be developed as part of the Disclosure Initiative—POD project.

Cash Flows

36. We asked the UK FRC to undertake some work for us on the Statement of Cash Flows. The FRC staff member undertaking the work has taken a step back and asked some fundamental questions about that Statement, including trying to establish its main purpose, what currently works well and whether we should revise its structure. And we are also asking whether it is relevant for all types of entity.
37. We had originally planned to use that work in the Principles of Disclosure Discussion Paper. However, it is clear that any discussion about the structure of a cash flow statement has implications for a discussion about how to structure a performance statement.
38. We plan to publish UK FRC staff's research during 2015 as a way of encouraging debate and getting input for the performance reporting project. We plan to include the Statement of Cash Flows within the scope of the performance reporting project.
39. It remains an open question about how strictly we should define sections or whether a more general framework is developed with entities being given more flexibility to present information according to how they manage their business.

Questions for GPF members

What topics do you think the Performance Reporting project should address?

- a) Do you agree with the list of topics in paragraphs 20-31?
- b) Is there anything missing from that list?