

# Ongoing Monitoring of IASB Projects: Primary Financial Statements

## Executive Summary

Project Type	Influencing
Project Scope	Major
Purpose of the paper	
This paper provides the Board with an update on the IASB's discussions on its Primary Financial Statements project and seeks the Board's views on the tentative decisions made and on the UKEB Secretariat's proposed next steps.	
Summary of the Issue	
<p>Under the UKEB's statutory remit to influence the development of IFRS, the UKEB Secretariat monitors IASB's redeliberations and, where appropriate, engages with IASB staff and undertakes ad hoc project work to continue the influencing process outside of IASB public consultation periods. The UKEB also influences outside of IASB public consultation periods by sharing its views on IASB's redeliberations and tentative decisions at ASAF meetings.</p> <p>In recent months, the IASB has redeliberated and reached tentative decisions on its Primary Financial Statements project. The overall direction of the tentative decisions aligns with the recommendations made in the UKEB Secretariat's response to the ED. However, some of the tentative decisions reached differ from the proposals in the ED.</p>	
Decisions for the Board	
The Board is not asked to make any decisions. The Board is asked for its views on the IASB's redeliberations and tentative decisions and for its advice on the UKEB Secretariat's proposed next steps. Questions for the Board are on slide 5 of the paper.	
Next steps	
Subject to the Board's comments, we will continue to monitor the debate, engage with IASB staff, and undertake ad hoc project work on the Primary Financial Statements project	
Appendices	
Appendix 1 Ongoing Monitoring of IASB Projects: Primary Financial Statements	

# Ongoing Monitoring of IASB Projects

## *Primary Financial Statements*

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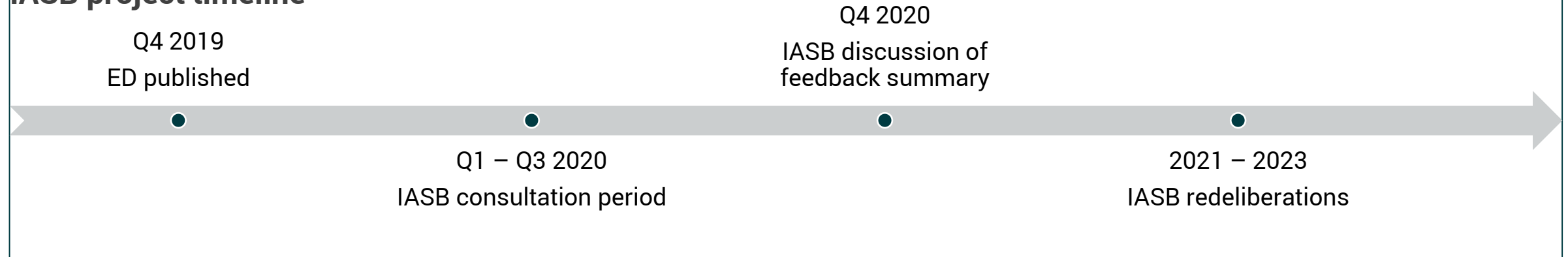
19 May 2022

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# Background: IASB's PFS project

## IASB project timeline



## IASB project objective

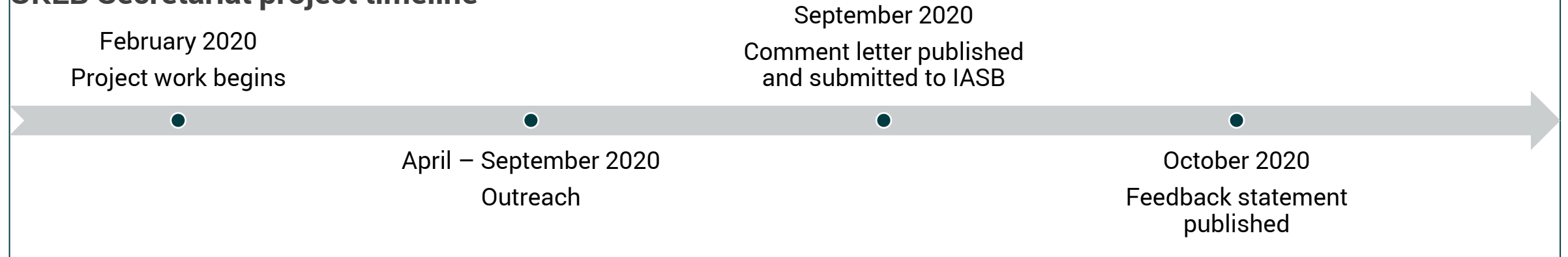
To improve how information is communicated in the financial statements, with a focus on information about performance in the statement of profit or loss.

## Key proposals

1. Required **categories** and **sub-totals** in statement of profit or loss
2. Strengthened requirements for **disaggregation**
3. Disclosures on **management performance measures (MPMs)**

# Background: UKEB secretariat's PFS project

## UKEB Secretariat project timeline



## Governance

- All project work complied with interim governance arrangements prior to establishment of UKEB.
- Interim governance arrangements approved by joint BEIS and FRC technical sub-board.
- Final comment letter signed by FRC and approved by UKEB Chair.
- Feedback statement approved by FRC and by UKEB Chair.

## Position

**‘Broadly supportive** ... we anticipate it will lead to more consistent and relevant financial information’

‘Given the number of areas that may require further significant development, we ask the IASB to consider the potential need to **re-expose** those elements as part of a limited exposure draft’

# Overview of IASB's redeliberations and questions for the Board

## IASB's redeliberations are ongoing and are expected to continue to feature on the ASAF agenda

IASB's redeliberations started in 2021 and are ongoing. Specific aspects have been discussed at previous ASAF meetings. We anticipate that future ASAF meetings will continue to seek members' advice on the tentative decisions to date and suggestions on how to approach those proposals which are yet to be redeliberated.\*

The table below summarises IASB's redeliberations and includes questions for the Board.

High-level tentative decisions on proposals in the ED	IASB's high-level tentative decisions on the proposals in the ED are consistent with UKEB Secretariat response on those proposals	Does the Board have any comments on the high-level tentative decisions?	Slide 6
Proposals yet to be redeliberated	<p>Main areas of proposals yet to be redeliberated are:</p> <ul style="list-style-type: none"> <li>• Categories for entities with specified main business activities</li> <li>• Analysis of operating expenses by nature</li> <li>• Definition of unusual items</li> <li>• Use of the label 'other'</li> <li>• Aspects of MPM disclosures</li> </ul>	Does the Board have any comments on the proposals yet to be redeliberated by IASB or on the UKEB Secretariat's proposed next steps?	Slides 7 - 15
Tentative decisions which differ from proposals in the ED	<p>Main tentative decisions which differ from proposals in ED are:</p> <ul style="list-style-type: none"> <li>• Explore removing prohibition on mixed presentation in statement of profit or loss</li> <li>• Classification of income and expenses on cash and cash equivalents</li> <li>• Classification of equity accounted associates and joint ventures results</li> <li>• Classification of forex gains and losses if applying undue cost / effort relief</li> <li>• Classification of FV gains and losses on financial instruments</li> </ul>	Does the Board have comments or advice on these tentative decisions or on whether proposed changes are substantive enough to require re-exposure?	Slides 16 - 18
Tentative decisions on detailed proposals in the ED and supporting areas	IASB's tentative decisions on areas of detail support the broad direction recommended in the UKEB Secretariat's response to the ED	Does the Board have any comments on the tentative decisions on detailed proposals in the ED and supporting aspects?	Slides 19 - 27

\*<https://www.ifrs.org/content/dam/ifrs/meetings/2022/march/asaf/ap5-agenda-planning.pdf>

# Summary of IASB's high-level tentative decisions on proposals in the ED

Proposal	IASB tentative decision	UKEB Secretariat position in comment letter to IASB
Subtotals and categories in statement of profit or loss		
Defined and mandated income and expense categories in statement of profit or loss: operating, investing, financing	●	●
Mandatory sub-totals in statement of profit or loss: operating profit and profit before financing and income tax	●	●
Disaggregation		
Unusual items included within the relevant income and expense category in the statement of profit or loss and disclosed in a note	●	●
Operating expenses analysed by nature, either in statement of profit or loss or in a note	●	●
Split of associates and JVs into integral and non-integral in statement of profit or loss, statement of financial position, and statement of cash flows	●	●
Management performance measures (MPMs)		
MPMs disclosed in a single note	●	●
MPMs defined as any subtotal of income and expenses used in public communications outside financial statements	●	●

KEY ● Support ● Support direction but recommend field-testing and / or development of proposals in ED ● Do not support

# Main areas of proposals yet to be redeliberated

Subtotals and categories	Classification by entities with specified main business activities (slide 8)
Disaggregation	<p>Analysis of operating expenses by nature in the notes when an entity presents by function in the statement of profit or loss (slide 9 -11)</p> <p>Definition of unusual income and expenses (slide 12)</p> <p>Proposals relating to items labelled 'other' (slide 13)</p>
MPMs	<p>Disclosure of tax and non-controlling interest impact of reconciling items (slide 14)</p> <p>Changes in MPMs (slide 15)</p>



# Classification by entities with specified main business activities

ED Proposal	UKEB Secretariat Comment Letter Position	Proposed next steps
Entities whose main business activities include providing finance to customers have an accounting policy choice to present all financing income and expenses in the operating category	Do not support accounting policy choice as it could lead to lack of comparability between entities  Proposed disclosures to mitigate lack of comparability	Desk-based research to identify population of UK IFRS reporters affected and gather further information on cost and comparability implications

# Analysis of operating expenses by nature

ED Proposal	UKEB Secretariat Comment Letter Position	Proposed next steps
<p>If an entity presents an analysis of operating expenses by function in the statement of profit or loss, require an analysis of operating expenses by nature in the notes</p>	<p>Recommended field-testing to:</p> <p>Gather further information on cost and commercial sensitivity of proposed disclosures</p> <p>Explore the relevance of the proposed disclosures to investors</p>	<p>IASB is field-testing a partial matrix approach to the disclosure. The two partial matrix options are shown on the following slides.</p> <p>We propose supporting IASB in field-test of partial matrix approach with UK stakeholders</p>

# Analysis of operating expenses by nature

IASB is exploring a partial matrix solution

Statement of profit and loss extract	£m
Revenue	6,000
Cost of goods sold	<u>(1,200)</u>
Gross profit	4,800
Selling expenses	(600)
General and administrative expenses	(200)
Research and development expenses	<u>(500)</u>
Operating profit	<u>3,500</u>

## Considerations

What is the specific purpose of the disaggregation?  
Which functional expense categories should be disaggregated?

## Partial matrix option 1

IASB mandates some expenses to be disaggregated by function  
Analysis does not reconcile to figures presented in P&L  
Facilitates margin forecasting / sustainability insights  
Less costly and commercially sensitive than a full matrix

Partial matrix 1	Depreciation £m	Amortisation £m	Employee benefits £m
Cost of goods sold	200	100	600
Selling expenses	75	50	300
G&A expenses	50	40	60
R&D expenses	25	30	75

# Analysis of operating expenses by nature

IASB is exploring a partial matrix solution

Statement of profit and loss extract	£m
Revenue	6,000
Cost of goods sold	<u>(1,200)</u>
Gross profit	4,800
Selling expenses	(600)
General and administrative expenses	(200)
Research and development expenses	<u>(500)</u>
Operating profit	<u>3,500</u>

## Considerations

What is the specific purpose of the disaggregation?  
Which functional expense categories should be disaggregated?

## Partial matrix option 2

Full analysis by nature of selected functional categories in P&L  
Reconciles to P&L totals  
Provides insights on risks / sustainability for investors  
As expensive for preparers as a full matrix

Partial matrix 2	Cost of goods sold £m	Selling expenses £m
Materials	245	145
Impairment	50	-
Employee benefits	600	300
Depreciation	200	75
Amortisation	100	50
Other	<u>5</u>	<u>30</u>
Total	<u>1,200</u>	<u>600</u>

# Definition of unusual income and expenses

ED Proposal	UKEB Secretariat Comment Letter Position	Proposed next steps
<p>The ED proposed the following definition of unusual income and expenses:</p> <p>Unusual income and expenses are income and expenses with limited predictive value. Income and expenses have limited predictive value when it is reasonable to expect that income or expenses that are similar in type and amount will not arise for several future reporting periods.</p>	<p>Supported general principle of disclosure of unusual items</p> <p>Recommended that the underlying condition or event which gave rise to items of income or expense be considered in the assessment of whether an item of income or expense is unusual</p> <p>Recommended that further consideration was given to the meaning of 'similar in type and amount'</p> <p>Identified that proposed definition would fail to capture items of income and expense that straddled a year-end</p>	<p>Continue to monitor the debate</p>

# Proposals for items labelled other

ED Proposal	UKEB Secretariat Comment Letter Position	Proposed next steps
<p>Proposed that only items with similar characteristics should be aggregated under the heading 'other' and that any items with dissimilar characteristics should be disaggregated</p>	<p>Recommended more clarity on the interaction of the proposals with materiality and with the fundamental concepts of relevance and understandability</p>	<p>Continue to monitor the debate</p>

# Proposals for disclosure of tax and non-controlling interest impact of reconciling items between MPMs and IFRS totals or subtotals

ED Proposal	UKEB Secretariat Comment Letter Position	Proposed next steps
Disclosure of the income tax effect and the effect on non-controlling interests for each item disclosures in the reconciliation between the MPM and the most directly comparable subtotal or total	Recommended field-testing to gain further insight into the costs and benefits of the proposal	Explore potential for field-test with IASB staff and UK stakeholders, considering feasibility of combining with IASB's current field-test of partial matrix approach (see slide 9)

# Proposals for requirements regarding changes in MPMs

ED Proposal	UKEB Secretariat Comment Letter Position	Proposed next steps
<p>If an entity changes the calculation of its MPMs, introduces a new MPM or withdraws an MPM, it shall disclose sufficient explanation for users to understand the change, addition or removal</p> <p>Disclose the reasons for the change, addition, or removal</p> <p>Restate comparatives</p>	<p>Response did not comment on these aspects of the proposals</p>	<p>Explore potential for field-test with IASB staff and UK stakeholders, considering feasibility of combining with IASB's current field-test of partial matrix approach (see slide 9)</p>



# IASB's tentative decisions which differ from the proposals in the ED (I)

IASB's tentative decision	Proposal
Mixed presentation in the statement of profit or loss and analysis of operating expenses by nature or function	
To explore removing the prohibition on mixed presentation and instead providing application guidance to improve comparability and faithful representation  (ED did not propose removing the prohibition on mixed presentation)	●

KEY ● Tentative decision differs from proposal in ED

# IASB's tentative decisions which differ from the proposals in the ED (2)

IASB's tentative decisions	Proposal
Classification in the investing category	
Classify in the investing category income and expenses from cash and cash equivalents (ED proposed classifying income and expenses from cash and cash equivalents in the financing category)	●
Classify in the investing category income and expenses from equity-accounted associates and JVs (ED proposed split of income and expenses from equity-accounted associates and JVs into integral and non-integral, with integral to be included in the operating category and non-integral to be included in the investing category)	●
Classification of forex differences	
Classify forex differences in the same category as income and expenses from the items that gave rise to the forex differences, except when doing so would involve undue cost or effort	●
If classifying forex differences in the same category as the income and expenses that gave rise to the forex differences involves undue cost or effort, classify the forex differences in the operating category (ED did not specify default category where classifying forex differences involves undue cost or effort)	●

KEY ● Tentative decision on proposal in ED ● Tentative decision differs from proposal in ED

# IASB's tentative decisions which differ from the proposals in the ED (3)

IASB's tentative decisions	Proposal
<p>Derivatives and hedging instruments</p> <p>Classify FV gains / losses on derivative and non-derivative financial instruments used for risk management in the category to which the risk relates, unless doing so would involve:</p> <p>Grossing up fair value gains / losses (derivatives designated as hedging instruments) Undue cost or effort (derivatives not designated as hedging instruments)</p>	<p>●</p>
<p>Classify in the operating category:</p> <p>Grossed up FV gains / losses on derivatives designated as hedging instruments</p> <p>FV gains / losses on derivatives not designated as hedging instruments, where classifying such FV gains / losses in the operating, investing or financing category would involve undue cost or effort</p> <p>(ED proposed classifying these gains and losses in the investing category)</p>	<p>●</p>
<p>Classify fair value gains and losses on derivatives not used for risk management in the operating category, unless the derivative relates to financing activities and is not used in the course of main business activities, in which case classify all fair value gains and losses on the derivative in the financing category</p> <p>(ED proposed classifying fair value gains / losses on derivatives not used for risk management in the investing category, unless used in the course of a main business activity, in which case classify them in the operating category)</p>	<p>●</p>

KEY ● Tentative decision on proposal in ED ● Tentative decision differs from proposal in ED

# IASB's tentative decisions in more detail: subtotals and categories (I)

IASB's tentative decisions	Proposal	UKEB Secretariat position in comment letter to IASB
Operating category		
Operating category is residual	●	●
Operating category does not include income and expenses from investing, financing, income tax, or discontinued operations	●	●
Operating category comprises all income and expenses arising from an entity's operations, including volatile and unusual income and expenses arising from an entity's operations, and includes, but is not limited to, income and expenses from an entity's main business activities.	●	-
Classify in operating category income and expenses from investments made in the course of main business activities	●	●
Provide additional guidance to clarify that determining an entity's main business activities is relevant only to an assessment of whether an entity invests in the course of its main business activities, or provides financing to customers in the course of its main business activities (because if so, the ED proposes that the entity should include income and expenses from those activities in its operating category)	●	-

KEY: ● Proposal in ED ● Proposal not in ED ● Support

# IASB's tentative decisions in more detail: subtotals and categories (2)

IASB's tentative decisions	Proposal	UKEB Secretariat position in comment letter to IASB
Investing category		
Classify in the investing category income and expenses from assets that generate returns individually and largely independently of other resources held by the entity	●	●
Add application guidance that the investing category does not include income and expenses from held-for-sale assets or disposal groups or from business combinations	●	-

KEY ● Decision on proposal in ED ● Decision relates to proposal in ED but is on a point of detail not covered in ED ● Support

# IASB's tentative decisions in more detail: subtotals and categories (3)

IASB's tentative decisions	Proposal	UKEB Secretariat position in comment letter to IASB
Financing category		
<p>Classify in the financing category:</p> <ul style="list-style-type: none"> <li>All income and expenses for liabilities that arise from transactions that involve only the raising of finance (e.g. debt)</li> <li>Interest expense and the effect of changes in interest rates only for other liabilities (e.g. pension liabilities, decommissioning provisions) apart from some liabilities specified by IASB</li> <li>For those liabilities specified by IASB (e.g. hybrid contracts within the scope of IFRS 9 measured at amortised cost, liabilities which include an embedded derivative this economic characteristics of which are closely related to the economic characteristics and risks of the host contract), explore an approach that would classify all income and expenses in the financing category</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>	-
<p>Classify in the finance category FV gains / losses on derivatives not used for risk management, relating to financing activities, and not used in the course of the entity's main business activities</p>	<ul style="list-style-type: none"> <li>•</li> </ul>	-

KEY • Decision relates to proposal in ED but is on a point of detail not covered in ED

# IASB's tentative decisions in more detail: disaggregation(I)

IASB's tentative decisions	Proposal	UKEB Secretariat position in comment letter to IASB
Analysis of operating expenses by nature or function		
To explore providing application guidance on how to determine which presentation method would provide most useful information to users	●	-
To explore limited application guidance on function of expense method	●	-
Not to explore a cost relief for the disclosure of analysis of operating expenses by nature in a note when an entity presents an analysis of operating expenses by function in the statement of profit or loss	●	-

KEY ● Decision relates to proposal in ED but is on a point of detail not covered in ED

# IASB's tentative decisions in more detail: disaggregation (2)

IASB's tentative decisions	Proposal	UKEB Secretariat position in comment letter to IASB
The role of the primary financial statements and the notes, required line items		
Retain statement of profit or loss line items required by IAS 1 paragraph 82 (revenue, income or expenses from financing activities, profit or loss of equity accounted joint ventures and associates, tax, discontinued operations)	●	-
Present goodwill separately from intangible assets	●	-
To state that presentation requirements only apply when the resulting presentation does not detract from the primary financial statements providing an understandable overview, but to add application guidance stating that it is unlikely that presenting the statement of profit or loss line items required by IFRS would detract from providing an understandable overview	●	-

KEY ● Decision on proposal in ED ● Decision relates to proposal in ED but is on a point of detail not covered in ED



# IASB's tentative decisions in more detail: disaggregation (3)

IASB's tentative decisions	Proposal	UKEB Secretariat position in comment letter to IASB
Principles of disaggregation		
<p>State the purpose of disaggregation more clearly – items shall be disaggregated if the resulting disaggregated information is material</p>	●	-
<p>Emphasise that a single dissimilar characteristic between items would be sufficient to require an entity to disaggregate information about those items if that information were material</p>	●	-
<p>Include application guidance:</p> <ul style="list-style-type: none"> <li>• summarising characteristics that if shared might form the basis for aggregating items that comprise a class that enhances understandability / if not shared might form the basis for disaggregating a class of items into separate classes that provide material information</li> <li>• stating that, in general, the more diverse the items in a class are, the more likely that disaggregation of those items based on those dissimilar characteristics would result in material information</li> </ul>	●	-

KEY ● Decision relates to proposal in ED but is on a point of detail not covered in ED

# IASB's tentative decisions in more detail: disaggregation (4)

IASB's tentative decisions	Proposal	UKEB Secretariat position in comment letter to IASB
Unusual items		
To explore definition of unusual items:		
Remove 'limited predictive value' from proposed definition and to clarify that limited predictive value is a necessary characteristic of unusual items but not the sole characteristic	●	-
To develop application guidance to:		
Clarify that unusual income and expenses can be dissimilar in type or amount from income and expenses expected in the future	●	●
Help an entity assess likelihood of similar income or expenses arising in future, based on guidance on the assessment of future transactions in other IFRS		
Explain that in considering whether income or expenses are similar to expected future income or expenses, an entity would consider characteristics of the income and expenses, including the underlying event or transaction that gave rise to them	● ●	●

KEY ● Decision relates to proposal in ED but is on a point of detail not covered in ED ● Support

# IASB's tentative decisions in more detail: MPMs (I)

IASB's tentative decisions	Proposal	UKEB Secretariat position in comment letter to IASB
Definition of an MPM*		
Narrow the scope of public communications by excluding oral communications, transcripts and social media posts.	●	-
State that totals and subtotals required by IFRS are not MPMs	●	-
Include a rebuttable presumption that a subtotal of income and expenses included in a public communication outside the financial statements represents management's view of an aspect of the entity's financial performance. Provide high-level application guidance on how to assess whether the entity has reasonable and supportable information to support the rebuttal.	●	-
Remove the reference in the proposed definition of MPMs to complementing totals or subtotals required by IFRS	●	-

\*The ED proposed the following definition of an MPM: MPMs are subtotals of income and expenses that are used in public communications outside financial statements, complement totals or subtotals specified by IFRS Standards; and communicate to users of financial statements management's view of an aspect of an entity's financial performance.

KEY ● Decision relates to proposal in ED but is on a point of detail not covered in ED

# IASB's tentative decisions in more detail: MPMs (2)

IASB's tentative decisions	Proposal	UKEB Secretariat position in comment letter to IASB
Disclosures on MPMs		
Disclose why an MPM communicates management's view of performance (subject to drafting considerations), including how the measure is calculated and how it provides useful information about the entity's performance	●	●
Disclose reconciliation between MPM and most directly comparable total or subtotal in IFRS	●	●
Require an explanation of why reconciling items from MPM to most directly comparable total or subtotal in IFRS communicate management's view of performance, where doing so would be necessary for a user to understand why it does so	●	-
Disclose, for each reconciling item, the amounts included in each line item in the statement of profit or loss	●	-

KEY ● Decision on proposal in ED ● Decision relates to proposal in ED but is on a point of detail not covered in ED ● Support

# Further resources

[IASB Snapshot General Presentation and Disclosures](#)

[IASB Exposure Draft General Presentation and Disclosures](#)

[UKEB Secretariat comment letter](#)

[UKEB Secretariat feedback statement](#)