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IFRS® Standards
Exposure Draft ED/2019/7

General Presentation and Disclosures

Comments to be received by 30 June 2020

IASB®

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Exposure Draft

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APPROVAL BY THE BOARD OF EXPOSURE DRAFT *GENERAL PRESENTATION AND DISCLOSURES* PUBLISHED IN DECEMBER 2019

BASIS FOR CONCLUSIONS *(see separate booklet)*

ILLUSTRATIVE EXAMPLES *(see separate booklet)*

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Introduction

Why is the Board publishing this Exposure Draft?

The Exposure Draft includes the proposals of the International Accounting Standards Board (Board) to improve how information is communicated in the financial statements, with a focus on information about performance the statement of profit or loss.[1] The Board is proposing limited changes to the statement of cash flows and the statement of financial position.

The proposals in the Exposure Draft were developed by the Board as part of its Primary Financial Statements project, which is part of the Board's work on Better Communication in Financial Reporting. It responds to the strong demand from stakeholders, and in particular users of financial statements, to undertake a project on performance reporting.

Structure of the Exposure Draft

The Exposure Draft includes:

(a) a proposal to replace IAS 1 *Presentation of Financial Statements* with a new Standard that would comprise:

  (i) new requirements on presentation and disclosures in the financial statements.[2]

  (ii) requirements brought forward from IAS 1 with only limited changes to the wording. (These changes are not intended to modify any requirements.)

(b) proposed amendments to other Standards:

  (i) IAS 7 *Statement of Cash Flows*;

  (ii) IFRS 12 *Disclosure of Interests in Other Entities*;

  (iii) IAS 33 *Earnings per Share*;

  (iv) IAS 34 *Interim Financial Reporting*;

  (v) IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to include some requirements from IAS 1;[3] and

  (vi) IFRS 7 *Financial Instruments: Disclosures* to include some requirements from IAS 1.

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1 This invitation to comment and the Exposure Draft uses the term 'statement of profit or loss' to cover both the profit or loss section (when an entity presents its statement(s) of financial performance as a single statement of profit or loss and other comprehensive income) and the statement of profit or loss (when an entity presents its statement(s) of financial performance as a statement of profit or loss and a separate statement presenting comprehensive income).

2 The Board proposes to retain requirements in IAS 7 *Statement of Cash Flows* that are specific to presentation and disclosures in the statement of cash flows with some amendments.

3 The Exposure Draft also sets out a proposal to change the title of IAS 8 from '*Accounting Policies, Changes in Accounting Estimates and Errors*' to '*Basis of Preparation, Accounting Policies, Changes in Accounting Estimates and Errors*'.

Who would be affected by the proposals?

The Board expects the proposals in this Exposure Draft to affect all entities that apply IFRS Standards to prepare financial statements. The effect of these proposals will vary between entities. Paragraphs BC232–BC312 of the Basis for Conclusions describe the expected effects of the Board's proposals in more detail.

Next step

The Board will consider comment letters and other feedback from its consultations on this Exposure Draft when finalising the project proposals.

Invitation to comment

The Board invites comments on the project proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

(a) address the questions as stated;

(b) indicate the specific paragraph(s) to which they relate;

(c) contain a clear rationale;

(d) identify any wording in the project proposals that is difficult to translate; and

(e) include any alternative the Board should consider, if applicable.

Respondents need not comment on all the questions. The Board is interested in receiving input on how it has balanced costs and benefits when developing those proposed changes. The Board also welcomes views on whether the project proposals are drafted clearly and whether they reflect the Board's decisions.

The Board is not seeking comments on the requirements that the Board proposes to bring forward from IAS 1 with only limited changes to their wording. However, the Board welcomes views on whether the proposed limited wording changes to these requirements could have unintended consequences. The requirements brought forward from IAS 1 are 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.

Structure of the statement of profit or loss

Figure 1 is a summary of a statement of profit or loss prepared by an entity applying the project proposals. The entity does not make investments in the course of its main business activities, nor does it provide financing to customers as a main business activity.

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Figure 1—Summary of a statement of profit or loss

Revenue	X	Operating
Operating expenses	(X)	
Operating profit or loss	**X**	
Share of profit or loss of integral associates and joint ventures	X	Integral associates and joint ventures
Operating profit or loss and income and expenses from integral associates and joint ventures	**X**	
Share of profit or loss of non-integral associates and joint ventures	X	Investing
Income from investments	X	
Profit or loss before financing and income tax	**X**	
Interest revenue from cash and cash equivalents	X	Financing
Expenses from financing activities	(X)	
Unwinding of discount on pension liabilities and provisions	(X)	
Profit or loss before tax	**X**	

The Exposure Draft proposes that an entity present the following new subtotals in the statement of profit or loss (shown as shaded in Figure 1):[4]

(a) operating profit or loss;

(b) operating profit or loss and income and expenses from integral associates and joint ventures; and

(c) profit or loss before financing and income tax.

In applying these proposed new subtotals, an entity would present in the statement of profit or loss income and expenses classified in the following categories (these categories are shown in the boxes on the right in Figure 1):

(a) operating;

(b) integral associates and joint ventures;

(c) investing; and

(d) financing.

The operating category excludes income or expenses classified in the other categories such as the investing category or the financing category, and therefore includes all income and expenses from an entity's main business activities. Consequently, the operating category includes:

(a) income and expenses from investments made in the course of an entity's main business activities (paragraph 48 of the Exposure Draft); and

4 The Exposure Draft also describes when subtotals (b) or (c) are required to be presented and when they may not be presented.

(b) income and expenses from financing activities and income and expenses from cash and cash equivalents if the entity provides financing to customers as a main business activity (paragraph 51 of the Exposure Draft).

The investing category includes returns from investments, that is, income and expenses from assets that generate a return individually and largely independently of other resources held by the entity.[5] The investing category also includes related incremental expenses.

The financing category includes:[6]

(a) income and expenses from cash and cash equivalents;

(b) income and expenses on liabilities arising from financing activities; and

(c) interest income and expenses on other liabilities, for example, the unwinding of discounts on pension liabilities and provisions.

The Board developed its proposals for the categories in the statement of profit or loss without trying to align classifications across the primary financial statements. Consequently, income and expenses classified in the operating, investing and financing categories in the statement of profit or loss do not necessarily correspond with the cash flows from operating, investing and financing activities in the statement of cash flows.

Question 1—operating profit or loss
Paragraph 60(a) of the Exposure Draft proposes that all entities present in the statement of profit or loss a subtotal for operating profit or loss. Paragraph BC53 of the Basis for Conclusions describes the Board's reasons for this proposal. Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

Question 2—the operating category
Paragraph 46 of the Exposure Draft proposes that entities classify in the operating category all income and expenses not classified in the other categories, such as the investing category or the financing category. Paragraphs BC54–BC57 of the Basis for Conclusions describe the Board's reasons for this proposal. Do you agree with this proposal? Why or why not? If not, what alternative approach would you suggest and why?

5 Except for the case described in (a) in the preceding paragraph.

6 Except for the case described in (b) in the preceding paragraph.

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Question 3—the operating category: income and expenses from investments made in the course of an entity's main business activities
Paragraph 48 of the Exposure Draft proposes that an entity classifies in the operating category income and expenses from investments made in the course of the entity's main business activities. Paragraphs BC58–BC61 of the Basis for Conclusions describe the Board's reasons for this proposal. Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

Question 4—the operating category: an entity that provides financing to customers as a main business activity
Paragraph 51 of the Exposure Draft proposes that an entity that provides financing to customers as a main business activity classify in the operating category either: • income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or • all income and expenses from financing activities and all income and expenses from cash and cash equivalents. Paragraphs BC62–BC69 of the Basis for Conclusions describe the Board's reasons for the proposals. Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

Question 5—the investing category
Paragraphs 47–48 of the Exposure Draft propose that an entity classifies in the investing category income and expenses (including related incremental expenses) from assets that generate a return individually and largely independently of other resources held by the entity, unless they are investments made in the course of the entity's main business activities. Paragraphs BC48–BC52 of the Basis for Conclusions describe the Board's reasons for the proposal. Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

Question 6—profit or loss before financing and income tax and the financing category
(a) Paragraphs 60(c) and 64 of the Exposure Draft propose that all entities, except for some specified entities (see paragraph 64 of the Exposure Draft), present a profit or loss before financing and income tax subtotal in the statement of profit or loss. (b) Paragraph 49 of the Exposure Draft proposes which income and expenses an entity classifies in the financing category. Paragraphs BC33–BC45 of the Basis for Conclusions describe the Board's reasons for the proposals. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

Integral and non-integral associates and joint ventures

The Board proposes to define 'integral associates and joint ventures' and 'non-integral associates and joint ventures', and to require an entity to classify its equity-accounted associates and joint ventures as either integral or non-integral to the entity's main business activities. The Board also proposes to require an entity to provide information about integral associates and joint ventures separately from that for non-integral associates and joint ventures. The Board proposes that an entity would be required to:

(a) classify, in the integral associates and joint ventures category of the statement of profit or loss, income and expenses from integral associates and joint ventures, and present a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures (paragraphs 53 and 60(b) of the Exposure Draft);

(b) present, as cash flows from investing activities in the statement of cash flows, cash flows from investments in integral associates and joint ventures separately from the cash flows from investments in non-integral associates and joint ventures (proposed new paragraph 38A of IAS 7);

(c) present, in the statement of financial position, investments in integral associates and joint ventures separately from investments in non-integral associates and joint ventures (paragraphs 82(g)–82(h) of the Exposure Draft); and

(d) disclose, in the notes, information required by paragraph 20 of IFRS 12 for integral associates and joint ventures separately from non-integral associates and joint ventures (proposed new paragraph 20E of IFRS 12).

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Question 7—integral and non-integral associates and joint ventures
(a) The proposed new paragraphs 20A–20D of IFRS 12 would define 'integral associates and joint ventures' and 'non-integral associates and joint ventures'; and require an entity to identify them. (b) Paragraph 60(b) of the Exposure Draft proposes to require that an entity present in the statement of profit or loss a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures. (c) Paragraphs 53, 75(a) and 82(g)–82(h) of the Exposure Draft, the proposed new paragraph 38A of IAS 7 and the proposed new paragraph 20E of IFRS 12 would require an entity to provide information about integral associates and joint ventures separately from non-integral associates and joint ventures. Paragraphs BC77–BC89 and BC205–BC213 of the Basis for Conclusions describe the Board's reasons for these proposals and discuss approaches that were considered but rejected by the Board. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

Roles of financial statements, aggregation and disaggregation

The Board proposes to describe the roles of the primary financial statements and the notes. The Board also proposes principles and general requirements on the aggregation and disaggregation of information; the principles would be applicable both to presentation in the primary financial statements and disclosures in the notes.

Question 8—roles of the primary financial statements and the notes, aggregation and disaggregation
(a) Paragraphs 20–21 of the Exposure Draft set out the proposed description of the roles of the primary financial statements and the notes. (b) Paragraphs 25–28 and B5–B15 of the Exposure Draft set out proposals for principles and general requirements on the aggregation and disaggregation of information. Paragraphs BC19–BC27 of the Basis for Conclusions describe the Board's reasons for these proposals. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

The Board proposes to continue to require entities to present in the statement of profit or loss an analysis of operating expenses using either the nature of expense method or the function of expense method. The Board proposes the method presented should be the one that provides the most useful information to users of financial statements. In addition, the Board proposes to describe the factors to consider when deciding which method of operating expense analysis should be used (paragraph B45 of the Exposure Draft). An entity that presents an analysis of operating expenses using the function of

expense method in the statement of profit or loss would also be required to disclose in a single note an analysis of its total operating expenses using the nature of expense method.

Question 9—analysis of operating expenses
Paragraphs 68 and B45 of the Exposure Draft propose requirements and application guidance to help an entity to decide whether to present its operating expenses using the nature of expense method or the function of expense method of analysis. Paragraph 72 of the Exposure Draft proposes requiring an entity that provides an analysis of its operating expenses by function in the statement of profit or loss to provide an analysis using the nature of expense method in the notes. Paragraphs BC109–BC114 of the Basis for Conclusions describe the Board's reasons for the proposals. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

The Board proposes introducing a definition of 'unusual income and expenses'; and proposes requiring all entities to disclose unusual income and expenses in a single note. The Board also proposes application guidance to help an entity to identify its unusual income and expenses.

Question 10—unusual income and expenses
(a) Paragraph 100 of the Exposure Draft introduces a definition of 'unusual income and expenses'. (b) Paragraph 101 of the Exposure Draft proposes to require all entities to disclose unusual income and expenses in a single note. (c) Paragraphs B67–B75 of the Exposure Draft propose application guidance to help an entity to identify its unusual income and expenses. (d) Paragraphs 101(a)–101(d) of the Exposure Draft propose what information should be disclosed relating to unusual income and expenses. Paragraphs BC122–BC144 of the Basis for Conclusions describe the Board's reasons for the proposals and discuss approaches that were considered but rejected by the Board. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

Management performance measures

The Board proposes to introduce a definition of 'management performance measures' and require an entity to disclose them in a single note. Management performance measures are subtotals of income and expenses that:

(a) are used in public communications outside financial statements;

(b) complement totals or subtotals specified by IFRS Standards; and

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(c) communicate to users of financial statements management's view of an aspect of an entity's financial performance.

An entity would comply with the general requirements in IFRS Standards for information included in financial statements when it provides these measures; for example, each performance measure must faithfully represent an aspect of the financial performance of the entity. However, the Board does not propose additional restrictions on management performance measures, such as only allowing an entity's management to provide measures based on amounts recognised and measured in accordance with IFRS Standards (paragraphs BC155 and BC158–BC162).

The Exposure Draft also proposes to specify the information an entity would be required to disclose about management performance measures, including a reconciliation to the most directly comparable total or subtotal specified by IFRS Standards.

Question 11—management performance measures

(a) Paragraph 103 of the Exposure Draft proposes a definition of 'management performance measures'.

(b) Paragraph 106 of the Exposure Draft proposes requiring an entity to disclose in a single note information about its management performance measures.

(c) Paragraphs 106(a)–106(d) of the Exposure Draft propose what information an entity would be required to disclose about its management performance measures.

Paragraphs BC145–BC180 of the Basis for Conclusions describe the Board's reasons for the proposals and discuss approaches that were considered but rejected by the Board.

Do you agree that information about management performance measures as defined by the Board should be included in the financial statements? Why or why not?

Do you agree with the proposed disclosure requirements for management performance measures? Why or why not? If not, what alternative disclosures would you suggest and why?

EBITDA

The Board does not propose to define earnings before interest, tax, depreciation and amortisation (EBITDA) in this project. The Board considered, but rejected, describing operating profit or loss before depreciation and amortisation as EBITDA. However, the Board proposes to exempt from the disclosure requirements for management performance measures a subtotal calculated as operating profit or loss before depreciation and amortisation (paragraph 104(c)).

Question 12—EBITDA

Paragraphs BC172–BC173 of the Basis for Conclusions explain why the Board has not proposed requirements relating to EBITDA.

Do you agree? Why or why not? If not, what alternative approach would you suggest and why?

Statement of cash flows

The Board proposes to require an entity to use the operating profit or loss subtotal as the starting point for the indirect method of reporting cash flows from operating activities.

The Board also proposes to reduce the presentation alternatives currently permitted by IAS 7 and to require that, in the statement of cash flows, an entity classifies interest and dividend cash flows as shown in Figure 2.

Figure 2—Classification of interest and dividend cash flows

Cash flow item	Most entities	Specified entities[(a)]
Interest paid	Financing	Accounting policy choice, possible location depends on the classification of the related income and expenses in the statement of profit or loss
Interest received	Investing	
Dividends received	Investing	
Dividends paid	Financing	

(a) An entity that provides financing to customers as a main business activity or in the course of its main business activities invests in assets that generate a return individually and largely independently of the entity's other resources.

Question 13—statement of cash flows

(a) The proposed amendment to paragraph 18(b) of IAS 7 would require operating profit or loss to be the starting point for the indirect method of reporting cash flows from operating activities.

(b) The proposed new paragraphs 33A and 34A–34D of IAS 7 would specify the classification of interest and dividend cash flows.

Paragraphs BC185–BC208 of the Basis for Conclusions describe the Board's reasons for the proposals and discusses approaches that were considered but rejected by the Board.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

Other

Question 14—other comments

Do you have any other comments on the proposals in the Exposure Draft, including the analysis of the effects (paragraphs BC232–BC312 of the Basis for Conclusions, including Appendix) and Illustrative Examples accompanying the Exposure Draft?

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Deadline

The Board will consider all written comments received by **30 June 2020**.

How to comment

We prefer to receive comments online. However, you may submit comments using any of the following methods.

Online	Visit the 'Open for comment documents' page at: https://www.ifrs.org/projects/open-for-comment/
By email	Send to: commentletters@ifrs.org
By post	IFRS Foundation Columbus Building 7 Westferry Circus Canary Wharf London E14 4HD United Kingdom

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data.

[Draft] International Financial Reporting Standard X *General Presentation and Disclosures*

Objective

1 [IAS 1.1] This [draft] Standard sets out general and specific requirements for the presentation and disclosure of information in *general purpose financial statements* ('financial statements') to help ensure they provide relevant information that faithfully represents an entity's assets, liabilities, equity, income and expenses.

Scope

2 **[IAS 1.2] An entity shall apply this [draft] Standard in presenting and disclosing information in financial statements prepared applying *IFRS Standards*.**

3 [IAS 1.47] This [draft] Standard sets out general and specific requirements for the presentation of information in the statement(s) of financial performance, the statement of financial position and the statement of changes in equity. This [draft] Standard also requires the disclosure of other information in the *notes*. IAS 7 *Statement of Cash Flows* sets out requirements for the presentation and disclosure of cash flow information.

4 [IAS 1.3] Other IFRS Standards set out the recognition, measurement, presentation and disclosure requirements for specific transactions and other events.

5 [IAS 1.4 partial] This [draft] Standard does not apply to the presentation and disclosure of information in condensed interim financial statements prepared in accordance with IAS 34 *Interim Financial Reporting*. However, paragraphs 25–30, 100–110 and 118 apply to such financial statements.

6 [IAS 1.4 partial] This [draft] Standard applies equally to all entities, including those that present consolidated financial statements in accordance with IFRS 10 *Consolidated Financial Statements* and those that present separate financial statements in accordance with IAS 27 *Separate Financial Statements*.

7 [IAS 1.5] This [draft] Standard uses terminology that is suitable for profit-oriented entities, including public sector business entities. If entities with not-for-profit activities in the private sector or the public sector apply this [draft] Standard, they may need to amend the descriptions used for particular line items, categories, subtotals or totals in the financial statements and for the financial statements themselves.

8 [IAS 1.6] Similarly, entities that do not have equity as defined in IAS 32 *Financial Instruments: Presentation* (eg some mutual funds) and entities whose share capital is not equity (eg some co-operative entities) may need to adapt the financial statement presentation of members' or unitholders' interests.

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9 [IAS 1.13, 14] Many entities provide a financial review by management, which is separate from the financial statements (see paragraph 10), that describes and explains the main features of the entity's financial performance and financial position, as well as the principal uncertainties it faces. Such reports and statements are outside the scope of IFRS Standards. IFRS Practice Statement 1 *Management Commentary* provides non-mandatory guidance on the presentation of management commentary relating to financial statements prepared applying IFRS Standards.[7]

Complete set of financial statements

10 [IAS 1.10] A complete set of financial statements comprises:

(a) a statement(s) of financial performance for the reporting period (see paragraph 13);

(b) a statement of financial position as at the end of the reporting period;

(c) a statement of changes in equity for the reporting period;

(d) a statement of cash flows for the reporting period;

(e) notes (see paragraph 21);

(f) comparative information in respect of the preceding period as specified in paragraphs 34–35; and

(g) a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 36–39.

An entity may use titles for the statements other than those used in this [draft] Standard. For example, an entity may use the title 'balance sheet' instead of 'statement of financial position'.

11 The statements described in paragraphs 10(a)–10(d) are referred to as the *primary financial statements*.

12 [IAS 1.8] Although this [draft] Standard uses terms such as 'other comprehensive income', 'profit or loss' and 'total comprehensive income', an entity may use other terms to describe the totals, subtotals and line items required by this [draft] Standard as long as the meaning is clear. For example, an entity may use the term 'net income' to describe *profit or loss*.

7 The International Accounting Standards Board (Board) has a project on its agenda to revise and update IFRS Practice Statement 1 *Management Commentary*.

13 **[IAS 1.10A] An entity may present its statement(s) of financial performance as either:**

(a) a single statement of profit or loss and *other comprehensive income*, with profit or loss and other comprehensive income presented in two sections; if this option is chosen, an entity shall present the profit or loss section first followed directly by the other comprehensive income section; or

(b) a statement of profit or loss and a separate statement presenting comprehensive income that shall begin with profit or loss; if this option is chosen, the statement of profit or loss shall immediately precede the statement presenting comprehensive income.

14 In this [draft] Standard:

(a) the profit or loss section described in paragraph 13(a) and the statement of profit or loss described in paragraph 13(b) are referred to as the statement of profit or loss; and

(b) the other comprehensive income section described in paragraph 13(a) and the statement presenting comprehensive income described in paragraph 13(b) are referred to as the statement presenting comprehensive income.

15 **[IAS 1.11] An entity shall present each of the primary financial statements with equal prominence in a complete set of financial statements.**

Identification of the financial statements

16 **[IAS 1.49] An entity shall clearly identify the financial statements and distinguish them from other information in the same published document (see paragraphs B1–B2).**

17 [IAS 1.50] IFRS Standards apply only to financial statements, and not necessarily to other information provided in an annual report, a regulatory filing, or another document. Therefore, it is important that users of financial statements can distinguish information that is prepared using IFRS Standards from other information that may be useful to users but is not the subject of those requirements.

18 **[IAS 1.51] An entity shall clearly identify each primary financial statement and the notes. In addition, an entity shall display the following information prominently, and repeat it when necessary for the information provided to be understandable:**

(a) the name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period;

(b) whether the financial statements are of an individual entity or a group of entities;

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(c) the date of the end of the reporting period or the period covered by the financial statements;

(d) the presentation currency, as defined in IAS 21 *The Effects of Changes in Foreign Exchange Rates*; and

(e) the level of rounding used for the amounts in the financial statements.

General presentation and disclosure requirements

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

19 [IAS 1.9] The objective of financial statements is to provide financial information about the reporting entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's economic resources.

20 The role of the primary financial statements is to provide a structured and comparable summary of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows, which is useful for:

(a) obtaining an overview of the entity's assets, liabilities, equity, income, expenses and cash flows;

(b) making comparisons between entities, and between reporting periods for the same entity; and

(c) identifying items or areas about which users of financial statements may wish to seek additional information in the notes.

21 The role of the notes is to:

(a) provide further information necessary for users of financial statements to understand the items included in the primary financial statements; and

(b) supplement the primary financial statements with other information that is necessary to meet the objective of financial statements.

22 An entity shall use the description of the roles of the primary financial statements and the notes in paragraphs 20–21 to determine whether financial information should be included in the primary financial statements or in the notes. However, in determining the location of financial information, descriptions of the roles do not override specific requirements in IFRS Standards on the presentation and disclosure of financial information, for example, the requirements for the presentation of subtotals and line items in paragraphs 60 and 65 of this [draft] Standard.

23 An implication of the roles of the primary financial statements and the notes is that the amount of information required in the notes may be different from that in the primary financial statements, namely:

(a) to provide the summary of information about the entity's assets, liabilities, equity, income, expenses and cash flows described in paragraph 20, information provided in the primary financial statements is more aggregated than information provided in the notes; and

(b) to meet the objective of financial statements, more detailed information about the entity's assets, liabilities, equity, income, expenses and cash flows, including *disaggregation* of information presented in the primary financial statements, may be required in the notes.

24 [IAS 1.31] Some IFRS Standards specify information that is required to be presented in the primary financial statements or disclosed in the notes. An entity need not provide a specific presentation or disclosure required by an IFRS Standard if the information resulting from that presentation or disclosure is not material. This is the case even if the IFRS Standard contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Standards is insufficient to enable users of financial statements to understand the impact of transactions and other events and conditions on the entity's financial position and financial performance.

Aggregation and disaggregation (see paragraphs B5–B15)

25 [IAS 1.29 and IAS 1.30A] An entity shall present in the primary financial statements or disclose in the notes the nature and amount of each material class of assets, liabilities, income or expense, equity or cash flow. To provide this information an entity shall aggregate transactions and other events into the information it discloses in the notes and the line items it presents in the primary financial statements. Unless doing so would override specific *aggregation* or disaggregation requirements in IFRS Standards, an entity shall apply the principles that (see paragraphs B5–B15):

(a) items shall be classified and aggregated on the basis of shared characteristics;

(b) items that do not share characteristics shall not be aggregated (see paragraph 27); and

(c) aggregation and disaggregation in the financial statements shall not obscure relevant information or reduce the understandability of the information presented or disclosed.

26 When presenting information in the primary financial statements or disclosing information in the notes, the description of the items shall faithfully represent the characteristics of those items.

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27 An entity may aggregate immaterial items that do not share characteristics. However, using a non-descriptive label such as 'other' to describe a group of such items would not faithfully represent those items without additional information. Except as described in paragraph 28, to faithfully represent aggregated items, an entity shall either:

(a) aggregate immaterial items with other items that share similar characteristics and can be described in a manner that faithfully represents the characteristics of the aggregated items; or

(b) aggregate immaterial items with other items that do not share similar characteristics but which may be described in a way that faithfully represents the dissimilar items.

28 If the steps set out in paragraphs 27(a)–27(b) do not lead to descriptions that result in a faithful representation, an entity shall disclose in the notes information about the composition of the aggregated items, for example, by indicating that an aggregated item consists of several unrelated immaterial amounts and by indicating the nature and amount of the largest item in the aggregation.

Offsetting

29 [IAS 1.32] **An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an IFRS Standard (see paragraphs B16–B17).**

30 [IAS 1.33] An entity reports separately both assets and liabilities, and income and expenses. Offsetting in the statement(s) of financial performance or the statement of financial position, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users of financial statements both to understand the transactions and other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and doubtful debts allowances on receivables—is not offsetting.

Frequency of reporting

31 [IAS 1.36] **An entity shall provide a complete set of financial statements (including comparative information) at least annually. When an entity changes the end of its reporting period and provides financial statements for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:**

(a) **the reason for using a longer or shorter period; and**

(b) **the fact that amounts included in the financial statements are not entirely comparable.**

32 [IAS 1.37] Normally, an entity consistently prepares financial statements for a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This [draft] Standard does not preclude this practice.

Consistency of presentation, disclosure and classification

33 [IAS 1.45] An entity shall retain the presentation, disclosure and *classification* of items in the financial statements from one reporting period to the next unless (see paragraph B18):

(a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation, disclosure or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IAS 8 *Basis of Preparation, Accounting Policies, Changes in Accounting Estimates and Errors*;[8] or

(b) an IFRS Standard requires a change in presentation, disclosure or classification.

Comparative information

Minimum comparative information (see paragraphs B19–B21)

34 [IAS 1.38] Except when IFRS Standards permit or require otherwise, an entity shall provide comparative information in respect of the preceding reporting period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information if it is relevant to an understanding of the current period's financial statements.

35 [IAS 1.38A] An entity shall present, as a minimum, a current reporting period and preceding period in each of its primary financial statements and in the notes.

Change in accounting policy, retrospective restatement or reclassification

36 [IAS 1.40A] An entity shall present a third statement of financial position as at the beginning of the preceding reporting period in addition to the minimum comparative information required in paragraph 35 if:

(a) it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and

8 This Exposure Draft proposes amending the title of IAS 8 to reflect proposed amendments to the text of the Standard.

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(b) the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period.

37 [IAS 1.40B] In the circumstances described in paragraph 36, an entity shall present three statements of financial position as at:

(a) the end of the current reporting period;

(b) the end of the preceding period; and

(c) the beginning of the preceding period.

38 [IAS 1.40C] When an entity is required to present a third statement of financial position in accordance with paragraph 36, it must disclose the information required by paragraphs 40–41 and IAS 8. However, it need not provide the related notes to the opening statement of financial position as at the beginning of the preceding reporting period.

39 [IAS 1.40D] The date of that opening statement of financial position shall be as at the beginning of the preceding reporting period regardless of whether an entity's financial statements provide comparative information for earlier periods (as permitted in paragraph B20).

40 [IAS 1.41] If an entity changes the presentation, disclosure or classification of items in its financial statements, it shall reclassify comparative amounts unless reclassification is *impracticable*. When an entity reclassifies comparative amounts, it shall disclose (including as at the beginning of the preceding reporting period) (see paragraphs B22–B23):

(a) the nature of the reclassification;

(b) the amount of each item or class of items that is reclassified; and

(c) the reason for the reclassification.

41 [IAS 1.42] When it is impracticable to reclassify comparative amounts, an entity shall disclose:

(a) the reason for not reclassifying the amounts; and

(b) the nature of the adjustments that would have been made if the amounts had been reclassified.

Line items and subtotals

42 [IAS 1.85, 55] This [draft] Standard requires minimum line items and subtotals to be presented in the statement(s) of financial performance and the statement of financial position. An entity shall present additional line items (including by disaggregating required minimum line items), headings and subtotals in the statement(s) of financial performance and the statement of financial position when such presentations are relevant to an understanding of the entity's financial performance or financial position.

43 [IAS 1.85A, 55A] When an entity presents additional subtotals in accordance with paragraph 42, those subtotals shall:

(a) comprise line items made up of amounts recognised and measured in accordance with IFRS Standards;

(b) be presented and labelled in a manner that faithfully represents the line items that constitute the subtotal, making the subtotal clear and understandable;

(c) be consistent from period to period, in accordance with paragraph 33; and

(d) not be displayed with more prominence than the subtotals and totals required by IFRS Standards.

Statement(s) of financial performance

Statement of profit or loss

44 [IAS 1.88] An entity shall recognise all items of income and expense in a reporting period in the statement of profit or loss unless an IFRS Standard requires or permits otherwise (see paragraphs 74–81).

Categories included in the statement of profit or loss

45 An entity shall classify income and expenses included in profit or loss into the following categories:

(a) operating (see paragraph 46);

(b) investing (see paragraphs 47–48);

(c) financing (see paragraphs 49–52);

(d) *integral associates and joint ventures* (see paragraph 53);

(e) income tax (see paragraph 54); and

(f) discontinued operations (see paragraph 55).

Operating

46 The operating category includes information about income and expenses from an entity's main business activities. An entity shall classify in the operating category all income and expenses included in profit or loss that are not classified in:

(a) investing;

(b) financing;

(c) integral associates and joint ventures;

(d) income tax; or

(e) discontinued operations.

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Investing

47 **The objective of the investing category is to communicate information about returns from investments that are generated individually and largely independently of other resources held by an entity. Except as required by paragraph 48, an entity shall classify in the investing category:**

(a) ***income and expenses from investments*, including from non-integral associates and joint ventures (see paragraphs B32–B33).**

(b) **incremental expenses incurred generating income and expenses from investments. Incremental expenses are expenses that the entity would not have incurred had the investments giving rise to the income and expenses from investments not been made.**

48 An entity shall not classify in the investing category income and expenses specified in paragraphs 47(a)–47(b) generated in the course of its main business activities. Such income and expenses are instead classified in the operating category. An entity shall not classify income and expenses from non-integral associates and joint ventures in the operating category.

Financing

49 **The objective of the financing category is to communicate information about income and expenses from assets and liabilities related to an entity's financing. Except as required by paragraphs 51–52, an entity shall classify in the financing category:**

(a) **income and expenses from cash and cash equivalents (see paragraph B34);**

(b) **income and expenses on liabilities arising from *financing activities* (see paragraphs B35–B36); and**

(c) **interest income and expenses on other liabilities (see paragraph B37).**

50 Financing activities are those involving the receipt or use of a resource from a provider of finance with the expectation that:

(a) the resource will be returned to the provider of finance; and

(b) the provider of finance will be compensated through the payment of a finance charge that is dependent on both the amount of the credit and its duration.

51 If an entity provides financing to customers as a main business activity, it shall make an accounting policy choice to not classify in the financing category either (see paragraphs B28–B29):

(a) income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or

(b) all income and expenses from financing activities and all income and expenses from cash and cash equivalents.

Such income and expenses are instead classified in the operating category.

52 An entity also excludes the following income and expenses from the financing category and classifies them in the operating category:

(a) income and expenses from cash and cash equivalents if the entity, in the course of its main business activities, invests in financial assets that generate a return individually and largely independently of other resources held by the entity (see paragraph B30);

(b) income and expenses on liabilities arising from issued investment contracts with participation features recognised applying IFRS 9 *Financial Instruments*; and

(c) insurance finance income and expenses included in profit or loss applying IFRS 17 *Insurance Contracts*.

Other categories

53 An entity shall classify in the integral associates and joint ventures category income and expenses from integral associates and joint ventures (see paragraph B38).

54 An entity shall classify in the income tax category income tax expense or income included in profit or loss applying IAS 12 *Income Taxes*.

55 An entity shall classify in the discontinued operations category the single amount for the total of discontinued operations required by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Classification of foreign exchange differences and of fair value gains and losses on derivatives and hedging instruments

56 An entity shall classify foreign exchange differences included in profit or loss applying IAS 21 in the same category of the statement of profit or loss as the income and expenses from the items that gave rise to the foreign exchange differences (see paragraph B39).

57 An entity shall classify gains and losses on financial instruments designated as hedging instruments applying IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9:

(a) in the operating category, if the instrument is used to manage risks affecting income or expenses classified in the operating category—except when doing so would require the grossing up of gains and losses (see paragraphs B41–B42);

(b) in the financing category, if the instrument is used to manage risks affecting income or expenses classified in the financing category—except when doing so would require the grossing up of gains and losses; and

(c) in the investing category:

(i) if the instrument is used to manage risks affecting income and expenses classified in the investing category; or

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(ii) in all other cases—including in the circumstances set out in (a) and (b) involving the grossing up of gains and losses.

58 An entity also applies the requirements of paragraph 57 to derivatives used to manage risks if those derivatives are not designated as hedging instruments applying IAS 39 and IFRS 9 except when doing so would involve undue cost or effort. In which case an entity shall classify all gains and losses on the derivative in the investing category.

59 Gains and losses on derivatives that are not used to manage risks are classified in the investing category except when those derivatives are used in the course of the entity's main business activities applying paragraph 48. When derivatives that are not used to manage risks are used in the course of an entity's main business activities the gains and losses are classified in the operating category.

Totals and subtotals presented in the statement of profit or loss

60 [IAS 1.81A partial] Subject to paragraph 64, an entity shall present the following totals or subtotals in the statement of profit or loss:

(a) operating profit or loss;

(b) operating profit or loss and income and expenses from integral associates and joint ventures (see paragraph 53);

(c) profit or loss before financing and income tax (see paragraphs 63–64); and

(d) profit or loss.

61 An entity shall include in operating profit or loss all income and expenses classified in the operating category.

62 If an entity has no integral associates and joint ventures, it is not required to present the subtotal required by paragraph 60(b) for operating profit or loss and income and expenses from integral associates and joint ventures.

63 An entity shall include in profit or loss before financing and income tax:

(a) operating profit or loss;

(b) income and expenses from integral associates and joint ventures (see paragraphs 53 and B38); and

(c) income and expenses classified in the investing category (see paragraphs 47 and B32–B33).

64 An entity shall not present the subtotal profit or loss before financing and income tax if, applying paragraph 51, it classifies all income and expenses from financing activities and all income and expenses from cash and cash equivalents in the operating category. This applies even when such an entity presents interest income or expense on other liabilities in the financing category applying paragraph 49(c).

Line items to be presented in the statement of profit or loss

65 [IAS 1.82] In addition to items required by other IFRS Standards, an entity shall present in the statement of profit or loss line items for (see paragraphs B15 and B44):

(a) amounts required by this [draft] Standard, which are:

(i) revenue, presenting separately the line items described in paragraphs 65(b)(i) and 65(c)(i);

(ii) income or expenses from financing activities (see paragraph 49(b));

(iii) share of the profit or loss of integral associates and joint ventures classified in accordance with paragraph 20D of IFRS 12 *Disclosure of Interests in Other Entities*;

(iv) share of the profit or loss of non-integral associates and joint ventures classified in accordance with paragraph 20D of IFRS 12;

(v) income tax expense;

(vi) a single amount for the total of discontinued operations (see IFRS 5); and

(vii) cost of sales (see paragraph 71);

(b) amounts related to the requirements of IFRS 9, which are:

(i) interest revenue calculated using the effective interest method;

(ii) impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with Section 5.5 of IFRS 9;

(iii) gains and losses arising from the derecognition of financial assets measured at amortised cost;

(iv) if a financial asset is reclassified out of the amortised cost measurement category so that it is measured at fair value through profit or loss, any gain or loss arising from a difference between the previous amortised cost of the financial asset and its fair value at the reclassification date (as defined in IFRS 9); and

(v) if a financial asset is reclassified out of the fair value through other comprehensive income measurement category so that it is measured at fair value through profit or loss, any cumulative gain or loss previously recognised in other comprehensive income that is reclassified to profit or loss; and

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(c) amounts related to the requirements of IFRS 17, which are:

(i) insurance revenue;

(ii) insurance service expenses from contracts issued within the scope of IFRS 17;

(iii) income or expenses from reinsurance contracts held;

(iv) insurance finance income or expenses from contracts issued within the scope of IFRS 17; and

(v) finance income or expenses from reinsurance contracts held.

66 [IAS 1.86] Paragraphs 60 and 73 require totals and subtotals and paragraphs 65 and 75 require minimum line items to be presented in the statement(s) of financial performance. To determine whether additional totals, subtotals, or line items are required to be presented in the statement(s) of financial performance applying paragraph 42, an entity shall consider factors including materiality and characteristics such as the nature and function of the items of income and expense. An entity shall not offset income and expense items unless the criteria in paragraph 29 are met.

67 [IAS 1.81B partial] An entity shall present an allocation of profit or loss for the reporting period attributable to:

(a) non-controlling interests; and

(b) holders of claims against the parent classified as equity.

Analysis of expenses classified in the operating category

68 [IAS 1.99] An entity shall present in the operating category of the statement of profit or loss an analysis of expenses using a classification based on either their nature—the nature of expense method—or their function within the entity—the function of expense method. The entity shall present the analysis using the method that provides the most useful information to users of their financial statements (see paragraphs B45–B47).

69 The nature of expense method provides information about operating expenses arising from the inputs that are consumed to accomplish an entity's activities —such as information about expenses related to materials (raw materials, employees (employee benefits), equipment (depreciation) or intangible assets (amortisation))—without reference to how expenses are allocated to functions within the business.

70 The function of expense method allocates and combines operating expenses according to the activity to which the item relates. For example, cost of sales is a functional line item that combines expenses that relate to an entity's production or other revenue generating activities such as: raw materials, employee benefit expense, depreciation or amortisation.

71 An entity applying the function of expense method shall present its cost of sales separately from other expenses.

72 **[IAS 1.104] An entity presenting an analysis of expenses classified in the operating category using the function of expense method shall also disclose in a single note an analysis of its total operating expenses using the nature of expense method (see paragraph B48).**

Statement presenting comprehensive income

73 [IAS 1.81A partial] An entity shall present in the statement presenting comprehensive income totals for:

(a) profit or loss;

(b) total other comprehensive income; and

(c) comprehensive income, being the total of profit or loss and other comprehensive income.

Other comprehensive income (see paragraphs B49–B52)

74 **[IAS 1.82A partial] An entity shall classify income and expenses included in the statement presenting comprehensive income in the following categories:**

(a) remeasurements permanently reported outside profit or loss; and

(b) income and expenses to be included in profit or loss in the future when specific conditions are met.

75 **[IAS 1.82A partial] An entity shall, in each of the categories of the statement presenting comprehensive income, present line items for:**

(a) the share of other comprehensive income of associates and joint ventures accounted for using the equity method, presenting separately:

(i) integral associates and joint ventures; and

(ii) non-integral associates and joint ventures; and

(b) other items of other comprehensive income classified by their nature.

76 **[IAS 1.81B partial] An entity shall present an allocation of comprehensive income for the reporting period attributable to:**

(a) non-controlling interests; and

(b) holders of claims against the parent classified as equity.

77 [IAS 1.92] An entity shall present in the statement presenting comprehensive income or disclose in the notes *reclassification adjustments* relating to components of other comprehensive income (see paragraphs B51–B52).

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78 [IAS 1.93] Other IFRS Standards specify whether and when amounts previously included in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this [draft] Standard as reclassification adjustments. A reclassification adjustment is included with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss. These amounts may have been included in other comprehensive income as unrealised gains in the current or previous periods. Those unrealised gains must be deducted from other comprehensive income in the period in which the realised gains are reclassified to profit or loss to avoid including them in *total comprehensive income* twice.

79 [IAS 1.94] An entity disclosing reclassification adjustments in the notes shall present in the statement presenting comprehensive income the items of other comprehensive income after any related reclassification adjustments.

80 [IAS 1.90] An entity shall either disclose in the notes or present in the statement presenting comprehensive income the amount of income tax relating to each item of other comprehensive income, including reclassification adjustments.

81 [IAS 1.91] An entity may present items of other comprehensive income either:

(a) net of related tax effects; or

(b) before related tax effects with one amount shown for the aggregate amount of income tax relating to those items.

If an entity elects alternative (b), it shall allocate the tax between remeasurements permanently reported outside profit or loss and income and expenses to be included in profit or loss in the future when specific conditions are met.

Statement of financial position

Line items to be presented in the statement of financial position

82 [IAS 1.54] In addition to items required by other IFRS Standards, an entity shall present in the statement of financial position line items for (see paragraphs B12–B14):

(a) property, plant and equipment;

(b) investment property;

(c) intangible assets;

(d) goodwill;

(e) financial assets (excluding amounts shown under (g), (h), (k) and (l));

(f) groups[9] of contracts within the scope of IFRS 17 that are assets, disaggregated as required by paragraph 78 of IFRS 17;

(g) investments in integral associates and joint ventures;

(h) investments in non-integral associates and joint ventures;

(i) biological assets within the scope of IAS 41 *Agriculture*;

(j) inventories;

(k) trade and other receivables;

(l) cash and cash equivalents;

(m) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with IFRS 5;

(n) trade and other payables;

(o) provisions;

(p) financial liabilities (excluding amounts shown under (n) and (o));

(q) groups[10] of contracts within the scope of IFRS 17 that are liabilities, disaggregated as required by paragraph 78 of IFRS 17;

(r) liabilities and assets for current tax, as defined in IAS 12;

(s) deferred tax liabilities and deferred tax assets, as defined in IAS 12;

(t) liabilities included in disposal groups classified as held for sale in accordance with IFRS 5;

(u) non-controlling interests, presented within equity; and

(v) issued capital and reserves attributable to holders of claims against the parent classified as equity.

83 [IAS 1.57] This [draft] Standard does not prescribe the order or format in which an entity presents items in the statement of financial position. Paragraph 82 simply lists items that are sufficiently different in nature or function to warrant separate presentation in the statement of financial position. In addition:

(a) applying paragraph 42, line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and

(b) the descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position. For example, a

9 Exposure Draft ED/2019/4 *Amendments to* IFRS 17 proposes amending this paragraph to change groups of contracts to portfolios of contracts.

10 Exposure Draft ED/2019/4 *Amendments to* IFRS 17 proposes amending this paragraph to change groups of contracts to portfolios of contracts.

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financial institution may amend the descriptions in paragraph 82 to provide information that is relevant to the operations of a financial institution.

Classification of assets and liabilities as current or non-current

84 [IAS 1.60] An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 87–88 except when a presentation based on liquidity provides information that faithfully represents those assets and liabilities and is more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity (see paragraphs B53–B56).

85 [IAS 1.61] Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

(a) no more than twelve months after the reporting period; and

(b) more than twelve months after the period.

86 [IAS 1.56] When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).

Current assets

87 [IAS 1.66] An entity shall classify an asset as current when (see paragraphs B57–B58):

(a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;

(b) it holds the asset primarily for the purpose of trading;

(c) it expects to realise the asset within twelve months after the reporting period; or

(d) the asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the period.

An entity shall classify all other assets as non-current.

Current liabilities[11]

88 [IAS 1.69] An entity shall classify a liability as current when (see paragraphs B59–B65):

(a) it expects to settle the liability in its normal operating cycle;

(b) it holds the liability primarily for the purpose of trading;

(c) the liability is due to be settled within twelve months after the reporting period; or

(d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the period (see paragraph B62). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

An entity shall classify all other liabilities as non-current.

Statement of changes in equity

Information to be presented in the statement of changes in equity

89 [IAS 1.106] An entity shall present a statement of changes in equity as required by paragraph 10. The statement of changes in equity includes the following information:

(a) total comprehensive income for the reporting period, showing separately the total amounts attributable to holders of claims against the parent classified as equity and to non-controlling interests;

(b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8; and

(c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) presenting changes resulting from:

(i) profit or loss;

(ii) other comprehensive income; and

(iii) transactions with holders of claims classified as equity in their capacity as holders of claims classified as equity, showing separately contributions by and distributions to holders of claims classified as equity and changes in claims classified as equity against subsidiaries that do not result in a loss of control.

11 In Quarter 1 of 2020, the Board expects to issue amendments to this section based on proposals published in Exposure Draft *Classification of Liabilities* ED/2015/1 to amend paragraphs 69–76 of IAS 1.

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90 [IAS 1.110] IAS 8 requires retrospective adjustments to effect changes in accounting policies, to the extent practicable, except when the transition provisions in another IFRS Standard require otherwise. IAS 8 also requires restatements to correct errors to be made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are not changes in equity, but they are adjustments to the opening balance of retained earnings, except when an IFRS Standard requires retrospective adjustment of another component of equity. Paragraph 89(b) requires presentation in the statement of changes in equity of the total adjustment to each component of equity resulting from changes in accounting policies and, separately, from corrections of errors. These adjustments are presented for each prior reporting period and the beginning of the period.

Information to be presented in the statement of changes in equity or disclosed in the notes

91 **[IAS 1.106A] For each component of equity an entity shall either present in the statement of changes in equity or disclose in the notes an analysis of other comprehensive income by item (see paragraph 89(c)(ii)).**

92 **[IAS 1.107] An entity shall either present in the statement of changes in equity or disclose in the notes the amount of dividends recognised as distributions to holders of claims classified as equity during the reporting period, and the related amount of dividends per share.**

93 [IAS 1.108] In paragraph 89, the components of equity include, for example, each class of contributed equity, the accumulated balance of each class of other comprehensive income and retained earnings.

94 [IAS 1.109] Changes in an entity's equity between the beginning and the end of the reporting period reflect the increase or decrease in its net assets during the period. Except for changes resulting from transactions with holders of claims classified as equity in their capacity as holders of claims classified as equity (such as equity contributions, reacquisitions of the entity's own equity instruments and dividends) and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of income and expense, including gains and losses, generated by the entity's activities during that period.

Statement of cash flows

95 [IAS 1.111] Cash flow information provides users with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. IAS 7 sets out requirements for the presentation and disclosure of cash flow information.

Notes

Structure

96 [IAS 1.112] An entity shall disclose in the notes:

(a) information about the basis of preparation of the financial statements (see paragraphs 6K–6N of IAS 8) and the specific accounting policies used (see paragraphs 27A–27G of IAS 8);

(b) information required by IFRS Standards that is not presented in the primary financial statements; and

(c) information that is not presented in the primary financial statements, but is relevant to an understanding of any of them.

97 [IAS 1.113] An entity shall, as far as practicable, present notes in a systematic manner. In determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its financial statements. An entity shall cross-reference each item in the primary financial statements to any related information in the notes (see paragraph B66).

98 [IAS 1.116] An entity may disclose notes providing information about the basis of preparation of the financial statements and specific accounting policies as a separate section of the financial statements.

99 [IAS 1.138] An entity shall disclose in the notes the following, if not disclosed elsewhere in information published with the financial statements:

(a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office);

(b) a description of the nature of the entity's operations and its main business activities;

(c) the name of the parent and the ultimate parent of the group; and

(d) if it is a limited life entity, information regarding the length of its life.

Unusual income and expenses

100 ***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 annual reporting periods.**

101 **An entity shall, in a single note that includes all unusual income and expenses, disclose (see paragraphs B67–B75):**

(a) the amount of each item of unusual income or expense recognised in the reporting period;

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(b) a narrative description of the transactions or other events that gave rise to that item and why income or expenses that are similar in type and amount are not expected to arise for several future annual financial reporting periods;

(c) the line item(s) in the statement(s) of financial performance in which each item of unusual income or expense is included; and

(d) an analysis of the included expenses using the nature of expense method, when an entity presents an analysis of expenses in the statement of profit or loss using the function of expense method.

102 Income and expenses from the recurring remeasurement of items measured at a current value are expected to change from period to period. They would not normally be classified as unusual income and expenses (see paragraph B72).

Management performance measures

103 *Management performance measures* are subtotals of income and expenses that (see paragraphs B76–B81):

(a) are used in public communications outside financial statements;

(b) complement totals or subtotals specified by IFRS Standards; and

(c) communicate to users of financial statements management's view of an aspect of an entity's financial performance.

104 Subtotals specified by IFRS Standards that are not management performance measures include:

(a) a total or subtotal required by paragraphs 60 and 73;

(b) gross profit or loss (revenue less cost of sales) and similar subtotals (see paragraph B78);

(c) operating profit or loss before depreciation and amortisation;

(d) profit or loss from continuing operations; and

(e) profit or loss before income tax.

105 Management performance measures shall:

(a) faithfully represent aspects of the financial performance of the entity to users of financial statements; and

(b) be described in a clear and understandable manner that does not mislead users.

106 An entity shall disclose information about any management performance measures in a single note to the financial statements. That note shall include a statement that the management performance measures provide management's view of an aspect of the entity's financial performance and are not necessarily comparable with measures sharing similar descriptions

provided by other entities. In addition, for each management performance measure an entity shall disclose in the notes (see paragraphs B82–B85):

(a) a description of why the management performance measure communicates management's view of performance, including an explanation of:

(i) how the management performance measure is calculated; and

(ii) how the measure provides useful information about the entity's performance;

(b) a reconciliation between the management performance measure and the most directly comparable subtotal or total included in paragraph 104;

(c) the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation required by paragraph 106(b); and

(d) how the entity determined the income tax effect required by paragraph 106(c).

107 An entity shall determine the income tax effect required by paragraph 106(c) on the basis of a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction(s) concerned or by another method that achieves a more appropriate allocation in the circumstances.

108 If an entity changes the calculation of its management performance measures, introduces a new management performance measure or removes a previously disclosed management performance measure from its financial statements, it shall:

(a) disclose sufficient explanation for users of financial statements to understand the change, addition or removal and its effects;

(b) disclose the reasons for the change, addition or removal; and

(c) restate its comparative information, including in the required note disclosures, to reflect the change, addition or removal.

109 A subtotal included in the statement(s) of financial performance applying paragraph 42 may be a management performance measure (see paragraph B81).

110 An entity shall not use columns to present management performance measures in the statement(s) of financial performance.

Capital

111 [IAS 1.134] **An entity shall disclose in the notes information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.**

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112 [IAS 1.135] To comply with paragraph 111, the entity discloses in the notes the following:

(a) qualitative information about its objectives, policies and processes for managing capital, including:

(i) a description of what it manages as capital;

(ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and

(iii) how it is meeting its objectives for managing capital.

(b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (eg some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (eg components arising from cash flow hedges).

(c) any changes in (a) and (b) from the previous reporting period.

(d) whether during the period it complied with any externally imposed capital requirements to which it is subject.

(e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

The entity bases these note disclosures on the information provided internally to key management personnel.

113 [IAS 1.136] An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

Other disclosures

114 **[IAS 1.79] An entity shall either disclose in the notes or present in the statement of financial position or the statement of changes in equity, the following:**

(a) for each class of share capital:

(i) the number of shares authorised;

(ii) the number of shares issued and fully paid, and issued but not fully paid;

(iii) par value per share, or that the shares have no par value;

(iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period;

(v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;

(vi) shares in the entity held by the entity or by its subsidiaries or associates; and

(vii) shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and

(b) a description of the nature and purpose of each reserve within equity.

115 [IAS 1.80] An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph 114(a), showing changes during the reporting period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest.

116 [IAS 1.137] An entity shall disclose in the notes:

(a) the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to holders of claims classified as equity during the reporting period, and the related amount per share; and

(b) the amount of any cumulative preference dividends not recognised.

Effective date and transition

117 An entity shall apply this [draft] Standard for annual reporting periods beginning on or after [18–24 months from the date of publication]. Earlier application is permitted. If an entity applies this [draft] Standard for an earlier period, it shall disclose that fact in the notes.

118 In the first year of application of this [draft] Standard an entity shall present each of the headings and subtotals required by paragraphs 60–64 of this [draft] Standard in condensed financial statements provided in interim financial reports, despite the requirements in paragraph 10 of IAS 34. An entity shall apply the requirements in paragraph 10 of IAS 34 for condensed financial statements after its first set of annual financial statements prepared in accordance with this [draft] Standard has been issued.

119 This [draft] Standard shall be applied retrospectively in accordance with IAS 8.

Withdrawal of IAS 1

120 This [draft] Standard supersedes IAS 1 *Presentation of Financial Statements*.

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Appendix A
Defined terms

This appendix is an integral part of the [draft] IFRS Standard.

aggregation — The adding together of assets, liabilities, equity, income, expenses or cash flows that share characteristics and are included in the same classification.

classification — The sorting of assets, liabilities, equity, income, expenses and cash flows on the basis of shared characteristics.

disaggregation — The separation of an item or group of items into component parts.

financing activities — Activities involving the receipt or use of a resource from a provider of finance with the expectation that:

(a) the resource will be returned to the provider of finance; and

(b) the provider of finance will be compensated through the payment of a finance charge that is dependent on both the amount of the credit and its duration.

general purpose financial statements [IAS 1.7] — Financial reports that provide information about a reporting entity's assets, liabilities, equity, income and expenses.

income and expenses from investments — Income and expenses from assets except for income and expenses from cash and cash equivalents that generate a return individually and largely independently of other resources held by an entity.

IFRS Standards [IAS 1.7] — IFRS Standards are Standards and Interpretations issued by the International Accounting Standards Board (Board). They comprise:

(a) International Financial Reporting Standards;

(b) International Accounting Standards;

(c) IFRIC Interpretations; and

(d) SIC Interpretations.

impracticable [IAS 1.7] — Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

management performance measures — Subtotals of income and expenses that:

(a) are used in public communications outside financial statements;

(b) complement totals or subtotals specified by IFRS Standards; and

(c) communicate to users of financial statements management's view of an aspect of an entity's financial performance.

notes
[IAS 1.7]

Information in financial statements provided in addition to that presented in the primary financial statements.

other comprehensive income
[IAS 1.7]

Items of income and expense (including reclassification adjustments) that are recognised outside profit or loss as required or permitted by other IFRS Standards.

primary financial statements

The statement(s) of financial performance, the statement of financial position, the statement of changes in equity and the statement of cash flows.

profit or loss
[IAS 1.7]

The total of income less expenses included in the statement of profit or loss.

reclassification adjustments
[IAS 1.7]

Amounts reclassified to profit or loss in the current reporting period that were included in other comprehensive income in the current or previous periods.

total comprehensive income
[IAS 1.7]

The change in equity during a reporting period resulting from transactions and other events, other than those changes resulting from transactions with holders of claims classified as equity in their capacity as holders of claims classified as equity.

unusual income and expenses

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 annual reporting periods.

Terms defined in other Standards and used in this [draft] Standard with the same meaning

cash
[IAS 7 *Statement of Cash Flows*]

Cash on hand and demand deposits.

cash equivalents
[IAS 7]

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

derivative
[IFRS 9 *Financial Instruments*]

A financial instrument or other contract within the scope of IFRS 9 with all three of the following characteristics:

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(a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').

(b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

(c) it is settled at a future date.

financial instrument [IAS 32 *Financial Instruments: Presentation*]

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

financial asset [IAS 32]

Any asset that is:

(a) cash;

(b) an equity instrument of another entity;

(c) a contractual right:

  (i) to receive cash or another financial asset from another entity; or

  (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or

(d) a contract that will or may be settled in the entity's own equity instruments and is:

  (i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or

  (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with paragraphs 16A–16B of IAS 32, instruments that impose on the entity an obligation to deliver

to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 16C–16D of IAS 32, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.

financial liability [IAS 32]

Any liability that is:

(a) a contractual obligation:

(i) to deliver cash or another financial asset to another entity; or

(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

(b) a contract that will or may be settled in the entity's own equity instruments and is:

(i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments.

(ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also, for these purposes the entity's own equity instruments do not include puttable financial instruments that are classified as equity instruments in accordance with paragraphs 16A–16B of IAS 32, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 16C–16D of IAS 32, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.

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integral associates and joint ventures
[**IFRS 12** ***Disclosure of Interests in Other Entities***]

Associates and joint ventures accounted for using the equity method that are integral to the main business activities of an entity and hence do not generate a return individually and largely independently of the other assets of the entity (see paragraphs 20A and 20D of IFRS 12).

material [**IAS 1.7**]
[**Proposed to move to IAS 8** ***Basis of Preparation, Accounting Policies, Changes in Accounting Estimates and Errors***]

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

non-controlling interest
[**IFRS 10** ***Consolidated Financial Statements***]

Equity in a subsidiary not attributable, directly or indirectly, to a parent.

non-integral associates and joint ventures
[**IFRS 12**]

Associates and joint ventures accounted for using the equity method that are not integral to the main business activities of an entity and hence generate a return individually and largely independently of the other assets of the entity (see paragraphs 20A and 20D of IFRS 12).

Appendix B
Application guidance

This appendix is an integral part of the [draft] IFRS Standard. It describes the application of paragraphs [1–120] and has the same authority as the other parts of the [draft] IFRS Standard.

Identification of the financial statements

B1 [IAS 1.52] An entity meets the requirements in paragraph 16 by providing appropriate headings for pages, statements, notes, columns and the like. Judgement is required in determining the best way of providing such information. For example, when an entity provides the financial statements electronically, separate pages are not always used; an entity then provides the above items to ensure that the information included in the financial statements can be understood.

B2 [IAS 1.53] An entity often makes financial statements more understandable by providing information in thousands or millions of units of the presentation currency. This is acceptable as long as the entity discloses the level of rounding and does not omit *material* information.

General presentation and disclosure requirements

Objective and roles of the primary financial statements and the notes

B3 Applying paragraph 21(a), an entity provides in the notes further information necessary for users of financial statements to understand the items included in the *primary financial statements*. Examples of such information include:

(a) *disaggregation* of the line items presented in primary financial statements;

(b) descriptions of the nature of the items included in the primary financial statements; and

(c) information about the methods, assumptions and judgements used in recognising and measuring the items included in the primary financial statements.

B4 Applying paragraph 21(b), an entity supplements the primary financial statements with other information that is necessary to meet the objective of financial statements. Examples of such supplementary information include:

(a) information about the nature and extent of an entity's unrecognised assets, liabilities, equity, income and expenses (the elements of the financial statements); and

(b) information about an entity's exposure to various types of risks, such as market risk or credit risk, arising from both recognised and unrecognised elements of the financial statements.

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Aggregation and disaggregation

B5 Financial statements result from entities processing large numbers of transactions and other events. These transactions and other events give rise to assets, liabilities, equity, income and expenses. Information about an entity's total assets, total liabilities, total equity, total income and total expenses provides some information about the financial position and financial performance of an entity. However, that information is likely to be too summarised to be useful on its own because it combines items that may have different characteristics. Disaggregated information about the elements of the financial statements arising from individual transactions or other events provides more detailed information. However, if its volume and the amount of detail make it difficult to understand, then the information about individual transactions and other events may not provide useful information about the financial position or financial performance of an entity. Consequently, an entity applies judgement about the amount of detail required to provide useful information to users of financial statements.

B6 To determine the line items presented in the primary financial statements or the items disclosed in the notes, an entity shall apply the principles of *aggregation* and disaggregation described in paragraph 25 to identify items that share characteristics. In applying the principles of aggregation an entity shall:

(a) identify the assets, liabilities, equity, income and expenses that arise from individual transactions or other events;

(b) classify assets, liabilities, equity, income and expenses into groups based on their characteristics (for example, their nature, their function, their measurement basis or another characteristic) resulting in the presentation in the primary financial statements of line items that share at least one characteristic; and

(c) separate the line items presented in the primary financial statements on the basis of further characteristics resulting in the disclosure of items in the notes, if those items are material.

Other *IFRS Standards* include additional requirements for disclosing different types of information in the notes including information about items that do not qualify for recognition in the financial statements.

B7 Applying the principles of aggregation does not necessarily mean following steps B6(a)–B6(c) sequentially. However, an entity shall consider all these steps in determining whether items that share characteristics have been classified and aggregated appropriately and ensuring that items that do not share characteristics have not been aggregated.

B8 Because the role of the primary financial statements is to provide a structured and comparable summary, the line items in the primary financial statements are likely to combine some material items that have some dissimilar characteristics. However, to be useful to users of financial statements, the items aggregated and presented as line items in the primary financial

statements must share at least one characteristic other than meeting the definition of a particular element of the financial statements.

B9 In the notes, it is the concept of materiality that drives aggregation and disaggregation. To achieve the objective of financial statements, items that have dissimilar characteristics shall be disaggregated into component parts when the resulting information is material.

B10 For example, an entity may hold material amounts of *financial assets* that are equity instruments and material amounts of financial assets that are debt instruments that share the characteristic of being measured at fair value through *profit or loss*. That being so, a single line item in the entity's statement of financial position for financial assets measured at fair value through profit or loss may provide users of financial statements with a useful summary of the entity's financial assets. However, financial assets that are equity instruments are dissimilar to financial assets that are debt instruments in that they each expose the entity to different risks. Therefore, in the notes to the financial statements, the entity may need to disclose its financial assets that are equity instruments separately from its financial assets that are debt instruments if the resulting information would be material. The entity should also consider whether aggregating all of its financial assets that are equity instruments and separately aggregating all that are debt instruments would result in the loss of material information about the characteristics of those assets. If this would be the case, the entity should further disaggregate those financial assets.

B11 Aggregating items that result from individual transactions and other events into line items presented in the primary financial statements and items disclosed in the notes requires judgement about the information that will be useful. In making this judgement, an entity shall consider the balance of similar and dissimilar characteristics between aggregated items. The more characteristics items have in common the more likely it is that aggregating them will result in useful information and the more dissimilar characteristics items have the less likely it is that aggregating them will result in useful information.

Disaggregation in the statement of financial position

B12 [IAS 1.58] Applying paragraph 83(a) an entity makes the judgement about whether to present additional items separately on the basis of an assessment of:

(a) the nature and liquidity of assets;

(b) the function of assets within the entity; and

(c) the amounts, nature and timing of liabilities.

B13 [IAS 1.59] The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that an entity presents them as separate line items. For example, different classes of property, plant and equipment can be carried at cost or at revalued amounts in accordance with IAS 16 *Property, Plant and Equipment*.

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B14 [IAS 1.78] In addition to the disclosure requirements of other IFRS Standards, an entity uses the characteristics set out in paragraph B12 to disaggregate items presented in the statement of financial position or disclosed in the notes. The disclosures vary for each item, for example:

(a) items of property, plant and equipment are disaggregated into classes in accordance with IAS 16;

(b) receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts;

(c) inventories are disaggregated, in accordance with IAS 2 *Inventories*, into items such as merchandise, production supplies, materials, work in progress and finished goods;

(d) provisions are disaggregated according to their nature, such as, provisions for employee benefits, decommissioning liabilities, or other items; and

(e) equity capital and reserves are disaggregated into various classes, such as paid-in capital, share premium and reserves.

Disaggregation in the statement(s) of financial performance

B15 [IAS 1.98] Circumstances that would give rise to the separate presentation in the statement(s) of financial performance or disclosure in the notes of items of income and expense include:

(a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;

(b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

(c) disposals of items of property, plant and equipment;

(d) disposals of investments;

(e) litigation settlements; and

(f) reversals of provisions.

Offsetting

B16 [IAS 1.34] Paragraph 29 prohibits entities from offsetting unless required or permitted by an IFRS Standard. IFRS 15 *Revenue from Contracts with Customers* requires an entity to measure revenue from contracts with customers at the amount of consideration to which the entity expects to be entitled in exchange for transferring promised goods or services. For example, the amount of revenue recognised reflects any trade discounts and volume rebates the entity allows. An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. An entity presents in the primary financial statements or discloses in the notes the results of such transactions,

when this presentation or disclosure reflects the substance of the transaction or other event, by netting any income with related expenses arising on the same transaction. For example:

(a) an entity presents in the financial statements or discloses in the notes gains and losses on the disposal of non-current assets, including investments and operating assets, by deducting from the amount of consideration on disposal the carrying amount of the asset and related selling expenses; and

(b) an entity may net expenditure related to a provision that is recognised in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) against the related reimbursement.

B17 [IAS 1.35] In addition, an entity presents or discloses on a net basis gains and losses arising from a group of similar transactions, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading that are included in the same category of the statement(s) of financial performance in accordance with paragraphs 56–59. However, an entity shall present or disclose such gains and losses separately if they are material.

Consistency of presentation

B18 [IAS 1.46] Paragraph 33(a) permits an entity to change the presentation, disclosure or classification of items in the financial statements when it is apparent that another presentation, disclosure or classification would be more appropriate. For example, a significant acquisition or disposal, or a review of the financial statements, might suggest that the financial statements need to be changed. An entity changes the presentation, disclosure or classification of its financial statements only if the change provides information that is more useful to users of the financial statements and the revised presentation, disclosure or classification is likely to continue, so that comparability is not impaired. When making such changes, an entity reclassifies its comparative information in accordance with paragraphs 40–41.

Comparative information

Minimum comparative information

B19 [IAS 1.38B] In some cases, narrative information provided in the financial statements for the preceding reporting period(s) continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute, the outcome of which was uncertain at the end of the preceding period and is yet to be resolved. Users of financial statements may benefit from the disclosure of information that the uncertainty existed at the end of the preceding period and from the disclosure of information about the steps that have been taken during the period to resolve the uncertainty.

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Additional comparative information

B20 [IAS 1.38C] An entity may provide comparative information in addition to the minimum comparative information required by IFRS Standards, as long as that information is prepared in accordance with IFRS Standards. This comparative information may consist of one or more of the primary financial statements referred to in paragraph 10, but need not comprise a complete set of financial statements. When this is the case, the entity shall disclose related note information for those additional primary financial statements.

B21 [IAS 1.38D] For example, an entity may present a third statement(s) of financial performance (thereby presenting the current reporting period, the preceding period and one additional comparative period). However, the entity is not required to present a third statement of financial position, a third statement of cash flows or a third statement of changes in equity (ie an additional financial statement comparative). The entity is required to disclose, in the notes, the comparative information related to that additional statement(s) of financial performance.

Change in accounting policy, retrospective restatement or reclassification

B22 [IAS 1.43] Paragraph 40 requires an entity to reclassify comparative amounts if the entity changes the presentation, disclosure or classification of items in its financial statements. Enhancing the inter-period comparability of information assists users of financial statements in making economic decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior reporting period to achieve consistency with the current period. For example, an entity may not have collected data in the prior period(s) in a way that allows reclassification, and it may be impracticable to recreate the information.

B23 [IAS 1.44] IAS 8 *Basis of Preparation, Accounting Policies, Changes in Accounting Estimates and Errors* sets out the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

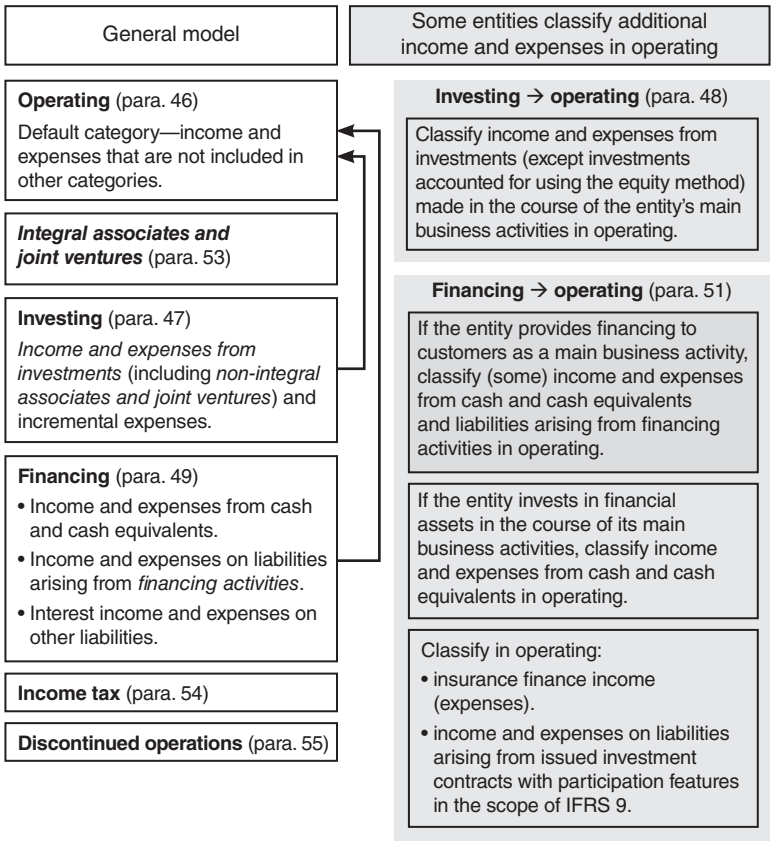
Statement(s) of financial performance

Statement of profit or loss

Categories included in the statement of profit or loss

B24 Figure 1 summarises the requirements for classification of income and expenses into categories in the statement of profit or loss.

Figure 1—Classification of income and expenses in the statement of profit or loss



Operating

B25 For an entity to include income and expenses from its main business activities in the operating category, paragraphs 48, 51 and 52 set out circumstances when income and expenses that would otherwise be classified as investing and financing would instead be classified as operating.

B26 An entity may have more than one main business activity. For example, an entity that manufactures cars and also provides financing to customers may determine that it has both a manufacturing main business activity and a customer-finance main business activity.

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B27 Paragraph 48 requires an entity to classify in the operating category income and expenses from investments in the course of its main business activities. Whether income and expenses from investments arise in the course of an entity's main business activities is a matter of judgement. In general, investments are likely to have been made in the course of an entity's main business activity when investment returns are an important indicator of operating performance. Examples of entities that invest in the course of their main business activities may include:

(a) investment entities as defined by IFRS 10 *Consolidated Financial Statements*;

(b) investment property companies; and

(c) insurers.

B28 Applying paragraph 51, when an entity provides financing to customers as a main business activity it is required to make an accounting policy choice to classify in the operating category either income and expenses from financing activities, and from cash and cash equivalents relating to the provision of financing to customers or all income and expenses from financing activities and all income and expenses from cash and cash equivalents.

B29 Whether an entity provides financing to customers as a main business activity is a matter of judgement. In general, providing financing to customers is likely to be a main business activity when the difference between interest income and the related interest expense is an important indicator of operating performance. Examples of entities that provide financing to customers as a main business activity may include:

(a) banks;

(b) entities that provide financing to customers to enable those customers to purchase the entity's products; and

(c) lessors that provide finance leases to customers.

B30 The requirement in paragraph 52(a) for an entity to classify income and expenses from cash and cash equivalents in the operating category applies when any entity invests in financial assets in the course of its main business activities. It does not apply to an entity that invests only in non-financial assets in the course of its main business activities.

B31 If, applying IFRS 8 *Operating Segments*, an entity reports a segment that constitutes a single business activity, that may indicate that that business activity is a main business activity.

Investing

B32 Paragraph 47 requires an entity to classify income and expenses from investments in the investing category except when paragraph 48 requires the entity to classify them in the operating category. Income and expenses from investments would typically include:

(a) income and expenses from financial assets, except for income and expenses from cash and cash equivalents, such as:

(i) interest revenue;

(ii) impairment losses and reversals of impairment losses;

(iii) gains and losses on disposal;

(iv) fair value gains and losses;

(v) dividends from equity investments;

(vi) the share of profit or loss of non-integral associates and joint ventures; and

(vii) income and expenses from associates and joint ventures not accounted for using the equity method; and

(b) income and expenses from other investments such as:

(i) income and expenses on investment property;

(ii) impairment losses and reversals of impairment losses;

(iii) income or expenses from speculative investments, such as investments in artwork held for capital appreciation; and

(iv) gains and losses on disposal.

B33 Income and expenses from investments do not include income and expenses from assets used by an entity in the production of goods and delivery of services. Income and expenses derived from such assets result from the combination of those assets with other resources of the entity, such as employees, raw materials or intangible assets, and not from the individual assets on their own. Examples of such income and expenses not from investments include:

(a) interest revenue from trade receivables, which would be classified in the operating category;

(b) income and expenses from property, plant and equipment and intangible assets, including depreciation, amortisation, impairment and disposal gains and losses, which would be classified in the operating category; and

(c) gains or losses on disposal of a discontinued operation, which would be classified in the discontinued operations category.

Financing

B34 Paragraph 49(a) requires an entity to classify income and expenses from cash and cash equivalents in the financing category, except when paragraphs 51 or 52(a) require them to be classified in the operating category. Income and expenses from cash and cash equivalents include:

(a) interest revenue; and

(b) gains or losses on disposal of cash equivalents.

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B35 Paragraph 49(b) requires an entity to classify income and expenses from financing activities in the financing category except when paragraphs 51 or 52(b) require them to be classified in the operating category. Income and expenses from financing activities include income and expenses on the following liabilities:

(a) debentures, loans, notes, bonds and mortgages;

(b) lease liabilities; and

(c) trade payables (for example those negotiated on extended credit terms).

B36 Financing activities may give rise to income and expenses, including:

(a) interest expenses (for example on debt issued and lease liabilities);

(b) debt extinguishment and debt restructuring expenses;

(c) fair value gains and losses (for example on a liability designated at fair value through profit or loss); and

(d) dividends on issued shares classified as liabilities.

B37 Paragraph 49(c) requires an entity to classify interest income and expenses on liabilities not arising from financing activities in the financing category. Such income and expenses include:

(a) net interest expense (income) on a net defined benefit liability (asset) applying IAS 19 *Employee Benefits*;

(b) unwinding of the discount on a decommissioning, restoration or similar liability;

(c) unwinding of the discount on other long-term provisions, for example warranty provisions and deferred consideration for a business combination; and

(d) increases in the present value of the costs to sell a non-current asset (or disposal group) held for sale that arise from the passage of time as discussed in paragraph 17 of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Other categories

B38 Only associates and joint ventures accounted for using the equity method can meet the definition of integral associates and joint ventures, thus giving rise to the share of profit or loss accounted for using the equity method. Applying IAS 28 *Investments in Associates and Joint Ventures* an entity may be required to recognise income and expenses from integral associates and joint ventures in addition to the share of profit or loss accounted for using the equity method. Applying paragraph 53, income and expenses from integral associates and joint ventures include:

(a) the share of profit or loss of integral associates and joint ventures;

(b) impairment losses and reversals of impairment losses on integral associates and joint ventures; and

(c) gains or losses on disposals of integral associates and joint ventures.

Classification of fair value gains and losses on derivatives and of exchange differences

B39 Paragraph 56 requires an entity to classify foreign exchange differences included in profit or loss in the same category of the statement of profit or loss as the income and expenses from the items that gave rise to the foreign exchange differences (applying IAS 21 *The Effects of Changes in Foreign Exchange Rates*). For example, an entity classifies exchange differences on:

(a) a trade payable not negotiated on extended credit terms denominated in a foreign currency in the same category as the expenses for the purchase of the goods—that is, normally the operating category; and

(b) a debt instrument, issued by the entity, that is denominated in a foreign currency in the same category as the interest expenses on that liability—that is, the financing category unless one of the entity's main business activities is providing financing to customers in which case it would be included in the operating category (see paragraph 51).

B40 Table 1 summarises the requirements in paragraphs 57–59.

Table 1—Classification of fair value gains and losses on derivatives and hedging instruments

<table>
<tr><th colspan="2" rowspan="2"></th><th colspan="2">Gains and losses on:</th></tr>
<tr><th>Derivatives</th><th>Non-derivative financial instruments</th></tr>
<tr><td rowspan="2">Used for risk management</td><td>Designated as a hedging instrument</td><td colspan="2">Classify in the category affected by the risk the entity manages, except when it would involve grossing up gains and losses—then classify in the investing category.</td></tr>
<tr><td>Not designated as a hedging instrument</td><td>Apply the presentation requirements for derivatives designated as hedging instruments except if such classification would involve undue cost or effort—then classify in the investing category.</td><td rowspan="2">Apply requirements for classification in paragraphs 45–55.</td></tr>
<tr><td colspan="2">Not used for risk management</td><td>Classify in the investing category, except when used in the course of a main business activity—then classify in the operating category.</td></tr>
</table>

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B41 Paragraphs 57–58 prohibit grossing up of gains and losses on financial instruments designated as hedging instruments and derivatives not designated as hedging instruments. The grossing up of gains and losses might result when:

(a) an entity uses such financial instruments for risk management of a group of items with offsetting risk positions (see paragraph 6.6.1 of IFRS 9 *Financial Instruments* for designated hedging instruments); and

(b) the risks managed affect line items in multiple categories of the statement of profit or loss.

B42 For example, an entity may use a single derivative to manage the net foreign currency risk on revenue (classified in the operating category) and interest expenses (classified in the financing category). In such cases, the foreign exchange differences on the revenue are offset by the foreign exchange differences on the interest expense and the gains or losses on the derivative. However, the foreign exchange differences on the revenue are classified in a different category of the statement of profit or loss to the foreign exchange differences on the interest expense. To present the net foreign exchange difference in each category, an entity would need to present in each category a larger gain or loss than occurred on the derivative. Applying the requirements in paragraphs 57–58, an entity shall not gross up the gains or losses in this manner and would instead classify any gain or loss on the derivative in the investing category.

B43 The requirements in paragraphs 56–59 only specify the classification of income and expenses into categories of the statement of profit or loss. They do not prescribe in which line item such income and expenses should be included nor do they override the requirements of other IFRS Standards.

Line items to be presented in the statement of profit or loss

B44 To comply with paragraph 65, an entity may need to present a required line item in more than one of the categories required by paragraph 45. For example, an entity that does not have investing or financing as a main business activity may need to present the required line item impairment losses determined in accordance with Section 5.5 of IFRS 9 in:

(a) the operating category—if it relates to trade receivables arising from the entity's main business activity;

(b) the investing category—if it relates to financial assets that generate a return individually and largely independently of the other resources of the entity; and

(c) the financing category—if it relates to cash equivalents.

Analysis of expenses classified in the operating category

B45 Paragraph 68 requires an entity to present an analysis of expenses classified in the operating category using either the nature of expense method or the function of expense method, whichever provides the most useful information. An entity shall consider, in deciding which method of expense analysis provides the most useful information:

(a) which method provides the most useful information to users of financial statements about the key components or drivers of the entity's profitability. For example, for a retail entity a key component or driver of profitability could be cost of sales. Presenting a cost of sales line item can provide relevant information about whether the revenue generated from the sale of goods covers what, for retailers, are mainly direct costs, and by what margin. However, cost of sales is unlikely to provide relevant information about the key components or drivers of profitability when the link between revenue and costs is less direct. For example, for a service entity, information about the expenses presented using a nature of expense analysis, such as employment costs, may be more relevant to users.

(b) which method most closely represents the way the business is managed and how management reports internally. For example, a manufacturing entity managed on the basis of major functions might use a function of expense method for internal reporting. However, an entity that has a single predominant function, such as a financing activity, may find a more detailed analysis of expenses using a nature of expense method provides more useful information.

(c) industry practice. The use of similar methods for an analysis of expenses would enable users to more easily compare expenses across entities in the same industry.

(d) whether the allocation of expenses to functions would be arbitrary and therefore would not provide a sufficiently faithful representation of the line items presented. In such cases, the nature of expense method shall be used.

B46 An entity shall not provide an analysis of expenses classified in the operating category using a mixture of the nature of expense method and the function of expense method except when required to do so by paragraph B47.

B47 An entity shall present in the statement of profit or loss the line items required by paragraph 65 regardless of the method of analysis of expenses used.

B48 An entity applying paragraph 72 discloses in the notes an analysis of total operating expenses using the nature of expense method and is not required to disclose an analysis of each functional line item.

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Statement presenting comprehensive income

Other comprehensive income

B49 [IAS 1.89] Some IFRS Standards specify circumstances when an entity recognises particular items outside the statement of profit or loss in the current reporting period. IAS 8 specifies two such circumstances: the correction of errors and the effect of changes in accounting policies. Other IFRS Standards require or permit components of other comprehensive income that meet the *Conceptual Framework for Financial Reporting*'s definition of income or expense to be excluded from profit or loss (see paragraph B50).

B50 [IAS 1.7 partial] Appendix A defines other comprehensive income. The components of other comprehensive income include:

(a) changes in revaluation surplus (see IAS 16 and IAS 38 *Intangible Assets*);

(b) remeasurements of defined benefit plans (see IAS 19);

(c) gains and losses arising from translating the financial statements of a foreign operation (see IAS 21);

(d) gains and losses from investments in equity instruments designated as measured at fair value through other comprehensive income in accordance with paragraph 5.7.5 of IFRS 9;

(e) gains and losses on financial assets measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of IFRS 9;

(f) the effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through other comprehensive income in accordance with paragraph 5.7.5 of IFRS 9 (see Chapter 6 of IFRS 9);

(g) for particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see paragraph 5.7.7 of IFRS 9);

(h) changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value (see Chapter 6 of IFRS 9);

(i) changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument (see Chapter 6 of IFRS 9);

(j) insurance finance income and expenses from contracts issued within the scope of IFRS 17 *Insurance Contracts* excluded from profit or loss when total insurance finance income or expense is disaggregated to include in profit or loss an amount determined by a systematic allocation applying paragraph 88(b) of IFRS 17, or by an amount that eliminates accounting mismatches with the finance income or expenses arising on the underlying items, applying paragraph 89(b) of IFRS 17; and

(k) finance income and expenses from reinsurance contacts held excluded from profit or loss when total reinsurance finance income or expenses is disaggregated to include in profit or loss an amount determined by a systematic allocation, applying paragraph 88(b) of IFRS 17.

B51 [IAS 1.95] Reclassification adjustments arise, for example, on disposal of a foreign operation (see IAS 21) and when some hedged forecast cash flows affect profit or loss (see paragraph 6.5.11(d) of IFRS 9 in relation to cash flow hedges).

B52 [IAS 1.96] Paragraph 77 requires an entity to present in the statement presenting comprehensive income or disclose in the notes reclassification adjustments relating to the component of other comprehensive income, income and expenses to be included in profit or loss in the future. Reclassification adjustments do not arise on changes in revaluation surplus recognised in accordance with IAS 16 or IAS 38 or on remeasurements of defined benefit plans recognised in accordance with IAS 19. These components are recognised in other comprehensive income and are not reclassified to profit or loss in subsequent reporting periods. Changes in revaluation surplus may be transferred to retained earnings in subsequent periods as the asset is used or when it is derecognised (see IAS 16 and IAS 38). In accordance with IFRS 9, reclassification adjustments do not arise if a cash flow hedge or the accounting for the time value of an option (or the forward element of a forward contract or the foreign currency basis spread of a financial instrument) result in amounts that are removed from the cash flow hedge reserve or a separate component of equity, respectively, and included directly in the initial cost or other carrying amount of an asset or a liability. These amounts are directly transferred to assets or liabilities.

Statement of financial position

Classification of assets and liabilities as current or non-current

B53 [IAS 1.62] Applying paragraph 84, when an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities in the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realised

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within the current operating cycle and liabilities that are due for settlement within the same reporting period.

B54 [IAS 1.63] For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that faithfully represents those assets and liabilities and is more relevant than a current/non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.

B55 [IAS 1.64] In applying paragraph 84, an entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that faithfully represents those assets and liabilities and is more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations.

B56 [IAS 1.65] Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. IFRS 7 *Financial Instruments: Disclosures* requires disclosure of the maturity analysis of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery of non-monetary assets, such as inventories and expected date of settlement for liabilities, such as provisions, is also useful, whether assets and liabilities are classified as current or as non-current. For example, an entity discloses in the notes the amount of inventories that are expected to be recovered more than twelve months after the reporting period.

Current assets

B57 [IAS 1.67] Paragraph 87 requires an entity to classify as non-current all assets not classified as current. This [draft] Standard uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

B58 [IAS 1.68] The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period. Current assets also include assets held primarily for the purpose of trading (examples include some financial assets that meet the definition of held for trading in IFRS 9) and the current portion of non-current financial assets.

Current liabilities

B59 [IAS 1.70] Paragraph 88 specifies when an entity is required to classify a liability as current.[12] Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months.

B60 [IAS 1.71] Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities that meet the definition of held for trading in IFRS 9, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the period are non-current liabilities, subject to paragraphs B63–B64.

B61 [IAS 1.72] An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if:

(a) the original term was for a period longer than twelve months; and

(b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorised for issue.

B62 [IAS 1.73] If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

B63 [IAS 1.74] When an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the period and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date.

12 In Quarter 1 of 2020, the Board expects to issue amendments to this section based on proposals published in Exposure Draft *Classification of Liabilities* ED/2015/1 to amend paragraphs 69–76 of IAS 1.

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B64 [IAS 1.75] However, an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

B65 [IAS 1.76] In respect of loans classified as current liabilities, if the following events occur between the end of the reporting period and the date the financial statements are authorised for issue, those events are disclosed as non-adjusting events in accordance with IAS 10 *Events after the Reporting Period*:

(a) refinancing on a long-term basis;

(b) rectification of a breach of a long-term loan arrangement; and

(c) the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement ending at least twelve months after the reporting period.

Notes

Structure

B66 [IAS 1.114] Paragraph 97 requires an entity to present notes in a systematic manner. Examples of systematic ordering or grouping of the notes include:

(a) giving prominence to the areas of its activities that the entity considers to be most relevant to an understanding of its financial performance and financial position, such as grouping together information about particular business activities;

(b) grouping together information about items measured similarly such as assets measured at fair value; or

(c) following the order of the line items in the statement(s) of financial performance and the statement of financial position, such as:

(i) statement of compliance with IFRS Standards (see paragraph 6B of IAS 8);

(ii) significant[13] accounting policies applied (see paragraph 27A of IAS 8);

(iii) supporting information for items presented in the statements of financial position and in the statement(s) of financial performance, and in the statements of changes in equity and of cash flows, in the order in which each statement is provided and each line item is presented; and

13 Exposure Draft ED/2019/6 *Disclosure of Accounting Policies* proposes amendments to the disclosure requirements for accounting policies including replacing 'significant' with 'material'.

(iv) other disclosures, including:

(1) contingent liabilities (see IAS 37) and unrecognised contractual commitments; and

(2) non-financial disclosures, eg the entity's financial risk management objectives and policies (see IFRS 7).

Unusual income and expenses

B67 Paragraph 101 requires an entity to disclose information in the notes about unusual income and expenses. An entity classifies income and expenses as unusual if and only if they have limited predictive value. Hence, income and expenses cannot be classified as unusual if it is reasonable to expect that income or expenses similar in type and amount will arise in any of several future annual reporting periods.

B68 In determining whether income or expenses are unusual, an entity shall consider both the type of the income or expense and its amount. For example, an impairment loss resulting from a fire at an entity's factory is normally an unusual type of expense and hence would be classified as an unusual expense because in the absence of other indicators of impairment another similar expense would not reasonably be expected to recur for several future annual reporting periods.

B69 Income and expenses that are not unusual by type may be unusual in amount. Whether an item of income or expense is unusual in amount is determined by the range of outcomes reasonably expected to arise for that income or expense in several future annual reporting periods. For example, an entity that incurs regular litigation costs that are all of a similar amount would not generally classify those litigation expenses as unusual. However, if in one reporting period, that entity incurred higher litigation costs than reasonably expected, because of a particular action, it would classify the costs from that action as unusual if litigation costs in several future annual reporting periods were not expected to be of a similar amount. The higher litigation costs are outside the range of reasonably expected outcomes and not predictive of future litigation costs.

B70 Income or expenses are classified as unusual based on expectations about the future rather than past occurrences. Hence, it is possible for income or expenses similar to income or expenses reported in previous reporting period(s) to be classified as unusual. For example, an entity may incur an impairment loss resulting from a fire at one of its factories in one period. At the end of that period, the entity classifies the impairment as an unusual expense because it has a reasonable expectation that it will not suffer an impairment loss for several future annual reporting periods. In the next period, the entity once again incurs an impairment loss resulting from a fire at another one of its factories. If the two fires in close succession are not indicative of a developing pattern of fires and impairments, it may be possible for the entity to have a reasonable expectation at the end of the second reporting period that similar expenses will not arise for several future annual

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reporting periods. If this is the case, the second impairment is also classified as unusual.

B71 Expectations about the future will depend on the facts and circumstances of an entity. For example, an entity that undertakes a restructuring programme spanning several reporting periods or that makes regular acquisitions that result in restructuring expenses would not classify these expenses as unusual. However, an entity that undertakes a restructuring programme and that does not expect to incur expenses of a similar type and amount in the next several reporting periods would classify these expenses as unusual.

B72 Income and expenses from the recurring remeasurement of items measured at current value would not normally be classified as unusual. Income and expenses from the remeasurement of such items are expected each reporting period and are expected to vary from period to period.

B73 When an entity identifies unusual income or expenses it does not classify related income or expenses as unusual unless those related income and expenses are themselves unusual. For example, an entity may identify a sale that gives rise to unusual revenue. In earning that revenue, the entity may incur several related costs, including employee benefit expense, inventory cost and taxes. An entity would only identify as unusual those related costs that meet the definition of unusual.

B74 When an entity discloses comparative information about unusual income and expenses it shall only classify amounts that met the definition of unusual income and expenses in the comparative period as unusual income and expenses.

B75 An entity's management performance measure(s) may include some, or all, of its unusual income and expenses. In such cases, the entity may disclose the required information about those unusual income and expenses in the same note that it uses to disclose information about management performance measures provided the entity either:

(a) includes in that note all of the information required by paragraph 101 for unusual income and expenses; or

(b) provides a separate note that includes all of the information required for unusual income and expenses.

Management performance measures

Identifying management performance measures

B76 Paragraph 103 defines management performance measures. Some entities may have more than one management performance measure. However, not all entities will have management performance measures. For example, if an entity publicly communicates its financial performance to users of its financial statements, using only totals and subtotals specified by IFRS Standards, it will not have a management performance measure.

B77 Paragraph 104 specifies subtotals that are not management performance measures. An entity is not required to provide the disclosures specified in paragraph 106 for these subtotals.

B78 In accordance with paragraph 104(b) subtotals similar to gross profit are not management performance measures. A subtotal is similar to gross profit when it represents the difference between a type of revenue and directly related expenses incurred in generating that revenue. Examples include:

(a) net interest income;

(b) net fee and commission income;

(c) insurance service result;

(d) net financial result (investment income minus insurance finance expenses); and

(e) net rental income.

B79 Only subtotals that management uses in public communications outside financial statements, for example, in management commentary, press releases or in investor presentations, meet the definition of management performance measures.

B80 A management performance measure is a subtotal of income and expenses. Examples of measures that are not management performance measures include:

(a) individual items or subtotals of only income or expenses (for example, adjusted revenue as a stand-alone measure);

(b) assets, liabilities, equity or combinations of these elements;

(c) financial ratios (for example, return on assets);

(d) measures of growth;

(e) measures of liquidity or cash flows (for example, free cash flow); or

(f) non-financial performance measures.

B81 A subtotal presented in the statement(s) of financial performance to comply with paragraph 42 may meet the definition of a management performance measure. When such a subtotal meets that definition, an entity shall disclose all the information required by paragraph 106.

Management performance measures note disclosure

B82 All information required to be disclosed about management performance measures shall be included in a single note.

B83 In some cases, one or more of an entity's management performance measures may be the same as part of the operating segment information disclosed by the entity in applying IFRS 8. In such cases, the entity may disclose the required information about those management performance measures in the same note that it uses to disclose information about its operating segments provided the entity either:

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(a) includes in that note all of the information required by paragraph 106 for management performance measures; or

(b) provides a separate note that includes all of the information required for management performance measures.

B84 Paragraph 106(a)(i) requires an explanation of how a management performance measure is calculated. To comply with this requirement an entity shall explain the specific principles, bases, conventions, rules and practices it applies in calculating its management performance measures.

B85 Paragraph 106(b) requires an entity to reconcile its management performance measure(s) to the most directly comparable subtotal or total specified by IFRS Standards. For example, an entity that discloses in the notes adjusted operating profit or loss as a management performance measure would reconcile to operating profit or loss as the most directly comparable subtotal. In aggregating or disaggregating the reconciling items disclosed an entity shall apply the requirements in paragraphs 25–28.

[Draft] Amendments to other IFRS Standards

This document sets out the [draft] amendments to other IFRS Standards. An entity shall apply the amendments when it applies [draft] IFRS X.

IAS 7 *Statement of Cash Flows*

Paragraphs 33A, 34A–34D, 38A and 62 are added, paragraphs 6, 12, 14, 16, 17, 18, 20 and 31 are amended and paragraphs 33 and 34 are deleted. New text is underlined and deleted text is struck through. Paragraphs 15, 32, 37 and 38 have not been amended but are included for ease of reference. Paragraph 6 includes text that has not been amended but is included for ease of reference.

Definitions

6 **The following terms are used in this Standard with the meanings specified:**

...

Operating activities **are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.**

Investing activities **are the acquisition and disposal of long-term assets and other investments not included in cash equivalents and the receipt of some interest and dividends as described in paragraphs 34A–34D.**

Financing activities **are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.**

In relation to borrowings, financing activities involve the receipt or use of a resource from a provider of finance with the expectation that:

(a) the resource will be returned to the provider of finance; and

(b) the provider of finance will be appropriately compensated through the payment of a finance charge that is dependent on both the amount of the credit and its duration.

...

Presentation of a statement of cash flows

...

12 A single transaction may include cash flows that are classified differently. ~~For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element is classified as a financing activity.~~

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Operating activities

...

14 Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss. Examples of cash flows from operating activities are:

(a) cash receipts from the sale of goods and the rendering of services;

(b) cash receipts from royalties, fees, commissions and other revenue;

(c) cash payments to suppliers for goods and services;

(d) cash payments to and on behalf of employees;

(e) [deleted]

(f) cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities; ~~and~~

(g) cash receipts and payments from contracts held for dealing or trading purposes~~.~~; and

(h) some cash receipts and payments of dividends and interest as described in paragraphs 34B–34C.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in recognised profit or loss. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale as described in paragraph 68A of IAS 16 *Property, Plant and Equipment* are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

15 An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by financial institutions are usually classified as operating activities since they relate to the main revenue-producing activity of that entity.

Investing activities

16 The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities. Examples of cash flows arising from investing activities are:

(a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment~~;~~.

(b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets~~;~~.

(c) cash payments to acquire equity or debt instruments of other entities including ~~and~~ interests in associates and joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes)~~;~~.

(d) cash receipts from sales of equity or debt instruments of other entities including ~~and~~ interests in associates and joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes)~~;~~.

(e) cash advances and loans made to other parties (other than advances and loans made by a financial institution)~~;~~.

(f) cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution)~~;~~.

(g) cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities~~; and~~.

(h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

(i) some cash receipts from dividends and interest as described in paragraphs 34A–34C.

When a contract is accounted for as a hedge of an identifiable position the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

Financing activities

17 The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

(a) cash proceeds from issuing shares or other equity instruments;

(b) cash payments to owners to acquire or redeem the entity's shares;

(c) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings;

(d) cash repayments of amounts borrowed;~~ and~~

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(e) cash payments by a lessee for the reduction of the outstanding liability relating to a lease~~.~~;

(f) cash payments of dividends as described in paragraph 33A; and

(g) some cash payments of interest as described in paragraphs 34A–34C.

Reporting cash flows from operating activities

18 **An entity shall report cash flows from operating activities using either:**

(a) **the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or**

(b) **the indirect method, whereby ~~profit or loss~~ operating profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items reflecting classification differences between income or expenses classified in operating profit or loss and cash flows classified as cash flows from operating activities ~~of income or expense associated with investing or financing cash flows~~.**

...

20 Under the indirect method, the net cash flow from operating activities is determined by adjusting ~~profit or loss~~ operating profit or loss for the effects of:

(a) changes during the period in inventories and operating receivables and payables;

(b) non-cash items such as depreciation, provisions~~, deferred taxes,~~ and unrealised foreign currency gains and losses included in operating profit or loss~~, and undistributed profits of associates; and~~

(c) ~~all~~ any other ~~items~~ income or expenses included in operating profit or loss for which the cash effects are investing or financing cash flows; and~~.~~

(d) any other operating cash flows, such as income tax (in accordance with paragraph 35), for which the corresponding income or expenses are not included in operating profit or loss.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses ~~disclosed in the statement of comprehensive income~~ included in operating profit or loss, ~~and~~ the changes during the period in inventories and operating receivables and payables and any other operating cash flows for which the corresponding income or expenses are not included in operating profit or loss.

...

Interest and dividends

31 **Cash flows from interest and dividends received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period~~ as either operating, investing or financing activities~~ applying paragraphs 33A and 34A–34C.**

32 The total amount of interest paid during a period is disclosed in the statement of cash flows whether it has been recognised as an expense in profit or loss or capitalised in accordance with IAS 23 *Borrowing Costs*.

33 [Deleted]~~Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.~~

33A An entity shall classify dividends paid as cash flows from financing activities.

34 [Deleted]~~Dividends paid may be classified as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, dividends paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an entity to pay dividends out of operating cash flows.~~

34A An entity, other than those entities described in paragraph 34B, shall classify:

(a) interest paid as cash flows from financing activities. This includes interest that is capitalised as part of the cost of an asset applying IAS 23.

(b) interest and dividends received as cash flows from investing activities.

34B An entity that provides financing to customers as a main business activity or invests in the course of its main business activities in assets that generate a return individually and largely independently of other resources held by the entity shall classify the following cash flows each in a single category of the statement of cash flows (that is, either as operating, investing or financing activities):

(a) dividends received (other than those described in paragraph 38A);

(b) interest paid; and

(c) interest received.

34C When applying paragraph 34B, an entity shall refer to the classification of the income or expenses corresponding to such cash flows in the statement of profit or loss:

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(a) if the entity classifies related income or expenses in a single category of the statement of profit or loss, the entity shall classify the cash flows in the corresponding category in the statement of cash flows; or

(b) if the entity classifies related income or expenses in more than one category of the statement of profit or loss, the entity shall make an accounting policy choice to classify the cash flows in one of the corresponding categories of the statement of cash flows.

34D For example, an entity applying paragraph 34C would classify interest paid:

(a) as cash flows from financing activities if the entity classifies all its interest expenses in the financing category of the statement of profit or loss; or

(b) in accordance with its accounting policy as either cash flows from operating activities or cash flows from financing activities if the entity classifies some of its interest expenses in the operating category and some of its interest expenses in the financing category of the statement of profit or loss.

...

Investments in subsidiaries, associates and joint ventures

37 When accounting for an investment in an associate, a joint venture or a subsidiary accounted for by use of the equity or cost method, an investor restricts its reporting in the statement of cash flows to the cash flows between itself and the investee, for example, to dividends and advances.

38 An entity that reports its interest in an associate or a joint venture using the equity method includes in its statement of cash flows the cash flows in respect of its investments in the associate or joint venture, and distributions and other payments or receipts between it and the associate or joint venture.

38A An entity shall classify cash flows from the acquisition and disposal of investments in associates and joint ventures applying paragraphs 16(c)–16(d). An entity shall classify as cash flows from investing activities dividends received from associates and joint ventures accounted for using the equity method. An entity shall present cash flows in respect of its investments in integral associates and joint ventures separately from cash flows in respect of its investments in non-integral associates and joint ventures.

...

Effective date

...

62 **[Draft] IFRS X *General Presentation and Disclosures* issued in [date] added paragraphs 33A, 34A–34D, 38A and 62, amended paragraphs 6, 12, 14, 16, 17, 18, 20 and 31 and deleted paragraphs 33 and 34. An entity shall apply those amendments when it applies [draft] IFRS X.**

IFRS 12 *Disclosure of Interests in Other Entities*

Paragraphs 20A–20E and defined terms are added and paragraph 7 is amended. Paragraph 20 has not been amended but is included for ease of reference. New text is underlined and deleted text is struck through.

Significant judgements and assumptions

7 **An entity shall disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining:**

(a) **that it has control of another entity, ie an investee as described in paragraphs 5 and 6 of IFRS 10 *Consolidated Financial Statements*;**

(b) **that it has joint control of an arrangement or significant influence over another entity;~~ and~~**

(c) **the type of joint arrangement (ie joint operation or joint venture) when the arrangement has been structured through a separate vehicle~~.~~; and**

(d) **whether an associate or joint venture that is accounted for using the equity method is integral or non-integral to the entity's main business activities.**

...

Interests in joint arrangements and associates

20 **An entity shall disclose information that enables users of its financial statements to evaluate:**

(a) **the nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates (paragraphs 21 and 22); and**

(b) **the nature of, and changes in, the risks associated with its interests in joint ventures and associates (paragraph 23).**

20A An entity shall classify its associates and joint ventures accounted for using the equity method as either integral associates and joint ventures or as non-integral associates and joint ventures on initial recognition.

20B An entity shall change the classification of an associate or joint venture as integral or non-integral if and only if the relationship between the reporting entity and the associate or joint venture changes.

20C When an integral or non-integral associate or joint venture is reclassified in the period, an entity shall disclose how the entity's relationship with the associate or joint venture has changed and the amount reclassified.

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20D When assessing whether an associate or joint venture accounted for using the equity method is integral or non-integral to an entity's main business activities, the entity shall consider all facts and circumstances. A significant interdependency between an entity and an associate or joint venture would indicate that the associate or joint venture is integral to the main business activities of the entity. Examples of a significant interdependency between an entity and an associate or joint venture include:

(a) having integrated lines of business with the associate or joint venture;

(b) sharing a name or brand with the associate or joint venture so that externally it may appear as one business in relation to the activities of the associate or joint venture (although the reporting entity may have other, separate businesses); and

(c) having a supplier or customer relationship with the associate or joint venture that the entity would have difficulty replacing without significant business disruption.

20E When applying paragraph 20 to associates and joint ventures accounted for using the equity method an entity shall disclose the information required separately for integral associates and joint ventures and non-integral associates and joint ventures.

...

New terms are added to Appendix A. New text is underlined.

Appendix A
Defined terms

...

integral associates and joint ventures	Associates and joint ventures accounted for using the equity method that are integral to the main business activities of an entity and hence do not generate a return individually and largely independently of the other assets of the entity.

...

non-integral associates and joint ventures	Associates and joint ventures accounted for using the equity method that are not integral to the main business activities of an entity and hence generate a return individually and largely independently of the other assets of the entity.

...

Paragraphs C1E–C1F are added to Appendix C. New text is underlined.

Appendix C
Effective date and transition

Effective date and transition

...

C1E [Draft] IFRS X *General Presentation and Disclosures* issued in [date] added paragraphs 7(d) and 20A–20E and the defined terms integral associates and joint ventures and non-integral associates and joint ventures. The date of initial application of those amendments is the date when an entity first applies the requirements of [draft] IFRS X.

C1F At the date of initial application, an entity shall classify its associates and joint ventures accounted for using the equity method as either integral associates and joint ventures or as non-integral associates and joint ventures applying paragraph 20D on the basis of the facts and circumstances that exist at that date.

...

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IAS 33 *Earnings per Share*

Paragraphs 73–73A are deleted and paragraphs 73B–73C and 74F are added. New text is underlined and deleted text is struck through.

Disclosure

...

73 [Deleted]~~If an entity discloses, in addition to basic and diluted earnings per share, amounts per share using a reported component of the statement of comprehensive income other than one required by this Standard, such amounts shall be calculated using the weighted average number of ordinary shares determined in accordance with this Standard. Basic and diluted amounts per share relating to such a component shall be disclosed with equal prominence and presented in the notes. An entity shall indicate the basis on which the numerator(s) is (are) determined, including whether amounts per share are before tax or after tax. If a component of the statement of comprehensive income is used that is not reported as a line item in the statement of comprehensive income, a reconciliation shall be provided between the component used and a line item that is reported in the statement of comprehensive income.~~

73A [Deleted]~~Paragraph 73 applies also to an entity that discloses, in addition to basic and diluted earnings per share, amounts per share using a reported item of profit or loss, other than one required by this Standard.~~

73B An entity is permitted to disclose, in addition to basic and diluted earnings per share required by this Standard, per share measures of performance using a numerator different from that required by paragraph 10. However, such numerator(s) shall be the amount attributable to ordinary equity holders of the parent entity of:

(a) a subtotal or total included in paragraph 104 of [draft] IFRS X *General Presentation and Disclosures*; or

(b) a management performance measure disclosed by the entity applying paragraph 106 of [draft] IFRS X.

73C If, applying paragraph 73B, an entity discloses an additional amount per share, it shall:

(a) disclose both basic and diluted amounts per share with equal prominence;

(b) be calculated using the weighted average number of ordinary shares determined in accordance with this Standard; and

(c) be disclosed in the notes to financial statements, but not be presented in the primary financial statement(s).

Effective date

...

74F [Draft] IFRS X *General Presentation and Disclosures* issued in [date] added paragraphs 73B–73C and deleted paragraphs 73–73A. An entity shall apply those amendments when it applies [draft] IFRS X.

...

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IAS 34 *Interim Financial Reporting*

Paragraph 16A is amended and paragraph 60 and heading for the effective date are added. New text is underlined and deleted text is struck through.

Other disclosures

16A **In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements or elsewhere in the interim financial report. The following disclosures shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or risk report) that is available to users of the financial statements on the same terms as the interim financial statements and at the same time. If users of the financial statements do not have access to the information incorporated by cross-reference on the same terms and at the same time, the interim financial report is incomplete. The information shall normally be reported on a financial year-to-date basis.**

(a) ...

(c) ~~the nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence~~the disclosures about unusual items required by paragraph 100 of [draft] IFRS X *General Presentation and Disclosures*.

(d) ...

(m) the disclosures about management performance measures required by paragraph 106 of [draft] IFRS X.

...

Effective date

...

60 [Draft] IFRS X *General Presentation and Disclosures* issued in [date] amended paragraph 16A. An entity shall apply those amendments when it applies [draft] IFRS X.

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

The title of IAS 8 is amended. New text is underlined and deleted text is struck through.

IAS 8 *Basis of Preparation, Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraphs 1 and 3 are amended and paragraph 2 is deleted. New text is underlined and deleted text is struck through. Part of paragraph 7 of IAS 1 *Presentation of Financial Statements* is moved to paragraph 5 of IAS 8 and the reference to paragraph 7 of IAS 1 in paragraph 5 is deleted. Text moved to IAS 8 unchanged is not marked up. Deleted text is struck through.

Objective

1 The objective of this Standard is to ~~prescribe~~enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities by prescribing:

(a) the basis of preparation of financial statements;

(b) the criteria for selecting, ~~and~~ changing and disclosing accounting policies;~~,~~ and

(c) ~~together with~~ the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.

~~The Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.~~

~~2~~ [Deleted]~~Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in IAS 1 *Presentation of Financial Statements*.~~

Scope

3 **This Standard shall be applied in determining the basis of preparation of financial statements, selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.**

...

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Definitions

5 ...

~~*Material* is defined in paragraph 7 of IAS 1 and is used in this Standard with the same meaning.~~

Material:

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

(a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;

(b) information regarding a material item, transaction or other event is scattered throughout the financial statements;

(c) dissimilar items, transactions or other events are inappropriately aggregated;

(d) similar items, transactions or other events are inappropriately disaggregated; and

(e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

Assessing whether information could reasonably be expected to influence decisions made by the primary users of a specific reporting entity's general purpose financial statements requires an entity to consider the characteristics of those users while also considering the entity's own circumstances.

Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At

times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

...

Paragraphs 15–28 of IAS 1 are moved to IAS 8 as paragraphs 6A–6N with editorial changes. Related headings are moved from IAS 1 to IAS 8 with editorial changes. Text that was not included in IAS 1 but is included in IAS 8 is underlined, and text that was included in IAS 1 but is not included in IAS 8 is struck through. Text moved to IAS 8 that is unchanged is not marked up. Original paragraph numbers in IAS 1 are shown in brackets for ease of reference but will not be included in IAS 8.

General features of financial statements

Fair presentation and compliance with IFRS~~s~~ Standards

6A **[IAS 1.15] Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*). The application of ~~IFRSs~~IFRS Standards, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.**

6B **[IAS 1.16] An entity whose financial statements comply with ~~IFRSs~~IFRS Standards shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with ~~IFRSs~~IFRS Standards unless they comply with all the requirements of ~~IFRSs~~IFRS Standards.**

6C [IAS 1.17] In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable ~~IFRSs~~IFRS Standards. A fair presentation also requires an entity:

(a) to select and apply accounting policies in accordance with this Standard ~~IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. IAS 8~~ This Standard sets out a hierarchy of authoritative guidance that management considers in the absence of an IFRS Standard that specifically applies to an item.

(b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

(c) to provide additional disclosures when compliance with the specific requirements in ~~IFRSs~~ IFRS Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

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6D **[IAS 1.18] An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.**

6E **[IAS 1.19] In the extremely rare circumstances in which management concludes that compliance with a requirement in an IFRS Standard would be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework*, the entity shall depart from that requirement in the manner set out in paragraph ~~20~~ 6F if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.**

6F **[IAS 1.20] When an entity departs from a requirement of an IFRS Standard in accordance with paragraph ~~19~~ 6E, it shall disclose:**

(a) **that management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;**

(b) **that it has complied with applicable ~~IFRSs~~IFRS Standard, except that it has departed from a particular requirement to achieve a fair presentation;**

(c) **the title of the IFRS Standard from which the entity has departed, the nature of the departure, including the treatment that the IFRS Standard would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the *Conceptual Framework*, and the treatment adopted; and**

(d) **for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.**

6G **[IAS 1.21] When an entity has departed from a requirement of an IFRS Standard in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in ~~paragraph 20(c) and (d)~~paragraphs 6F(c)–6F(d).**

6H [IAS 1.22] Paragraph ~~21~~ 6G applies, for example, when an entity departed in a prior period from a requirement in an IFRS Standard for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements.

6I **[IAS 1.23] In the extremely rare circumstances in which management concludes that compliance with a requirement in an IFRS Standard would be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework*, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:**

(a) the title of the IFRS Standard in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in the *Conceptual Framework*; and

(b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.

6J [IAS 1.24] For the purpose of paragraphs ~~19–23~~ 6E–6I, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements. When assessing whether complying with a specific requirement in an IFRS Standard would be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework*, management considers:

(a) why the objective of financial statements is not achieved in the particular circumstances; and

(b) how the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework*.

Going concern

6K **[IAS 1.25] When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.**

6L [IAS 1.26] In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases,

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management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

Accrual basis of accounting

6M [IAS 1.27] **An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.**

6N [IAS 1.28] When the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the *Conceptual Framework*.

...

Paragraphs 117–124 and 125–133 of IAS 1 are moved to IAS 8 as paragraphs 27A–27G and 31A–31I with editorial changes. Related headings are moved from IAS 1 to IAS 8 with editorial changes. Headings before paragraphs 27A and 28 are added. Text that was not included in IAS 1 but is included in IAS 8 is underlined, and text that was included in IAS 1 but is not included in IAS 8 is struck through. Text moved to IAS 8 that is unchanged is not marked up. Original paragraph numbers in IAS 1 are shown in brackets for ease of reference but will not be included in IAS 8.

Paragraphs 28 and 30–31 of IAS 8 are amended, added text is underlined and removed text is struck through. Paragraph 29 of IAS 8 is not amended but is included for ease of reference.

The heading before paragraph 54I is added.

Disclosure

Disclosure <u>of selection and application</u> of accounting policies

27A [IAS 1.117] **An entity shall disclose in the notes its significant accounting policies[14] comprising:**

(a) the measurement basis (or bases) used in preparing the financial statements; and

(b) the other accounting policies used that are relevant to an understanding of the financial statements.

27B [IAS 1.118] It is important for an entity to inform users of financial statements of the measurement basis or bases used in the financial statements (~~for example,~~ historical cost~~, current cost, net realisable value, fair value or recoverable amount~~<u>or current value</u>) because the basis on which an entity prepares the financial statements significantly affects users' analysis. When an entity uses more than one measurement basis in the financial statements, for example when particular classes of assets are revalued, it is sufficient to

14 Exposure Draft ED/2019/6 *Disclosure of Accounting Policies* proposes amendments to the disclosure requirements for accounting policies.

provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

27C [IAS 1.119] In deciding whether a particular accounting policy should be disclosed in the notes, management considers whether disclosure would assist users of financial statements in understanding how transactions~~,~~ and other events and conditions are reflected in reported financial performance and financial position. Each entity considers the nature of its operations and the policies that the users ~~of its financial statements~~ would expect to be disclosed for that type of entity. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in ~~IFRSs~~IFRS Standards. An example is disclosure of whether an entity applies the fair value or cost model to its investment property (see IAS 40 *Investment Property*). Some ~~IFRSs~~IFRS Standards specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, IAS 16 *Property, Plant and Equipment* requires disclosure of the measurement bases used for classes of property, plant and equipment.

27D [IAS 1.121] An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose in the notes each significant accounting policy that is not specifically required by ~~IFRSs~~IFRS Standards but the entity selects and applies in accordance with ~~IAS 8~~this Standard.

27E [IAS 1.122] An entity shall disclose in the notes, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph ~~125~~31A), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

27F [IAS 1.123] In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts it recognises in the financial statements. For example, management makes judgements in determining:

~~(a)~~ ~~[deleted]~~

~~(b)~~(a) when substantially all the significant risks and rewards of ownership of financial assets and, for lessors, assets subject to leases are transferred to other entities;

~~(c)~~(b) whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and

~~(d)~~(c) whether the contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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27G [IAS 1.124] Some of the disclosures made in accordance with paragraph ~~122~~27E are required by other ~~IFRSs~~IFRS Standards. For example, IFRS 12 *Disclosure of Interests in Other Entities* requires an entity to disclose in the notes the judgements it has made in determining whether it controls another entity. IAS 40 *Investment Property* requires disclosure in the notes of the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, when classification of the property is difficult.

Disclosure of changes in accounting policies

28 When initial application of an IFRS Standard has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

(a) the title of the IFRS Standard;

(b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;

(c) the nature of the change in accounting policy;

(d) when applicable, a description of the transitional provisions;

(e) when applicable, the transitional provisions that might have an effect on future periods;

(f) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:

(i) for each financial statement line item affected; and

(ii) if IAS 33 *Earnings per Share* applies to the entity, for basic and diluted earnings per share;

(g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and

(h) if retrospective application required by paragraph 19(a) or 19(b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

29 When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

(a) the nature of the change in accounting policy;

(b) the reasons why applying the new accounting policy provides reliable and more relevant information;

(c) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:

(i) for each financial statement line item affected; and

(ii) if IAS 33 applies to the entity, for basic and diluted earnings per share;

(d) the amount of the adjustment relating to periods before those presented, to the extent practicable; and

(e) if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

30 **When an entity has not applied a new IFRS Standard that has been issued but is not yet effective, the entity shall disclose:**

(a) this fact; and

(b) known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS Standard will have on the entity's financial statements in the period of initial application.

31 In complying with paragraph 30, an entity considers disclosing:

(a) the title of the new IFRS Standard;

(b) the nature of the impending change or changes in accounting policy;

(c) the date by which application of the IFRS Standard is required;

(d) the date as at which it plans to apply the IFRS Standard initially; and

(e) either:

(i) a discussion of the impact that initial application of the IFRS Standard is expected to have on the entity's financial statements; or

(ii) if that impact is not known or reasonably estimable, a statement to that effect.

Disclosure of sources ~~Sources~~ of estimation uncertainty

31A **[IAS 1.125] An entity shall disclose in the notes information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:**

(a) their nature~~,~~; and

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(b) their carrying amount as at the end of the reporting period.

31B [IAS 1.126] Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. For example, in the absence of recently observed market prices, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence on inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates, future changes in salaries and future changes in prices affecting other costs.

31C [IAS 1.127] The assumptions and other sources of estimation uncertainty disclosed in the notes in accordance with paragraph ~~125~~31A relate to the estimates that require management's most difficult, subjective or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.

31D [IAS 1.128] The note disclosures in paragraph ~~125~~31A are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the end of the reporting period, they are measured at fair value based on a quoted price in an active market for an identical asset or liability. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting period.

31E [IAS 1.129] An entity ~~presents~~provides the note disclosures in paragraph ~~125~~31A in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures an entity makes are:

(a) the nature of the assumption or other estimation uncertainty;

(b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;

(c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and

(d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

31F [IAS 1.130] This [draft] Standard does not require an entity to disclose in the notes budget information or forecasts in making the note disclosures in paragraph ~~125~~31A.

31G [IAS 1.131] Sometimes it is impracticable to disclose in the notes the extent of the possible effects of an assumption or another source of estimation uncertainty at the end of the reporting period. In such cases, the entity discloses in the notes that it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses in the notes the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.

31H [IAS 1.132] The note disclosures in paragraph ~~122~~27E of particular judgements that management made in the process of applying the entity's accounting policies do not relate to the note disclosures of sources of estimation uncertainty in paragraph ~~125~~ 31A.

31I [IAS 1.133] Other ~~IFRSs~~IFRS Standards require thenote disclosure of some of the assumptions that would otherwise be required in accordance with paragraph ~~125~~ 31A. For example, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires note disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. IFRS 13 *Fair Value Measurement* requires note disclosure of significant assumptions (including the valuation technique(s) and inputs) the entity uses when measuring the fair values of assets and liabilities that are carried at fair value.

...

Effective date and transition

...

54I [Draft] IFRS X *General Presentation and Disclosures* issued in [date] amended paragraphs 1, 3 and 5 and added paragraphs 6A–6N, 27A–27G and 31A–31I and deleted paragraph 2. An entity shall apply those amendments when it applies [draft] IFRS X.

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IFRS 7 *Financial Instruments: Disclosures*

Paragraph 3(f) is amended. New text is underlined and deleted text is struck through.

Scope

3 This IFRS shall be applied by all entities to all types of financial instruments, except:

...

(f) instruments that are required to be classified as equity instruments in accordance with paragraphs 16A ~~and~~ 16B or paragraphs 16C ~~and~~ 16D of IAS 32. However, the disclosures required by paragraphs 19A–19B are required for such instruments.

...

Paragraphs 80A and 136A of IAS 1 *Presentation of Financial Statements* are moved to IFRS 7 as paragraphs 19A–19B and the related heading is added. Paragraph 44EE is added. Text that was not included in IAS 1 but is included in IFRS 7 is underlined, and text that was included in IAS 1 but not included in IFRS 7 is struck through. Text moved to IFRS 7 unchanged is not marked up. Original paragraph numbers in IAS 1 are shown in brackets for ease of reference but will not be included in IFRS 7.

Statement of financial position

...

Financial instruments classified as equity in accordance with paragraphs 16A–16B or paragraphs 16C–16D of IAS 32

19A [IAS 1.136A] For puttable financial instruments classified as equity instruments in accordance with paragraphs 16A–16B of IAS 32, an entity shall disclose (to the extent not disclosed elsewhere):

(a) summary quantitative data about the amount classified as equity;

(b) its objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;

(c) the expected cash outflow on redemption or repurchase of that class of financial instruments; and

(d) information about how the expected cash outflow on redemption or repurchase was determined.

19B **[IAS 1.80A] If an entity has reclassified any of the following financial instruments between financial liabilities and equity, it shall disclose the amount reclassified into and out of each category (financial liabilities or equity), and the timing and reason for that reclassification:**

(a) a puttable financial instrument classified as an equity instrument applying paragraphs 16A–16B of IAS 32;~~,~~ or

(b) an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and is classified as an equity instrument applying paragraphs 16C–16D of IAS 32.

~~between financial liabilities and equity, it shall disclose the amount reclassified into and out of each category (financial liabilities or equity), and the timing and reason for that reclassification.~~

...

Effective date and transition

...

44EE [Draft] IFRS X *General Presentation and Disclosures* issued in [date] amended paragraph 3(f) and added paragraphs 19A–19B. An entity shall apply those amendments when it applies [draft] IFRS X.

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This table shows how the Board proposes to amend the following references in other Standards.

Standard	Description of amendment
General	Replace references to IAS 1 *Presentation of Financial Statements*, including references to specific paragraphs in IAS 1 to refer to the corresponding paragraphs in [draft] IFRS X, IFRS 7 *Financial Instruments: Disclosures* and IAS 8 *Basis of Preparation, Accounting Policies, Changes in Accounting Estimates and Errors*.
General	Replace references to 'other comprehensive income items that will not be reclassified subsequently to profit or loss', including variations of the term, with 'remeasurements permanently reported outside profit or loss' (or its variation).
General	Replace references to 'other comprehensive income items that will be reclassified subsequently to profit or loss', including variations of the term, with 'income and expenses to be included in profit or loss in the future when specific conditions are met' (or its variation).
General	Replace references to 'statement of profit or loss and other comprehensive income' with 'statement(s) of financial performance'.
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	Replace the references to 'presented' and 'a financing cost' in paragraph 17 of the Standard with 'classified' and 'an interest expense on liabilities not arising from financing activities', respectively.
IFRS 16 *Leases*	Replace the reference to 'finance costs' in paragraph 49 of the Standard with 'expenses from financing activities'.
IAS 8 *Basis of Preparation, Accounting Policies, Changes in Accounting Estimates and Errors*	Replace references to 'IFRSs' and 'IFRS' with 'IFRS Standards' and 'IFRS Standard' throughout, as shown in the revised paragraphs of IAS 8 included in this document.
IAS 12 *Income Taxes*	Replace the reference to 'operating profits' in the third paragraph in the example illustrating paragraphs 52A and 57A, shown below paragraph 52A in the Standard, with 'profits'.
IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	Replace the reference to 'a finance cost' in paragraph 8 of the Interpretation with 'an interest expense on liabilities not arising from financing activities'.
Illustrative Examples accompanying IAS 34 *Interim Financial Reporting*	Replace the reference to 'an operating loss carryforward' in paragraph B22 of the Illustrative Examples with 'a loss carryforward'.
IFRS Practice Statement 2 *Making Materiality Judgements*	Remove footnotes which made reference to paragraph 30A of IAS 1 and/or paragraph BC30F of the Basis for Conclusions on IAS 1. Update the corresponding extracts of paragraphs of [draft] IFRS X and IAS 8 that are reproduced in the Appendix to the Practice Statement 2.

Table of concordance with IAS 1 and other IFRS Standards

The tables below show how the contents of IAS 1 Presentation of Financial Statements *and [draft] IFRS X* General Presentation and Disclosures *or other IFRS Standards correspond.*

From IAS 1 paragraph	
IAS 1 paragraph	**New paragraph**
1	IFRS X.1
2	IFRS X.2
3	IFRS X.4
4	IFRS X.5–6
5	IFRS X.7
6	IFRS X.8
7	IFRS X Appendix A, IFRS X.B50, IAS 8.5
8	IFRS X.12
8A	None
9	IFRS X.19
10	IFRS X.10
10A	IFRS X.13
11	IFRS X.15
12	None
13–14	IFRS X.9
15–24	IAS 8.6A–6J
25–26	IAS 8.6K–6L
27–28	IAS 8.6M–6N
29–30	None
29, 30A	IFRS X.25
31	IFRS X.24
32–33	IFRS X.29–30
34–35	IFRS X.B16–B17
36–37	IFRS X.31–32
38–38A	IFRS X.34–35
38B	IFRS X.B19
38C–38D	IFRS X.B20–B21
39–40	None
40A–42	IFRS X.36–41
43–44	IFRS X.B22–B23
45	IFRS X.33

continued...

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...continued

From IAS 1 paragraph	
IAS 1 paragraph	**New paragraph**
46	IFRS X.B18
47	IFRS X.3
48	None
49–51	IFRS X.16–18
52–53	IFRS X.B1–B2
54	IFRS X.82
55–55A	IFRS X.42–43
56	IFRS X.86
57	IFRS X.83
58–59	IFRS X.B12–B13
60–61	IFRS X.84–85
62–65	IFRS X.B53–B56
66	IFRS X.87
67–68	IFRS X.B57–B58
69	IFRS X.88
70–76	IFRS X.B59–B65
77	None
78	IFRS X.B14
79–80	IFRS X.114–115
80A	IFRS 7.19B
81	None
81A	IFRS X.60, 73
81B	IFRS X.67, 76
82	IFRS X.65
82A	IFRS X.74–75
83–84	None
85–85A	IFRS X.42–43
85B	None
86	IFRS X.66
87	None
88	IFRS X.44
89	IFRS X.B49
90	IFRS X.80

continued...

...continued

From IAS 1 paragraph	
IAS 1 paragraph	**New paragraph**
91	IFRS X.81
92–94	IFRS X.77–79
95–96	IFRS X.B51–B52
97	None
98	IFRS X.B15
99	IFRS X.68
100–102	None
103	None
104	IFRS X.72
105	None
106	IFRS X.89
106A–109	IFRS X.91–94
110	IFRS X.90
111	IFRS X.95
112–113	IFRS X.96–97
114	IFRS X.B66
115	None
116	IFRS X.98
117–124	IAS 8.27A–27G
125–133	IAS 8.31A–31I
134–136	IFRS X.111–113
136A	IFRS 7.19A
137	IFRS X.116
138	IFRS X.99
139–139T	None
140	None

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From IFRS X paragraph	
IFRS X paragraph	**IAS 1 paragraph**
1	1
2	2
3	47
4	3
5–6	4
7–8	5–6
9	13–14
10	10
11	None
12	8
13	10A
14	None
15	11
16–18	49–51
19	9
20–23	None
24	31
25	29, 30A
26–28	None
29–30	32–33
31–32	36–37
33	45
34–35	38–38A
36–41	40A–42
42	85, 55
43	85A, 55A
44	88
45–59	None
60	81A (partial)
61–64	None
65	82
66	86
67	81B (partial)
68	99

continued...

...continued

From IFRS X paragraph	
IFRS X paragraph	**IAS 1 paragraph**
69–71	None
72	104
73	81A (partial)
74–75	82A
76	81B (partial)
77–79	92–94
80–81	90–91
82	54
83	57
84–85	60–61
86	56
87	66
88	69
89	106
90	110
91–94	106A–109
95	111
96–97	112–113
98	116
99	138
100–110	None
111–113	134–136
114–115	79–80
116	137
117–120	None
B1–B2	52–53
B3–B11	None
B12–B13	58–59
B14	78
B15	98
B16–B17	34–35
B18	46
B19	38B

continued...

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...continued

From IFRS X paragraph	
IFRS X paragraph	**IAS 1 paragraph**
B20–B21	38C–38D
B22–B23	43–44
B24–B48	None
B49	89
B50	7 (partial)
B51–B52	95–96
B53–B56	62–65
B57–B58	67–68
B59–B65	70–76
B66	114
B67–B85	None

Approval by the Board of Exposure Draft *General Presentation and Disclosures* published in December 2019

The Exposure Draft *General Presentation and Disclosures* was approved for publication by all 14 members of the International Accounting Standards Board.

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Illustrative Examples

General Presentation and Disclosures

Comments to be received by 30 June 2020

Includes a comparison of proposals with requirements in IAS 1 *Presentation of Financial Statements*

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Illustrative Examples on

Exposure Draft

General Presentation and Disclosures

Comments to be received by 30 June 2020

These Illustrative Examples accompany 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 June 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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Exposure Draft
IFRS X *General Presentation and Disclosures*
Illustrative Examples

These examples accompany, but are not part of, [draft] IFRS X. They illustrate aspects of [draft] IFRS X but are not intended to provide interpretative guidance.

Introduction

IE1 [Draft] IFRS X sets out general and specific requirements for the presentation and disclosures of information in financial statements. These examples illustrate ways in which an entity can meet the presentation and disclosure requirements of [draft] IFRS X. As discussed in paragraphs 7–8, 10, 12, 83 and 97 of [draft] IFRS X, an entity may change the order of presentation or disclosures, the titles of statements and the descriptions used for line items, subject to compliance with the requirements in IFRS Standards for the presentation and disclosure of financial information.

IE2 The examples are not intended to illustrate all aspects of IFRS Standards, nor do they constitute a complete set of financial statements. The examples do not show all the line items that could be required of an entity applying paragraphs 65 and 82 of [draft] IFRS X.

IE3 The examples are structured as follows:

(a) Part I—Examples of presentation and disclosures. This part provides examples of the statements of financial performance, financial position and changes in equity for a manufacturer that neither invests in the course of its main business activities, nor does it provide financing to customers as a main business activity. Therefore, this entity does not apply the requirements in paragraph 48 or 51 of [draft] IFRS X. Rather, it classifies all income and expenses from investments in the investing category, and all income and expenses from cash and cash equivalents as well as all income and expenses from financing activities in the financing category. Part I also provides examples of some notes to the statements set out.

(b) Part II—Further examples of statement(s) of financial performance. This part provides examples of (a section of) the statement(s) of financial performance for an entity that either invests in the course of its main business activities or provides financing to customers as a main business activity (or both). Therefore, such an entity would apply the requirements in either paragraph 48 or 51 of [draft] IFRS X (or both), and classify some income and expenses in the operating category, which otherwise would be classified in the investing or financing category.

(c) Part III—Capital disclosures. This part provides examples illustrating the application of paragraphs 111–112 of [draft] IFRS X.

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Part I—Examples of presentation and disclosures

IE4 XYZ Group is a manufacturer that does not invest in assets that generate a return individually and largely independently of other resources it holds, nor does it provide financing to customers as a main business activity. This part provides the following examples of some of XYZ Group's primary financial statements and notes:

(a) statements of financial performance (a statement of profit or loss and a statement presenting comprehensive income);

(b) a statement of financial position;

(c) a statement of changes in equity;

(d) Note 1—Analysis of operating expenses by nature (required by paragraph 72 of [draft] IFRS X);

(e) Note 2—Management performance measures and unusual income and expenses (required by paragraphs 101 and 106 of [draft] IFRS X, (see also paragraph B74 of [draft] IFRS X));

(f) Note 3—Analysis of reclassification adjustments (required by paragraph 77 of [draft] IFRS X); and

(g) Note 4—Analysis of tax effects relating to each component of other comprehensive income (required by paragraph 80 of [draft] IFRS X).

IE5 This part does not illustrate XYZ Group's complete set of financial statements. For instance, it does not provide examples of:

(a) a statement of cash flows. The illustrative examples accompanying IAS 7 *Statement of Cash Flows* provide examples of that statement.

(b) a statement of financial position as at 1 January 20X1. XYZ Group would be required to present such a statement because it has made a retrospective restatement of retained earnings as at 1 January 20X1, as illustrated in the statement of changes in equity (see paragraph 36 of [draft] IFRS X).

(c) other disclosures required by IFRS Standards. Cross-references to the notes are included in the examples only when related illustrative notes are provided in this part.

IE6 For the purpose of the examples in this part, XYZ Group presents profit or loss and other comprehensive income in two statements (paragraph 13(b) of [draft] IFRS X). Items of other comprehensive income included in the statement presenting comprehensive income are presented before tax effects with one amount shown for the aggregate amount of income tax relating to those items in each category (paragraph 81(b) of [draft] IFRS X). XYZ Group has determined that an analysis of operating expenses using the function of expense method provides the most useful information to users of financial statements in accordance with paragraph 68 of [draft] IFRS X. It has also determined that presenting a statement of financial position distinguishing current items from

non-current items provides the most useful information to users (paragraph 84 of [draft] IFRS X).

Statement of profit or loss

XYZ Group—Statement of profit or loss for the year ended 31 December 20X2

(in currency units)

	Note	20X2	20X1
Revenue	2	347,000	335,000
Cost of goods sold	1,2	(237,100)	(219,900)
Gross profit		109,900	115,100
Other income[(a)]		3,800	4,100
Selling expenses	1	(28,900)	(27,350)
Research and development expenses	1	(13,850)	(22,400)
General and administrative expenses	1,2	(25,180)	(25,060)
Impairment losses on trade receivables	1	(4,500)	(3,800)
Operating profit		41,270	40,590
Share of profit or loss of integral associates and joint ventures		(600)	2,000
Gains on disposals of integral associates and joint ventures		–	2,200
Operating profit and income and expenses from integral associates and joint ventures		40,670	44,790
Share of profit or loss of non-integral associates and joint ventures		3,380	1,000
Dividend income		3,550	3,210
Profit before financing and income tax		47,600	49,000
Expenses from financing activities	2	(3,800)	(4,500)
Unwinding of discount on provisions		(3,000)	(2,500)
Profit before tax		40,800	42,000
Income tax expense	2	(7,200)	(10,500)
Profit for the year from continuing operations		33,600	31,500
Loss for the year from discontinued operations		–	(5,500)
PROFIT FOR THE YEAR		33,600	26,000
Profit attributable to:			
Holders of claims against the parent classified as equity		26,880	20,800
Non-controlling interests		6,720	5,200
		33,600	26,000
Earnings per share for profit from continuing operations:			
Basic and diluted		0.67	0.66
Earnings per share for profit:			
Basic and diluted		0.67	0.55

(a) Paragraph 28 of [draft] IFRS X requires the composition of 'other income' to be analysed in the notes. However, such a note is not included in the examples.

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Statement presenting comprehensive income

XYZ Group—Statement presenting comprehensive income for the year ended 31 December 20X2

(in currency units)

	Note	20X2	20X1
Profit for the year		33,600	26,000
Remeasurements permanently reported outside profit or loss:			
Gains (losses) on investments in equity instruments		3,500	(6,000)
Gains on remeasurements of defined benefit pension plans		3,200	1,400
Share of other comprehensive income of integral associates and joint ventures[(a)]		(2,800)	1,000
Share of other comprehensive income of non-integral associates and joint ventures[(a)]		600	2,300
Income tax relating to remeasurements permanently reported outside profit or loss	4	(1,675)	1,150
Total remeasurements permanently reported outside profit or loss		2,825	(150)
Income and expenses that may be included in profit or loss in the future:			
Exchange differences on translating foreign operations	3	(5,600)	10,000
Losses on cash flow hedges	3	(1,200)	(4,000)
Income tax relating to income and expenses that may be included in profit or loss in the future	4	1,700	(1,500)
Total income and expenses that may be included in profit or loss in the future		(5,100)	4,500
Other comprehensive income for the year, net of tax	4	(2,275)	4,350
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		31,325	30,350
Total comprehensive income attributable to:			
Holders of claims against the parent classified as equity		24,620	24,940
Non-controlling interests		6,705	5,410
		31,325	30,350

(a) In this example, the other comprehensive income of integral and non-integral associates and joint ventures consists only of items that are remeasurements permanently reported outside profit or loss. If an entity has an integral or non-integral associate or joint venture whose other comprehensive income includes items that may be included in profit or loss in the future, it is required to present that amount in a separate line.

Statement of financial position

XYZ Group—Statement of financial position as at 31 December 20X2

(in currency units)

	31 Dec 20X2	31 Dec 20X1
ASSETS		
Non-current assets		
Property, plant and equipment	220,000	205,500
Goodwill	10,800	10,800
Intangible assets	14,000	19,500
Investments in integral associates and joint ventures	12,600	13,200
Investments in non-integral associates and joint ventures	7,650	4,270
Investments in equity instruments other than associates and joint ventures	26,500	23,000
Total non-current assets	291,550	276,270
Current assets		
Inventories	55,500	52,500
Trade receivables	34,000	32,000
Other current assets	7,625	10,100
Cash and cash equivalents	23,400	22,900
Total current assets	120,525	117,500
Total assets	412,075	393,770
EQUITY AND LIABILITIES		
Equity attributable to holders of claims against the parent classified as equity		
Share capital	110,000	100,000
Retained earnings	142,180	124,300
Accumulated other comprehensive income	2,480	4,740
Total equity attributable to holders of claims against the parent classified as equity	254,660	229,040
Non-controlling interests	42,015	35,310
Total equity	296,675	264,350
Non-current liabilities		
Long-term borrowings	50,000	55,000
Deferred tax liabilities	4,800	8,600
Long-term provisions	15,000	12,000
Total non-current liabilities	69,800	75,600

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...continued

Current liabilities		
Trade and other payables	21,800	20,420
Contract liabilities	6,200	7,200
Short-term borrowings	4,000	6,000
Current portion of long-term borrowings	5,000	12,000
Current tax payable	5,100	4,800
Short-term provisions	3,500	3,400
Total current liabilities	45,600	53,820
Total liabilities	115,400	129,420
Total equity and liabilities	412,075	393,770

XYZ Group—Statement of changes in equity for the year ended 31 December 20X2

(in currency units)

	Share capital	Retained earnings	Investments in equity instruments	Defined benefit pension plans	Share of other comprehensive income of integral associates and joint ventures	Share of other comprehensive income of non-integral associates and joint ventures	Translation of foreign operations	Cash flow hedges	Total equity attributable to holders of claims against the parent classified as equity	Non-controlling interests	Total equity
Balance at 1 January 20X1	100,000	108,100	1,600	1,000	1,400	(1,400)	(4,000)	2,000	208,700	29,800	238,500
Changes in accounting policy	–	400	–	–	–	–	–	–	400	100	500
Restated balance	100,000	108,500	1,600	1,000	1,400	(1,400)	(4,000)	2,000	209,100	29,900	239,000
Changes in equity for 20X1											
Dividends	–	(5,000)	–	–	–	–	–	–	(5,000)	–	(5,000)
Profit or loss		20,800							20,800	5,200	26,000
Other comprehensive income[(a)]			(3,600)	840	1,000	2,300	6,000	(2,400)	4,140	210	4,350
Total comprehensive income for the year	–	20,800	(3,600)	840	1,000	2,300	6,000	(2,400)	24,940	5,410	30,350
Balance at 31 December 20X1	100,000	124,300	(2,000)	1,840	2,400	900	2,000	(400)	229,040	35,310	264,350
Changes in equity for 20X2											
Issue of share capital	10,000	–	–	–	–	–	–	–	10,000	–	10,000
Dividends	–	(9,000)	–	–	–	–	–	–	(9,000)	–	(9,000)
Profit or loss		26,880							26,880	6,720	33,600
Other comprehensive income[(a)]			2,100	1,920	(2,800)	600	(3,360)	(720)	(2,260)	(15)	(2,275)
Total comprehensive income for the year	–	26,880	2,100	1,920	(2,800)	600	(3,360)	(720)	24,620	6,705	31,325
Balance at 31 December 20X2	110,000	142,180	100	3,760	(400)	1,500	(1,360)	(1,120)	254,660	42,015	296,675

(a) The amount included in investments in equity instruments, remeasurements of defined benefit pension plans, share of other comprehensive income of integral associates and joint ventures, share of other comprehensive income of non-integral associates and joint ventures, translation of foreign operations and cash flow hedges represent other comprehensive income for each component, net of tax and non-controlling interests. For example, the expense in other comprehensive income related to investments in equity instruments for 20X1 of 3,600 is 6,000, net of tax of 1,500 and non-controlling interests of 900.

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Note 1—Analysis of operating expenses by nature

The following table analyses operating expenses included in the statement of profit or loss using the nature of expense method. Other miscellaneous expenses consist of several unrelated immaterial amounts, the largest of which is travel expenses of currency units (CU) 700 (20X2) and CU560 (20X1).

			(in currency units)
	Note	**20X2**	**20X1**
Changes in inventories of finished goods and work in progress		3,000	(3,700)
Raw material used		(146,000)	(143,200)
Reversal of inventory write-downs	2	–	4,400
Employee benefits	2	(107,000)	(104,600)
Depreciation		(27,000)	(26,500)
Amortisation		(5,500)	(5,300)
Impairment of property, plant and equipment	2	(5,000)	(4,500)
Impairment losses on trade receivables		(4,500)	(3,800)
Property taxes	2	(5,200)	(5,100)
Litigation expenses	2	(1,900)	(5,200)
Gains (losses) on derivatives[(a)]		(5,500)	2,200
Other miscellaneous expenses		(4,930)	(3,210)
Operating expenses total		(309,530)	(298,510)

(a) 'Gains (losses) on derivatives' consists of gains and/or losses on derivatives used to manage risks related to manufacturing activity for which hedge accounting has not been applied.

Note 2—Management performance measures and unusual income and expenses

The Group uses three management performance measures as defined in [draft] IFRS X in its financial communications with users of financial statements. The three measures are 'adjusted operating profit', 'adjusted net profit' and 'adjusted equity holders' profit of parent'.

These management performance measures provide management's view of an aspect of the Group's financial performance. They are not specified by IFRS Standards and therefore may not be comparable to apparently similar measures used by other entities. They are provided to complement measures of performance specified by IFRS Standards, and are not intended to be a substitute for measures specified by IFRS Standards.

The management performance measures have been calculated by adjusting for the effect of the following items which, in the view of the Group's management, should be considered separately when assessing trends:

(1) unusual income and expenses—these are not expected to arise for several future annual reporting periods, unlike other items in the statements of financial performance.

(2) revenue adjustment—the Group has acquired several entities which had recognised contract liabilities. IFRS 3 *Business Combinations* requires a contract liability of an acquired entity to be recognised at fair value on the acquisition date. Because the fair value of the contract liabilities is lower than the contract consideration received, the Group recognised less revenue when it provided its services than would have been recognised by the acquired entities had the acquisition not occurred. In the calculation of its management performance measures, the Group adjusts for the difference between the revenue recognised and the consideration received.

The Group believes that its management performance measures help users of financial statements to assess underlying trends in profitability including the effect of acquisitions on the profitability of the Group.

20X2

The Group identified the following unusual items in 20X2.

Tax reform

The Group's parent entity is located in Country A. In 20X2, the government of Country A reformed the tax system, introducing the following changes that affected the Group:

(1) offshore income tax—the income tax rate affecting offshore income will decrease from 25% to 10% from 1 January 20X3. This affects the calculation of deferred tax liabilities on accumulated offshore income, resulting in a decrease in those liabilities of CU4,000. As a result, the Group recognised tax income of CU4,000 at the end of 20X2. The Group assessed that such a major tax reform will not occur in several future annual reporting periods, and the Group will not recognise such tax income in several future annual reporting periods. Therefore, the Group identified this tax income as unusual income.

(2) property tax—one of Country A's property taxes will be abolished from 1 January 20X3. In prior periods the Group recognised property tax expenses in relation to this tax. In 20X2 the expense was CU2,500. As this property tax expense will not arise in several future annual reporting periods, the Group identified the property tax expense of CU2,500 as an unusual expense. Country A's property taxes are deductible from income tax.

Restructuring in Country B

The Group decided to move one of its factories from Country B to Country C because of uncertainty caused by proposed legal changes which would restrict the operation of foreign companies in Country B. Restructuring expenses of CU6,000 were recognised, made up of redundancy expenses for factory staff of CU2,050, impairment losses on factory machinery of CU3,350 and losses on extinguishment of loans of CU600 which resulted from modification of the terms of bank loans directly linked to the factory operation and factory properties. The Group identified these expenses as unusual expenses because it does not expect to conduct such a significant restructuring for several future annual reporting periods, and such expenses are only expected to arise from significant restructuring.

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(in currency units)

	Management performance measure	Adjustments for unusual items			Other adjustments	**Measure specified by IFRS Standards**
		Offshore income tax	Property tax	Restructuring in Country B	Revenue adjustment	
Revenue		–	–	–	(6,200)	
Cost of goods sold		–	–	(4,990)	–	
General and administrative expenses		–	(2,500)	(410)	–	
Adjusted operating profit / Operating profit	**55,370**	**–**	**(2,500)**	**(5,400)**	**(6,200)**	**41,270**
Expenses from financing activities		–	–	(600)	–	
Income tax		4,000	625	900	1,550	
Adjusted profit / Profit	**41,225**	**4,000**	**(1,875)**	**(5,100)**	**(4,650)**	**33,600**
Profit attributable to non-controlling interests[(a)]		–	–	(1,020)	–	
Adjusted profit attributable to holders of claims against the parent classified as equity / Profit attributable to holders of claims against the parent classified as equity	**33,485**	**4,000**	**(1,875)**	**(4,080)**	**(4,650)**	**26,880**

(a) In this example, there are no amounts attributable to non-controlling interests for the tax reform (which affected offshore income tax and property tax) because it arose at the parent entity level. Also, there are no amounts attributable to non-controlling interests for the revenue adjustment because the revenue would have arisen from wholly owned subsidiaries.

Earnings per share for adjusted profit attributable to holders of claims against the parent classified as equity:

Basic and diluted	0.84

The tax effect of property tax being abolished is calculated based on the amount of property tax in 20X2 and the rate of income tax that was effective at the end of 20X2. The tax effect of restructuring in Country B is calculated based on a reasonable pro rata allocation of the current and deferred tax related to Country B. The tax effect of revenue adjustment is calculated based on the terms of contracts with customers and the rate of income tax effective at the end of 20X2. The change in the rate of offshore income tax does not have a tax effect for accounting purposes.

Unusual operating expenses by nature (see Note 1)

(in currency units)

Operating expenses	Property tax	Restructuring in Country B	Total
Employee benefits	–	(2,050)	(2,050)
Impairment of property, plant and equipment	–	(3,350)	(3,350)
Property taxes	(2,500)	–	(2,500)

20X1

The Group identified the following unusual items in 20X1.

Reversal of write-downs of raw material

The Group buys and holds raw material which is consumed in the Group's production process and therefore does not form part of its end product. During 20X0, Country D, a large consumer of that raw material, was hit by a huge earthquake and the market demand for the raw material fell significantly. This in turn lead to a sharp drop in its market price. As a result, the Group recognised write-downs of CU4,900 in the raw material at the end of 20X0, and classified them as unusual expenses. However, during 20X1, the price of the raw material rebounded. So, at the end of 20X1, the Group recognised a reversal of the write-downs of CU4,400. The Group identified this reversal as an unusual item. This unusual item is included in 'reversal of inventory write-downs' in the analysis of operating expenses by nature (see Note 1).

Litigation expense arising from court case E

Litigation expense of CU3,500 arose from court case E in which the Group recognised an expense for damages incurred after the Group mislabelled one of its products. The Group has since taken measures to remedy its labelling procedures. The Group identified this litigation expense as an unusual expense. This unusual expense is included in 'litigation expenses' in the analysis of operating expenses by nature (see Note 1).

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(in currency units)

	Management performance measure	Adjustments for unusual items		Other adjustments	**Measure specified by IFRS Standards**
		Reversal of write-downs of raw material	Litigation expense from court case E	Revenue adjustment	
Revenue		–	–	(8,800)	
Cost of goods sold		4,400	–	–	
General and administrative expenses		–	(3,500)	–	
Adjusted operating profit / Operating profit	**48,490**	**4,400**	**(3,500)**	**(8,800)**	**40,590**
Income tax		–	–	2,200	
Adjusted profit / Profit	**31,700**	**4,400**	**(3,500)**	**(6,600)**	**26,000**
Profit attributable to non-controlling interests[(a)]		880	–	–	
Adjusted profit attributable to holders of claims against the parent classified as equity / Profit attributable to holders of claims against the parent classified as equity	**27,380**	**3,520**	**(3,500)**	**(6,600)**	**20,800**

(a) In this example, there are no amounts attributable to non-controlling interests for litigation expense from court case E because the expenses arose at the parent entity level. Also, there are no amounts attributable to non-controlling interests for the revenue adjustment because the revenue would have arisen from wholly owned subsidiaries.

Earnings per share for adjusted profit attributable to holders of claims against the parent classified as equity:

Basic and diluted	0.72

The tax effect of the revenue adjustment is calculated based on the terms of contracts with customers and the rate of income tax that was effective at the end of 20X1. Litigation expense from court case E and the reversal of the write-downs of raw material do not have a tax effect because they are not tax-deductible or chargeable.

Note 3—Analysis of reclassification adjustments

The following table analyses the reclassification adjustments of the components of other comprehensive income to be included in profit or loss in the future when specific conditions are met. There were no disposals of a foreign operation in 20X2 and 20X1 and therefore there are no reclassification adjustments for the years presented.

(in currency units)

		20X2		**20X1**
Income and expenses that may be included in profit or loss in the future				
Exchange differences on translating foreign operations		(5,600)		10,000
Losses on cash flow hedges:				
Losses arising during the year	(5,200)		(4,000)	
Less: Reclassification adjustments for losses included in profit or loss	4,000	(1,200)	–	(4,000)

Note 4—Analysis of tax effects relating to each component of other comprehensive income

(in currency units)

		20X2			**20X1**	
	Amount before tax	Tax (expense) benefit	**Amount net of tax**	Amount before tax	Tax (expense) benefit	**Amount net of tax**
Remeasurement permanently reported outside profit or loss						
Gains (losses) on investments in equity instruments	3,500	(875)	**2,625**	(6,000)	1,500	**(4,500)**
Gains on remeasurements of defined benefit pension plans	3,200	(800)	**2,400**	1,400	(350)	**1,050**
Share of other comprehensive income of integral associates and joint ventures	(2,800)	–	**(2,800)**	1,000	–	**1,000**
Share of other comprehensive income of non-integral associates and joint ventures	600	–	**600**	2,300	–	**2,300**
Income and expenses that may be included in profit or loss in the future						
Exchange differences on translating foreign operations	(5,600)	1,400	**(4,200)**	10,000	(2,500)	**7,500**
Losses on cash flow hedges	(1,200)	300	**(900)**	(4,000)	1,000	**(3,000)**
Other comprehensive income	(2,300)	25	**(2,275)**	4,700	(350)	**4,350**

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Part II—Further examples of statement(s) of financial performance

IE7 This part provides examples of (a section of) the statement(s) of financial performance for the following main business activities:

(a) Example II-1—an entity investing in the course of its main business activity—a property investment entity (operating expenses analysed by nature);

(b) Example II-2—an entity investing in the course of its main business activity—an insurance entity (operating expenses analysed by function);

(c) Example II-3—an entity investing in the course of its main business activity and providing financing to customers as a main business activity—an investment and retail bank (operating expenses analysed by nature); and

(d) Example II-4—an entity with two main business activities, one of which is providing financing to customers—a manufacturer providing financing to customers (operating expenses analysed by function).

Example II-1—Statement of financial performance for an entity investing in the course of its main business activity (a property investment entity)

IE8 The following example illustrates the statement of financial performance of AA Group. For the purpose of this example:

(a) AA Group's main business activity is holding properties to earn rentals and for capital appreciation; that is, it invests in assets that generate a return individually and largely independently of its other resources (paragraphs 47–48 of [draft] IFRS X).

(b) AA Group accounts for its investment properties using the fair value model in IAS 40 *Investment Property*.

(c) AA Group prepares a single statement of profit or loss and other comprehensive income (paragraph 13(a) of [draft] IFRS X). Items of other comprehensive income included in the other comprehensive income section are presented net of related tax effects (paragraph 81(a) of [draft] IFRS X).

(d) AA Group has determined that an analysis of operating expenses using the nature of expense method provides the most useful information to users of financial statements in accordance with paragraph 68 of [draft] IFRS X.

AA Group—Statement of financial performance for the year ended 31 December 20X2

(in currency units)

	20X2	20X1
Rental revenue	130,700	127,900
Depreciation of right-of-use asset on land	(15,800)	(15,600)
Maintenance and property service income	38,900	38,200
Maintenance and property service expenses	(42,500)	(42,800)
Net rental income	111,300	107,700
Gains (losses) from disposals of investment properties	1,520	(6,420)
Fair value losses on investment properties	(34,700)	(29,100)
Employee benefit expense	(26,000)	(26,200)
Other expenses[(a)]	(5,720)	(5,780)
Operating profit	46,400	40,200
Share of profit or loss of integral associates and joint ventures	4,250	4,600
Operating profit and income and expenses from integral associates and joint ventures	50,650	44,800
Share of profit or loss of non-integral associates and joint ventures	(3,450)	1,350
Dividend income	4,100	2,800
Profit before financing and income tax	51,300	48,950
Interest expense on lease liabilities	(3,200)	(3,400)
Other expenses from financing activities	(3,300)	(3,550)
Profit before tax	44,800	42,000
Income tax expense	(11,200)	(10,500)
Profit for the year from continuing operations	33,600	31,500
Loss for the year from discontinued operations	–	(5,500)
PROFIT FOR THE YEAR	33,600	26,000
Remeasurements permanently reported outside profit or loss, net of tax:		
Gains (losses) on investments in equity instruments	2,625	(4,500)
Gains on remeasurements of defined benefit pension plans	2,400	1,050
Share of other comprehensive income of integral associates and joint ventures[(b)]	(2,800)	1,000
Share of other comprehensive income of non-integral associates and joint ventures[(b)]	600	2,300
Total remeasurements permanently reported outside profit or loss	2,825	(150)
Income and expenses that may be included in profit or loss in the future, net of tax:		
Exchange differences on translating foreign operations	(4,200)	7,500
Losses on cash flow hedges	(900)	(3,000)
Total income and expenses that may be included in profit or loss in the future	(5,100)	4,500
Other comprehensive income for the year, net of tax	(2,275)	4,350
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	31,325	30,350

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...continued

Profit attributable to:		
Holders of claims against the parent classified as equity	26,880	20,800
Non-controlling interests	6,720	5,200
	33,600	26,000
Total comprehensive income attributable to:		
Holders of claims against the parent classified as equity	24,620	24,940
Non-controlling interests	6,705	5,410
	31,325	30,350
Earnings per share for profit from continuing operations:		
Basic and diluted	0.67	0.66
Earnings per share for profit:		
Basic and diluted	0.67	0.55

(a) Paragraph 28 of [draft] IFRS X requires the composition of 'other expenses' to be analysed in the notes. However, such a note is not included in the examples.

(b) In this example, the other comprehensive income of integral and non-integral associates and joint ventures consists only of items that are remeasurements permanently reported outside profit or loss. If an entity has an integral or non-integral associate or joint venture whose other comprehensive income includes items that may be included in profit or loss in the future, the entity is required to present that amount in a separate line.

Example II-2—Statement of financial performance for an entity investing in the course of its main business activity (an insurance entity)

IE9 The following example illustrates the profit or loss section of the statement of financial performance of BB Group. For the purpose of this example:

(a) BB Group's main business activity is providing insurance coverage. In the course of its main business activity it invests in financial assets that generate a return individually and largely independently of its other resources (paragraphs 47–48 of [draft] IFRS X). It does not provide financing to customers as a main business activity (paragraph 51 of [draft] IFRS X).

(b) BB Group is applying IFRS 17 *Insurance Contracts* as issued in 2017.

(c) BB Group prepares a single statement of profit or loss and other comprehensive income (paragraph 13(a) of [draft] IFRS X—only the profit or loss section is shown in the example).

(d) BB Group has determined that an analysis of operating expenses using the function of expense method provides the most useful information to users of financial statements in accordance with paragraph 68 of [draft] IFRS X.

BB Group—Statement of financial performance for the year ended 31 December 20X2

(in currency units)

	20X2	20X1
Insurance revenue	138,200	133,800
Insurance service expenses	(107,000)	(106,000)
Insurance service result	31,200	27,800
Interest revenue calculated using the effective interest method	21,500	22,000
Other investment revenue	95,500	81,000
Credit impairment losses	(9,000)	(11,000)
Insurance finance expenses	(85,900)	(84,000)
Net financial result	22,100	8,000
Other expenses[(a)]	(3,100)	(4,600)
Operating profit	50,200	31,200
Share of profit or loss of integral associates and joint ventures	(3,200)	1,500
Operating profit and income and expenses from integral associates and joint ventures	47,000	32,700
Share of profit or loss of non-integral associates and joint ventures	(2,200)	3,300
Profit before financing and income tax / Profit before tax	44,800	36,000
Income tax expense	(11,200)	(9,000)
PROFIT FOR THE YEAR	33,600	27,000

(a) Paragraph 28 of [draft] IFRS X requires the composition of 'other expenses' to be analysed in the notes. However, such a note is not included in the examples.

Example II-3—Statement of financial performance for an entity investing in the course of its main business activity and providing financing to customers as a main business activity (an investment and retail bank)

IE10 The following example illustrates the profit or loss section of the statement of financial performance of CC Group. For the purpose of this example:

(a) CC Group's main business activities are investing, trading and retail banking; that is, it invests in assets that generate a return individually and largely independently of its other resources in the course of its main business activities (paragraphs 47–48 of [draft] IFRS X), and it provides financing to customers as a main business activity (paragraph 51 of [draft] IFRS X).

(b) CC Group prepares a single statement of profit or loss and other comprehensive income (paragraph 13(a) of [draft] IFRS X—only the profit or loss section is shown in the example).

(c) CC Group has determined that an analysis of operating expenses using the nature of expense method provides the most useful information to users of financial statements in accordance with paragraph 68 of [draft] IFRS X.

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(d) CC Group's accounting policy is to present all income and expenses from financing activities and from cash and cash equivalents in the operating category (paragraph 51(b) of [draft] IFRS X). This accounting policy is consistent with paragraph 51 of [draft] IFRS X which permits the choice. As a result, CC Group cannot present the profit before financing and income tax subtotal (paragraph 64 of [draft] IFRS X).

CC Group—Statement of financial performance for the year ended 31 December 20X2

(in currency units)

	20X2	**20X1**
Interest revenue calculated using the effective interest method	356,000	333,800
Interest expense	(281,000)	(259,000)
Net interest income	75,000	74,800
Fee and commission income	76,800	74,300
Fee and commission expenses	(45,300)	(44,800)
Net fee and commission income	31,500	29,500
Net trading income	9,100	900
Net investment income	11,600	7,800
Credit impairment losses	(17,300)	(19,100)
Employee benefits	(55,100)	(49,500)
Depreciation	(4,200)	(3,900)
Amortisation	(2,500)	(2,050)
Other operating expenses[(a)]	(5,100)	(4,550)
Operating profit	43,000	33,900
Share of profit or loss of integral associates and joint ventures	(2,400)	(1,800)
Operating profit and income and expenses from integral associates and joint ventures	40,600	32,100
Share of profit or loss of non-integral associates and joint ventures	4,200	3,900
Profit before tax	44,800	36,000
Income tax expense	(11,200)	(9,000)
PROFIT FOR THE YEAR	33,600	27,000

(a) Paragraph 28 of [draft] IFRS X requires the composition of 'other expenses' to be analysed in the notes. However, such a note is not included in the examples.

Example II-4—Statement of financial performance for an entity with two main business activities, one of which is providing financing to customers (a manufacturer providing financing to customers)

IE11 The following example illustrates the profit or loss section of the statement of financial performance of DD Group. For the purpose of this example:

(a) DD Group is a manufacturer. The Group also provides financing to its customers as a main business activity (paragraph 51 of [draft] IFRS X) to enable them to purchase its products.

(b) DD Group prepares a single statement of profit or loss and other comprehensive income (paragraph 13(a) of [draft] IFRS X—only the profit or loss section is shown in the example).

(c) DD Group has determined that an analysis of operating expenses using the function of expense method provides the most useful information to users of financial statements in accordance with paragraph 68 of [draft] IFRS X.

(d) DD Group's accounting policy is to include only income and expenses from financing activities and from cash and cash equivalents relating to the provision of financing to customers in the operating category, rather than including all such income and expenses in the operating category (paragraph 51(a) of [draft] IFRS X). This accounting policy is consistent with paragraph 51 of [draft] IFRS X which permits the choice.

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DD Group—Statement of financial performance for the year ended 31 December 20X2

(in currency units)

	20X2	20X1
Revenue from the sale of goods	390,000	355,000
Cost of goods sold	(285,000)	(270,000)
Gross profit from the sale of goods	105,000	85,000
Interest revenue relating to the provision of financing to customers, calculated using effective interest method	119,500	121,000
Expenses related to the provision of financing to customers	(110,000)	(100,800)
Gross profit from the provision of financing to customers	9,500	20,200
Selling expenses	(28,900)	(26,300)
Research and development expenses	(15,800)	(15,400)
General and administrative expenses	(22,900)	(23,600)
Operating profit	46,900	39,900
Share of profit or loss of integral associates and joint ventures	4,700	1,300
Operating profit and income and expenses from integral associates and joint ventures	51,600	41,200
Share of profit or loss of non-integral associates and joint ventures	(3,400)	1,200
Income from financial instruments measured at fair value through profit or loss	4,200	1,500
Portfolio management fees	(3,700)	(3,600)
Profit before (non-customer) financing and income tax	48,700	40,300
Interest expense on borrowings not relating to the provision of financing to customers	(3,800)	(3,500)
Foreign exchange losses on borrowings[(a)]	(3,600)	(4,200)
Interest income on cash and cash equivalents not relating to the provision of financing to customers	3,500	3,400
Profit before tax	44,800	36,000
Income tax expense	(11,200)	(9,000)
PROFIT FOR THE YEAR	33,600	27,000

(a) In this example, no foreign exchange losses on borrowings relate to the provision of financing to customers.

Part III—Capital disclosures

Example III-1—An entity that is not a regulated financial institution

IE12 The following example illustrates the application of paragraphs 111–112 of [draft] IFRS X for an entity that is not a financial institution and is not subject to an externally imposed capital requirement. In this example, the entity monitors capital using a debt-to-adjusted capital ratio. Other entities may use different methods to monitor capital. The example is also relatively simple. An entity decides, in the light of its circumstances, how much detail it provides to satisfy the requirements of paragraphs 111–112 of [draft] IFRS X. In

determining the form and content of the disclosure to satisfy those requirements, an entity also considers the disclosure requirements set out in paragraphs 44A–44E of IAS 7.

Facts

Group A manufactures and sells cars. Group A includes a finance subsidiary that provides finance to customers, primarily in the form of leases. Group A is not subject to any externally imposed capital requirements.

Example disclosure

The Group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Consistently with others in the industry, the Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt ÷ adjusted capital. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents. Adjusted capital comprises all components of equity (ie share capital, share premium, non-controlling interests, retained earnings, and revaluation surplus) other than amounts accumulated in equity relating to cash flow hedges, and includes some forms of subordinated debt.

During 20X2, the Group's strategy, which was unchanged from 20X1, was to maintain the debt-to-adjusted capital ratio at the lower end of the range 6:1 to 7:1, in order to secure access to finance at a reasonable cost by maintaining a BB credit rating. The debt-to-adjusted capital ratios at 31 December 20X2 and at 31 December 20X1 were as follows:

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	31 Dec 20X2 CU million	31 Dec 20X1 CU million
Total debt	1,000	1,100
Less: cash and cash equivalents	(90)	(150)
Net debt	910	950
Total equity	110	105
Add: subordinated debt instruments	38	38
Less: amounts accumulated in equity relating to cash flow hedges	(10)	(5)
Adjusted capital	138	138
Debt-to-adjusted capital ratio	6.6	6.9

The decrease in the debt-to-adjusted capital ratio during 20X2 resulted primarily from the reduction in net debt that occurred on the sale of Subsidiary Z. As a result of this reduction in net debt, improved profitability and lower levels of managed receivables, the dividend payment was increased to CU2.8 million for 20X2 (from CU2.5 million for 20X1).

Example III-2—An entity that has not complied with externally imposed capital requirements

IE13 The following example illustrates the application of paragraph 111(e) when an entity has not complied with externally imposed capital requirements during the period. Other disclosures would be provided to comply with the other requirements of paragraphs 111–112 of [draft] IFRS X.

Facts

Entity A provides financial services to its customers and is subject to capital requirements imposed by Regulator B. During the year ended 31 December 20X2, Entity A did not comply with the capital requirements imposed by Regulator B. In its financial statements for the year ended 31 December 20X2, Entity A provides the following disclosure relating to its non-compliance.

Example disclosure

Entity A filed its quarterly regulatory capital return for 30 September 20X2 on 20 October 20X2. At that date, Entity A's regulatory capital was below the capital requirement imposed by Regulator B by CU1 million. As a result, Entity A was required to submit a plan to the regulator indicating how it would increase its regulatory capital to the amount required. Entity A submitted a plan that entailed selling part of its unquoted equities portfolio with a carrying amount of CU11.5 million in the fourth quarter of 20X2. In the fourth quarter of 20X2, Entity A sold its fixed interest investment portfolio for CU12.6 million and met its regulatory capital requirement.

Amendments to Illustrative Examples accompanying IAS 7 *Statement of Cash Flows*

In the first illustrative example (A—Statement of cash flows for an entity other than a financial institution), amendments are made to: the illustrative example's title; paragraph 1; the illustrative consolidated statement of comprehensive income; the illustrative consolidated statement of financial position; the illustrative direct method statement of cash flows; and the illustrative indirect method statement of cash flows. In the second illustrative example (B—Statement of cash flows for a financial institution), its title, paragraph 1 and the illustrative direct method statement of cash flows are amended. New text is underlined and deleted text is struck through.

A Statement of cash flows for an entity ~~other than a financial institution~~that does not have a main business activity of providing financing to customers

1 The examples show only current period amounts. ~~Corresponding amounts~~ Comparative information for the preceding period ~~are~~ is required to be presented in accordance with ~~IAS 1 *Presentation of Financial Statements*~~[draft] IFRS X *General Presentation and Disclosures*.

...

Consolidated statement of comprehensive income for the period ended 20X2[(a)]

Sales	30,650
Cost of sales	(~~26,000~~26,450)
Gross profit	~~4,650~~4,200
~~Depreciation~~	~~(450)~~
Administrative and selling expenses	(910)
Operating profit	3,290
Share of profit or loss of integral associates and joint ventures	(20)
Operating profit and income and expenses from integral associates and joint ventures	3,270
Share of profit or loss of non-integral associates and joint ventures	70
~~Interest expense~~	~~(400)~~
Investment income	~~500~~450

continued...

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...continued

Consolidated statement of comprehensive income for the period ended 20X2[(a)]

Profit before financing and income tax	3,790
Interest expense	(400)
Foreign exchange loss	(40)
Profit before taxation	3,350
Taxes on income	(300)
Profit	3,050

(a) The entity did not recognise any components of other comprehensive income in the period ended 20X2.

Consolidated statement of financial position as at end of 20X2

		20X2		**20X1**
Assets				
Current assets				
Cash and cash equivalents		230		160
Accounts receivable		1,900		1,200
Inventory		1,000		1,950
Non-current assets				
Investments in integral associates and joint ventures		800		820
Investments in non-integral associates and joint ventures		500		430
Investments in equity instruments other than associates and joint ventures		1,200		1,250
~~Portfolio investments~~		~~2,500~~		~~2,500~~
~~Property, plant and equipment at cost~~	~~3,730~~		~~1,910~~	
~~Accumulated depreciation~~	~~(1,450)~~		~~(1,060)~~	
Property, plant and equipment ~~net~~		2,280		850
Intangible assets		400		500
Total assets		~~7,910~~ 8,310		~~6,660~~ 7,160

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Consolidated statement of financial position as at end of 20X2

	20X2	20X1
Liabilities		
Current liabilities		
Trade payables	250	1,890
Interest payable	230	100
Income taxes payable	400	1,000
Non-current liabilities		
Long-term debt	2,300	1,040
Total liabilities	3,180	4,030
~~Shareholders' equity~~Equity		
Share capital	1,500	1,250
Retained earnings	~~3,230~~ 3,630	~~1,380~~ 1,880
Total ~~shareholders'~~ equity	~~4,730~~ 5,130	~~2,630~~ 3,130
Total liabilities and ~~shareholders'~~ equity	~~7,910~~ 8,310	~~6,660~~ 7,160

Direct method statement of cash flows (paragraph 18(a))

		20X2
Cash flows from operating activities		
Cash receipts from customers	30,150	
Cash paid to suppliers and employees	(27,600)	
~~Cash generated from operations~~Cash from operating activities before income tax	2,550	
~~Interest paid~~	~~(270)~~	
Income taxes paid	(900)	
Net cash from operating activities		~~1,380~~ 1,650

continued...

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...continued

Direct method statement of cash flows (paragraph 18(a))

		20X2
Cash flows from investing activities		
Acquisition of ~~subsidiary~~Subsidiary X, net of cash acquired (Note A)	(550)	
Purchase of property, plant and equipment (Note B)	(350)	
Proceeds from sale of equipment	20	
Interest received	200	
Dividends received from integral associates and joint ventures	120	
Dividends received from non-integral associates and joint ventures	20	
Dividends received from equity instruments other than associates and joint ventures	~~200~~60	
Net cash ~~used in~~ from investing activities		(480)
Cash flows from financing activities		
Proceeds from issue of share capital	250	
Proceeds from long-term borrowings	250	
Payment of lease liabilities	(90)	
Interest paid	(270)	
Dividends paid[(a)]	(1,200)	
Net cash ~~used in~~ from financing activities		~~(790)~~ (1,060)
Net increase in cash and cash equivalents		110
Cash and cash equivalents at beginning of period (Note C)		120
Cash and cash equivalents at end of period (Note C)		230

(a) ~~This could also be shown as an operating cash flow.~~

Indirect method statement of cash flows (paragraph 18(b))

		20X2
Cash flows from operating activities		
~~Profit before taxation~~Operating profit	~~3,350~~ 3,290	
Adjustments for:		
Depreciation	~~450~~350	
Amortisation	100	
~~Foreign exchange loss~~	~~40~~	
~~Investment income~~	~~(500)~~	
~~Interest expense~~	~~400~~	
	3,740	
Increase in trade and other receivables	(500)	
Decrease in inventories	1,050	
Decrease in trade payables	(1,740)	
~~Cash generated from operations~~Cash from operating activities before income tax	2,550	
~~Interest paid~~	~~(270)~~	
Income taxes paid	(900)	
Net cash from operating activities		~~1,380~~ 1,650
Cash flows from investing activities		
Acquisition of ~~subsidiary~~Subsidiary X, net of cash acquired (Note A)	(550)	
Purchase of property, plant and equipment (Note B)	(350)	
Proceeds from sale of equipment	20	
Interest received	200	
Dividends received from integral associates and joint ventures	120	
Dividends received from non-integral associates and joint ventures	20	
Dividends received from investments in equity instruments other than associates and joint ventures	~~200~~60	
Net cash ~~used in~~ from investing activities		(480)

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...continued

Indirect method statement of cash flows (paragraph 18(b))

		20X2
Cash flows from financing activities		
Proceeds from issue of share capital	250	
Proceeds from long-term borrowings	250	
Payment of lease liabilities[(a)]	(90)	
Interest paid	(270)	
Dividends paid[(b)]	(1,200)	
Net cash ~~used in~~ from financing activities		~~(790)~~ (1,060)
Net increase in cash and cash equivalents		110
Cash and cash equivalents at beginning of period (Note C)		120
Cash and cash equivalents at end of period (Note C)		230

(a) 'Payment of lease liabilities' includes cash payments both for the principal portion of the lease liabilities and for the interest portion of the lease liabilities.

(b) ~~This could also be shown as an operating cash flow.~~

B Statement of cash flows for ~~a financial institution~~ an entity that provides financing to customers as its main business activity

1 The example shows only current period amounts. Comparative ~~amounts~~ information for the preceding period ~~are~~ is required to be presented in accordance with ~~IAS 1 *Presentation of Financial Statements*~~[draft] IFRS X *General Presentation and Disclosures*.

...

Direct method statement of cash flows (paragraph 18(a))

		20X2
Cash flows from operating activities		
Interest[(a)] and commission receipts	~~28,447~~ 28,747	
Interest payments[(a)]	(23,463)	
Recoveries on loans previously written off	237	
Cash payments to employees and suppliers	(997)	
	~~4,224~~ 4,524	
(Increase) decrease in operating assets:		
Short-term funds	(650)	
Deposits held for regulatory or monetary control purposes	234	
Funds advanced to customers	(288)	
Net increase in credit card receivables	(360)	
Other short-term negotiable securities	(120)	
Increase (decrease) in operating liabilities:		
Deposits from customers	600	
Negotiable certificates of deposit	(200)	
Net cash from operating activities before income tax	~~3,440~~ 3,740	
Income taxes paid	(100)	
Net cash from operating activities		~~3,340~~ 3,640

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Direct method statement of cash flows (paragraph 18(a))

		20X2
Cash flows from investing activities		
Disposal of ~~subsidiary~~Subsidiary Y	50	
Dividends received from investments in equity instruments	200	
~~Interest received~~	~~300~~	
Proceeds from sales of non-dealing securities	1,200	
Purchase of non-dealing securities	(600)	
Purchase of property, plant and equipment	(500)	
Net cash from investing activities		~~650~~350
Cash flows from financing activities		
Issue of loan capital	1,000	
Issue of preference shares by subsidiary undertaking	800	
Repayment of long-term borrowings	(200)	
Net decrease in other borrowings	(1,000)	
Dividends paid	(400)	
Net cash from financing activities		200
Effects of exchange rate changes on cash and cash equivalents		600
Net increase in cash and cash equivalents		4,790
Cash and cash equivalents at beginning of period		4,050
Cash and cash equivalents at end of period		8,840

(a) An entity should classify each of these cash flows in a single category.

A comparison of proposals with requirements in IAS 1 *Presentation of Financial Statements*

The following table provides a mark-up of the requirements the Board proposes to bring forward from IAS 1 to the new IFRS Standard with only limited changes to the wording. The paragraphs coloured in grey in [draft] IFRS X also set out these requirements. Text that is shown as bold in the [draft] IFRS X is not shown as bold in the table text, and defined terms are not italicised at their first occurrence. Footnotes are not included.

In [draft] IFRS X, the section, [draft] Amendments to other IFRS Standards, includes paragraphs the Board proposes to move from IAS 1 to other IFRS Standards, and describes any proposed changes to those paragraphs.

IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
	Scope	
IAS 1.2	An entity shall apply this [draft] Standard in ~~preparing and~~ presenting ~~general purpose~~ and disclosing information in financial statements ~~in accordance with International Financial Reporting Standards (IFRSs)~~prepared applying *IFRS Standards*.	IFRS X.2
IAS 1.3	Other ~~IFRSs~~IFRS Standards set out the recognition, measurement, presentation and disclosure requirements for specific transactions and other events.	IFRS X.4
IAS 1.4	This [draft] Standard does not apply to the ~~structure~~presentation and ~~content~~disclosure of information in condensed interim financial statements prepared in accordance with IAS 34 *Interim Financial Reporting*. However, paragraphs ~~15–35 apply to such financial statements~~25–30, 100–110 and 118 apply to such financial statements.	IFRS X.5
	This [draft] Standard applies equally to all entities, including those that present consolidated financial statements in accordance with IFRS 10 *Consolidated Financial Statements* and those that present separate financial statements in accordance with IAS 27 *Separate Financial Statements*.	IFRS X.6
IAS 1.5	This [draft] Standard uses terminology that is suitable for profit-oriented entities, including public sector business entities. If entities with not-for-profit activities in the private sector or the public sector apply this [draft] Standard, they may need to amend the descriptions used for particular line items, categories, subtotals or totals in the financial statements and for the financial statements themselves.	IFRS X.7

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)		New para #
IAS 1.6	Similarly, entities that do not have equity as defined in IAS 32 *Financial Instruments: Presentation* (eg some mutual funds) and entities whose share capital is not equity (eg some co-operative entities) may need to adapt the financial statement presentation of members' or unitholders' interests.		IFRS X.8
	Definitions		
IAS 1.7	impracticable	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.	IFRS X.App A
IAS 1.7 (cont)	~~International Financial Reporting Standards (IFRSs)~~IFRS Standards	IFRS Standards are Standards and Interpretations issued by the International Accounting Standards Board (~~IASB~~Board). They comprise: (a) International Financial Reporting Standards; (b) International Accounting Standards; (c) IFRIC Interpretations; and (d) SIC Interpretations.	IFRS X.App A
IAS 1.7 (cont)	other comprehensive income	~~comprises items~~Items of income and expense (including reclassification adjustments) that are ~~not~~ recognised ~~in~~outside profit or loss as required or permitted by other ~~IFRSs.~~IFRS Standards.	IFRS X.App A

continued...

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.7 (cont)	Appendix A defines other comprehensive income. The components of other comprehensive income include: (a) changes in revaluation surplus (see IAS 16 ~~*Property, Plant and Equipment*~~ and IAS 38 *Intangible Assets*); (b) remeasurements of defined benefit plans (see IAS 19 ~~*Employee Benefits*~~); (c) gains and losses arising from translating the financial statements of a foreign operation (see IAS 21 ~~*The Effects of Changes in Foreign Exchange Rates*~~); (d) gains and losses from investments in equity instruments designated as measured at fair value through other comprehensive income in accordance with paragraph 5.7.5 of IFRS 9 ~~*Financial Instruments*~~; ~~(da)~~(e) gains and losses on financial assets measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of IFRS 9; ~~(e)~~(f) the effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through other comprehensive income in accordance with paragraph 5.7.5 of IFRS 9 (see Chapter 6 of IFRS 9); ~~(f)~~(g) for particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see paragraph 5.7.7 of IFRS 9); ~~(g)~~(h) changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value (see Chapter 6 of IFRS 9);	IFRS X.B50

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...continued

IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.7 (cont)	~~(h)~~(i) changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument (see Chapter 6 of IFRS 9); ~~(i)~~(j) insurance finance income and expenses from contracts issued within the scope of IFRS 17 *Insurance Contracts* excluded from profit or loss when total insurance finance income or expense is disaggregated to include in profit or loss an amount determined by a systematic allocation applying paragraph 88(b) of IFRS 17, or by an amount that eliminates accounting mismatches with the finance income or expenses arising on the underlying items, applying paragraph 89(b) of IFRS 17; and ~~(j)~~(k) finance income and expenses from reinsurance contacts held excluded from profit or loss when total reinsurance finance income or expenses is disaggregated to include in profit or loss an amount determined by a systematic allocation, applying paragraph 88(b) of IFRS 17.	IFRS X.B50 (cont)
IAS 1.7 (cont)	reclassification adjustments ~~are amounts~~Amounts reclassified to profit or loss in the current reporting period that were ~~recognised~~included in other comprehensive income in the current or previous periods.	IFRS X.App A

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.7 (cont)	total comprehensive income ~~is the~~The change in equity during a reporting period resulting from transactions and other events, other than those changes resulting from transactions with ~~owners~~holders of claims classified as equity in their capacity as ~~owners~~ holders of claims classified as equity. ~~Total comprehensive income comprises all components of 'profit or loss' and of 'other comprehensive income'.~~	IFRS X.App A
IAS 1.8	Although this [draft] Standard uses ~~the~~ terms such as 'other comprehensive income', 'profit or loss' and 'total comprehensive income', an entity may use other terms to describe the totals, subtotals and line items required by this [draft] Standard as long as the meaning is clear. For example, an entity may use the term 'net income' to describe profit or loss.	IFRS X.12
	Financial statements	
	Complete set of financial statements	
IAS 1.11	An entity shall present ~~with equal prominence all~~each of the primary financial statements with equal prominence in a complete set of financial statements.	IFRS X.15
	General features	
	Materiality and aggregation	
IAS 1.31	Some ~~IFRSs~~IFRS Standards specify information that is required to be ~~included~~presented in the primary financial statements~~, which include~~ or disclosed in the notes. An entity need not provide a specific presentation or disclosure required by an IFRS Standard if the information resulting from that presentation or disclosure is not material. This is the case even if the IFRS Standard contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Standards is insufficient to enable users of financial statements to understand the impact of ~~particular~~ transactions~~,~~ and other events and conditions on the entity's financial position and financial performance.	IFRS X.24

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
	Offsetting	
IAS 1.32	An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an IFRS Standard (see paragraphs B16–B17).	IFRS X.29
IAS 1.33	An entity reports separately both assets and liabilities, and income and expenses. Offsetting in the statement(s) of ~~profit or loss and other comprehensive income or~~financial performance or the statement of financial position, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users of financial statements both to understand the transactions~~,~~ and other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and doubtful debts allowances on receivables—is not offsetting.	IFRS X.30
IAS 1.34	Paragraph 29 prohibits entities from offsetting unless required or permitted by an IFRS Standard. IFRS 15 *Revenue from Contracts with Customers* requires an entity to measure revenue from contracts with customers at the amount of consideration to which the entity expects to be entitled in exchange for transferring promised goods or services. For example, the amount of revenue recognised reflects any trade discounts and volume rebates the entity allows. An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. An entity presents in the primary financial statements or discloses in the notes the results of such transactions, when this presentation or disclosure reflects the substance of the transaction or other event, by netting any income with related expenses arising on the same transaction. For example:	IFRS X.B16

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
	Frequency of reporting	
IAS 1.36	An entity shall ~~present~~provide a complete set of financial statements (including comparative information) at least annually. When an entity changes the end of its reporting period and ~~presents~~provides financial statements for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements: (a) the reason for using a longer or shorter period~~,~~; and (b) the fact that amounts ~~presented~~included in the financial statements are not entirely comparable.	IFRS X.31
IAS 1.37	Normally, an entity consistently prepares financial statements for a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This [draft] Standard does not preclude this practice.	IFRS X.32
	Comparative information	
	Minimum comparative information	
IAS 1.38	Except when ~~IFRSs~~IFRS Standards permit or require otherwise, an entity shall ~~present~~provide comparative information in respect of the preceding reporting period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information if it is relevant to an understanding of the current period's financial statements.	IFRS X.34
1.38A	An entity shall present, as a minimum, ~~two~~a current reporting period and preceding period in each of its primary financial statements ~~of financial position, two statements of profit or loss and other comprehensive income, two separate statements of profit or loss (if presented), two statements of cash flows~~ and ~~two statements of changes in equity, and related~~and in the notes.	IFRS X.35

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.38B	In some cases, narrative information provided in the financial statements for the preceding reporting period(s) continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute, the outcome of which was uncertain at the end of the preceding period and is yet to be resolved. Users of financial statements may benefit from the disclosure of information that the uncertainty existed at the end of the preceding period and from the disclosure of information about the steps that have been taken during the period to resolve the uncertainty.	IFRS X.B19
	Additional comparative information	
IAS 1.38C	An entity may ~~present~~provide comparative information in addition to the minimum comparative ~~financial statements~~information required by ~~IFRSs~~IFRS Standards, as long as that information is prepared in accordance with ~~IFRSs~~IFRS Standards. This comparative information may consist of one or more of the primary financial statements referred to in paragraph 10, but need not comprise a complete set of financial statements. When this is the case, the entity shall ~~present~~disclose related note information for those additional primary financial statements.	IFRS X.B20
IAS 1.38D	For example, an entity may present a third ~~statement~~statement(s) of ~~profit or loss and other comprehensive income~~financial performance (thereby presenting the current reporting period, the preceding period and one additional comparative period). However, the entity is not required to present a third statement of financial position, a third statement of cash flows or a third statement of changes in equity (ie an additional financial statement comparative). The entity is required to ~~present~~disclose, in the notes ~~to the financial statements~~, the comparative information related to that additional ~~statement~~statement(s) of ~~profit or loss and other comprehensive income~~financial performance.	IFRS X.B21

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
	Change in accounting policy, retrospective restatement or reclassification	
IAS 1.40A	An entity shall present a third statement of financial position as at the beginning of the preceding reporting period in addition to the minimum comparative ~~financial statements~~information required in paragraph ~~38A~~35 if: (a) it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and (b) the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period.	IFRS X.36
IAS 1.40B	In the circumstances described in paragraph ~~40A~~36, an entity shall present three statements of financial position as at: (a) the end of the current reporting period; (b) the end of the preceding period; and (c) the beginning of the preceding period.	IFRS X.37
IAS 1.40C	When an entity is required to present ~~an additional~~a third statement of financial position in accordance with paragraph ~~40A~~36, it must disclose the information required by paragraphs ~~41–44~~40–41 and IAS 8. However, it need not ~~present~~provide the related notes to the opening statement of financial position as at the beginning of the preceding reporting period.	IFRS X.38
IAS 1.40D	The date of that opening statement of financial position shall be as at the beginning of the preceding reporting period regardless of whether an entity's financial statements ~~present~~provide comparative information for earlier periods (as permitted in paragraph ~~38C~~B20).	IFRS X.39

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.41	If an entity changes the presentation, disclosure or classification of items in its financial statements, it shall reclassify comparative amounts unless reclassification is impracticable. When an entity reclassifies comparative amounts, it shall disclose (including as at the beginning of the preceding reporting period) (see paragraphs B22–B23): (a) the nature of the reclassification; (b) the amount of each item or class of items that is reclassified; and (c) the reason for the reclassification.	IFRS X.40
IAS 1.42	When it is impracticable to reclassify comparative amounts, an entity shall disclose: (a) the reason for not reclassifying the amounts~~,~~; and (b) the nature of the adjustments that would have been made if the amounts had been reclassified.	IFRS X.41
IAS 1.43	Paragraph 40 requires an entity to reclassify comparative amounts if the entity changes the presentation, disclosure or classification of items in its financial statements. Enhancing the inter-period comparability of information assists users of financial statements in making economic decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior reporting period to achieve ~~comparability~~consistency with the current period. For example, an entity may not have collected data in the prior period(s) in a way that allows reclassification, and it may be impracticable to recreate the information.	IFRS X.B22
IAS 1.44	IAS 8 *Basis of Preparation, Accounting Policies, Changes in Accounting Estimates and Errors* sets out the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.	IFRS X.B23

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
	Consistency of presentation	
IAS 1.45	An entity shall retain the presentation, disclosure and classification of items in the financial statements from one reporting period to the next unless (see paragraph B18): (a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation, disclosure or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IAS 8 *Basis of Preparation, Accounting Policies, Changes in Accounting Estimates and Errors*; or (b) an IFRS Standard requires a change in presentation, disclosure or classification.	IFRS X.33
IAS 1.46	Paragraph 33(a) permits an entity to change the presentation, disclosure or classification of items in the financial statements when it is apparent that another presentation, disclosure or classification would be more appropriate. For example, a significant acquisition or disposal, or a review of the ~~presentation of the~~ financial statements, might suggest that the financial statements need to be ~~presented differently~~changed. An entity changes the presentation, disclosure or classification of its financial statements only if the ~~changed presentation~~change provides information that is ~~reliable and~~ more ~~relevant~~useful to users of the financial statements and the revised ~~structure~~presentation, disclosure or classification is likely to continue, so that comparability is not impaired. When making such changes ~~in presentation~~, an entity reclassifies its comparative information in accordance with paragraphs ~~41 and 42~~40–41.	IFRS X.B18
	Structure and content	
	Identification of the financial statements	
IAS 1.49	An entity shall clearly identify the financial statements and distinguish them from other information in the same published document (see paragraphs B1–B2).	IFRS X.16

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.50	~~IFRSs~~IFRS Standards apply only to financial statements, and not necessarily to other information ~~presented~~provided in an annual report, a regulatory filing, or another document. Therefore, it is important that users of financial statements can distinguish information that is prepared using ~~IFRSs~~IFRS Standards from other information that may be useful to users but is not the subject of those requirements.	IFRS X.17
IAS 1.51	An entity shall clearly identify each primary financial statement and the notes. In addition, an entity shall display the following information prominently, and repeat it when necessary for the information ~~presented~~provided to be understandable: (a) the name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period; (b) whether the financial statements are of an individual entity or a group of entities; (c) the date of the end of the reporting period or the period covered by the ~~set of~~ financial statements ~~or notes~~; (d) the presentation currency, as defined in IAS 21 *The Effects of Changes in Foreign Exchange Rates*; and (e) the level of rounding used ~~in presenting~~ for the amounts in the financial statements.	IFRS X.18
IAS 1.52	An entity meets the requirements in paragraph ~~51~~16 by ~~presenting~~providing appropriate headings for pages, statements, notes, columns and the like. Judgement is required in determining the best way of ~~presenting~~providing such information. For example, when an entity ~~presents~~provides the financial statements electronically, separate pages are not always used; an entity then ~~presents~~provides the above items to ensure that the information included in the financial statements can be understood.	IFRS X.B1
IAS 1.53	An entity often makes financial statements more understandable by ~~presenting~~providing information in thousands or millions of units of the presentation currency. This is acceptable as long as the entity discloses the level of rounding and does not omit material information.	IFRS X.B2

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
	Statement of financial position	
	Information to be presented in the statement of financial position	
IAS 1.56	When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).	IFRS X.86
IAS 1.57	This [draft] Standard does not prescribe the order or format in which an entity presents items in the statement of financial position. Paragraph ~~54~~82 simply lists items that are sufficiently different in nature or function to warrant separate presentation in the statement of financial position. In addition: (a) applying paragraph 42, line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and (b) the descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position. For example, a financial institution may amend the ~~above~~ descriptions in paragraph 82 to provide information that is relevant to the operations of a financial institution.	IFRS X.83
IAS 1.58	~~An~~Applying paragraph 83(a) an entity makes the judgement about whether to present additional items separately on the basis of an assessment of: (a) the nature and liquidity of assets; (b) the function of assets within the entity; and (c) the amounts, nature and timing of liabilities.	IFRS X.B12
IAS 1.59	The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that an entity presents them as separate line items. For example, different classes of property, plant and equipment can be carried at cost or at revalued amounts in accordance with IAS 16 *Property, Plant and Equipment*.	IFRS X.B13

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
	Current/non-current distinction	
IAS 1.60	An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs ~~66–76~~87–88 except when a presentation based on liquidity provides information that ~~is reliable~~ faithfully represents those assets and liabilities and is more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity (see paragraphs B53–B56).	IFRS X.84
IAS 1.61	Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled: (a) no more than twelve months after the reporting period~~,~~; and (b) more than twelve months after the ~~reporting~~ period.	IFRS X.85
IAS 1.62	~~When~~Applying paragraph 84, when an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities in the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realised within the current operating cycle~~,~~ and liabilities that are due for settlement within the same reporting period.	IFRS X.B53
IAS 1.63	For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that ~~is reliable~~ faithfully represents those assets and liabilities and is more relevant than a current/non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.	IFRS X.B54
IAS 1.64	In applying paragraph ~~60~~84, an entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that ~~is reliable~~faithfully represents those assets and liabilities and is more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations.	IFRS X.B55

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.65	Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. IFRS 7 *Financial Instruments: Disclosures* requires disclosure of the maturity ~~dates~~analysis of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery of non-monetary assets, such as inventories and expected date of settlement for liabilities, such as provisions, is also useful, whether assets and liabilities are classified as current or as non-current. For example, an entity discloses in the notes the amount of inventories that are expected to be recovered more than twelve months after the reporting period.	IFRS X.B56
	Current assets	
IAS 1.66	An entity shall classify an asset as current when (see paragraphs B57–B58): (a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle; (b) it holds the asset primarily for the purpose of trading; (c) it expects to realise the asset within twelve months after the reporting period; or (d) the asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the ~~reporting~~ period. An entity shall classify all other assets as non-current.	IFRS X.87
IAS 1.67	Paragraph 87 requires an entity to classify as non-current all assets not classified as current. This [draft] Standard uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.	IFRS X.B57

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.68	The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period. Current assets also include assets held primarily for the purpose of trading (examples include some financial assets that meet the definition of held for trading in IFRS 9) and the current portion of non-current financial assets.	IFRS X.B58
	Current liabilities	
IAS 1.69	An entity shall classify a liability as current when (see paragraphs B59–B65): (a) it expects to settle the liability in its normal operating cycle; (b) it holds the liability primarily for the purpose of trading; (c) the liability is due to be settled within twelve months after the reporting period; or (d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the ~~reporting~~ period (see paragraph ~~73~~B62). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification. An entity shall classify all other liabilities as non-current.	IFRS X.88
IAS 1.70	Paragraph 88 specifies when an entity is required to classify a liability as current. Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months.	IFRS X.B59

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.71	Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities that meet the definition of held for trading in IFRS 9, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the ~~reporting~~ period are non-current liabilities, subject to paragraphs ~~74 and 75~~B63–B64.	IFRS X.B60
IAS 1.72	An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if: (a) the original term was for a period longer than twelve months~~,~~; and (b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorised for issue.	IFRS X.B61
IAS 1.73	If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.	IFRS X.B62
IAS 1.74	When an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the ~~reporting~~ period and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date.	IFRS X.B63

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.75	However, an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.	IFRS X.B64
IAS 1.76	In respect of loans classified as current liabilities, if the following events occur between the end of the reporting period and the date the financial statements are authorised for issue, those events are disclosed as non-adjusting events in accordance with IAS 10 *Events after the Reporting Period*: (a) refinancing on a long-term basis; (b) rectification of a breach of a long-term loan arrangement; and (c) the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement ending at least twelve months after the reporting period.	IFRS X.B65

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
	Information to be presented either in the statement of financial position or in the notes	
IAS 1.79	An entity shall either disclose in the ~~following, either~~notes or present in the statement of financial position or the statement of changes in equity, ~~or in~~ the ~~notes~~following: (a) for each class of share capital: (i) the number of shares authorised; (ii) the number of shares issued and fully paid, and issued but not fully paid; (iii) par value per share, or that the shares have no par value; (iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period; (v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital; (vi) shares in the entity held by the entity or by its subsidiaries or associates; and (vii) shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and (b) a description of the nature and purpose of each reserve within equity.	IFRS X.114
IAS 1.80	An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph ~~79~~114(a), showing changes during the reporting period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest.	IFRS X.115
	Statement of profit or loss and other comprehensive income	
	Profit or loss for the period	
IAS 1.88	An entity shall recognise all items of income and expense in a reporting period in the statement of profit or loss unless an IFRS Standard requires or permits otherwise (see paragraphs 74–81).	IFRS X.44

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.89	Some ~~IFRSs~~IFRS Standards specify circumstances when an entity recognises particular items outside the statement of profit or loss in the current reporting period. IAS 8 specifies two such circumstances: the correction of errors and the effect of changes in accounting policies. Other ~~IFRSs~~IFRS Standards require or permit components of other comprehensive income that meet the ~~*Conceptual Framework*'s~~ *Conceptual Framework for Financial Reporting*'s definition of income or expense to be excluded from profit or loss (see paragraph ~~7~~B50).	IFRS X.B49
	Other comprehensive income for the period	
IAS 1.90	An entity shall either disclose in the notes or present in the statement presenting comprehensive income the amount of income tax relating to each item of other comprehensive income, including reclassification adjustments~~, either in the statement of profit or loss and other comprehensive income or in the notes~~.	IFRS X.80
IAS 1.91	An entity may present items of other comprehensive income either: (a) net of related tax effects~~,~~; or (b) before related tax effects with one amount shown for the aggregate amount of income tax relating to those items. If an entity elects alternative (b), it shall allocate the tax between ~~the items that might be reclassified subsequently to the~~remeasurements permanently reported outside profit or loss ~~section~~ and ~~those that will not be reclassified subsequently to the~~income and expenses to be included in profit or loss ~~section~~in the future when specific conditions are met.	IFRS X.81
IAS 1.92	An entity shall present in the statement presenting comprehensive income or disclose in the notes reclassification adjustments relating to components of other comprehensive income (see paragraphs B51–B52).	IFRS X.77

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.93	Other ~~IFRSs~~IFRS Standards specify whether and when amounts previously ~~recognised~~included in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this [draft] Standard as reclassification adjustments. A reclassification adjustment is included with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss. These amounts may have been ~~recognised~~included in other comprehensive income as unrealised gains in the current or previous periods. Those unrealised gains must be deducted from other comprehensive income in the period in which the realised gains are reclassified to profit or loss to avoid including them in total comprehensive income twice.	IFRS X.78
IAS 1.94	An entity ~~may present~~disclosing reclassification adjustments in the notes shall present in the statement~~(s) of profit or loss and other~~presenting comprehensive income ~~or in the notes. An entity presenting reclassification adjustments in the notes presents~~the items of other comprehensive income after any related reclassification adjustments.	IFRS X.79
IAS 1.95	Reclassification adjustments arise, for example, on disposal of a foreign operation (see IAS 21) and when some hedged forecast cash flows affect profit or loss (see paragraph 6.5.11(d) of IFRS 9 in relation to cash flow hedges).	IFRS X.B51

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.96	Paragraph 77 requires an entity to present in the statement presenting comprehensive income or disclose in the notes reclassification adjustments relating to the component of other comprehensive income, income and expenses to be included in profit or loss in the future. Reclassification adjustments do not arise on changes in revaluation surplus recognised in accordance with IAS 16 or IAS 38 or on remeasurements of defined benefit plans recognised in accordance with IAS 19. These components are recognised in other comprehensive income and are not reclassified to profit or loss in subsequent reporting periods. Changes in revaluation surplus may be transferred to retained earnings in subsequent periods as the asset is used or when it is derecognised (see IAS 16 and IAS 38). In accordance with IFRS 9, reclassification adjustments do not arise if a cash flow hedge or the accounting for the time value of an option (or the forward element of a forward contract or the foreign currency basis spread of a financial instrument) result in amounts that are removed from the cash flow hedge reserve or a separate component of equity, respectively, and included directly in the initial cost or other carrying amount of an asset or a liability. These amounts are directly transferred to assets or liabilities.	IFRS X.B52
	Information to be presented in the statement(s) of profit or loss and other comprehensive income or in the notes	
IAS 1.98	Circumstances that would give rise to the separate presentation in the statement(s) of financial performance or disclosure in the notes of items of income and expense include: (a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs; (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring; (c) disposals of items of property, plant and equipment; (d) disposals of investments; ~~(e) discontinued operations;~~ ~~(f)~~(e) litigation settlements; and ~~(g)~~(f) ~~other~~ reversals of provisions.	IFRS X.B15

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
	Statement of changes in equity	
	Information to be presented in the statement of changes in equity	
IAS 1.106	An entity shall present a statement of changes in equity as required by paragraph 10. The statement of changes in equity includes the following information: (a) total comprehensive income for the reporting period, showing separately the total amounts attributable to ~~owners~~holders of claims against the parent classified as equity and to non-controlling interests; (b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8; and ~~(c)~~ ~~[deleted]~~ ~~(d)~~(c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) ~~disclosing~~presenting changes resulting from: (i) profit or loss; (ii) other comprehensive income; and (iii) transactions with ~~owners~~holders of claims classified as equity in their capacity as ~~owners~~holders of claims classified as equity, showing separately contributions by and distributions to ~~owners~~holders of claims classified as equity and changes in ~~ownership interests in~~claims classified as equity against subsidiaries that do not result in a loss of control.	IFRS X.89
	Information to be presented in the statement of changes in equity or in the notes	
IAS 1.106A	For each component of equity an entity shall either present~~, either~~ in the statement of changes in equity or disclose in the notes~~,~~ an analysis of other comprehensive income by item (see paragraph ~~106(d)~~89(c)(ii)).	IFRS X.91
IAS 1.107	An entity shall either present~~, either~~ in the statement of changes in equity or disclose in the notes~~,~~ the amount of dividends recognised as distributions to ~~owners~~holders of claims classified as equity during the reporting period, and the related amount of dividends per share.	IFRS X.92

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.108	In paragraph ~~106,~~89, the components of equity include, for example, each class of contributed equity, the accumulated balance of each class of other comprehensive income and retained earnings.	IFRS X.93
IAS 1.109	Changes in an entity's equity between the beginning and the end of the reporting period reflect the increase or decrease in its net assets during the period. Except for changes resulting from transactions ~~owners~~with holders of claims classified as equity in their capacity as ~~owners~~holders of claims classified as equity (such as equity contributions, reacquisitions of the entity's own equity instruments and dividends) and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of income and expense, including gains and losses, generated by the entity's activities during that period.	IFRS X.94
IAS 1.110	IAS 8 requires retrospective adjustments to effect changes in accounting policies, to the extent practicable, except when the transition provisions in another IFRS Standard require otherwise. IAS 8 also requires restatements to correct errors to be made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are not changes in equity, but they are adjustments to the opening balance of retained earnings, except when an IFRS Standard requires retrospective adjustment of another component of equity. Paragraph ~~106~~89(b) requires ~~disclosure~~presentation in the statement of changes in equity of the total adjustment to each component of equity resulting from changes in accounting policies and, separately, from corrections of errors. These adjustments are ~~disclosed~~presented for each prior reporting period and the beginning of the period.	IFRS X.90
	Statement of cash flows	
IAS 1.111	Cash flow information provides users ~~of financial statements~~ with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. IAS 7 sets out requirements for the presentation and disclosure of cash flow information.	IFRS X.95

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
	Notes	
	Structure	
IAS 1.112	~~The notes~~An entity shall disclose in the notes: (a) ~~present~~ information about the basis of preparation of the financial statements (see paragraphs 6K–6N of IAS 8) and the specific accounting policies used ~~in accordance with~~ (see paragraphs ~~117–124~~28A–28G of IAS 8); (b) ~~disclosure the~~ information required by ~~IFRSs~~IFRS Standards that is not presented ~~elsewhere~~ in the primary financial statements; and (c) ~~provide~~ information that is not presented ~~elsewhere~~ in the primary financial statements, but is relevant to an understanding of any of them.	IFRS X.96
IAS 1.113	An entity shall, as far as practicable, present notes in a systematic manner. In determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its financial statements. An entity shall cross-reference each item in the primary financial statements ~~of financial position and in the statement(s) of profit or loss and other comprehensive income, and in the statements of changes in equity and of cash flows~~ to any related information in the notes (see paragraph B66).	IFRS X.97

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.114	Paragraph 97 requires an entity to present notes in a systematic manner. Examples of systematic ordering or grouping of the notes include: (a) giving prominence to the areas of its activities that the entity considers to be most relevant to an understanding of its financial performance and financial position, such as grouping together information about particular ~~operating~~business activities; (b) grouping together information about items measured similarly such as assets measured at fair value; or (c) following the order of the line items in the statement(s) of ~~profit or loss and other comprehensive income~~financial performance and the statement of financial position, such as: (i) statement of compliance with ~~IFRSs~~IFRS Standards (see paragraph ~~16~~6B of IAS 8); (ii) significant accounting policies applied (see paragraph ~~117~~28A of IAS 8); (iii) supporting information for items presented in the statements of financial position and in the statement(s) of ~~profit or loss and other comprehensive income~~financial performance, and in the statements of changes in equity and of cash flows, in the order in which each statement is provided and each line item is presented; and (iv) other disclosures, including: (1) contingent liabilities (see IAS 37) and unrecognised contractual commitments; and (2) non-financial disclosures, eg the entity's financial risk management objectives and policies (see IFRS 7).	IFRS X.B66
IAS 1.116	An entity may ~~present~~ disclose notes providing information about the basis of preparation of the financial statements and specific accounting policies as a separate section of the financial statements.	IFRS X.98

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
	Capital	
IAS 1.134	An entity shall disclose in the notes information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.	IFRS X.111
IAS 1.135	To comply with paragraph ~~134~~111, the entity discloses in the notes the following: (a) qualitative information about its objectives, policies and processes for managing capital, including: (i) a description of what it manages as capital; (ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and (iii) how it is meeting its objectives for managing capital. (b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (eg some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (eg components arising from cash flow hedges). (c) any changes in (a) and (b) from the previous reporting period. (d) whether during the period it complied with any externally imposed capital requirements to which it is subject. (e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance. The entity bases these note disclosures on the information provided internally to key management personnel.	IFRS X.112

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.136	An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement ~~user'~~user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.	IFRS X.113
	Other disclosures	
IAS 1.137	An entity shall disclose in the notes: (a) the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to ~~owners~~holders of claims classified as equity during the reporting period, and the related amount per share; and (b) the amount of any cumulative preference dividends not recognised.	IFRS X.116
IAS 1.138	An entity shall disclose in the notes the following, if not disclosed elsewhere in information published with the financial statements: (a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office); (b) a description of the nature of the entity's operations and its ~~principal~~main business activities; (c) the name of the parent and the ultimate parent of the group; and (d) if it is a limited life entity, information regarding the length of its life.	IFRS X.99

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General Presentation and Disclosures

Comments to be received by 30 June 2020

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Basis for Conclusions on

Exposure Draft

General Presentation and Disclosures

Comments to be received by 30 June 2020

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 June 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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APPENDIX—ANALYSIS OF CURRENT PRACTICE

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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.

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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).

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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.

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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

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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.

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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 then 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.

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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

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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.

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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.

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(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.

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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 9[1] 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

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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

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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.

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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.

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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.

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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

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(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

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(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.

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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.

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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

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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).

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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 of 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.

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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

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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

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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 or 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);

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(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	• 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	• 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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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	• 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	• 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	• 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	• 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	• 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	• 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.

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(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.

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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.

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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.

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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.

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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	
• 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.	• 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.

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Current situation	Likely effects of the proposals on how information is reported
Income and expenses from associates and joint ventures	
• 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).	• 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	
• 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.	• 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	
• 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).	• 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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Current situation	Likely effects of the proposals on how information is reported
Analysis of operating expenses by nature or by function	
• 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).	• 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	

• 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:
  • interest revenue calculated using the effective interest method; and
  • impairment losses determined in accordance with Section 5.5 of IFRS 9.
	• 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	

• IAS 1 requires the presentation of two categories in other comprehensive income:
  • 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.
	• The two categories would be relabelled as:
	  • 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	
• 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).	• 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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Current situation	Likely effects of the proposals on how information is reported
Classification of interest and dividend cash flows	
• 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).	• 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	
• 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.	• 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	
• 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).	• 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	
• 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.	• 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.

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Table 5 Expected effects on the notes

Current situation	Likely effects of the proposals on how information is reported
Unusual income and expenses	
• 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.	• 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	
• 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).	• 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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Current situation	Likely effects of the proposals on how information is reported
• 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).	• 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
• 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).	• 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	
• 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).	• 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.

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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
• 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).	• 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

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(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

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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.

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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	Different reporting practices result in entities tagging: • comparable data in different ways; and • non-comparable data in the same way. Users of financial statements may assume information tagged using the same IFRS Taxonomy element is comparable across entities when it is not.	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. The new proposed defined subtotals should be comparable across entities.
Entity-specific	Entity-specific information, such as unusual income and expenses and management-defined performance measures, is: • 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. Therefore, such information is difficult to extract and analyse.	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. New IFRS Taxonomy elements resulting from the proposed new disclosure requirements should reduce the need for entities to create their own extensions.
Available in a format that is easy to use	Users of financial statements either use information intermediaries or need to spend significant resources —using XBRL calculations and manual adjustments to: • make subtotals comparable; and • identify unusual income and expenses and normalise data.	The cost of using electronic data would be reduced through: • 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	The IFRS Taxonomy has elements for commonly-reported line items and subtotals such as operating profit or loss. 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.	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.

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(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.

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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 *only* 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.			

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
Of which presented as a subtotal in the statement of profit or loss		*15*	*15*
Of which disclosed as a segment measure of performance or in note about financial covenants	-	*20*	*20*
Used *only* 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**

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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**

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 measures[15]

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
Of which presented as a subtotal in the statement of profit or loss	-	*4*	*4*
Of which disclosed as a segment measure of performance or in the note about capital structure and debt	-	*40*	*40*
Of which presented as a subtotal in the statement of cash flows using the indirect method	-	*2*	*2*
Used *only* 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.

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Table A.10—Most common management-defined performance measures *other than* 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 *other than* those labelled operating profit or loss, EBIT, profit before financing or EBITDA	**Number of entities**
Used in the financial statements[(a)]	31
Used *only* 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 *other than* 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
Of which provided tax effect per reconciling item	*13*
Of which provided tax effect in aggregate	*13*
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.

Table A.14.1—Use of adjusted earnings per share	Number of entities
Used in the financial statements	12
Used *only* 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
Of which disclosed as adjustments to management-defined performance measures	*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**

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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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