

# How preparers & investors view the IASB's projects on Primary Financial Statements and Goodwill & Impairment

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Primary  
Financial  
Statements

2

Goodwill &  
Impairment

# ① Primary Financial Statements project

# Central theme of the IASB's work

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## Better Communication in Financial Reporting

Financial statements

Information outside the  
financial statements

Content

Primary  
Financial  
Statements

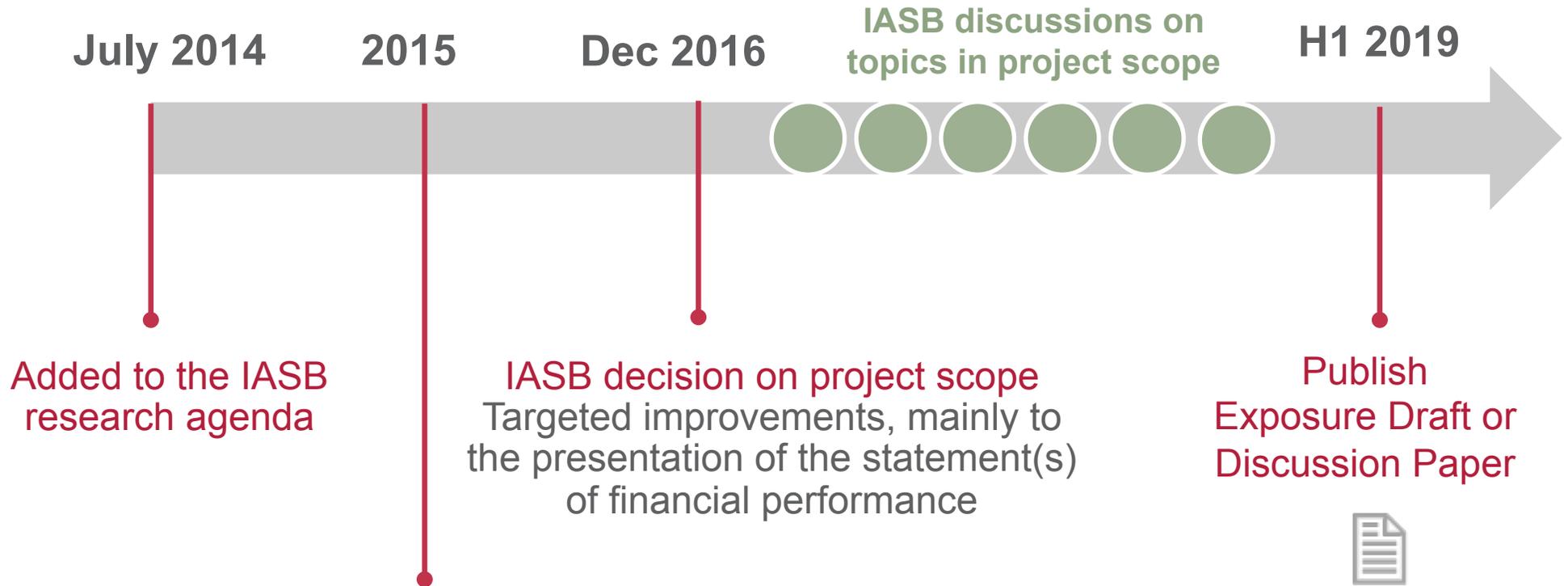
Disclosure  
Initiative

Management  
Commentary

Delivery

IFRS Taxonomy

# Project timeline



**Agenda Consultation**  
Respondents identified the project as a priority and recommended focusing on the statement(s) of financial performance

# Overall project objective

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## Primary Financial Statements

Statement(s)  
of financial  
performance

Statement of  
financial  
position

Statement of  
cash flows

Statement of  
changes in  
equity



## Objective of the Primary Financial Statements project

Targeted improvements to the primary financial statements with a focus on the statement(s) of financial performance

# Stakeholder feedback and key project proposals

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Users

Statements of financial performance are not sufficiently comparable between different companies

Introduce **defined subtotals** in the statement(s) of financial performance



Users

Non-GAAP measures can provide useful information, but transparency needs to be improved

Proposals on **Management Performance Measures**



Preparers

I need flexibility to tell my company's story



Users

There is insufficient disaggregation in financial statements

Proposals to **improve disaggregation**

# Three defined subtotals in the statement of profit or loss

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## 1 Profit from consolidated entities, before investing, financing and income tax (business profit)

Excludes share of profit from ALL joint ventures and associates

## 2 Profit before investing, financing and income tax

- Excludes income/expenses from investments, which are defined as 'income/expenses from assets that generate a return individually and largely independently of other resources held by the entity'
- Excludes share of profit from non-integral joint ventures and associates

## 3 Profit before financing and income tax

Excludes finance income and expenses which include:

- expenses on liabilities arising from financing activities (definition is based on existing definition of financing activities for the statement of cash flows)
- unwinding of discount on other liabilities (see illustrative example)



**Defined  
bottom-up**

# Presentation of associates and JVs (1)



Preparer A

My associates and JVs are a part of my main business, so I want to include my share of their results in my key performance measures.

The share of associates' and joint ventures' profit is after financing and after tax so I want to analyse them separately.



User X



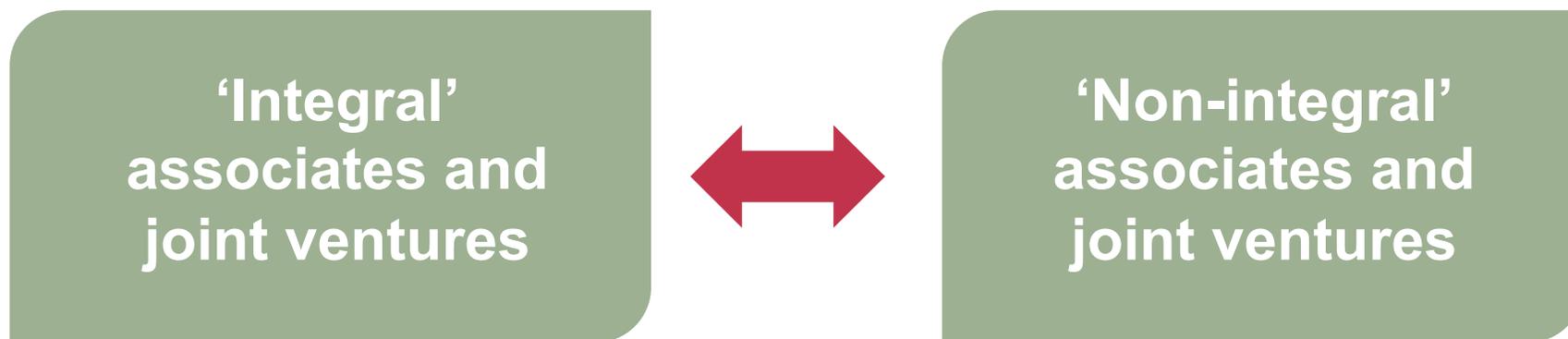
User Y

In some industries I want to analyse the results from associates and JVs together with the entity's main business.

# Presentation of associates and JVs (2)

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- The Board tentatively decided to require **separate presentation** of the share of profit or loss of:



**Use definition of income/expenses from investments to determine classification:**

Does the associate or joint venture generate a return individually and largely independently of other resources held by the entity?

# Defined subtotals —illustration for general corporates

Revenue	10,000
Cost of goods sold	-4,000
Gross profit	6,000
Selling, general and admin costs (SG&A)	-3,000
<b>Business profit (from consolidated entities)</b>	<b>3,000</b>
Share of profit of <b>integral</b> joint ventures and associates	500
<b>Profit before investing, financing and income tax</b>	<b>3,500</b>
Changes in the fair value of financial assets	250
Dividend income	50
Share of profit of <b>non-integral</b> joint ventures and associates	100
Other income from investments	50
<b>Profit before financing and income tax (EBIT)</b>	<b>3,950</b>
Interest income from cash and cash equivalents calculated using effective interest method	80
Other income from cash and cash equivalents and financing activities	20
Expenses from financing activities	-1000
Other finance income	50
Other finance expenses	-350
Profit before tax	2,750

Income/  
expenses from  
investments

Finance income/  
expenses



Preparers

I need flexibility to tell my company's story

## Tentative Board decisions

Entities are allowed to present 'Management performance measures' in the **notes**

MPMs **complement** subtotals or totals specified by IFRS Standards

**No specific constraints** on the calculation of MPMs



Users

Non-GAAP measures can provide useful information, but transparency needs to be improved

## Tentative Board decisions

Disclose a **reconciliation** in the **notes** between the MPM and the most directly comparable subtotal or total specified by IFRS Standards

**Describe why** the MPMs provide management's view of performance and **how** they have been **calculated**

Disclose the **effect of tax and non-controlling interests** separately for each reconciling item

**Label** MPMs in a **clear** and **understandable** way

# Management performance measures (3)

## Example of reconciliation

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The management performance measure is presented in a **separate reconciliation in the notes**:

### Management performance measure reconciliation (extract from notes)

<b>Profit before investing, financing and income tax</b>	<b>3,500</b>
Restructuring expenses for the closure of Factory A	1,000
Litigation settlement related to court case B	400
<b>Management performance measure</b>	<b>4,900</b>

# Disaggregation (1)

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Users

Some entities present large, unexplained 'other' balances

Extract from the notes—Other expenses	(In million €)
Losses on asset disposals	(200)
Foreign exchange losses	(100)
Other expenses	(700)
<b>Total 'Other expenses' presented in P&amp;L</b>	<b>(1000)</b>

A large part of 'other expenses' remains unexplained

## Proposals to improve disaggregation

### Already discussed by the Board

Principles of disaggregation in the financial statements

Proposals to improve disaggregation of expenses by nature / by function

### To be discussed at a future Board meeting

Expanding the list of required minimum line items in the primary financial statements

Templates for the primary financial statements for a small number of industries

### Rejected by the Board

Introduction of quantitative thresholds for disaggregation

# Future topics for discussion

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## Disaggregation

Industry-specific illustrative examples/templates

Further guidance on disaggregation

## Financial performance

Guidance on the presentation and definition of EBITDA

Disclosure of information about unusual or infrequently occurring items



Application of proposals to financial entities



First due process document—Discussion Paper or Exposure Draft?

- Financial entities have been **excluded so far** (banks, insurance companies, investment entities, some conglomerates)
- The Board started discussing the application of project proposals to financial entities in June 2018.

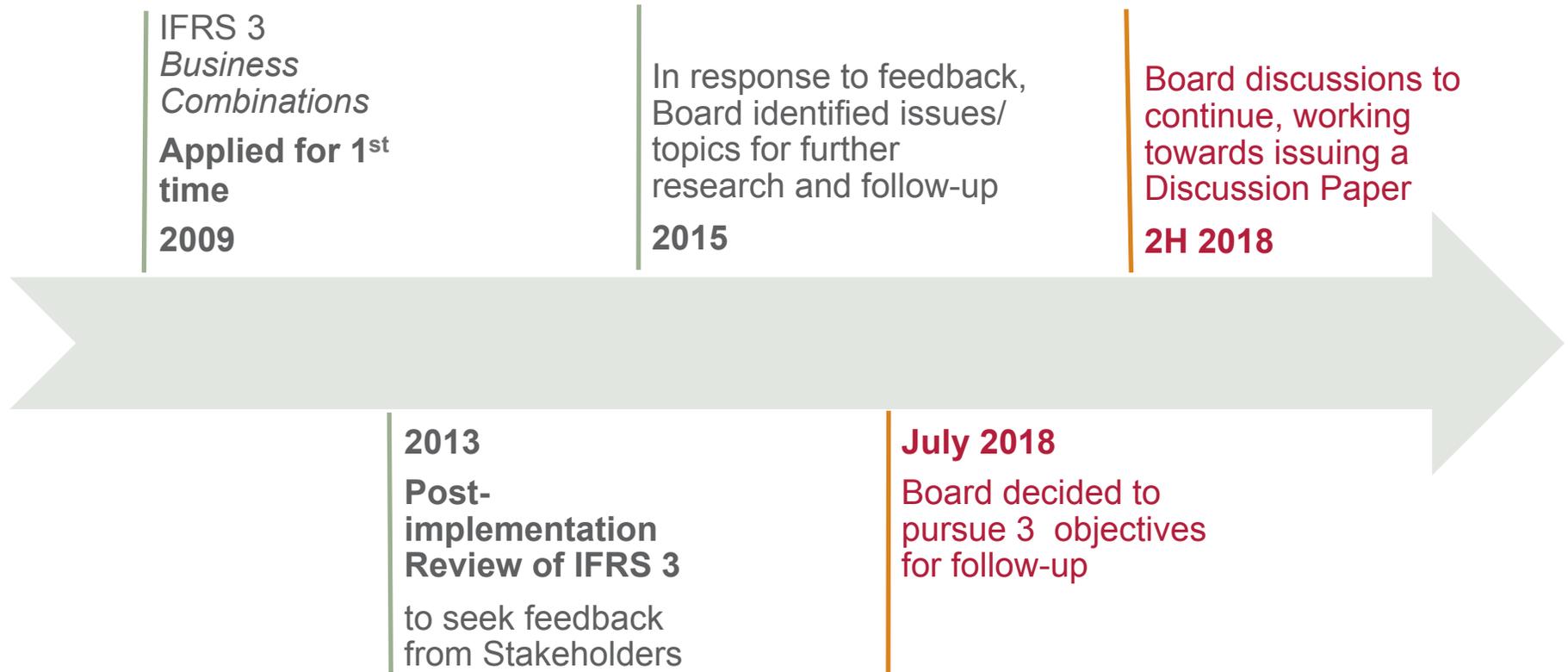


This includes defining the **scope** of the **subtotals** in a way that ensures they are **only required when they result in useful information**.

(eg an EBIT subtotal is not useful for a bank)

## 2 Goodwill & Impairment

# Brief background



# Key findings from the Board's research project so far

## Identifiable intangible assets

- Investors have mixed views about the information usefulness provided by recognising all identifiable intangible assets in a business combination

## Impairment testing of goodwill

- Current testing model costly & complex
- Testing model ineffective for goodwill
- Re-introduce amortisation of goodwill?

## Improving disclosures

- Information to assess if acquisition good/bad?
- Information with reasons why a premium was paid?

# Whether Goodwill should be amortised?

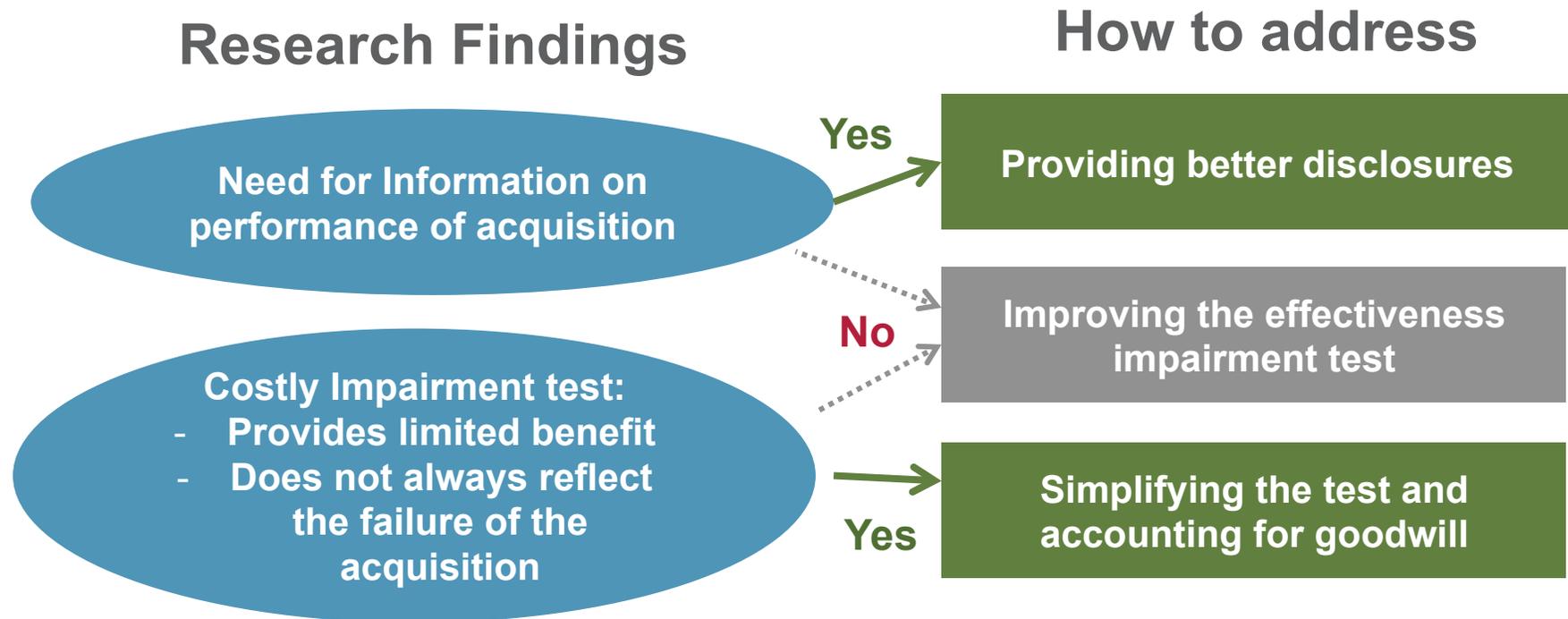
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Objectives for follow-up work for  
the research project  
*(July 2018 Board Meeting)*

# How feedback shaped the objectives

- ✓ The rationale for the Boards' tentative decision to pursue better disclosures and simplifying the test and the accounting for goodwill for the research project:



# Objectives for follow-up work

✓ In July 2018, the Board tentatively decided to pursue 3 objectives:

Objective A	<b>Identifying better disclosures</b> to enable investors to assess effects of a business combination: <ul style="list-style-type: none"><li>• Was it a good investment decision?</li><li>• How “well” is it performing?</li></ul>
Objective B	<b>Simplifying the accounting for goodwill</b> by: <ul style="list-style-type: none"><li>• Possible relief from annual quantitative impairment testing?</li><li>• Reintroduce amortisation?</li></ul>
Objective C	<b>Improving the calculation of value in use</b> in IAS 36

✓ Aim to establish a package of solutions addressing interrelated problems

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