

STAFF PAPER

April 2016

IASB Meeting

Project	Primary Financial Statements		
Paper topic	Comment letter analysis – feedback received from the Agenda Consultation process		
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (“the Board”) and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRS® Standard do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Purpose

1. This paper summarises the feedback received on the research project on Primary Financial Statements. That feedback is derived from:
 - (a) the International Accounting Standards Board’s (the Board’s) request for views *2015 Agenda Consultation* (‘the RFV’). The RFV was published for public comment in August 2015. The comment period ended on 31 December 2015.¹
 - (b) the short online survey of investors that the Board conducted as part of its work on the RFV, to better understand their priorities with respect to financial reporting.²
 - (c) the meeting in February 2016 of the Capital Markets Advisory Committee (CMAC). As part of their initial research work, the staff sought CMAC members’ views on the use of the operating profit subtotal.
2. This paper also summarises the feedback received on the growth in the reporting of ‘non-IFRS’ information (what some refer to as Alternative Performance Measures,

¹ The full analysis of the comments received on the RFV can be found in [Agenda Paper 24A](#) of March 2016.

² We use the term ‘investor’, which we broadly mean to encompass the various members of the investor community, such as asset managers, credit ratings analysts, sell-side and buy-side analysts, creditors and lenders, shareholders, etc.

‘APMs’). This feedback was received in response to the consultation document *Request for Views—Trustees’ Review of Structure and Effectiveness* (‘the Trustees’ RFV’) that the IFRS Foundation[®] published in July 2015 (with a comment deadline of 30 November 2015).³ The Trustees had not sought views on the reporting of non-IFRS information, but some respondents provided some comments that we summarise in this agenda paper.

3. This paper provides a high-level summary of the comments received. It does not include any staff recommendations and the Board will not be asked to make any decisions at this meeting.

Next steps

4. At the May 2016 meeting we will bring a paper that outlines our proposed approach to research on this project in the light of the comments received on the agenda consultation. In addition, the staff will continue its preliminary research to identify the problems in current financial reporting, particularly we will continue:
 - (a) examining financial statements in various sectors to analyse how items—particularly income and expenses—are presented in the financial statements and to identify potential areas of concern in the presentation of those items; and
 - (b) conducting targeted outreach to various stakeholders to understand perceived problems in current financial reporting.

Structure of this paper

5. This paper is organised as follows:
 - (a) an overview of the comments received on the RFV;
 - (b) an overview of the comments received from the investors’ online agenda survey;

³ The full analysis of the comments received on the RFV can be found in [Agenda Paper 24B](#) of March 2016.

- (c) a summary of the feedback received on the reporting of non-IFRS information (derived from the Trustees' RFV);
- (d) an overview of the preliminary research work on the Primary Financial Statements project, which includes a summary of:
 - (i) the preliminary staff research on the presentation of the primary financial statements;
 - (ii) the views expressed by the members of CMAC on the use of the operating profit subtotal; and
 - (iii) the UK FRC's work on the statement of cash flows.
- (e) an overview of:
 - (i) the Board's previous work on performance reporting and financial statement presentation; and
 - (ii) work on performance reporting by the US Financial Accounting Standards Board (FASB).

Background information

6. In July 2014 the Board added the Primary Financial Statements project to its research agenda, mainly in response to the strong demand from investors to undertake a project on performance reporting.⁴ In this respect:
- (a) respondents to the [2011 Agenda Consultation](#) had mentioned that financial statement presentation should be a high-priority project of the Board;⁵ and
 - (b) the feedback received on the IASB's 2013 Discussion Paper [A Review of the Conceptual Framework for Financial Reporting](#) suggested that the Board should undertake a project on presentation of financial statements.⁶

⁴ <http://media.ifrs.org/2014/IASB/July/IASB-Update-July-2014.html>

⁵ Refer to paragraph 39 of [Agenda Paper 5B](#), January 2012 Board Meeting.

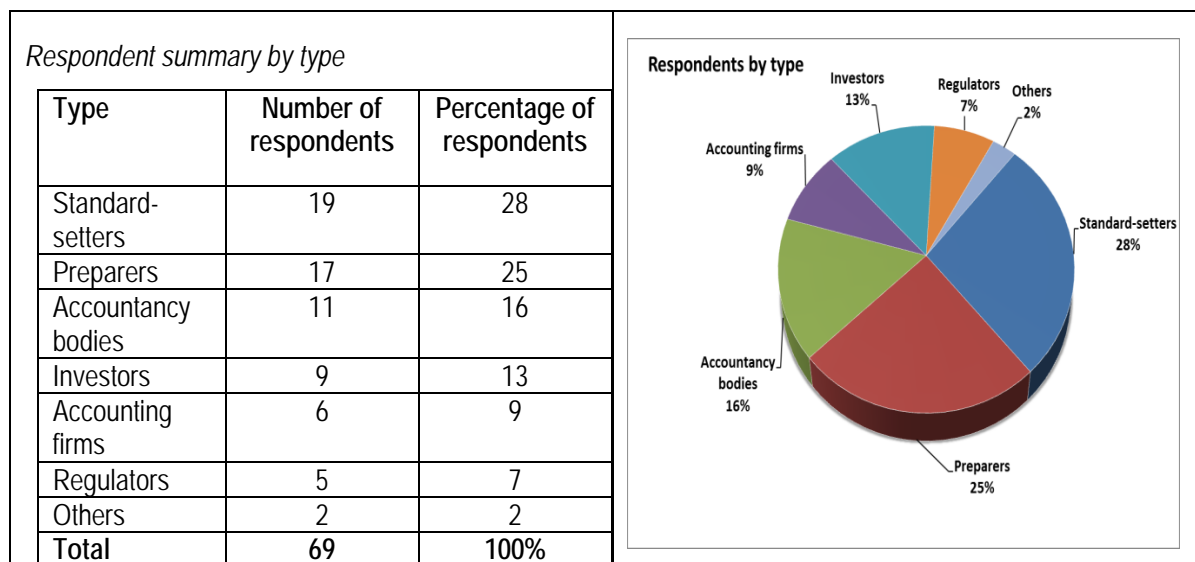
⁶ Refer to paragraph 51 of [Agenda Paper 10H](#) and paragraph 21 of [Agenda Paper 10I](#), March 2014 Board meeting.

7. The Primary Financial Statements project was originally called the *Performance Reporting* project, but at its June 2015 meeting the Board renamed this project to *Primary Financial Statements*.
8. The Board renamed this project because it observed that, in order to answer questions about the structure and content of the statement of profit or loss, it would also need to think about the structure and content of the statement of cash flows and the statement of financial position. Accordingly, the purpose of the Primary Financial Statements project is to examine the purpose, structure and content of the primary financial statements, including the relationship between the individual statements.⁷

Overview of the comments received on the 2015 Agenda Consultation

Demographic analysis

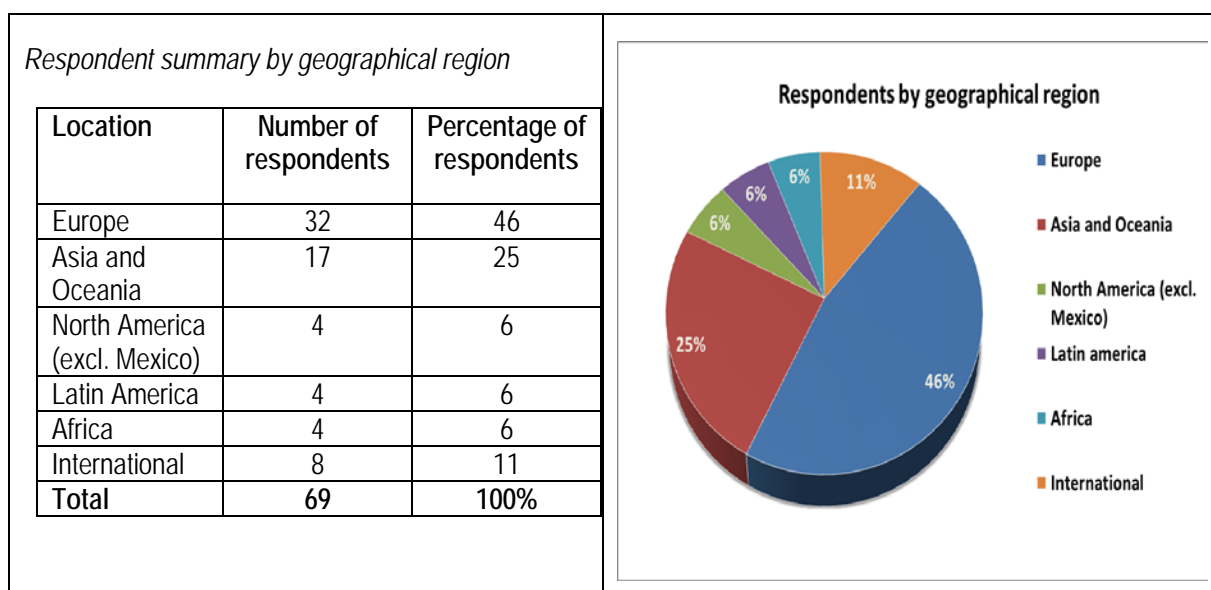
9. The RFV produced comments from 69 respondents on the Primary Financial Statements project.⁸
10. We provide a summary below by type of respondent:



⁷<http://media.ifrs.org/2015/IASB/June/IASB-Update-June-2015.html>. Also refer to [Agenda Paper 8B\(i\)](#) from June 2015, paragraphs 5–8.

⁸ The Board received 119 comment letters on the RFV (Refer to [agenda paper 24A](#) of March 2016). Some respondents ranked the primary financial statements project but did not produce comments on this project. Our analysis in this section focuses on the respondents who provided comments on the project.

11. We provide a summary in the next page by geographical region.



Project priority

12. Respondents to the RFV were asked to assign priorities to individual research projects as ‘high,’ ‘medium,’ or ‘low’. In our analysis we observed that most of those respondents who commented on the primary financial statements project gave it a high priority. However these respondents have a different view on what the focus should be for this project. In this respect:

- (a) many are of the view that the project should be focussed on aspects of performance reporting; and
- (b) some think that the project should be comprehensive and focus on the primary financial statements as a whole.

13. A few other respondents assigned a low priority to the Primary Financial Statements project and questioned whether it should remain on the research programme.

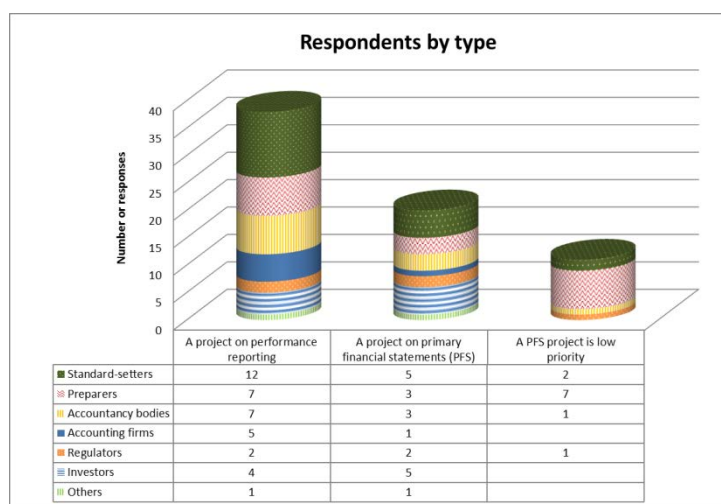
14. We provide a summary of views expressed by respondents below.

Key messages received

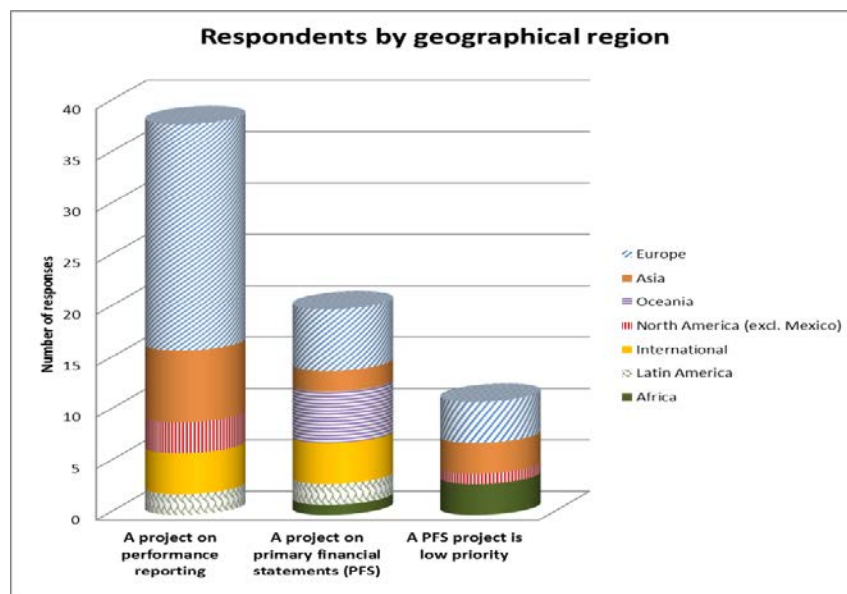
15. We received the following key messages from respondents:

- (a) Many respondents think that the focus of the Primary Financial Statements project should be on aspects of performance reporting. They said that the Board should define performance and should clarify the use of profit or loss and other comprehensive income (OCI) within that context. A few of these respondents think that the Board should address the conceptual distinction between profit or loss and OCI, and should also address recycling in the *Conceptual Framework* project before addressing performance reporting issues.
- (b) Some respondents agree with the description of the project included in the RFV that a Primary Financial Statements project should look at the structure and content of all the primary financial statements. A few of these respondents state that the Board should assess the interaction between the Primary Financial Statements project and the work in the Disclosure Initiative on non-IFRS information and on Principles of Disclosure.
- (c) A few respondents do not think that the Primary Financial Statements project should be part of the Board’s research agenda because either:
 - (i) they think that the presentation of financial statements could be addressed in the *Conceptual Framework* or in the Disclosure Initiative; or
 - (ii) they are of the view that the Primary Financial Statements project would not be successfully completed because of the complexity involved in defining financial performance.

16. The following diagram shows the distribution of comments by type of respondent:



17. The following diagram shows the distribution of comments by geographical region:



Why do respondents prefer a project focussed on performance reporting?

18. Many respondents (mostly standard-setters from Europe and some preparers from Europe and North America) think that the Primary Financial Statements project should only focus on aspects of performance reporting.
19. Those respondents support a project focussed on performance reporting issues because in their view such issues are the most controversial and critical in financial reporting.
20. A few of those respondents stated that focussing on performance reporting would provide the Board with an opportunity to analyse aspects of performance reporting that in their view, the *Conceptual Framework* project has failed to address or has not addressed satisfactorily (for example the definition of financial performance or profit or loss, the distinction between profit or loss and OCI).
21. One standard-setter from Japan also noted that it would prefer a project on performance reporting rather than a broader project on the primary financial statements, because when the Board undertook its previous financial statement presentation project (FSP) many had disagreed with some aspects of that project, especially with the proposed notion of cohesiveness across the primary financial statements.

Main areas of analysis on performance reporting

22. Many respondents think that a project on performance reporting could be focussed on the following main areas:
- (a) a definition of financial performance. However, respondents did not suggest how the Board might develop this definition.
 - (b) clarification of :
 - (i) which items of income and expense should be presented in profit or loss and which in OCI; and
 - (ii) whether and when items previously recognised in OCI should be subsequently recycled from OCI to profit or loss.
23. Other topics that were mentioned by those respondents were:
- (a) analysis of alternative performance measures (such as EBIT or EBITDA) and non-IFRS information; and
 - (b) presentation in the statement of profit or loss of subtotals (such as operating income).
24. Some of those respondents (among them investors, regulators, and user representative bodies; most of them from Europe and one from North America) state that the Board should focus on reporting financial performance in a way that meets the needs of investors as the primary users of financial statements. In this respect:
- (a) some of those respondents noted that investors would like to understand:
 - (i) the return that management has generated from its operations and resources allocated; and
 - (ii) the interaction between an entity's business model and the entity's performance.
 - (b) one respondent stated that a project focussed on performance reporting should be prioritised because investors spend significant time adjusting the profit and loss figures to arrive at a more representative earnings figure.
25. The respondent from North America commented that the Board should be careful in developing specific required metrics for the statement of profit or loss because these metrics may not be appropriate for all industries. This respondent noted that the real

estate industry has developed various key performance indicators that management and users have used for years.

Why is addressing the conceptual distinction between profit or loss and OCI important for some respondents?

26. A few respondents (mainly preparers and standard-setters from Europe) who advocated a project on performance reporting think that the Board should address the conceptual distinction between profit or loss and OCI and the definition of financial performance as part of its *Conceptual Framework* project. This is because in their view clarifying this distinction would provide the Board with the high-level principles needed to develop a Standard. Some even are of the view that no work on the Primary Financial Statements project should commence until the Board has clarified this conceptual distinction.

Support for a project focussed on all the primary financial statements

27. Some respondents (mainly standard-setters and preparers; many of them from Europe and Australia) expressed the view that the Board should undertake a comprehensive project that would look at the structure and content of all the primary financial statements.
28. In support of such a project, respondents mentioned that the Primary Financial Statements project could be focussed on the following areas:
- (a) clarifying the link between the primary financial statements. For example, one respondent notes that it is not clear which line items from the profit or loss statement and from the statement of financial position correspond to line items in the statement of cash flows.
 - (b) considering how to provide more flexibility in the presentation of information (for example, consider the interaction of financial reporting and digital reporting).
 - (c) promoting better disaggregation of line items on the face of the primary financial statements (for example, by requiring the disclosure of the components of the cost of goods sold, selling & general expenses or research & development expenses).

29. Some respondents gave more specific comments on the work that the Board could undertake in relation to the statement of profit or loss or the statement of cash flows. They expressed the view that the Board could focus on:
- (a) clarifying the definition of operating profit, because this subtotal plays an important role in investment and analysis decisions.
 - (b) requiring more detail of cash inflows and cash outflows in the statement of cash flows.
 - (c) defining whether some items of income and expense are operating or financing in nature to promote consistency in the classification of line items.
 - (d) promoting disaggregation by nature on the statement of profit or loss, because, in their view, this type of disaggregation is preferred by investors over disaggregation by function.
30. Some investors recommend that the Board should bring back all the proposals in the former FSP project because they saw merit in those proposals.

Why do some respondents not support the Primary Financial Statements project?

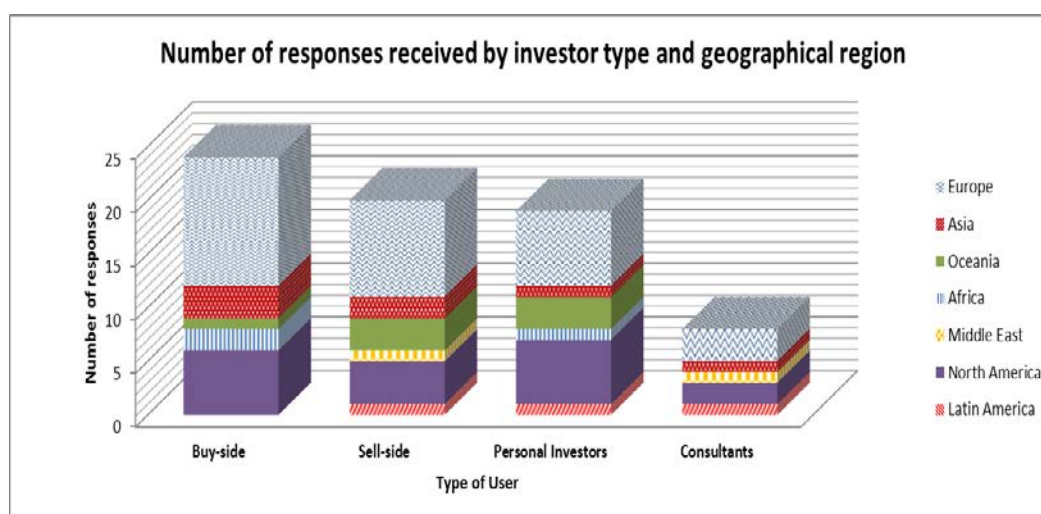
31. Some respondents (mainly preparers and some standard-setters – many from Europe) do not support having a research project on primary financial statements because, in their view:
- (a) the current presentation requirements are acceptable and do not need to be improved;
 - (b) it is highly unlikely that the Primary Financial Statements project would be successfully completed because of the complexity involved (particularly, in defining financial performance) and also because the *Conceptual Framework* has not defined concepts that the Primary Financial Statements project could use to distinguish between profit or loss and OCI; and
 - (c) the DI project could continue addressing disclosure and presentation issues instead of there being a separate Primary Financial Statements project.

32. One respondent from Japan shows some concern that the Primary Financial Statements project will become a continuation of the former FSP project and may resurrect some of the highly controversial proposals in the FSP project such as the application of the cohesiveness principle or the use of the direct cash flow method for determining cash flows.

Overview of the comments received from the online survey

Demographic analysis

33. The Board received comments on the Primary Financial Statements project from 71 investors in response to the online survey.⁹ The majority of participants were credit analysts or equity analysts (both sell-side and buy-side analysts). A majority of investors were located in Europe, the United States and Canada with the majority investing in developed markets. The diagram below summarises this information.



Project priority

34. Investors supported the Board undertaking the Primary Financial Statements project and this project stood out as one of the most important topics/projects for investors.

⁹ This number of respondents reflect the responses to the prompted survey Question 13 which asked respondents to assign priorities to the primary financial statements project, as 'high,' 'medium,' or 'low'. For the purpose of this summary paper, our analysis of the key messages received also includes the responses to the free form survey Question 12 which asked respondents for the areas of financial reporting that they thought should be improved.

Key messages received

35. We received the following messages from investors responding to the survey:
- (a) Some investors are interested in having a better understanding of an entity's underlying operating/financial performance. These investors focus on subtotals such as operating profit, net income and EBITDA for their analysis. However, investors expressing this view did not suggest what the Board should do to require entities to provide a better understanding of an entity's underlying operating/financial performance.
 - (b) A few investors stated that OCI and recycling are not well understood by investors. Consequently, they think that the Board could focus on clarifying which items of income and expense should be presented in profit or loss and which in OCI, as well as on the role of recycling.
 - (c) Some investors also think that it would be helpful if the Primary Financial Statements project were to address the alignment of the primary financial statements through the application of the cohesiveness principle. For example, some investors think that the Board could address:
 - (i) the link between operating earnings and operating cash flows; and
 - (ii) the nature of the components of income and expense (ie operating/non-operating, recurring/non-recurring).
 - (d) Some investors think that the Primary Financial Statements project could address the presentation of some:
 - (i) key ratios that provide an insight into the capital structure of a company (eg the debt/equity ratio); and
 - (ii) subtotals (eg operating income) with the aim of standardising such subtotals.
36. One investor mentioned that it did not support having the Primary Financial Statements project because, in its view, the structure proposed for the statement of financial position in the previous FSP project (ie a split between business, investing and financing activities) was not helpful and the separation of financing and investing activities was arbitrary.

37. Another investor stated that the Board should focus on improving the disclosures in the financial statements rather than on improving the presentation of the primary financial statements.

Feedback received on the reporting of non-IFRS information

38. The Trustees' RFV noted that a focus of much debate concerns the reporting of 'non-IFRS' information (what some refer to as Alternative Performance Measures, 'APMs')¹⁰. Although the Trustees did not seek views on the issue, a minority of respondents provided comments (21 respondents), mostly to agree that this is something that should be examined by the Board as part of its technical agenda. A majority of these respondents welcome the inclusion of this topic within the Disclosure Initiative's Discussion Paper on Principles of Disclosure.
39. Some respondents were of the view that in addressing non-IFRS information the Board should focus on:
- (a) understanding why entities present non-IFRS information; and
 - (b) determining whether or not APMs should be part of the financial statements.
40. Some respondents commented that the increase in the reporting of APMs might be an indication that IFRS financial statements are losing their relevance.

Overview of the preliminary research work on the Primary Financial Statements project

41. Initial research work on the Primary Financial Statements project has included the following:
- (a) Preliminary staff research on current financial reporting practice (paragraphs 42–43);

¹⁰ The full analysis of the comments received on the Trustees' RFV can be found in [Agenda Paper 24B](#) of March 2016

- (b) A discussion with CMAC about the use of the operating profit sub-total (paragraph 44–47);
- (c) Work undertaken by the UK Financial Reporting Council on the statement of cash flows (paragraphs 48-49).

Preliminary staff research on current financial reporting practice

42. In order to assess the possible problems in current financial reporting, the staff have been analysing current performance reporting practices in various industry sectors. This analysis includes:
- (a) consistency and comparability of use of performance measures among peer companies;
 - (b) understandability of performance measures;
 - (c) consistency of use of performance measures from period to period within a reporting entity;
 - (d) use of performance measures within and outside financial statements; and
 - (e) use of non-IFRS information.
43. The staff will continue its preliminary research to identify the possible problems in current financial reporting practice and are planning to present findings at a future meeting.

Summary of views by the members of the Capital Markets Advisory Council

44. In February 2016, the staff met with the members of the CMAC to obtain their views on:
- (a) whether users employ the operating profit subtotal in their analysis; and
 - (b) whether the Board should develop a standard definition of this subtotal.
45. Many CMAC members mentioned that they use the operating profit subtotal. However, they observed that this subtotal is not consistently defined.

46. CMAC members had mixed views on the usefulness of a standardised operating profit figure:
- (a) Some thought that it would be very difficult for the IASB to define operating profit because:
 - (i) it is likely to vary from entity to entity; and
 - (ii) deriving an appropriate operating profit subtotal for an entity requires considerable judgement and is a key part of an analyst's job.
 - (b) Others suggested that a standardised operating profit subtotal might be useful for less sophisticated investors or for company communications with the press.
 - (c) Some CMAC members suggested that guidance on what could, and what could not, be included in arriving at operating profit or 'Earnings Before Interest and Taxes' (EBIT) might be useful and that a standardised EBIT subtotal could be a useful starting point for their analysis.
47. Some CMAC members also commented on whether particular items should be included in the calculation of EBIT:
- (a) Many thought that the interest cost of a defined benefit pension scheme should be presented as a finance cost.
 - (b) Some thought that any share of profit of associates should be presented below the EBIT subtotal, because:
 - (i) one CMAC member stated that inclusion of share of profit of associates in EBIT distorts the EBIT margin.
 - (ii) another CMAC member thought that including share of profit of associates in EBIT distorts future cash flow projections because that share of profits does not increase cash flows to the investor if the associate pays no dividends to the investor.

The UK FRC's work on the statement of cash flows

48. The United Kingdom Financial Reporting Council (UK FRC) is carrying out research to develop proposals for the improvement of the statement of cash flows. Papers

presenting some proposals were discussed by the Board in October 2014 and in December 2014.¹¹

49. The staff of the FRC is currently reviewing this work with the aim of publishing a Discussion Paper. That paper will set out the view of the FRC's staff, rather than tentative views of the FRC itself or of the Board. The FRC intends to maintain its close liaison with the Board on this work, to ensure that the proposals and the responses to it will be as useful as possible to the Board.

Prior work on performance reporting and financial statement presentation

Work on performance reporting

50. The Board has considered performance reporting, on and off, for more than a decade and has made several attempts to develop proposals for a consistent approach to the reporting of items in the financial statements.
51. In 2001 the Board added to its agenda a project on performance reporting that focussed on proposing a new model for reporting income and expenses in the income statement and on the alignment of the income statement with the statement of cash flows. Similarly, in 2001 the FASB added a project on performance reporting to its agenda, developed its own model and conducted preliminary testing. Initial feedback on both models was not supportive.
52. In 2003 the Board amended IAS 1 *Presentation of Financial Statements* as part of its Improvements project. The Board removed the requirement to present the results of operating activities as a line item in the income statement and eliminated the category 'extraordinary items' from the income statement.

Joint project on financial statement presentation

53. In 2004 the Board and the FASB continued their work on performance reporting in a joint project on financial statement presentation. The scope of this project was broader than in 2001, because it addressed the presentation and display of information

¹¹ Refer to [Agenda Paper 11A\(c\)](#) from October 2014 and [Agenda Paper 11B](#), from December 2014.

in all the financial statements. In 2006 the project was renamed the ‘Financial Statement Presentation’ project or ‘FSP’.

54. The Board conducted the project in two phases.
- (a) Phase A, an IASB-only phase, resulted in revisions to IAS 1 in 2007. In those revisions the Board:
 - (i) emphasised the equal prominence of the primary financial statements.
 - (ii) required presentation of changes in equity resulting from transactions with owners in their capacity as owners separately from other changes in equity and permitted the presentation of non-owner changes in equity in a single statement or in two statements.
 - (b) Phase B resulted in the publication in 2008 of a joint FASB and IASB Discussion Paper: [*Preliminary Views on Financial Statement Presentation*](#) (the ‘FSP DP’).¹² The responses to the FSP DP showed that preparers and users had mixed views about the proposals in this Discussion Paper. We present a summary of the views received in **Appendix A** of this paper.
55. The 2008 FSP DP did not evolve into the next stage of the due process (ie an Exposure Draft on presentation of financial statements). Instead, in July 2010 the staff of the IASB and the FASB posted on each board’s website a staff draft of an Exposure Draft *Financial Statement Presentation* (the ‘[FSP staff draft](#)’), that reflected the boards’ tentative decisions on financial statement presentation, concluding with their joint meeting in April 2010.
56. The IASB and the FASB did not formally seek comments on the FSP staff draft.¹³ However, some of the input received indicated that a fuller debate was still needed on performance reporting and urged the Board to give this topic higher priority. Following publication of the FSP staff draft, work on the project was suspended, for reasons discussed in paragraphs 62–63.

¹² <http://www.ifrs.org/Current-Projects/IASB-Projects/Financial-Statement-Presentation/Phase-B/DP08/Documents/DPPrelViewsFinStmntPresentation.pdf>.

¹³ <http://www.ifrs.org/Current-Projects/IASB-Projects/Financial-Statement-Presentation/Phase-B/Pages/Staff-draft-of-proposed-standard.aspx>

57. In 2010, the Board published the Exposure Draft *Presentation of Items of Other Comprehensive Income*, which proposed a single continuous statement of performance with separate profit or loss and OCI sections within that statement. This amendment was finalised in June 2011 when the Board issued *Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)*.
58. In this amendment to IAS 1 the Board decided not to mandate a single continuous statement of performance with separate profit or loss and OCI sections but to retain an option to present two statements. The Board did this in the light of the negative response to its proposal for a continuous statement and the resistance to this change by a majority of respondents.
59. The main change resulting from the 2011 amendment to IAS 1 was a requirement for entities to group items presented in OCI on the basis of whether they will be potentially reclassified (recycled) to profit or loss subsequently. This was to improve the consistency and clarity of the presentation of items of OCI. This amendment did not address which items are presented in OCI, nor did it address which items should be subject to reclassification.

Main proposals in the FSP staff draft

60. The FSP staff draft proposed combining IAS 1 and IAS 7 *Statement of Cash Flows* into a new (draft) Standard on Financial Statement Presentation. The staff draft carried over from IAS 1 the general structure and content of the financial statements. Most of the current paragraphs in IAS 1 and IAS 7 were incorporated into the staff draft (with some modifications that were discussed jointly by the IASB and the FASB).
61. There were some new proposals. The most significant of these were:
- (a) high-level principles for:
 - (i) disaggregation (by the function, the nature and the measurement basis of the item);¹⁴ and

¹⁴ Refer to paragraph 47 in the [FSP staff draft](#).

- (ii) cohesiveness (ie ‘An entity shall present information in its financial statements so that the relationship among items across the financial statements is clear’).¹⁵
- (b) a requirement for information in the primary financial statements (Statement of comprehensive income or SCI, Statement of financial position or SFP and Statement of cash flows or SCF) to be organised into new defined sections, categories and subcategories, namely:¹⁶
 - (i) Business section, split between an operating subcategory and an investing subcategory;
 - (ii) Financing section, split between a debt category and equity category;
 - (iii) Income tax section;
 - (iv) Discontinued operations section; and
 - (v) Multi-category section.¹⁷

(The proposal required OCI to also be separated into these sections and categories.)
- (c) application of cohesiveness to the presentation of these sections, categories, subcategories, across the primary financial statements.
- (d) additional disclosures about:
 - (i) remeasurements; and
 - (ii) analyses of changes in assets and liabilities—ie reconciliations (roll forwards).
- (e) a requirement to use a direct method to present cash flows; an entity may use a derived (indirect-direct) approach to prepare this information. An entity would also be required to reconcile operating income to operating cash flows as part of the statement of cash flows.

¹⁵ See paragraph 57 of the [FSP staff draft](#).

¹⁶ The Board did not propose any changes to the other comprehensive income section of the SCI. Consequently, the OCI section was left untouched.

¹⁷ The Boards proposed that an entity should classify, in a distinct section in the statements of comprehensive income and cash flows, the net effects on comprehensive income or cash flows of a single acquisition (or disposal) transaction that results in the recognition (or derecognition) of assets and liabilities that are classified in more than one section or category.

Why the FSP project was suspended

62. The FSP project was suspended by both Boards in 2010 so that the IASB and the FASB could focus on completing new Standards on revenue recognition, leases, insurance contracts and financial instruments. The Boards were also concerned that fundamentally changing the structure of the financial statements at the same time as issuing all of those Standards would overwhelm preparers and users.
63. In addition, feedback on the FSP project had indicated that many preparers had significant concerns about some of the proposals (mainly the application of the cohesiveness principle across all the primary financial statements and the use of the direct cash flow method to provide cash flow information; the proposal to use this method came as a consequence of applying the cohesiveness principle)¹⁸. Consequently, the Boards decided to focus on other projects and to suspend the FSP project.

FASB work on performance reporting

64. The FASB is currently working on a project on *Financial Performance Reporting*, which was added to its research agenda in January 2014. This project has been re-scoped from the previous Financial Statement Presentation project and renamed to reflect its current areas of focus and to limit incorrect references to the previous joint FSP project.
65. The primary objective of the FASB's research project is to evaluate ways in which to improve the relevance of information presented in the performance statement. The project will explore and evaluate improvements to the performance statement that would increase its understandability by presenting items that may affect the amount, timing, and uncertainty of an entity's cash flows.
66. This project has been focussed on the following two areas:
- (a) Evaluating how and whether to categorise the income statement into operating and non-operating activities and the display of an operating performance metric including;

¹⁸ A summary of the views received is in **Appendix A** of this paper.

- (i) the description or definition of ‘operating activities’;
 - (b) Evaluating how and whether to disaggregate the income statement including:
 - (i) the distinction between recurring and non-recurring or infrequently occurring items;
 - (ii) the reporting of functional and natural lines, or both, in the performance statement.
67. The FASB also plans to look at related changes to segment reporting and linkages across the primary financial statements.
68. **Appendix B** in this paper reflects in more detail the activities and decisions reached by the FASB on its *Financial Performance Reporting* project.

Appendix A—Summary of feedback on the 2008 FSP Discussion Paper and comparison with proposals in the FSP staff draft

The information below was extracted from the Basis for Conclusions in the FSP staff draft.

Issue	Proposal in the Discussion Paper	Input from preparers	Input from investors and analysts	Proposal in the staff draft
<i>Use of direct method statement of cash flows</i>	Require a direct method statement of cash flows that had the same line item disaggregation as the statement of comprehensive income	Feedback indicated that the proposal to require a direct method statement of cash flows could result in significant implementation costs	Investors and analysts indicated that they would be better able to predict future cash flows and assess the quality of earnings with the information provided in a direct method statement of cash flows. However, they agreed that there was too much detail provided in the direct method statement of cash flows illustrated in the discussion paper.	The staff draft did not require the information in the statement of cash flows to be aligned with the information in the statement of comprehensive income at the line item level. An entity may use a derived (indirect-direct) approach to prepare the statement of cash flows.
<i>Application of the cohesiveness principle</i>	Present financial information in a manner that clarifies the linkage of that information across the financial statements. Financial statements need not be cohesive (ie aligned) at the line item level.	Feedback suggested that the cohesiveness objective should be applied in a more pragmatic way, with quite a few specifying that the cohesiveness	Investors and analysts of financial statements observed that they spend a lot of time trying to determine the relationships between the numbers in the various financial statements; consequently, providing clarity on the interactions between the statements would be beneficial. However, they agreed with preparers	Proposal: The cohesiveness principle was relaxed. Information in the financial statements should be presented in a manner that presents related information in the same sections, categories or subcategory.

Issue	Proposal in the Discussion Paper	Input from preparers	Input from investors and analysts	Proposal in the staff draft
		principle should not be applied at the line item level.	that the cohesiveness objective should be applied in a more pragmatic way.	
<i>Application of the disaggregation principle</i>	An entity should disaggregate its income and expenses in the statement of comprehensive income by both function and nature; assets and liabilities should be disaggregated by their measurement bases.	<p>Respondents thought that appropriate consideration should be given to materiality in the financial statements, and that disaggregation should be balanced against understandability. To improve the usefulness of the individual statements, respondents suggested that some of the disaggregated information should be presented in the notes to financial statements.</p> <p>Investors and analysts noted that enhanced disaggregation would permit improved analysis of and insight into an entity's financial position and performance. However, some noted that the level of disaggregation proposed had the potential to distract from an overall view of an entity's financial position and financial performance.</p>	<p>Application of the disaggregation principle should lead to sufficient, but not excessive, disaggregation.</p> <p>Disaggregation <i>by nature</i> of income and expense items can be presented in the notes to the financial statements.</p>	
<i>Definition of sections and categories in the financial statements</i>	<p>The financing section should include a financing asset category and a financing liability category.</p> <p>The business section should include assets and liabilities that relate to an entity's income-generating activities. The operating and investing categories were based on a notion of core and non-core activities, respectively.</p>	<p>No clear consensus emerged from the respondents to the discussion paper on which items should be considered financing but some noted that the definition of the financing section was too ambiguous to be applied consistently and uniformly in practice. For some, financing refers to the capital structure of an entity. From that perspective, the financing section should include only debt and equity. Others view all liabilities as a form of financing.</p> <p>Respondents asked for more guidance and clarity about which items an entity should classify in the investing category.</p>	<p>Proposal: a more specific definition of the financing section and a clearer distinction between items included in the financing section and items included in the business section.</p> <p>Proposals to include in:</p> <p>Financing section – only items commonly equated with the capital structure of an entity—debt and equity.</p> <p>Business section – include activities that generate revenue through a process that includes the interrelated use of the entity's</p>	

Issue	Proposal in the Discussion Paper	Input from preparers	Input from investors and analysts	Proposal in the staff draft
				<p>resources (ie operating category) and those that generate a return from individual assets (ie investing category).</p> <p>Proposal to include a new subcategory labelled 'operating finance' within the operating category for liabilities that are not part of an entity's capital raising transactions (eg post-employment benefit liability and decommissioning liability).</p>
<p>Management approach to classifying assets and liabilities.</p>	<p>This approach required management to classify the entity's assets and liabilities into sections and categories on the basis of how management uses those assets or liabilities in its business. An entity would use the proposed definitions of the sections, categories and subcategory to determine the classification of assets, liabilities, equity, income, expenses and cash flows</p>	<p>Preparers of financial statements supported the management approach to classification. They indicated that classifying assets and liabilities in a manner that best reflects the way the asset or liability is used within an entity should produce relevant information for users of the financial statements</p>	<p>Investors and analysts of financial statements expressed concern about the subjective nature of the management approach to classification. They asserted that it would reduce comparability between entities, including those that are in the same industry. Their preference is a classification approach that results in consistent and uniform classification of assets, liabilities and items of income and expense across entities that use them similarly.</p>	<p>In the staff draft there is much less discretion involved in the classification process. For example:</p> <p>"In selecting the order in which to present sections and categories, an entity shall try to align the sections and categories across the statements. However, an entity shall choose an order that produces the most understandable depiction of its activities and allows for presentation of meaningful subtotals and totals".</p> <p>The term 'management approach' is not used anymore to describe the proposed classification process.</p>
<p>Alternative presentation formats for the</p>	<p>Proposal to eliminate the alternative presentation formats for the statement of</p>	<p>Respondents who supported a move to a statement of comprehensive income said that it should result in greater transparency, consistency and comparability. Furthermore,</p>	<p>Proposal to require a statement of comprehensive income that maintains a clear distinction between profit or loss or net</p>	

Issue	Proposal in the Discussion Paper	Input from preparers	Input from investors and analysts	Proposal in the staff draft
statement of comprehensive income	comprehensive income and requiring all components of comprehensive income to be presented in a single statement of comprehensive income.	the process of calculating financial ratios would be made easier. Respondents who disagreed with the proposal indicated that the boards should defer any changes to the guidance on the statement of comprehensive income until they complete a project to revise the guidance on which items should be presented in other comprehensive income. Respondents also suggested that the proposal in the discussion paper would undermine the importance of the profit or loss or net income total by making it a subtotal and that presenting total comprehensive income as the last number in the statement would confuse users.		income and other comprehensive income. It was made clear that there was no plan to eliminate the profit or loss subtotal.
Analysis of changes in assets and liabilities	Proposal to require a reconciliation schedule that reconciled cash flows to comprehensive income and that disaggregated comprehensive income into the following components: cash received or paid other than in transactions with owners, accruals other than remeasurements, remeasurements that are recurring fair value changes or valuation adjustments and remeasurements that are not recurring fair value changes or valuation adjustments	Most respondents did not support the proposed reconciliation schedule. They noted that a line-by-line reconciliation schedule was cumbersome and lacked readability. In their view the reconciliation schedule should not reconcile every line in the statements of comprehensive income and cash flows. Rather, respondents preferred a schedule that reconciled the opening and closing balances of each line item in the statement of financial position, such as the reconciliation of working capital items and net debt.		Proposal to require an entity to present in the notes to financial statements an analysis of the changes in the balances of asset and liability line items in the statement of financial position. In each analysis, an entity would explain the nature of the transactions and other events that gave rise to a change in the balance and separately distinguish changes related to the following components: cash inflows and outflows, transactions that are recurring and routine, transactions that are not recurring and routine, accounting allocations, and impairments and other remeasurements.

Appendix B—Summary of the activities of the FASB on its *Financial Performance Reporting* project

The information below on the FASB’s research project on *Financial Performance Reporting* was extracted from www.fasb.org¹⁹

January 20, 2016

- B1 The staff presented its research into the current practice of reporting functional and natural lines, or both, in the performance statement. The staff also presented its proposal for how the Board could consider disaggregating functional lines into certain natural components. No decisions were made. The Board directed the staff to evaluate and clarify the objective of the project in light of all of the staff’s research in the project for assessment at a future meeting.

July 24, 2015

- B2 The staff presented its research into different ways the Board could use the concept of a remeasurement as a way to distinguish between earnings components to provide additional disaggregation of the performance statement. No decisions were made. The Board directed the staff to research other methods for distinguishing between different earnings components for discussion at future meetings, including (1) displaying natural and/or functional lines and (2) better describing what can be grouped within a line item.

May 6, 2015

- B3 The staff updated the Board on its research into different ways the Board could potentially improve the transparency of infrequent transactions or events that have been recognized in the performance statement. The Board discussed whether frequency of occurrence was the best method for distinguishing certain items. The Board directed the staff to research other methods for discussion at future meetings, including (1) using the predictive value of earnings components, such as remeasurements, as a distinguishing characteristic, (2) improving the display of natural and functional classifications, and (3) improving presentation by better describing what can be grouped within a line item.

February 25, 2015

- B4 The staff provided an update on its research into different alternatives for describing and defining operating activities. The Board discussed whether defining operating activities and displaying a subtotal of the results from operating earnings

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http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FProjectUpdatePage&cid=1176164178963. References to the ‘Board’ in this Appendix B, should be understood as referring to the ‘FASB Board’.

would improve the relevance of information presented in the performance statement. The Board directed the staff to focus its research efforts on distinguishing between recurring and nonrecurring or infrequently occurring items for the next meeting, after which the Board will consider whether and how it would like to proceed with defining operating activities.

June 25, 2014

- B5 The primary objective of the research project is to evaluate ways the Board might improve the relevance of information presented in the performance statement and related changes resulting from this objective.
- B6 The project will focus on two areas: (1) determining an operating performance metric and (2) distinguishing between recurring and nonrecurring or infrequently occurring items within the performance statement.
- B7 In addition to these two areas, the project will consider potential related changes that may arise from (1) and (2) in the following respects:
 - (a) Additional disaggregation in the performance statement
 - (b) Transparency of remeasurements
 - (c) Related changes to segment reporting
 - (d) Linkages across the primary statements

NEXT STEPS

- B8 The staff will evaluate and clarify the objective of the project in light of all of the staff's research in the project for assessment at a future meeting.