

STAFF PAPER

November 2016

IASB® Meeting

Project	Primary Financial Statements		
Paper topic	Cover paper		
CONTACT(S)	Denise Durant	ddurant@ifrs.org	+44 (0)20 7246 6469
	Suzanne Morsfield	smorsfield@ifrs.org	+44 (0)20 7246 6442
	Koichiro Kuramochi	kkuramochi@ifrs.org	+44 (0)20 7246 6496

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 Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB *Update*.

Purpose of meeting

1. The purpose of this meeting is to provide the Board with a summary of the research work that we have undertaken since our last meeting with the Board in May 2016. This is in preparation for the December 2016 meeting when we plan to ask the Board to decide on the scope of the research project on Primary Financial Statements. Our recommendations in December about the scope of the project will be based on the evidence that we have summarised in the papers for this meeting.

Background information

2. In May 2016 the Board instructed the staff to carry out initial research on the scope of a research project on the Primary Financial Statements. You instructed us to focus our research on:
 - (a) the structure of the statement(s) of financial performance, including whether entities should be required to include defined subtotals for operating profit and the use of alternative performance measures;
 - (b) finding out whether there is any demand for changes in the statement of cash flows and the statement of financial position; and

- (c) determining the implications of digital reporting for the structure and content of the primary financial statements.
3. From June to October 2016, we undertook research and outreach activities to gather evidence about perceived problems with the presentation of the statement(s) of financial performance, the statement of cash flows and the statement of financial position¹ and to understand stakeholders' views on the areas of the primary financial statements that need improvement.
 4. We will provide an oral update on our meeting with CMAC in early November 2016 at the November Board meeting.

List of papers

5. The results of our research and outreach activities are summarised in the following papers:
 - (a) Agenda Paper 21A *Analysis of financial statements presentation*: this paper summarises the results of our analysis on presentation of the financial statements of 25 entities that report in accordance with IFRS Standards. The purpose of this analysis is to help identify problems with the structure and content of the primary financial statements.
 - (b) Agenda Paper 21B *Use of performance measures*: this paper summarises the results of our analysis of performance measures used in communications with shareholders of 25 entities that report in accordance with IFRS Standards. The purpose of this analysis is to help understand the implications of the use of non-IFRS information for the Primary Financial Statements project.
 - (c) Agenda Paper 21C *Literature review*: this paper describes some of the academic and other research relevant to the Primary Financial Statements project. The purpose of our review is to obtain evidence about existing problems and suggested solutions.

¹ The Board has not proposed to undertake research into possible changes to the statement of changes in equity as part of this project. However, the project on Financial Instruments with the Characteristics of Equity will consider possible changes to the statement of changes in equity.

- (d) Agenda Paper 21D *Result of outreach on scope of project* describes feedback received during outreach conducted to help the Board define the scope of the Primary Financial Statements project.
- (e) Agenda Paper 21E *Ten possible approaches presented during outreach* describes the possible approaches to improve the structure and content of the primary financial statements that were presented during our outreach with users of financial statements.

Potential Board questions for the December meeting

- 6. We are still developing our questions and recommendations for the December meeting. However, it is likely that we will ask you to consider questions similar to those listed in paragraphs 7–12.

Statement(s) of financial performance

- 7. Should we explore improvements to the structure of the statement(s) of financial performance? If so, should we explore:
 - (a) requiring additional subtotal(s), for example, earnings before interest and tax (EBIT), operating profit?
 - (b) removing some of the options for presentation of income and expenses in existing IFRS Standards?
 - (c) requiring separate presentation of non-recurring, unusual or infrequently occurring items?
 - (d) incorporating commonly used performance measures into IFRS Standards?
 - (e) providing additional guidance on the use of performance measures?
 - (f) better ways to communicate information about other comprehensive income?

Statement of cash flows

- 8. Should we explore improvements to the statement of cash flows? If so, should we explore:

- (a) eliminating the options currently available in IAS 7 *Statement of Cash Flows* for the classification of some cash flows (ie interest and dividend cash flows)?
- (b) more closely aligning ‘operating’ cash flow in the statement of cash flows and ‘operating’ profit in the statement(s) of financial performance?
- (c) addressing the relevance of the statement of cash flows for financial institutions?

Statement of financial position

- 9. Should we explore improvements to the statement of financial position? If so should we explore aligning the structure of the statement of financial position with the other primary financial statements?

Financial statements format

- 10. Should we explore creating templates or formats for the presentation of the primary financial statements? If so, should we consider providing formats or templates for some industries (eg for non-financial, bank, insurance or real-estate companies)?

Segment reporting

- 11. Should we explore requiring more line items in the segment reporting (ie introducing some minimum items or aligning segment reporting with a revised statement(s) of financial performance)?

Next step for the Primary Financial Statements project

- 12. Do you agree that we should issue a Discussion Paper as a next step?

Questions for Board members

Question
Do Board members need any further information to make a decision at the December 2016 meeting about the scope of the research project on Primary Financial Statements?