IASB Proposes Presentation Changes for IFRS Reporting

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The International Accounting Standards Board (IASB), which determines accounting standards for companies audited under International Financial Reporting Standards (IFRS), has proposed **new rules** that would require financial statements to include specific profit metrics, disclosure about unusual items, and disclosure about bespoke performance measures used by management and disclosed in public communications – colloquially referred to as "non-GAAP measures". The IASB non-GAAP rules would be in addition to Regulation G and other rules applicable to companies that report under IFRS and are public in the United States.

Today under IFRS there are no mandatory line-item subtotals for income statements. The proposed rules would require line-item disclosure of operating profit, profit before financing and income tax, and a figure consisting of operating profit and income and expenses from integral associates and joint ventures.

The IASB proposal would also require financial statement disclosure that identifies and explains unusual income and expenses, defined by IASB as "income and expenses with limited predictive value," meaning that "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."

In an interesting departure from U.S. generally accepted accounting principles, IASB is proposing to require companies to disclose information about non-GAAP measures in a note to their financial statements when such measures (i) are used in public communications outside financial statements; (ii) complement totals or subtotals specified by IFRS standards; and (iii) communicate to users of financial statements management's view of an aspect of the company's financial performance. Companies would have to explain why such measures provide useful information, how they are calculated, and how they relate to the most comparable profit subtotal specified by IFRS, and would also have to provide a reconciliation to the IFRS-mandated measure. This requirement would be similar to Item 10(e) of Regulation S-K, which currently governs such measures, but would be substantially less prescriptive. For example, under the IFRS standards, a company would not be prohibited from eliminating cash-settled items from liquidity measures, or face restrictions on labeling items as non-recurring. Nor would non-GAAP revenue metrics be disfavored. Once these IFRS-mandated metrics are actually included in a note in the financial statements, they would not be "non-GAAP" as defined in Regulation G and Item 10(e) of Regulation S-K, and therefore the SEC's non-GAAP rules would not apply to them.

IASB is seeking feedback until June 30, 2020, and does not expect the new rules to go into effect until 2021 at the earliest.

If you have any questions regarding the matters covered in this publication, please contact any of the lawyers listed below or your usual Davis Polk contact.

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