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28 September 2020

Dear IASB members,

Invitation to comment - Exposure Draft ED/2019/7/General Presentation and Disclosures

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the International Accounting Standards Board's (IASB or the Board) Exposure Draft General Presentation and Disclosures (the ED).

We note that the approach applied by the Board in the ED has two dimensions. Firstly, the proposals all have the common theme of standardisation, i.e., the removal of optionality under current GAAP and the introduction of requirements where current GAAP is silent. Secondly, several of the proposals aim to enforce tailored or entity-specific information, such as the disclosure of unusual items and management performance measures. We generally agree with standardisation, as it helps to improve consistency over time and comparability across entities. Similarly, we agree that entity-specific information is more useful than more generic and boilerplate-type information. However, some of the proposals in the ED involve significant judgements, and without further clarification and clear guidance, may make the objective of having greater consistency and comparability somewhat more difficult to achieve.

We observe that the proposed amendments represent a set of unrelated narrow-scope amendments. Accordingly, our comments are provided on a question-by-question basis. The proposed changes are not based on an overriding or pervasive underlying principle, thus, we have responded to each proposal on its own narrow-scope merits, considering the impact on relevant parties, primarily, the preparers and users of the financial statements.

We believe balancing the demand for Alternative Performance Measures (APMs) and the need for standardised information must be carefully considered. APMs generally serve a different purpose than IFRS financial statements. On one hand, when presenting APMs, management provides its view on the predictive value of certain performance measures. The purpose of the IFRS financial statements, on the other hand, is primarily to reflect historical performance to date and provide a basis for the user to derive its own expectations about future performance. Trying to achieve both purposes within the boundaries of the financial

statements may have unintended consequences. As such, we encourage the Board to further explore the potential impact of these proposals before deciding how to proceed.

As further explained in our more detailed responses to the questions in the appendix to this letter, we believe the proposal to require MPMs in the financial statements raises some challenging audit-related issues. We encourage the Board to carefully consider these issues, as they may reflect potential unintended consequences.

In effect, we believe the ED is a somewhat piecemeal approach to standard-setting, representing to a large extent, new narrow-scope requirements in the context of the current standards, primarily IAS 1 Presentation of Financial Statements. A set of narrow-scope amendments in the form of additional requirements, as opposed to a fundamentally new approach to presentation and disclosure, does not seem to merit replacing the current standard. In our view, the Board should carefully consider whether the proposed amendments provide a basis for issuing a new standard, as opposed to amending IAS 1.

Our detailed responses to the questions are set out in the Appendix to this letter.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 (0) 20 7951 3152.

Yours faithfully

Ernst & Young Global Limited

Appendix - Responses to specific questions

> 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?

We agree with the proposal that all entities should present in the statement or profit or loss, a subtotal of operating profit or loss. An operating profit or loss subtotal is already included by a vast majority of entities in most jurisdictions and industries. By requiring and defining such a subtotal, we believe that the alignment of practice and improved comparability over time and between entities will be achieved.

> 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?

We generally agree with the proposal 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. We believe this classification approach will facilitate greater consistency and comparability among entities over time. However, whilst we accept the Board's view that the best approach to defining operating income is to include "(…) 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", we are not convinced that the articulation of the approach provides the most effective guidance for the purpose of application in practice.

Paragraph 46 of the ED clarifies that the operating category includes income and expenses from an entity's main business activities, that is, the operating category is defined explicitly (see our response to Question 3 below). When paragraphs 48 and 51 clarify that the investing and financing categories do not include income and expenses from the main business

activities, it serves to underline this reading of paragraph 46. Paragraph 54 of the Basis for Conclusions states that "(…), operating profit or loss is defined as a default or a residual category". We agree that the operating category may be defined as the default category, but it is not a residual category. Therefore, we suggest that the wording "or a residual" is deleted in paragraph 54 of the Basis for Conclusions. Furthermore, we believe that the ED itself should acknowledge that the operating category is the default category, as it is a fundamental concept.

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?

We agree with the Board that an entity should classify, in the operating category, income and expenses from investments made in the course of its main business activities. However, we are concerned about how this is articulated in both the proposed standard and Question 3 of the ED (extracted above). That is, Question 3 refers to paragraph 48 to identify transactions that should be contained within the operating category, while the concept is already introduced in paragraph 46, which is also the one of the two presented in bold font.

We find the combination of paragraphs 46 and 48 leads to a repetitive and somewhat confusing logic. Paragraph 46 states that the operating category includes income and expenses from an entity's main business activities, but also that income and expenses from other categories such as the investing category are excluded. This may be read as clarifying that the operating category includes income and expenses generated in the entity's main business activities, regardless of their nature, in which case, paragraph 48 is redundant. Alternatively, paragraph 46 should be read to exclude income and expenses from all other categories, with paragraph 48 clawing back the income and expenses from other categories that is generated in the entity's main business activities, in which case, the introduction of paragraph 46 is redundant and potentially confusing.

Therefore, and also in line with our response to Question 2, we believe the operating category should be explicitly defined as a default category, paragraph 46 reworded to clarify that income and expenses generated in the course of an entity's main business activities are classified as operating, regardless of their nature, suggesting that they fall into one of the other categories, and paragraph 48 should be deleted.

We are also concerned about the use of the concept "main business activities". It is unclear whether main business activities are defined by size, such that only the largest business activity is captured by the concept, or if it refers to business activities that, by nature, are considered "main", although smaller in scale.

Furthermore, as the ED consistently refers to "activities" in the plural and BC64 refers to an entity having more than one main business activity, we believe that more than one business activity may be identified as main; as such, it would be helpful if the plurality of the concept was clarified.

The use of the term "ordinary" in the context of business activities is, in our view, better than "main". This is because "ordinary" is consistent with terminology already included in IFRS, such as in IFRS 15 Revenue from Contracts with Customers, and also since we believe the dimension that the Board is trying to communicate is income generated "in the ordinary course of its business activities", as opposed to "in the course of its main business activities". Alternatively, the Board may consider replacing "main business activities" with "principal revenue producing activities", as already used in IAS 7 Statement of Cash Flows when defining cash flows from operations. We note that this will include activities that are not necessarily currently revenue producing, but have the potential and/or are intended to be revenue producing.

We believe that regardless of whether one concludes on "main" or "ordinary" business activities, or "principal revenue producing activities", the term should be included in the list of defined terms in Appendix A, and additional guidance should be included to allow for its consistent application across entities. The use of illustrative examples, for instance, of how the term applies to an international conglomerate, and how it applies to a corporate entity also engaged in financing activities, would be one, potentially effective, way of providing such guidance. The additional guidance should also illustrate how to identify income and expenses that are not generated in the course of an entity's main or ordinary business activities.

An example to illustrate the importance of the boundaries of the concept of main business activities may be the so-called "strategic fair value through other comprehensive income (FVOCI) investments". These are investments qualifying for fair value measurement with changes recognised in other comprehensive income. Dividends received from such investments are to be recognised in profit or loss. Paragraph 48 does not scope out income from such investments. Thus, some entities may find, based on the nature of their practice and their reading of the concept of "main business activities", that a dividend received from strategic FVOCI investments may be classified as operating, considering the specific facts and circumstances of the entity and its management of these investments. Others may note that this outcome seems rather counterintuitive, in that the share of profit from integral and non-integral associates and joint ventures will never qualify for presentation as operating income, in spite of such investments in many cases, by their very nature, being akin to operating classification.

As we noted above, paragraph 48 of the ED requires an entity to classify in the operating category in the statement of profit or loss, income and expenses from investments "in the course of its main business categories". Paragraph B27 of the ED lists insurers among entities that invest in the course of their main business activities. Insurance entities hold significant financial investment assets to cover their insurance contract liabilities (asset portfolios tend to match the nature and duration of the underlying insurance liabilities, for example, long maturity bonds or loans may cover long duration contract liabilities such as annuities). The income and expense on these investments would be expected to fall into the operating category proposed in the ED since the investments are made in the course of the insurer's main business.

A question arises as to how to categorise the income and expenses from additional investments an insurer may hold to back the entity's equity (rather than its insurance liabilities). Are these also deemed to be investments "in the course of its main business" or is an allocation needed to report these in the investing rather than operating category? A further question arises in the case where part of these additional investment assets is held to meet minimum capital requirements set by regulators. In cases where an insurer has to hold these investments to be granted or to maintain a license to operate as an insurer, should the related income and expenses fall within the operating category?

We note that judgement is required, but we believe that it would be helpful to provide further clarity on this in a manner similar to that which is provided in paragraph 51 for financing category.

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?

We generally agree with the proposal in paragraph 51 that an entity that provides financing to customers as a main business activity, classifies in the operating category, income and

expenses from both financing activities and cash and cash equivalents, that relate to the provision of financing to customers (Option 1). However, we are concerned about the option that allows all income and expenses from financing activities and all income and expenses from cash and cash equivalents (Option 2) to be classified in the operating category. Our concern is that by choosing Option 2, an entity may end up with no financing income and expenses recognised in its statement of financial performance, which may be appropriate for a bank or another type of financial institution, but not for a non-banking entity. For example, a manufacturer that provides financing for the acquisition of its product as a main business activity, will be able to present financing activities relating to the manufacturing area in its operating category along with income and expenses from other financing activities. In our view, this presentation will not be a fair representation of the entity's business performance.

We acknowledge that there is limited incentive for companies to choose Option 2 as this will generally result in an unfavourable impact on the operating profit or loss, but there may be circumstances under which an entity choosing this option would inflate its operating profit or loss. An example would be where an entity has a material amount of cash and cash equivalents and/or operates in a negative interest rate environment.

In order to mitigate our concern, we suggest that Option 2 only be available when there is a demonstrable position that the items cannot be allocated on a reasonable basis to those items that relate to the provision of financing to customers and those items which do not. We believe that there will be very few scenarios when there is no suitable method for allocation of financing income and expenses between activities pertaining to the provision of financing to customers and other financing activities.

We also observe that the Board implicitly relies on an APM when it defines which items go into the financing category. This is because, by including income and expenses from cash and cash equivalents in the financing category, the underlying concept is a net debt measure. Since net debt is not a defined or specified measure in IFRS, we are concerned that this implicit reliance on it may have unintended consequences.

In Question 4, reference is made to "a main business activity", in contrast to Question 3, which refers to "the main business activities". Whilst the use of "a" instead of "the" appears to clarify that there can be multiple main business activities, as also suggested in our response to Question 3 above, we still believe a clarification of a) whether "main" refers to size or nature, and b) whether it may be more than one, is required.

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?

We generally agree with the proposal 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.

We do note, however, that "and" should be inserted between points (a) and (b) in paragraph 47 as the points are cumulative. As such, we believe paragraph 47 should read as below with change in bold:

> "...
> (a) income and expenses from investments, including from non-integral associates and joint ventures (see paragraphs B32–B33); **and**
> (b) incremental expenses incurred generating income and expenses from investments.
> ..."

We further suggest that the definition of incremental expenses incurred be clarified. Paragraph BC50 of the Basis for Conclusions notes that allocated expenses directly related to an investment, such as allocated "labour costs if some employees of an entity are engaged in both operating and investing activities", are not considered to be incremental. However, just as the concepts of "incremental cost of obtaining a contract" in IFRS 15 Revenue from Contracts with Customers and "unavoidable costs" in IAS 37 Provisions, Contingent Liabilities and Contingent Assets, prior to the amendments made in May 2020, have been subject to different interpretations in practice, the concept of incremental expenses in the ED may also be applied inconsistently across entities. For instance, some may argue that the directly attributable expenses represented by the labour costs in the example above are incremental expenses. This is on the basis that, if there have been no investments, then no time has been spent by the employees and no costs have been incurred on making and managing investments. Therefore, we suggest that the Board considers not only to illustrate

what is not incremental, but also to provide examples of incremental expenses incurred in generating income and expenses from investments.

On another note, we believe paragraph 47 of the ED and paragraph 50 of the Basis for Conclusions are inconsistent. That is, paragraph 47 clarifies that the objective of the investing category is to "(…) communicate information about returns from investments (…)" while paragraph 50 clarifies that the objective of 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 (…)". Return and profit refers to the same concept, and, as such, these two "objective statements" of the Board are, taken together, rather confusing. Considering how the investing category is defined, we tend to believe the objective statement in the Basis for Conclusions is the more accurate one.

Please refer to our response to Question 3, for our concerns relating to the definition of "the entity's main business activities".

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?

We generally agree with the proposal that all entities, except for some specified entities, present a profit or loss before financing and income tax subtotal in the statement of profit or loss, and the proposal as to which income and expenses an entity classifies in the financing category.

Paragraph B37 notes that although certain items are not considered to be financing activities, such as unwinding of a discount on restoration provisions, they should be presented in the financing category. We are unsure how this paragraph interacts with paragraph 51(b) for an entity that chooses this alternative (Option 2 in our response to Question 4). As we understand it, a bank, for example, that chooses to apply Option 2, would not be able to include such a financing category item in the operating category as it is not a financing activity. This outcome is counterintuitive, considering that the financing category

expenses, such as the unwinding of a discount on a provision, are more operational in nature. Furthermore, we note that Illustrative Example II-3 does not have a financing category, which suggests that all financing category items are presented in the operating category. We would suggest that further clarification on the interaction between paragraphs 51(b) and B37 is provided.

We note that paragraph 65(a)(ii) requires a separate line item in the statement of profit and loss for income and expenses from financing activities. However, as noted above, items in paragraph 49(c) are not considered to arise from financing activities. It is unclear to us if it is intended that such expenses would be distinguished within the financing category for presentation purposes.

In this section of the ED, the terms "finance to customers", "financing activities" and "financing category" are used throughout. It appears that these items are used interchangeably, although, as explained above, we believe the financing category includes items not originated from financing activities. For the sake of clarity, we believe a more consistent use of terminology will facilitate the consistent application of the proposed requirements.

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?

We do not object to the notion of distinguishing between integral associates and joint ventures and non-integral associates and joint ventures. However, as explained below, we are

not convinced that the Board has managed to define the concept sufficiently clearly, to avoid diversity in practice.

We have concerns as to how the split between integral and non-integral will be applied in practice. IFRS 12.20D notes that a significant interdependency would indicate that an associate or joint venture is integral to the main business activities and provides examples thereto. We believe that further guidance on these examples should be provided to clarify how they indicate significant interdependency between an entity and its investee. For example, it is not clear what "having integrated lines of business", "sharing a name or brand" and "difficulty replacing without significant business disruption" refer to. In our view, further guidance is required to clearly delineate which level of interdependency would be sufficient to meet the definition of an integral associate and joint venture. Also, how the concepts of significant influence and joint control, respectively, interact with the concept of interdependency may need some further clarification. That is, some take the view that an associate is never integral to the business of the investor.

For instance, some associates or joint ventures may hold assets that are being used in the operations of an entity, such as for instance mining interests. Income and expenses from such investments would not be included in the investing category, as per paragraph B33. However, at the same time, these associates and joint ventures may not be integral as per the guidance in IFRS 12.20D. In that case, a conflict arises, which may not be resolved unless one of the two requirements is allowed to take precedence. In our view, this potential conflict underlines the concerns we have shared above.

We also note that the integral concept is proposed in a way that represents a new nuance on the scale, with non-significant influence at one end and control at the other. Strong interdependency between an investor and an investee is an element to consider when determining whether the former controls the latter. So, integral investees are more dependent on the investor than significant influence or joint control alone suggests, but less dependent than control would imply. All of these concepts (significant influence, joint control, and control) require the exercise of significant judgement by management. The concept of "integral" introduces further judgement, which increases the risk of different treatment of two investees, although they are the same, or same treatment of two investees, although they are different.

We agree with the Board that including share of profit from integral investees in the operating category may have its challenges. In particular, some are concerned that considering integral investees as part of an entity's operating activities would encourage "earnings management", which is an even more pronounced concern when taking into account the judgemental assessment required to determine whether or not an investee is integral, as discussed above. Nevertheless, introducing a separate section in the income statement for a sub-group of equity-method investees appears excessive in that narrowly scoped income and expenses receive unwarranted attention. Furthermore, if share of profit from integral investees were to be included in the operating category, the concerns regarding how to distinguish between integral and non-integral would effectively be eliminated. This is because the only logical way

of distinguishing between integral and non-integral in that case would be to rely on paragraph 48 (assuming that the concept of main business activity can be clarified, as discussed before).

By classifying integral associates and joint ventures as a separate line in the operating category, the concern raised in paragraph BC82(b) of the Basis for Conclusions is effectively nullified, since the integral investee's contribution to the operating profit can readily be excluded from users' analyses of operating margins.

Paragraph B38 specifies what to include in income and expense from integral associates and joint ventures, with gains and losses on disposal being one of the items. In rare cases, the acquisition of associates and joint ventures may be done at a bargain price. In that case, we would consider such a gain to also be included in the income and expense from integral investees line. However, the current wording of the ED may suggest that it is to be dealt with as operating or investing, depending on its nature. To avoid any diversity in practice, we believe the Board should clarify the treatment of associates and joint ventures bargain purchase gains.

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?

We generally agree with the proposed description of the roles of the primary financial statements and the notes. However, we note that the guidance is conceptual in nature and, therefore, unlikely to have a significant impact on current practice.

Similarly, we agree with the proposals for principles and general requirements on the aggregation and disaggregation of information, noting that the requirements in paragraph 25 are consistent with the requirements of current IFRS. However, it is not clear to us, what purpose paragraphs 27 and 28 serve. These two paragraphs address immaterial items only. If the intention of these paragraphs is to suggest that immaterial items when aggregated are in fact material, then this point should be more clearly specified.

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?

We agree with the proposal to provide requirements and application guidance to help an entity to decide whether to present its operating expenses using the nature of expense or the function of expense methods of analysis. Further, we agree that prohibiting the use of mixed analyses will allow for greater consistency and comparability.

We also agree that an entity that provides an analysis of its operating expenses by function in the statement of profit or loss should provide an analysis using the nature of expense method in the notes. Requiring the analysis to be located a single note may enhance the usefulness of the financial statements, as the information will be easier to access and the navigation within the financial statements will be improved.

However, we are concerned that the requirements of paragraph 68 may be difficult to apply in practice, in that determining what is the 'most useful information to users' requires considerable research and, in the end, becomes very subjective. Furthermore, it may be that a mixed approach actually provides the most useful information to users, but since this option is not available, it may not be possible to apply the approach that provides the most useful information. We believe that the current requirement that states 'whichever provides information that is reliable and more relevant' may be a more appropriate benchmark. This threshold would require a less onerous assessment and would require an entity to only compare the two alternatives, not ruling out that another approach (mixed) may be better.

We note that the concept of functions is not defined, and there is little guidance as to how to apply it in practice. Paragraph 70 refers to a function as an "activity", but the latter is not further explored. For instance, actions related to mergers and acquisitions and restructurings are often referred to as "activities", although these are different from activities that traditionally are considered functions, such as sales, R&D, administration, etc. In particular, for entities in which such activities are recurring and may even be housed in a separate department, the question arises whether such activities are separate functions. Paragraph B15 seems to allow for costs of restructurings being presented separately in the statement of financial performance by referring "to separate presentation in the statement of

financial performance or disclosure in the notes" (emphasis added). Since such a line item will include costs of different nature, it is unclear whether the Board implied restructuring activities to be a separate function or whether this would be an exception to the general prohibition to mix presentation of expenses by nature and by function. We acknowledge that B15 to a large extent is a reproduction of paragraph 98 of IAS 1. However, in the ED, the text deviates from paragraph 98 of IAS 1 by referring to 'presentation or disclosure' rather than just 'disclosure'. In addition, IAS 1 did not prohibit a mixed presentation. Furthermore, the heading above B15 suggests this is about disaggregation, but a restructuring line item will typically include a number of costs and, as such, B15 seems rather to be a requirement to aggregate different costs.

Please also consider the related comment in our response to Question 10 about the apparent possibility to present unusual items in the statement of performance if a functional analysis is applied. In that case, the function would be a grouping of items that do not fit within any of the other functions presented, which may or may not be aligned with the Board's intention.

Furthermore, paragraph 65(a)(viii) clarifies that cost of sales is one of the minimum line requirements on the face of the statement of profit or loss. We interpret the cross-reference to paragraph 71 to clarify that the minimum line requirement is only applicable in case of expenses being analysed by function. However, paragraph B47 states that the line items required by paragraph 65 shall be presented regardless of the method of analysis of expenses used. We find that there is a conflict between these requirements, and we also believe paragraph B47 is inconsistent in that cost of sales is only a relevant item when a by function analysis is used.

Also, paragraph 65 includes other by nature lines that clearly conflict with a clean by function analysis, for instance, impairment losses determined under IFRS 9 ((b)(ii)). As such, the prohibition against a mixed analysis conflicts with specific requirements of the proposal. The Board, therefore, needs to reconsider either the rejection of a mixed analysis or the requirements of paragraphs 65 and B47.

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?

We agree with the proposal to define unusual income and expenses. We believe it will result in entities to a greater extent disclosing both unusual income and expenses, and not only unusual expenses, which tends to happen in current practice. An alternative would be to prohibit the presentation and disclosure of unusual items, and to leave presentation and disclosure of such an APM for management reporting elsewhere than the financial statements. On balance, however, we support the Board's proposal as users often find information about non-recurring items helpful in their efforts to predict future performance, which is aligned with the objective of financial reporting.

However, we have reservations about the proposal to require disclosure of unusual items. In our view, entities should be allowed not to disclose unusual items if they so choose. But if an entity did choose to, they do so, the proposed disclosure requirements would apply.

Furthermore, we encourage the Board to consider embedding the guidance on unusual items in the Management Performance Measures (MPM) Guidance. In that case, operating profit before unusual items would represent the relevant subtotal. This will also avoid the potential concerns regarding "adjusted unusual items", as explained below.

It is not clear to us whether entities will be allowed to disclose adjusted unusual items, i.e., an entity-defined version of unusual items, on a voluntary basis, as an APM, within the financial statements. Please refer to our discussion around voluntary disclosure of APMs in our response to Question 11. Alternatively, a subtotal will be arrived at by subtracting an adjusted unusual item, in which case, that subtotal will represent an MPM, if also used in communication elsewhere than the financial statements. In the latter case, we believe the

adjusted unusual items measure will be allowed under the proposal. If not, the Board should clarify that.

We believe that more examples of transactions or events that would be considered to be unusual income and expenses should be provided to increase consistency in application of the concept. For instance, illustrating the concept in reference to discontinued operations, or gains or losses on assets held for sale or disposal, under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, or for impairments under IAS 36 Impairment of Assets in a situation in which an entity has recognised impairments the last three periods, but does not expect impairments over the course of the next three to four years, would be helpful.

Furthermore, it is unclear to us how to interpret the term "several future annual reporting periods" in paragraph 100, despite the Board's discussion of this in paragraph BC132. Does this refer to two or more periods or is it rather about more than three periods. We note that paragraph 102 implicitly suggests that one period may be "several" in this context. Without additional guidance, we would expect to see significant diversity in practice – "unusual" meaning one thing to one entity, and something else to another entity.

Paragraph 100 defines "unusual" in reference to predictive value, which is one of the elements of relevance, according to the Conceptual Framework. The other element is confirmatory value; it is unclear to us why the Board solely refers to the former in the context of unusual items. For instance, an impairment may be unusual in a confirmatory context if there have not been any impairments for a number of previous consecutive annual periods, while under the proposed definition, such an impairment would not be unusual if future impairments are considered likely. The trend in the entity's operating profit before unusual items, including the impairment charged, would in this case, be relevant if evaluating the performance of the current period. However, in this scenario, the impairment would not be unusual if the definition in the ED is used.

We generally agree with the proposal as to what information should be disclosed relating to unusual income and expenses. However, we are concerned that the wording in paragraph 101 in effect represents an onerous requirement. Identification of all unusual income and expenses will require preparers to assess each and every item to determine if they are unusual, as per the definition. Furthermore, providing assurance on such a judgement will represent a challenge, not only with respect to the pervasiveness of the requirement, but also because of the judgemental nature of the concept. We believe it would be more appropriate to require that only significant unusual income and expenses be separately disclosed. Therefore, we suggest that paragraph 101 is revised from "(…) includes all unusual income and expenses (…)" to "(…) includes all significant unusual income and expenses (…)".

Similar to our view on the analysis of operating expenses in Question 9, we agree that requiring the disclosure of unusual items to be located a single note may represent an enhancement of the usefulness of the financial statements, as the information will be easier to access and the navigation within the financial statements may be improved.

We note that the proposal does seem to not preclude unusual income and expenses from being presented in the primary financial statements (paragraph BC126). However, in our interpretation of the prohibition of a mixed analysis of operating expenses, the proposal may preclude presentation in the primary financial statements if the by nature analysis is used. This is because combining part of a by nature item with parts of other by nature items in effect would represent a mixed presentation. However, splitting a by nature line item into two with one of them being termed unusual, is not likely to be in conflict with the proposal. The Board should consider providing additional guidance on exactly when presentation of unusual items in the primary financial statements may be appropriate.

Further, it is noted in paragraph 110 that columns should not be used to present MPMs in the statement of financial performance. The proposal does not explicitly preclude a column approach for unusual income and expenses. Therefore, we interpret the proposal to allow for a column format for unusual items; that is, an entity may present a by nature analysis including the unusual by nature items on the same line as the equivalent "ordinary" by nature items, but in a separate column. Nevertheless, we are not convinced such an approach would be aligned with the intentions of the Board. Therefore, it would be helpful, in our view, if the Board clarified whether a column format might be appropriate for presenting unusual items, although not for MPMs.

Similarly, we encourage the Board to clarify whether presenting unusual items in the statement of financial performance would conflict with the requirement to include unusual items disclosures in one single note. We do not think so, but we acknowledge that some read the requirement in paragraph 101 to rule out presentation of unusual items at the face of the income statement.

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?

An alternative to defining and requiring the disclosure of MPMs would be to prohibit the presentation and disclosure of MPMs, and to leave presentation and disclosure of such an APM for management reporting elsewhere than the financial statements. On balance, however, considering that we agree that users often find information about MPMs helpful in their efforts to predict future performance, which is aligned with the objective of financial reporting; as such, we support the proposal of the Board.

However, an alternative, that might be worth considering further, is to require disclosures as proposed only if an entity chooses to include MPMs in the financial statements. In this case, an entity only using MPMs outside the financial statements would not be forced to include those MPMs in the financial statements. That is, it would be appropriate to distinguish between IFRS and MPMs, but if an entity decides to mix the two, then the proposed disclosure requirements apply. If an entity chooses not to include MPMs in the financial statements, then the appropriate disclosures would be governed by local regulatory requirements (which, in many of the major capital markets, are similar to those proposed by the IASB in the ED).

We agree that the scope of the definition of MPMs are those which are used in public communications outside the financial statements as it would be rare for an entity to disclose APMs in their financial statements that are not communicated to the market in other reports or releases. However, we acknowledge that entities that rely solely on the financial statements for communication of financial information with the market will be prevented from using measures other than the IFRS measures to communicate performance. From the outset, we find this consequence unreasonable, but given that as mentioned above, we believe these circumstances will be rare, we would not object to the proposal, apart from

some concerns that arise when considering the implications from an audit perspective (see below).

Similar to our views on the analysis of operating expenses in Question 9 and the disclosure of unusual items in Question 10, we agree that requiring the disclosure of MPMs to be located in a single note represents an enhancement of the usefulness of the financial statements, as the information will be easier to access and the navigation within the financial statements is likely to be improved.

We have a concern about the restriction of MPMs to 'subtotals of income and expenses'. For example, paragraph BC 154 notes that "(…) other financial measures (such as currency adjusted revenue (…)" are not MPMs. It is not clear, in our view, why an adjusted revenue measure does not meet the definition of an MPM as revenue clearly is a key element of most entities' performance. Thus, the Board should reconsider whether defining MPMs as "subtotals" is appropriate. It is not clear to us why other common APMs, such as net debt measures, for instance, may not be considered an MPM, and thus be subject to the same disclosure requirements as subtotals of income and expenses.

The Board proposes to define and require disclosure of unusual items (Question 10) and MPMs. It is unclear to us whether that implies that presentation and disclosure of other versions of unusual items and/or APMs other than MPMs in the financial statements would be appropriate. On one hand, it would appear appropriate considering that current practice allows for/requires disclosure of other information than specifically required information, if relevant to an understanding of the financial statements (IAS 1.112), which is a proposed requirement of the ED as well (paragraph 96(c)). On the other hand, it may be argued APMs are not relevant to understanding the primary financial statements, but rather they are relevant to understanding other financial aspects not conveyed in the financial statements. We believe the latter reading is the one intended by the Board. In particular, since the Board clarifies, in the context of adjusted earnings per share (EPS), that restricting the numerator to certain subtotals avoids allowing for an APM accompanied by fewer disclosures than required for MPMs (BC215). Furthermore, it is clarified that if a local regulatory requirement conflicts with the defined numerators and denominators, and the entity does not introduce the locally required EPS measure as an MPM, then it cannot be disclosed in the financial statements (BC217). Since a key question is whether entities will be allowed to include APMs and other voluntarily disclosures in the financial statements, we believe the Board should address it explicitly.

If APMs cannot be disclosed in the financial statements, we understand that there will be one exception to this prohibition. Segment measures of profit or loss are not defined or specified by IFRS, and, as such, they will qualify as APMs. However, in many cases, these measures will also be communicated by the entity outside the financial statements and, thus, will be considered MPMs, if they are subtotals. However, any other measures reported under IFRS 8 Operating Segments will be APMs that are required to be included in the financial statements.

As such, there will be three categories of APMs: 1) MPMs, 2) APMs that cannot be disclosed in the financial statements; and 3) APMs that must be disclosed in the financial statements (as per IFRS 8 Operating Segments). Although we acknowledge the interactions between the different types of APMs, we are not entirely sure if our understanding is in line with the Board's intention. Moreover, we believe the Board should do more to clarify the interaction between the different types of APMs and segment reporting.

If APMs may be disclosed, there will be no specific requirements applicable to them. Paragraph 11(a) in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors suggests that the same disclosures as for MPMs would apply, in which case, the whole purpose of identifying and defining certain APMs, the MPMs, seems unjustified.

We also note that the term "subtotal" is somewhat confusing in the context. Generally, we interpret the ED to define a subtotal as a net amount included in the primary financial statements, while an MPM would generally not be displayed in the primary financial statements, and, as such, the subtotal will only be supplementary information. We encourage the Board to consider other terminology to reflect the same in order to avoid unnecessary confusion.

We also believe there are valid audit concerns to consider before deciding to bring MPMs into the financial statements. Generally, APMs outside the financial statements are governed by local regulatory requirements. When MPMs are defined in reference to being published outside financial statements, the auditor will have to search through all other communication issued by the entity in order to conclude on the completeness of the required disclosures in the financial statements. This may be an onerous requirement, potentially having consequences for the scope of the audit. Therefore, if the Board decides to move ahead with the proposal, we encourage the Board to consider restricting the scope of "outside financial statements" in paragraph 103(a). Furthermore, a requirement to identify all MPMs by searching all communication of the entity may have other audit-related consequences.

Lastly, we believe the proposed requirement in paragraph 106 to "(...) include a statement that the management performance measures provide management's view of an aspect of the entity's financial performance and not necessarily comparable (...)" with other measures is redundant. This requirement encourages boilerplate information and adds no value beyond the general IFRS compliance statement required by IAS 8.6B in the ED (IAS 1.16 in the current version of IAS 1).

As we noted in our response to Question 10, paragraph 110 states that "an entity shall not use columns to present management performance measures in the statement(s) of financial performance". It is our understanding that the presentation of MPMs on the face of the statement of financial performance is acceptable, as long as it does not conflict with the prohibition of a mixed analysis of expenses. However, since the column approach is explicitly not allowed, it is unclear to us whether other formats, such as the 'box format' sometimes used by UK entities, are acceptable. If the intention of the Board is to prevent all alternative formats, we believe that it should be explicitly stated.

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?

We appreciate the reasons in the Basis for Conclusions which explain why the Board has not proposed requirements relating to EBITDA. However, we agree that the Board should take care in responding to the concerns and feedback from the users of the financial statements. If there are valid reasons for reconsidering the tentative conclusion of the Board, we would not object. Some may consider the Board's proposal a lost opportunity, in that EBITDA is one of the most commonly used APMs in practice, and also one that gives rise to the greatest number of inconsistencies across entities. Therefore, an alternative approach that may be worth considering is the use of operating profit or loss before depreciation and amortisation, as defined in paragraph 104(c), as the only appropriate EBITDA measure to include in the financial statements.

We also note that the fact that EBITDA is not defined or specified in the ED, other than the EBITDA represented by the measure specified in paragraph 104(c), means that it is an APM, which may also be an MPM if it meets the definition in paragraph 103. In the former case, the concerns and questions we raised in our response to Question 11 on APMs apply equally to EBITDA.

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?

We agree with the proposal that requires operating profit or loss to be the starting point for the indirect method of reporting cash flows from operating activities, as this will improve comparability between entities and it seems reasonable to derive operating cash flows from an operating profit measure.

We generally agree with the proposal to specify the classification of interest and dividend cash flows. However, we have concerns regarding the current proposal as it appears that it will result in differences between the operating category in the statement of financial performance and cash flows from operating activities in the statement of cash flows, which is counterintuitive. We recognise that cohesiveness was the key proposal in the October 2008 Discussion Paper Preliminary Views on Financial Statement Presentation, and that its achievement in practice proved challenging. However, many of the inconsistencies introduced by the ED are not as a result of conceptual or logical conflicts. For instance, the Board decided not to align the classification of dividends received and interest paid and received with the classification of the related income and expenses in the income statement for entities with financing or investing as a main business activity (BC199). The justification was that it could be too costly for entities to split them between different categories. However, entities are, for the same reason, allowed a policy choice with respect to the income statement categorisation, as per paragraph 51. Aligning the two classifications would be reasonable and would improve consistency between the income and cash flow statements. Similarly, we are not convinced that the inconsistency arising with respect to integral associates and joint ventures cannot be avoided, with the effect of also removing some the challenges embedded into the proposal discussed in Question 7. One alternative is to include income and cash flows from integral associates and joint ventures in the operating category of the income statement and the cash flow statement, respectively. We also recommend the Board to revisit some of the other inconsistencies, such as the one mentioned above on dividend and interest, and to consider whether alignment across statements should be given higher priority than in the ED. And if not, we would suggest the Board reconsiders the title used for the operating category in the income statement and, instead, to use a title that discourages the expectation that there is alignment between the operating categories in the two statements.

Furthermore, we believe that the ED should clarify how to treat situations where negative interest exists. In situations where an entity receives interest on a financing arrangement, should this interest be presented in the cash flows from financing activities or should it be presented in the cash flows from investing activities? We believe that interest arising from a financing arrangement represents a financing activity regardless of the market conditions determining the interest rate, but we would not rule out that practice may be mixed unless clarified.

We believe this project represents an opportunity for the Board to consider introducing certain disclosure requirements for cash flows. For instance, disclosure of unusual cash flows will, in our view, be just as useful as the disclosures proposed for the purpose of unusual income and expenses.

One other concern we have regards paragraph 34D of IAS 7 Statement of Cash Flows, which clarifies that the application of paragraph 34C may lead to all interest cash flows in financing activities, if interest expenses are presented in the financing category in income statement. However, paragraph 34C applies only to those entities that have financing and investing as

their main business activities, and for them, interest expense may never be all in the financing category, as per paragraph 51 in the ED.

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?

Gains or losses on derivatives

We note that paragraph 57 of the ED requires that gains and losses designated as hedging instruments, provides guidance on the treatment of such items and broadly notes that the gain or loss is recognised in the same category in the statement of financial performance as the risk being managed. Additionally, paragraph 58 of the ED states that the guidance in paragraph 57 should be applied to derivatives used to manage risks if those derivatives are not designated as hedging instruments.

Paragraph 59 of the ED states that:

> "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."

This provides for alternative outcomes for derivatives depending on whether paragraph 58 or paragraph 59 of the ED is applicable. We are concerned that this will introduce another layer of judgement that, potentially, will increase diversity in practice, in that not only will an entity have to determine whether the criteria for applying hedge accounting are fulfilled, but also to judge, in cases were the criteria are not met, whether an economic hedge relationship is established. If concluding on this judgemental split for the purpose of income statement presentation, we recommend the Board to add guidance on how to address situations in which the derivative is entered into partly for risk management purposes, and also how to treat any hedge ineffectiveness in cases where hedge accounting applies.

Furthermore, we are concerned that keeping hindsight out of a judgement as to the purpose of the derivative throughout a reporting period may be difficult to achieve in practice. In turn, this could provide room for designing an accounting outcome that is not a fair representation of the actual fact pattern and circumstances.

Earnings per share

We agree with the discipline introduced by the proposal in paragraph 73B in IAS 33 Earnings per Share, which restricts the numerator to be applied in an "adjusted" EPS measure. However, the concerns raised in our response to Question 11 above regarding the interaction between APMs and MPMs apply equally in this case.

APMs required by local regulators

We are concerned that local regulator(s) may require an APM other than a subtotal, for instance, a ratio to be disclosed in the financial statements. In these circumstances, a conflict arises in that an entity will not be able to comply with both local regulatory requirements and IFRS. This impact of the proposal is something we do not support. We encourage the Board to resolve this issue by providing an exception for cases where there is such a local regulatory requirement.

"Real-life" application

We believe it will be useful for the Board to apply the proposals in the ED to a set of real-life financial statements to see if the proposals are feasible in practice and enhance users' needs as expected. Given the number and magnitude of the changes proposed, test-running the proposals on actual financial statements will provide valuable feedback to the Board.

Illustrative examples

We believe illustrative examples are useful in demonstrating the application of requirements. However, the examples reflecting the more complex and common fact patterns are more effective than the simplified ones, in our experience. For instance, Example II-1 – Statement of financial performance for an entity investing in the course of its main business activity (a property investment entity) would provide additional helpful guidance if the fictious property investment entity also were engaged in property trading and property development activities. In that case, the example would also illustrate how revenue streams across different activities may be presented, as well as how to align more complex fact patterns with the prohibition against mixed analyses of operating expenses, as discussed in Question 9 above.