AASB
Auditing and Assurance Standards Board

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IFRS Foundation
Columbus Building
7 Westferry Circus, Canary Wharf
London E14 4Hd
United Kingdom

Dear Board Members and Staff of the IASB:

Re: IASB Exposure Draft, General Presentation and Disclosures

The Canadian Auditing and Assurance Standards Board (AASB) is pleased to provide comments on the International Accounting Standards Board (IASB) Exposure Draft (ED), *General Presentation and Disclosures*.

In developing our response, we considered comments provided by external stakeholders who we consulted with, in combination with the Canadian Accounting Standards Board (AcSB). We had regular conversations with the Chair and staff of the AcSB and took the results of these discussions into account in developing this letter. Our response letter is focused on the audit implications of the ED.

Management Performance Measures (Question 11)

The AASB heard from users of financial statements that they rely on information outside the financial statements, including non-GAAP financial measures or other key performance indicators, in their decision-making process. This information is typically included in press releases, earnings announcements, and other material such as management commentary. Users have told us that such information often lacks transparency in how it is calculated, how it reconciles with items in the financial statements, and how such information may have changed between periods.

We commend the IASB in working to address these concerns by proposing to require disclosure of certain information, defined as management performance measures (MPMs), in the financial statements. However, stakeholders have raised concerns, including the assurance implications of including MPMs in the financial statements.

Definition of an MPM – Scope of Public Communications

One of the components of the definition of an MPM in paragraph 103 of the ED is that it is "used in public communications outside financial statements." The ED application material provides examples of public communications, including management commentary, press releases and investor presentations. The AASB notes that public communications for many stakeholders includes informal communications such as social media posts, and oral communications, including investor calls and podcasts. Further, the ED is silent on the time period for which public communications need to be considered for disclosure of MPMs in the financial statements. As such, it will be difficult for auditors to determine the completeness of the disclosure of MPMs and evaluate their consistency between periods.

We recommend the IASB clarify the scope of public communications and consider excluding oral and informal communications.

Basis for the Preparation and Presentation of MPMs in the Financial Statements

The ED requires that an MPM communicate "management's view of an aspect of an entity's performance." Further, the ED does not specify or require the entity to use a framework to assist in calculating and disclosing an MPM in the financial statements, including the nature and extent of adjustments from totals or subtotals specified by IFRS standards. We are concerned this will result in significant variability in the type, calculation, and disclosure of MPMs across entities in the same or similar industry and between periods, decreasing the comparability and potential usefulness of MPMs. If an entity discloses an MPM that is calculated with adjustments for which there are no clear IFRS requirements, the auditor will not have a basis for determining whether the MPM is complete, accurate and faithfully represents aspects of the financial performance of the entity.

In addition, an auditor's report for financial statements that include disclosure of MPMs that are not specified by IFRS or calculated in accordance with another framework may need to be revised to clarify the opinion and auditor's responsibilities relating to the MPM note disclosure . This may be confusing to users and readers of the auditor's report as they may not understand the inherent limitations of the auditor's work related to the MPMs.

To strengthen the quality of MPM disclosures and enhance their auditability, we recommend the IASB consider including the following requirements in the proposed standard:

- disclosure of the factors used in determining the entity's MPMs;
- disclosure of the nature and extent of adjustments that are required in the reconciliation between the MPM and the most directly comparable subtotal or total;
- where an entity has calculated an MPM in accordance with a framework that is commonly used by other entities operating in the same industry or sector disclose:
    - the framework; and

    - whether and how the entity's MPMs may differ from that framework; and
- disclosure when no framework has been used to calculate the MPM.

In developing such requirements, we also suggest that the IASB refer to paragraphs A45-A50 dealing with suitable criteria in International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. These paragraphs contain well-established concepts in determining whether criteria to be applied in the preparation of information are suitable in circumstances when management is determining the information that is being assured. Incorporating such concepts into the proposed standard may improve the quality of MPMs and the ability to provide assurance over them.

Faithful Representation

Paragraph 105 of the ED requires that an MPM "faithfully represent" aspects of the financial performance of the entity. As faithful representation is a fundamental qualitative characteristic of financial information, it is unclear what the IASB intends by making a specific reference to faithful representation in paragraph 105, and no other qualitative characteristics of useful information contained in the conceptual framework for financial reporting. Stakeholders may conclude that expectations with respect to the faithful representation of MPMs are different from those applicable to the financial statements. We recommend the IASB remove reference to faithful representation from paragraph 105.

Unusual Income and Expenses (Question 10)

Definition of Unusual Income and Expenses

Paragraph 100 of the ED defines unusual income and expenses as income and expenses with limited predictive value and states that limited predictive value is when 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.

We think the proposed definition of unusual income and expenses will lead to inconsistent identification of unusual items because the term "several" is vague, may be broadly interpreted and may result in the disclosure of a large number of unusual items. Further, predicting the occurrence of income and expenses in future annual reporting periods will be challenging as it requires a significant amount of judgment that may result in inconsistent determinations of unusual items. We are concerned that such determinations will also be difficult to audit.

We recommend the IASB include application material that provides considerations to help preparers assess the predictive value of an income or expense. Incorporating such considerations in the standard may improve the consistency of identification of unusual income and expenses and enhance the auditability of such items.

We hope these comments will be useful to the IASB in determining the next steps related to this project. If you have any questions or require additional information, please contact me at kcharbonneau@aasbcanada.ca or Eric Turner, Director, AASB at eturner@aasbcanada.ca

Yours very truly,

Ken Charbonneau, FCPA, FCA, ICD.D
Chair, Auditing and Assurance Standards Board (Canada)

c.c. Canadian Auditing and Assurance Standards Board Members