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International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Sirs:

Re: General Presentation and Disclosures (ED/2019/7)

This letter is the response of the Canadian Accounting Standards Board (AcSB) to the International Accounting Standards Board's (IASB) Exposure Draft, "General Presentation and Disclosures" issued in December 2019.

Our process

As part of our due process for this Exposure Draft, we consulted with almost 200 stakeholders across Canada, including broad groups of users, preparers and auditors across a variety of industries as well as with the Canadian Securities Administrators and Office of the Superintendent of Financial Institutions. We were pleased to have IASB members join several of our outreach events, which also included discussions with our User Advisory Committee, IFRS® Discussion Group and Academic Advisory Committee. In addition, we had regular conversations with the Chair and staff of the Canadian Auditing and Assurance Standards Board. We took the results of these discussions into account when developing this letter. Our response also reflects our learnings about the characteristics of useful information about financial performance, obtained during recent work on our Framework for Reporting Performance Measures.

Our views

We commend the IASB for its work on *Better Communication in Financial Reporting* to enhance the relevance of information included in the financial statements. We think that this Exposure Draft is responsive to strong demand from users for improved information about financial performance that we heard when developing our Framework for Reporting Performance Measures. Accordingly, we think that the IASB's proposals take significant and important steps toward enhancing the usefulness, comparability and consistency of the financial statements for investors and other users.

While we are supportive of the IASB's objectives in developing the Exposure Draft, we encourage the IASB to consider areas where we have recommended clarifications, more robust requirements or additional guidance. Our suggestions are made in order to strike an appropriate balance between users' needs for better information about financial performance, and the effort and level of professional judgment required of preparers to generate that information.

In Canada, we remain conscious of the overall reporting burden on preparers and work closely with preparers, auditors and regulators to ensure reduced repetition and duplication of work effort. We encourage the IASB to work with regulators globally in its work on *Better Communication in Financial Reporting*.

Management performance measures

In 2018, we developed our Framework for Reporting Performance Measures because we observed that users increasingly rely on management-defined performance measures to understand and compare entities' financial performance. Accordingly, we strongly agree that including such measures in the notes to the financial statements will increase the relevance of financial statements and improve transparency and discipline around the reporting of financial performance. However, as discussed below, we think that clarifications and additional guidance are required to ensure that management-defined performance measures included in the financial statements provide supplementary, relevant information to users. Furthermore, these measures need to be sufficiently distinct from other, similar performance measures disclosed outside the financial statements.

We observe that the use of management-defined performance measures is becoming increasingly common and that the scope of these performance measures disclosed by management outside the financial statements is very broad. Securities administrators in some jurisdictions, including our own, regulate management's use of such measures in public communications outside the financial statements. We note that a significant number of the management-defined performance measures that users rely on will not meet the proposed definition of a management performance measure. To ensure that useful information about financial performance is captured within the financial statements, we recommend that the IASB consider expanding the scope of its proposals to include additional measures, such as financial ratios and measures that complement totals and subtotals in the other primary financial statements.

We are concerned that, as a result of the proposed narrow scope, the label of 'management performance measures' will be misleading to users and other stakeholders who rely on measures other than subtotals of profit and loss to assess performance. If the scope of these proposals is limited to subtotals of income and expenses, we recommend the use of a more descriptive name or label than Management Performance Measures, to clearly distinguish management-defined performance measures that are in the financial statements and subject to audit from other performance measures that are not. Overall, we are concerned that the understandability and usefulness of management performance measures will be diminished if it is not clear that they are distinct from similar performance measures outside the financial statements. We think that a label like 'management-specified subtotals' would be clearer because 'subtotals' is a universally understood term that is a distinct subset of 'measures' and because this clarifies that these measures provide additional information about IFRS-specified subtotals.

We note that one of the fundamental characteristics of useful financial information is relevance, which is not specifically addressed in the proposed definition of, or guidance for, management performance measures. While we agree with the IASB's view that useful management performance measures should faithfully represent what they purport to represent, they must also be relevant. We encourage the IASB to include additional guidance that requires entities to consider relevance as well as the enhancing characteristics of useful financial information, such as comparability and consistency, in identifying and disclosing relevant management performance measures. In our Framework for Reporting Performance Measures, we discuss in detail the factors that we think entities should consider in selecting and disclosing relevant performance measures.

Structure of the statement of profit or loss

We welcome the IASB's efforts to improve the structure and content of information presented in the primary financial statements, and its focus on providing better information about financial performance in the statement of profit or loss. Overall, we think the proposals will enhance the usefulness of the statement of profit or loss and strike an appropriate balance between addressing the information needs of users while allowing sufficient flexibility for entities to report their performance without undue cost or reporting burden. However, as discussed below, we are concerned that certain elements of these proposals are inconsistent or will not result in information that is useful to financial statement users.

We are supportive of the IASB's efforts to define an operating category because we think that an operating profit or loss subtotal will provide a common foundation for preparers and users to assess an entity's financial performance. Based on our outreach, we acknowledge that arriving at a positive, explicit definition for the operating category that would be broadly accepted across all industries is not achievable given the diverse operating activities of entities across different industries. Accordingly, we agree with the IASB's proposal requiring an entity to classify income and expenses in the operating category to the extent that they are not classified in the investing and financing categories, using a residual approach. However, we think that layering on the notion that the operating category includes income and expenses from an entity's main business activities competes with the residual approach, and that this may result in inconsistent application of principles. Therefore, we encourage the IASB to remove the notion of main business activities from paragraph 46 of the Exposure Draft. Furthermore, we recommend that the IASB provide additional guidance to assist entities in determining whether income and expenses related to investments and financing are generated in the course of main business activities. For example, the IASB could clarify when a business activity is considered 'main' by leveraging concepts in IFRS 8 *Operating Segments*. We think that if the chief operating decision maker evaluates the operating results of a business activity as part of the entity's core operating activities, rather than separately, this provides a strong indication that the income and expenses arising from such activities belong in the operating category and therefore should be excluded from the financing or investing categories.

We agree that income and expenses from equity-accounted investments should be presented separately from operating income because these amounts reflect a net return in these investments. However, we think that it is unnecessary to classify income and expenses from these investments as integral or non-integral because the users we consulted indicated that this classification will not provide more useful information. Instead, these users expressed the preference for income and expenses related to equity-accounted investments be presented in a single line item below operating profit. Additionally, the users we consulted said that better disclosure in the notes to the financial statements, about each investment's nature and relationship with the entity, would provide them with the relevant information that they need to evaluate the effect on financial performance. Finally, we think that the guidance proposed to assist preparers in assessing whether an entity's investment is integral or non-integral is complex and will require significant professional judgment to apply, which may result in less consistency and comparability and further reduce the usefulness of these classifications.

Disaggregation of unusual income and expenses

We agree that users require better information about income and expenses that are not expected to recur or persist because this information has predictive value in forecasting future earnings and cash flows. However, we are concerned that the IASB's proposed guidance is not sufficiently robust and might result in the disclosure of a large number of unusual items, particularly expenses, which would obscure relevant information about the persistence of earnings and reduce the benefit of the information to users. Accordingly, we disagree with the IASB's proposals to require disclosure of unusual income and expenses unless the proposed guidance is strengthened with a view to improving users' ability to understand, compare and forecast entities' underlying, or persistent, financial performance.

We think that the proposed definition of unusual income and expenses is problematic because it is forward-looking, relies solely on management's predictions about the future and specifically states that entities do not consider past occurrences of items of similar type and amount in determining whether an income or expense is unusual. We are concerned that the proposals may not address users' concerns that entities are often not neutral in their approach to providing information about unusual items because they disclose more unusual expenses than unusual income. As well, often these unusual expenses are similar in type and amount every period with insufficient explanation as to why that expense is unusual. If entities are only required to consider management's own expectations of the future and not past occurrences, we think that this will result in less useful information about financial performance.

Analysis of operating expenses

We are of the view that the IASB's proposals to require disaggregation of operating expenses either by nature or by function and to prohibit a mixed approach will not result in additional relevant information for users. During our consultations with users, they shared that a mixed basis of presentation is useful because it combines the most useful aspects of disaggregation by function and by nature of operating expenses. For example, disaggregation by nature is useful in predicting future cashflows and disaggregation by function is useful in assessing performance. Accordingly, we think that an entity should be permitted to present their operating expenses using whatever format provides the most useful and relevant information. Furthermore, we are concerned that restricting potential presentation options will reduce comparability among North America companies in which a mixed basis of presenting operating expenses is very common.

Our responses to your questions

The Appendix to this letter responds to the questions posed in the Exposure Draft and expands on the points raised above.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Kelly Khalilieh, Director, Accounting Standards (+1 416 204-3453 or email kkhalilieh@acsbcanada.ca) or Andrew White, Senior Principal, Accounting Standards (+1 416 204-3487 or email awhite@acsbcanada.ca).

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About the Canadian Accounting Standards Board

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

Our standards

We have adopted IFRS® Standards as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS Standards as applied by publicly accountable enterprises.

Our role vis-à-vis IFRS

Our responsibility to establish Canadian GAAP necessitates an endorsement process for IFRS Standards. We evaluate and rely on the integrity of the IASB's due process as a whole, and monitor its application in practice. In addition, we perform our own due process activities for each new or amended IFRS Standard to ensure that the standard is appropriate for application in Canada. We reach out to Canadians on the IASB's proposals to understand and consider their views before deciding whether to endorse a final IFRS Standard. A final standard is available for use in Canada only after we have endorsed it as Canadian GAAP.

Appendix

Section 1 – Structure of the statement of profit or loss

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?

1. We are supportive of the IASB's proposal to require all entities to present a subtotal for operating profit or loss in the statement of profit or loss because we think that it will provide a consistent measure of operating performance between companies. We also think that making operating profit or loss a required subtotal will enhance the consistency of its use, labelling and calculation.
2. Based on our outreach with financials statement users and academics, we understand that the set of expenses that are presented as operating expenses and the presentation of finance income and expenses varies between companies and industries. We also heard that results from associates and joint ventures are sometimes included in the calculation of operating profit or loss and other times excluded from the calculation. As a result, we think that having a common and consistently calculated measure of an entity's performance is a positive step forward in responding to the concerns expressed by users that the structure and content of the statement of financial performance varies greatly among companies.
3. We also support the flexibility to permit entities to report other subtotals to the extent they are clear, understandable, and consistently presented, and are not displayed with more prominence than the subtotals and totals required by IFRS Standards. We think that permitting, but not requiring, the presentation of additional subtotals allows entities across industries the flexibility to present their performance to users in a meaningful way.

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?

Simplify the definition of the operating category

4. Overall, we are supportive of the IASB's efforts to define an operating category because we think that an operating profit or loss subtotal will provide a common foundation for preparers and users to assess an entity's financial performance. We think that this is a positive step forward in providing decision-useful information about an entity's financial performance in the financial statements.

5. We also agree with the default or residual approach proposed in paragraph 46 of the Exposure Draft, that requires an entity to classify income and expenses in the operating category that are not classified in the other categories, such as investing and financing. Our outreach indicated that arriving at a positive, explicit definition for the operating category that would be broadly accepted across all industries, is not achievable given the diverse operating activities of entities across different industries.

6. However, we note that paragraph 46 begins by stating that the operating category includes information about income and expenses from an entity's main business activities. While we agree with the IASB's rationale, that income and expenses not classified in the other categories should represent an entity's main business activities, we think that this rationale competes with the notion that the operating category should reflect a residual of income and expenses that are not included in the financing and investing categories. Therefore, we think that paragraph 46 would be clearer and more consistently applied if the operating category is defined simply as a default or residual category. Accordingly, we encourage the IASB to consider whether introducing the concept of main business activities in paragraph 46 is necessary, and recommend it be removed from the proposed definition of the operating category.

Clarify main business activities for investing and financing categories

7. While we think that introducing the concept of main business activities in the definition of the operating category creates complexity for preparers as discussed above, we do encourage the IASB to revisit the proposed guidance in paragraphs 48 and 51 to more clearly articulate main business activities in the context of the investing and financing activities. Furthermore, we think that providing a definition of main business activities will also bring clarity to the intended meaning of words such as 'main' and will also help entities distinguish between 'ordinary' and 'significant' activities based on relative size.

8. Given that the operating category is a default category intended to capture an entity's main business activities, we think that it is important to provide clear guidance and additional examples to assist entities in determining whether investing and financing activities are in the course of their main business activities. When clarifying the interaction between the operating and financing or investing categories, we think that the IASB should provide guidance to help entities determine which business activities are considered investing or financing. We think that providing this guidance will make the distinction clearer and will also help preparers consistently determine whether income and expenses relate to investing or financing activities are in the course of an entity's main business activities.

9. To accomplish this, the IASB could consider leveraging some of the criteria in IFRS 8 to help entities determine whether investing and financing activities are main business activities. For example, if the chief operating decision maker reviews the results of an investing or financing activity in assessing the entity's operating performance, it might be an indication that that activity is a main business activity. We think that if the chief operating decision maker evaluates the operating results of a business activity as part of the entity's core operating activities, rather than separately, this provides a strong indication that the income and expenses arising from such activities belong in the operating category. The proposed guidance in paragraphs B27 and B29 in the Exposure Draft does not currently provide preparers of financial statements with a clear understanding of how an entity is to evaluate the importance of a business activity relative to operating performance. Explicitly making a link to the existing guidance in IFRS 8 will provide preparers with a clearer understanding of how to evaluate a business activity's importance to operating performance when determining whether that activity is a main business activity of an entity.

Other opportunities for clarification

10. We think that it would also be helpful to clarify how main business activities should be considered in relation to the presentation and disclosure requirements of IFRS 8. Currently, under paragraph B29 of the proposals, it may be inferred that a reportable segment constituting a single business activity could, but may not necessarily, be a main business activity of an entity. We think that it is unclear when an operating segment would not constitute a main business activity of an entity. Therefore, we encourage the IASB to provide an illustrative example in which an entity reports a segment that constitutes a single business activity, but that business activity is not a main business activity.

11. Finally, we think that there needs to be better alignment or a different naming convention between the proposed statement of profit or loss categories and those categories and their respective classifications in the statement of cash flows because this will help to reduce confusion. For example, cash flows from property, plant and equipment are included in the investing category in the statement of cash flows, but income and expenses from those assets will be included in the operating category in the statement of profit or loss. During our outreach, we heard from preparers and users that, while the IASB is not seeking full alignment between the categories in the statement of profit or loss and those in the statement of cash flows, a different naming convention for the

proposed statement of profit or loss categories or better alignment would help to enhance its understandability relative to the existing categories and classifications in the statement of cash flows.

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?

12. We agree with the IASB's proposal that an entity should classify income and expenses from investments made in the course of an entity's main business activities in the operating category for the reasons described in Paragraphs BC58-BC61 of the Basis for Conclusions.
13. With that said, we think the notion of main business activities must be further emphasized and clarified from the perspective of the definition of the investing category to ensure its consistent application. Please see our response in paragraphs 7-9 of Question 2 for further support of our reasoning.

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?

14. Overall, we are supportive of the IASB's proposal to allow this choice for entities that provide financing to customers as a main business activity because we think it provides these entities with flexibility in reporting their operating results while still producing relevant information to financial statements users.

15. With that said, consistent with our responses to Questions 2 and 3 of this Appendix, we think the notion of main business activities must be further emphasized and clarified from the perspective of the definition of the financing category to ensure its consistent application. Please see our response in paragraphs 7-9 of Question 2 for further support of our reasoning.

16. We think that it is unclear how a non-financial institution that has multiple main business activities would apply paragraph B29 in the Exposure Draft to determine if the activity of providing financing to customers is a main business activity. Specifically, paragraph B29 provides guidance relating to when providing financing to customers is likely to be a main business activity but is silent on what is meant by 'an important indicator of operating performance'. We think that the IASB should strengthen the application guidance in this area and provide illustrative examples of how an entity might make this determination. We also think that it is unclear under the current proposals whether 'an important indicator of operating performance' is intended to consider only the operating performance of a business segment or the operating performance of an entity. As such, we think clarifying this guidance will help demonstrate whether an entity is within the scope of paragraph 51 in the Exposure Draft.

17. Finally, we think that the allocation of income and expenses from financing activities between the operating and financing categories is only relevant if it can be done on a non-arbitrary basis because we think arbitrary allocations do not provide useful information to users. Therefore, we encourage the IASB to consider whether the accounting policy choice in paragraph 51, should only be permitted if an entity is able allocate these amounts on a non-arbitrary basis. Otherwise, if the allocation can only be done arbitrarily, we think that an entity should include all of these amounts in the operating category.

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?

18. Overall, we are supportive of the IASB's proposal to include an investing category for income and expenses from assets that generate returns 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 think that having a separate investment category is responsive to the needs of users for decision-useful information that improves their ability to evaluate and compare the

financial performance of entities and better understand the business model of an entity and the various risks it faces.

19. However, we are concerned about presenting gains and losses on derivatives in the investing category, particularly for financial institutions where an entity may illustrate an investing category simply because of their hedging relationships and the nature of their risk management activities. In these situations, we think that it may be unclear why some income and expense amounts are presented in the investing category, instead of the operating and financing categories, consistent with the risk management activities they relate to.

20. Moreover, we are also concerned about the undue cost and effort required to track foreign exchange differences and gains and losses on derivatives and non-derivatives. Based on our outreach with preparers, we understand, that foreign exchange gains and losses are not typically tracked according to the proposed categories and that doing so may be time consuming and require system changes. Therefore, we encourage the IASB to revisit this requirement and consider whether it will provide better information to users than they are already receiving through the risk disclosures provided under the requirements of IFRS 7 *Financial Instruments: Disclosures*.

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?

21. Overall, we are supportive of the IASB's proposal to define and require the presentation of the profit or loss before financing and income tax subtotal and the 'financing category'. We think that while Earnings Before Interest and Tax (EBIT) is a commonly used performance measure, too many variations in its calculation exist to require the presentation of this subtotal in an entity's statement of profit or loss. Furthermore, we think that defining operating profit or loss before financing and income tax is a positive step forward and is responsive to the information needs of users for a subtotal that more closely resembles EBIT.

22. We also think that the 'financing category' provides decision-useful information to users of financial statements through the separate presentation of amounts related to how an entity is financed. The presentation of a 'financing category' will give users of financial statements the ability to adjust the information presented at a level of granularity not previously available, improving the users' ability to evaluate financial performance over time.

Section 2 – Integral and non-integral associates and joint ventures

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?

23. We agree that income and expenses related to equity-accounted investees should be presented as a separate line item below operating profit or loss, because these amounts represent a net return on these investments and their inclusion in operating profit distorts operating margin, a key metric for users.

24. However, our outreach indicates that distinguishing between integral and non-integral associates and joint ventures to separately present related income and expenses is not necessary to meet users' needs. The users we consulted said that better disclosure about the nature of an entity's investments in associates and joint ventures, including its relationship with each investment, would be more useful in assessing equity-accounted investments' effect on financial performance than the IASB's proposed approach. Furthermore, preparers told us that assessing whether equity-accounted investments are integral or non-integral would be complex and require a significant degree of professional judgment to apply, which could result in less consistency and comparability.

25. Consequently, we recommend that income and expenses related to equity-accounted investments be presented as a single line item below operating profit, and that better note disclosure about each investment's nature and relationship with the entity be required in the notes to the financial statements, to provide users with the relevant information that they need to evaluate the effect on financial performance. We think that classifying the share of profit or loss outside of the operating category is most responsive to the needs of users of financial statements for carrying out the analyses of an entity's financial performance.

26. If the IASB decides to require additional disclosures in this area, we encourage guidance that more broadly considers both interdependences and the strategic reasons for making an investment. We

think focusing only on the interdependency between an entity and an investment is too narrow and will not provide sufficient additional relevant information to users of financial statements.

Section 3 - Roles of financial statements, aggregation and disaggregation

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?

27. We are supportive of the IASB's proposals to clarify the roles of the primary financial statements and the notes because we think that this will help entities determine the most useful and appropriate presentation of relevant information.

28. We are also generally supportive of the IASB's efforts to provide further guidance on aggregation and disaggregation of information in the financial statements. We agree with the IASB's concerns that entities do not always appropriately aggregate or disaggregate information in the financial statements, and sometimes disclose large 'other' expenses with little information provided to help users understand what these items comprise.

Aggregation and disaggregation of immaterial items

29. Notwithstanding our overall support for the proposals, we think that the IASB should consider focusing solely on material items in the final standard. We think it is unclear how application of the proposals related to the aggregation of immaterial items in Paragraphs 27-28 will provide users with more relevant information and these proposals also seem in conflict with the application guidance in paragraph B9, which emphasizes materiality.

30. We agree with the IASB's observation that entities may need to aggregate immaterial items with dissimilar characteristics to avoid obscuring relevant information and that aggregation in this way may result in items that cannot be faithfully represented. However, we question whether the IASB's proposal to require entities to use a more descriptive label than 'other', that faithfully represents many dissimilar immaterial items, is realistic or how this will be helpful to users. Given that dissimilar immaterial items are aggregated to avoid obscuring relevant information, we think that it follows that these items may not be individually relevant to users. Consequently, we think that the proposal in Paragraph 27(b), to describe immaterial items that that do not share similar

characteristics in a way that faithfully represents the dissimilar items, may be difficult to apply and of little benefit to users.

31. We note that if an entity does not arrive at a description that results in a more faithful representation of aggregated dissimilar items, they are required to provide disclosure about the composition of the aggregated items. We agree that it might be helpful to users for entities to disclose that an aggregated item consists of several unrelated immaterial amounts. However, we disagree that entities should be required to indicate the nature or amount of the largest item in the aggregation because this information about an immaterial item would not be of benefit to users, could be misleading, and conflicts with the application guidance in paragraph B9, which emphasizes that to achieve the objective of financial statements, dissimilar items are disaggregated when the resulting information is material.

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?

32. We disagree with the IASB's proposals regarding the analysis of operating expenses because we think that they will provide less flexibility for management to explain their results and will not result in more useful information about financial performance for users. In addition, we think that there may be significant costs of implementation for some entities, particularly those without sophisticated accounting systems and those with complex international structures.

Single method that provides the most useful information

33. In our jurisdiction, it is common for entities to present expenses using a mixture of both the function and nature methods. We think that this practice may exist because both methods provide useful information to users. For example, users agree that a functional approach is more useful in assessing performance, but the presentation of certain line items by nature, such as depreciation and amortization, allows them to predict cash flows. Furthermore, this mixed presentation has persisted in practice despite the current guidance in IAS 1 *Presentation of Financial Statements*, which already requires an analysis of operating expenses based on either nature or function.

34. The IASB's proposal to clarify that a mixed presentation is not permitted will result in a change in practice and stakeholders, including the users we consulted, questioned whether there will be any significant benefit from this change. We further observe that comparability between North

American counterparts is important to users and that US GAAP does not have a similar requirement to present operating expenses according to their function or nature.

35. Whether an entity currently presents its operating expenses by function or nature, or by using a mixture of the two approaches, it is not clear that the proposed criteria to assess the most useful presentation of operating expenses will result in a change in current practice. We think that most entities will have weighed these criteria in determining their current method. For example, we observe that entities in the same industries tend to use the same presentation for operating expenses, and that most entities would not choose a functional presentation if it did not provide relevant information about performance because it is considered more complex.

Analysis of total operating expenses by nature of expenses

36. We are concerned with the requirement for entities to disclose an analysis of total operating expenses by nature because we think the IASB's asymmetrical approach in requiring this disclosure only for entities that use a functional approach in the statement of profit or loss discounts the value of disaggregation by function. We have heard strong feedback from users that a functional presentation is the most useful for assessing performance in many industries and there is a concern that useful information may be lost if entities perceive that a presentation by nature is always more useful than a presentation by function. We further observe that the IASB's rationale for requiring this disclosure contradicts the proposed requirement to provide the single most useful presentation of operating expenses in the statement of profit or loss.

37. We have heard from several stakeholders that this proposal will likely be the most costly to implement because many smaller entities do not have sophisticated accounting systems, and implementation in larger entities with many, disparate subsidiaries may require system changes and coordination across multiple business units.

38. Accordingly, we are concerned that the costs of providing a disaggregation of operating expenses by nature in the notes to the financial statements will exceed the benefits to users of providing it and we encourage the IASB to consider whether the proposal is providing sufficient incremental value to warrant the effort of implementing it, particularly if management does not manage the business in this way.

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?

39. We agree that more information about income and expenses that an entity does not expect to recur or persist is relevant to users' understanding of underlying financial performance and ability to predict future cash flows. Accordingly, we support the IASB's efforts to define unusual income and expenses and to require entities to disclose such items in one place. However, we do not agree that the IASB's proposals, particularly the proposed definition in paragraph 100, will result in useful disclosure about unusual income and expenses.

40. Broadly speaking, the users we consulted agreed that better information is needed about unusual income and expenses because entities often disclose information about unusual expenses but not about unusual income. In addition, some users shared that certain expenses that may recur annually, such as restructuring expenses, are often described as unusual or non-recurring and that there is not enough information provided about why management has determined that these items are unusual.

Definition of unusual income and expenses

41. While we agree with the IASB's proposal to define unusual income and expenses, we think that there are challenges with the proposed definition that may lead to application issues in identifying unusual income and expenses and improving the usefulness of the information in the financial statements.

42. For example, we think that the proposed definition is challenging because it is only forward-looking and does not require entities to consider whether the income or expense occurred in the past. In our view, the past can be a good predictor of the future, and we think that entities should be at least required to consider whether similar income or expenses have occurred in the recent past in determining whether they are likely to recur in the future. We think that the proposed definition will not address the concern raised by users, that expenses of similar nature and type are described as

unusual each reporting period. We also refer to the example provided in the application guidance in paragraph B71, of an entity that makes regular acquisitions that result in restructuring expenses and therefore would not classify these expenses as unusual. It is not clear how this example identifies that the entity makes regular acquisitions that result in restructuring expenses without considering its past transactions.

43. We do agree that entities should not be prohibited from describing income and expenses as unusual simply because they have occurred in the past. However, we think that management may represent that there is no plan or reasonable expectation that it will undertake more restructuring in the future, if they are not required to consider past experience. We are also concerned that it will be very difficult to meaningfully audit management's expectations of the future.

44. We also think that the proposed definition could lead to a proliferation of unusual items in certain circumstances, for example for start-up entities, or in unusual times, for example COVID-19, such that everything is described as unusual and the value of the information to users may be reduced. Accordingly, we encourage the IASB to include guidance that requires entities to weigh past experience as a factor in determining whether it is reasonable to expect that an item will recur in future periods. We think that the proposals would be of much greater benefit to users if entities are required to consider their expectations about the future in context of their past experience with similar income, expenses, transactions and events (see next section).

45. We considered whether requiring entities to consider past occurrences of income or expenses of similar type and amount would introduce the risk of being required to restate prior period results, if for example an expense was described as unusual in the prior period and an expense of similar type and amount recurred in the current period. However, we are of the view that this would not require restatement of prior periods because the recurrence would be new information that should not result in a reexamination of the facts and circumstances that applied in prior reporting periods.

46. We also note that the reference to 'several future reporting periods' is vague. It is not clear how several future reporting periods would be applied, but current Canadian securities requirements currently prohibit entities from describing items as unusual if they are expected to recur in the next 3 years, or if they have occurred in the most recent 3 year period[1].

47. We would expect that in absence of more specific guidance in the final standard, entities will look to other guidance, for example regulatory guidance in their jurisdiction if it is available, in order to determine the meaning of 'several future periods'. We think that this could lead to a lack of comparability with counterparts in other jurisdictions.

[1] We note that the Canadian Securities Administrators current proposals propose to shorten the current 3 year window to 2 years.

Transactions and events that give rise to unusual income and expenses

48. We think that the guidance is unclear with respect to whether transactions or programs that straddle fiscal years can be described as unusual and agree with the discussion in paragraph BC133 that in such cases it would be helpful to consider the nature of the transactions or other events that gave rise to the income or expenses. For example, if an entity initiates a restructuring program in November 2020, which it expects to continue into 2021, the proposed guidance implies that expenses related to this program could not be described as unusual, even though the transaction or program itself is considered unusual because management does not reasonably expect to undertake another one for several future annual periods.

49. We think that users would find information about unusual events, such as an earthquake, helpful even though the related income and/or expenses are expected to recur for several future periods. While we agree with the IASB's conclusion that unusual transactions and events will not always result in unusual income or expenses, we do think that the reverse is not true. In other words, we think that unusual income and expenses will always be the result of unusual transactions or events. We further note that disclosure based on unusual transactions or events might also provide useful information about reductions in income and expenses that may not be expected to persist, for example lower revenues as a result of a temporary plant closure.

50. Accordingly, we encourage the IASB to reconsider whether the guidance should require entities to begin their identification of unusual income and expenses by first identifying unusual transactions and events during the period that gave rise to increased income or expenses. We think that this would provide a useful information about how the entity has determined whether the increased income and expenses are expected to recur in future periods and would be clarify the IASB's intent with regards to transactions or events that are expected to straddle several periods.

Application guidance

51. We think that it will be very difficult to apply professional judgment to determine which income and expenses are unusual, particularly in light of the current environment surrounding COVID-19, and accordingly we think that robust application guidance will be very helpful to preparers.

52. We observe that two of the examples provided in the application guidance refer to an impairment loss related to a fire at a factory. We agree that it is helpful to provide an example of impairment loss that meets the definition of an unusual expense. However, we also think that the example in paragraph BC133(b) of an impairment loss that would not be considered unusual, because the underlying event itself is not unusual, is equally helpful. This is in line with our comment above that we think it is important for entities to consider unusual transactions and events in identifying unusual income and expenses.

53. We observe that the proposed application guidance uses some examples, such as impairment losses related to factory fires, that are clear examples of unusual items. We think that the usefulness of the application guidance would be enhanced if it included more examples that provide direction on how

professional judgment is applied in identifying unusual income and expenses. We agree that a restructuring program may provide several examples of expenses that may not be recurring for which when professional judgment may need to be exercised. We encourage the IASB to consider using examples that will better illustrate how professional judgment should be exercised in identifying whether income and expenses are unusual.

Section 4 - Management Performance Measures

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?

54. We commend the IASB for their initiative to include information about management performance measures within the financial statements. Our outreach and research in support of our Framework for Reporting Performance Measures indicate that management-determined performance measures are becoming increasingly prevalent outside of the financial statements and that users are placing increasing reliance on such measures because they provide useful information about an entity's financial performance.

55. In Canada, our securities administrators regulate the use of financial measures presented by issuing entities outside of their financial statements (Non-GAAP measures) and some stakeholders have expressed the view that the IASB's proposals will not result in meaningful change in jurisdictions with strong regulatory regimes. However, we understand that many jurisdictions applying IFRS Standards are not subject to similar regulation and the importance of acting globally to establish accounting standards. In addition, we note that no assurance is provided on measures outside the financial statements. Accordingly, we think that the IASB's proposal to include disclosures about management-defined performance measures in the financial statements, where they will be subject to audit, is an important step forward that will lead to increased transparency.

Scope of the proposals

56. We agree with our stakeholders, including users, who say that the IASB's proposal regarding management performance measures is a promising first step but that the proposed scope is too narrow. Given the significant number of management-defined performance measures used by entities today, the IASB's proposal to include only financial performance measures that are subtotals of income and expenses falls short of many users' expectations for more relevant, useful and transparent information about financial performance in the financial statements.

57. Specifically, it is not clear why many other useful measures of performance, such as ratios, would be excluded from the scope of the proposals. Also, users told us that cash flow measures are very useful in assessing performance and they questioned why measures derived from items presented in the other primary financial statements would be excluded from the scope of these proposals.

58. Some preparers also expressed concern that management performance measures would be given undue prominence because of their inclusion in the financial statements over other, more relevant performance measures simply because they are not subtotals of income and expenses.

59. We encourage the IASB to consider whether the scope could be expanded to include other useful measures of financial performance that are derived from financial information in the primary financial statements, such as ratios and subtotals of other financial statement line items that are indicative of financial performance, rather than limiting the scope to subtotals of income and expenses. Alternatively, we encourage the IASB to acknowledge the demand for a broader scope and discuss how this might be addressed in the future.

Label and definition

60. As discussed above, management-defined performance measures have become extremely prevalent outside entities' financial statements and are referred to using a variety of labels, often interchangeably, such as alternative performance measures, key performance measures or non-GAAP measures. Some of these labels are established and used by securities administrators for the purpose of regulating the use of these measures outside the financial statements. We refer the IASB to the response of the Canadian Securities Administrators Chief Accountants Committee for further discussion on the interaction of these proposals with the regulatory requirements in Canada.

61. Accordingly, we think that it is very important for the IASB to strive to distinguish as clearly as possible between management performance measures as proposed in the Exposure Draft and all other management-defined performance measures used by entities outside the financial statements. We are of the view that the term 'management performance measures' is not sufficiently distinct from other, similar terminology and we are concerned that users and other stakeholders will not appreciate the distinction. We also think that it may be difficult for stakeholders to understand the different terminology unless it is sufficiently distinct.

62. We observe that, according to the proposed definition, management performance measures must be subtotals of income and expenses that complement IFRS-specified subtotals. Given that they are

intended to complement subtotals, we think that it would be more clear for the IASB to use labels such as 'management-specified subtotals', 'management-specified income and expense subtotals' or 'management profit or loss measures' to emphasize upfront that other measures of performance are not included. We think that the proposed label of management performance measures implies that the scope is broader than it actually is, because many measures, other than subtotals of income and expenses, are useful in assessing performance. We suggest that 'management-specified subtotals' more accurately describes what the proposed management performance measures actually are and will be easier to understand and contrast with other performance measures.

63. We are also concerned that certain elements of the proposed definition are not clear and that this may result in a lack of consistency in how entities determine whether a measure is a management performance measure.

64. Our outreach indicates that it is not clear what forms of 'public communications' are within the scope of the definition. We observe that the term 'public communications' is quite broad, but the examples proposed in the application guidance are limited to management commentary, press releases and investor presentations. We note that entities avail themselves of many other forms of public communication and that securities administrators in some jurisdictions have clarified this term to exclude oral communications and social media posts, for example. We recommend that the IASB provide further clarification or examples of the forms of 'public communications' that are within the scope of the definition. If the IASB decides to provide no further clarification of intended meaning of public communications, we think that entities may rely on other available sources, such as securities administrators to determine its scope.

65. While we agree that a management performance measure should 'complement' totals or subtotals specified by IFRS Standards, we think that the IASB should consider strengthening this part of the definition to achieve its objective of providing more relevant and useful information about financial performance. We think that a management performance measure should add to or enhance an IFRS-specified subtotal by providing key additional information to users, and that the word 'complement' does not sufficiently capture this. The IASB's rationale in paragraphs BC168-BC171 focuses on the need for transparency and reconciliation but does not consider that a management performance measure should provide meaningful additional information to be of benefit to users, rather than simply a number than complements and can be reconciled to an IFRS-specified measure.

66. We are of a similar view regarding the last part of the proposed definition, that a management performance measure should communicate management's view of an aspect of an entity's financial performance. We note that the requirements in paragraph 106 require that an entity disclose how the measure provides useful information about its performance. However, we think that the definition itself does not sufficiently emphasize that a management performance measure should provide relevant information that management uses in assessing performance and making strategic decisions.

67. We think that requiring only that a measure communicate "management's view of an aspect of an entity's performance" is too vague to lead entities to consider which measures used in public communications provide useful and relevant information to users as opposed to information that is intended to promote areas where an entity is particularly successful. For example, a management performance measure that complements revenue communicates management's view of an aspect of performance outside the financial statements and meets the definition of a management performance measure. However, if the measure is not used by management in strategic decision-making, it may not be useful to users and its inclusion in the financial statements may result in an overall loss of relevance. We think that it could be misleading to users if they perceive that the measures disclosed in the financial statements are more relevant or useful than those disclosed outside of the financial statements because the proposed guidance for management performance measures does not focus on relevance.

68. We recommend that the IASB strengthen the definition of a management performance measure by considering other guidance such as IFRS 8, which requires that entities consider results that are reviewed by the chief operating decision maker to make decisions. We think that a management performance measure will be more relevant and useful to users if management uses the measure to assess performance and make decisions, rather than if it is simply their view of an aspect of performance.

Framework for reporting management performance measures

69. We agree with the IASB's proposal that management performance measures would be subject to the general requirement for information to faithfully represent what it purports to represent. However, in line with the concerns expressed above regarding the proposed definition of a management performance measure, we think that this guidance is insufficient to ensure that entities consider all qualitative characteristics of useful financial information in selecting and disclosing management performance measures. For example, both relevance and faithful representation are fundamental qualitative characteristics of useful financial information and we think that they should be equally important in identifying appropriate management performance measures. However, we note that the proposed guidance does not specifically address relevance or other enhancing qualitative characteristics of useful financial information.

70. We are concerned that the proposals emphasize faithful representation of management performance measures but provide little other guidance on the elements of faithful representation, such as neutrality, or other qualitative characteristics of useful financial information that entities should consider in identifying useful management performance measures.

71. In order to ensure that the most useful financial information is communicated to users, we strongly encourage the IASB to consider providing a framework in the standard that provides all of the characteristics of useful financial information for entities to consider in identifying management performance measures.

72. We note that the IASB's proposals indirectly address many of characteristics of useful performance measures. For example, we think that the requirement in paragraph 108 to provide additional disclosure when the calculation of a management performance measure changes, or a when a new one is introduced, is intended to result in reporting management performance measures that are consistent and comparable. However, we think that more direct and robust guidance is needed to ensure that entities consider all of the characteristics of useful financial information when they select, develop and report performance measures.
73. The AcSB issued its Framework for Reporting Performance Measures in December 2018 to describe principles for selecting, developing and reporting high-quality performance measures and we think that many of these principles may be of assistance to entities in applying the proposed guidance on management performance measures.

Auditability

74. Auditors have expressed concern that there is no framework for auditing management performance measures. It is not clear how firms will audit and provide assurance that management's view of an aspect of performance is complete and faithfully represented, particularly with respect to neutrality. Stakeholders observed that some of the performance measures that might meet the definition of management performance measures are promotional in nature and questioned how auditors would determine whether the concept of faithful representation, which includes neutrality, is met.
75. We recommend that the IASB consider whether it is necessary to have an assurance framework in place concurrent with the effective date of the standard. We refer the IASB to the response of the Canadian Auditing and Assurance Standards Board for further discussion of concerns surrounding the auditability of management performance measures. We also think that it is critical for the IASB to work closely with the IAASB in considering the auditability of these proposals.

Section 5 - EBITDA

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?

76. We agree with the IASB's rationale for not proposing requirements relating to EBITDA. EBIT and EBITDA are commonly used and valuable performance measures, but the users we consulted agreed that there are many variations in the definition and calculation, depending on the industry and other factors and that introducing a restrictive definition might lead to less useful information.
77. Furthermore, the users we consulted agreed that introducing the IFRS-specified subtotal Operating profit before depreciation and amortization is a positive step forward that will provide useful information about financial performance.

Section 6 - Statement of cash flows

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?

78. We agree with the IASB's proposals to require entities to use the 'operating profit or loss' subtotal as the starting point for the indirect method and to eliminate optionality in classifying interest and dividend cash flows because they will improve consistency and comparability in the reporting of cash flows.

Section 7 - Other

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?

79. As discussed in our response to Question 9 of the Exposure Draft, we think that some entities may encounter technology challenges in implementing some of the proposals. We also observe that entities will need to consider the interaction of the proposals with securities regulations and address areas of conflict and recast comparative information, and users will need to be educated on the changes in presentation and disclosure. Therefore, we think that 18 months is not an adequate amount of time for many entities to adopt the requirements and encourage the IASB to consider an effective date at least 24 months after the final standard is issued.

80. We also recommend that the IASB consider the effective date of the final standard in relation to other standards' effective dates and the requirements for interim reporting.