**ICAEW**
REPRESENTATION 75/20

# GENERAL PRESENTATION AND DISCLOSURES

Issued 30 September 2020

ICAEW welcomes the opportunity to comment on ED/2019/7 *General Presentation and Disclosures* published by IASB in December 2019, a copy of which is available from this link.

ICAEW is a strong supporter of the IASB's Better Communication project and we welcome many of the proposals outlined in the ED/2019/7 *General Presentation and Disclosure.* We particularly welcome the proportionate and pragmatic approach adopted by the IASB in developing the proposals. While we support many of the proposals within the exposure draft, we have highlighted some concerns, including in relation to integral and non-integral associates and joint ventures, unusual income and expenses, and management performance measures.

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## KEY POINTS

### Support for the project

1. ICAEW is a strong supporter of the IASB's Better Communication project and we welcome many of the proposals outlined in the ED/2019/7 *General Presentation and Disclosure.* We welcome the proportionate and pragmatic approach adopted by the IASB in developing the proposals. In particular, the decision to carry forward certain requirements from IAS 1 while making targeted changes to address specific issues. In our view, this approach is preferable to a complete re-draft of IAS 1.

2. In our response to the 2017 *Disclosure Initiative – Principles of Disclosure* discussion paper we highlighted the importance of understanding how users currently use the information in the financial statements including when exploring preferred formats for the presentation of information. We are pleased, therefore, to note the extent to which the IASB has considered how investors use information in the financial statements when developing these proposals and how this needs to be appropriately balanced with costs and increased complexity.

### Integral and non-integral associates and joint ventures

3. We agree that having a distinction between the presentation of associates and joint ventures that are considered 'integral' versus 'non-integral' will be helpful to users of the financial statements, where this is an important distinction. However, we are concerned that the way they would be distinguished under the proposals might have unintended consequences and result in additional cost and complexity for entities where associates and joint ventures are normally excluded from operating profit.

4. We suggest that it would be more appropriate to develop a 'management perspective' approach where management is required to assess and identify whether it views an associate or joint venture as integral, and to explain why it has reached this conclusion. In our view, this would avoid the risk of arbitrary classifications being made which do not reflect the underlying operations of the entity.

### Unusual income and expenses

5. We agree that, on balance, defining and presenting information on unusual income and expenses will be helpful for users of financial statements. However, for preparers, this will inevitably be open to interpretation and will require judgement to be exercised in this area.

6. In our response to question 10 below, we suggest that a better approach might be to expand the guidance on aggregation and disaggregation in paragraphs 25- 28 of the new standard to provide clear principles for the disaggregation of items that meet the definition of unusual income and expenses. If taking this approach, we do not believe it would be necessary for items of unusual income and expenses to be disclosed together in a separate note.

### Management performance measures (MPMs)

7. We support the IASB's attempts to improve the disclosure of MPMs within the financial statements and support many of the proposals outlined in the exposure draft (ED). However, we are concerned with the proposed definition. which refers to subtotals that are 'used in public communications outside financial statements', which, in our view, is too broad. We believe it would be more appropriate and realistic for the criteria to refer to any subtotals of income and expenses that are used within the 'annual / interim reporting package' eg, the annual report or

interim report, and results announcements/investor presentations relating to the same period as the annual or interim report.

8. We also believe that the IASB should revisit paragraph 105 in order to clarify whether it is intended to ensure that MPMs included in the financial statements are described appropriately, as opposed to acting as a 'filter' which would prevent the inclusion of MPMs in the financial statements that, although used by management to communicate the performance of the business, are not considered to 'faithfully represent aspects of the financial performance' of the entity.

### Presentation of material items on the face of the income statement

9. Under the proposals it appears that the income statement cannot be used to present material items of income or expense that are necessary to understanding performance unless they fit into the nature or function analysis of operating expenses. This differs from the current requirements of IAS 1.97 and 1.30, which require presentation of such items on the face of the income statement, if sufficiently material. We believe further clarity on this matter is needed to explain/illustrate how such items can be presented on the income statement, using either format.

## ANSWERS TO SPECIFIC QUESTIONS

### 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?***

10. Yes, we support the proposal that all entities present in the statement of profit or loss a subtotal for operating profit or loss. We believe that introducing this requirement will provide useful information for users of financial statements and improve comparability between entities.

***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?***

11. Proposed paragraph 46 of the ED states that the operating category includes information about income and expense from an entity's main business activities, and that an entity shall classify in the operating category all income and expenses that are not classified in integral associates and joint ventures, investing or financing, income taxes or discontinued operations.

12. We accept the IASB's decision not to directly define operating profit or loss. As noted in BC55(b), defining operating profit or loss directly would be a difficult task given the various business activities carried out by entities. We also acknowledge that previous attempts to directly define operating profit have not been successful. We also broadly agree with the

decision that the operating category would be a residual category within the statement of profit or loss. In our view, these proposals provide a pragmatic solution.

13. We note that the ED requires that certain income and expenses must not to be classified in either the 'investing' or 'financing' category when they have been generated in the course of the entity's 'main business activities.' In these instances, the income and expense must be classified in the operating category. Making this assessment will require judgement. However, in our view, the ED does not provide sufficient guidance to help entities determine when an activity is (or is one of) an entity's main business activities. This may result in confusion for preparers, and a lack of comparability and transparency for users.

14. Furthermore, in our view, when such a classification has been made, an entity should be required to disclose this fact along with information regarding the items 'reclassified'. It may be that this requirement could form part of proposed paragraph 99(b), which requires an entity to provide 'a description of the nature of the entity's operations and its main business activities.'

15. One specific proposal for classification as operating that we question relates to proposed paragraph B33(a). This refers to 'interest revenue from trade receivables, which would be classified in the operating category.' We understand from this paragraph that significant financing, as defined under IFRS 15, would automatically be included within the operating category, with no reference to whether the financing revenue has been generated from the entity's 'main business activities.' However, proposed paragraph B33 appears to justify the classification of interest revenue from trade receivables as 'operating' on the grounds that it arises from the use of assets in combination with other resources of the entity. We do not see how this is any more the result of the use of assets with other resources than would be the case for interest payable on trade payables, which proposed paragraph B35(c) states would be classified as a financing expense.

***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?***

16. Yes, we agree with the proposal that income and expenses arising from investments made in the course of the entity's main business activities should be presented in the operating category within the statement of profit or loss.

***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?***

17. We do not agree with the accounting policy option outlined in paragraph 51. In our view, when an entity has more than one main business activity, of which one is providing financing to customers, only the income and expenses arising from financing activities and cash and cash equivalents that relate to the provision of financing to customers, should be classified in the operating category. We accept that this will require allocations to be made in certain cases. However, we think that entities should be required to make those allocations on a reasonable and consistent basis, supported by disclosure of the basis used.

18. When an entity only has one main business activity and that is providing finance to customers, we believe it should be required to present all income and expenses from financing activities, all income and expense from cash and cash equivalents, and all interest income and expenses on other liabilities (as set out in proposed paragraph B37) in the operating category. We believe this will improve comparability among entities whose only main business activity is providing finance to customers. It also avoids the situation, which would currently arise under the proposals, whereby an entity whose only main business activity is providing finance to customers would present only income and expenses on other liabilities within the financing category.

19. We also have concerns with proposed paragraph 52(c) regarding the treatment of insurance finance income and expenses, which we believe will lead to a lack of comparability between insurers who apply the FVOCI accounting policy choice under IFRS 17 *Insurance Contracts* (to disaggregate insurance finance income or expense and include only a systematic allocation of the expected total insurance finance income or expense within the P&L with the remainder reported in OCI) and insurers who apply a FVP&L approach and therefore include all movements, including fair value movements, in assets and liabilities in the income statement.

20. For jurisdictions like the UK, where insurers make extensive use of fair value accounting (and we anticipate this will continue post adoption of IFRS 17), the fair value movement has typically been disaggregated to include an expected long term investment return on assets within a non-GAAP Group Adjusted Operating Profit (GAOP) APM and the impact of investment variances, economic assumption changes and short term market fluctuations in return on investments reported separately below GAOP. This split has long been used by management and users of accounts to enhance understanding of the performance of insurance business, including the strong linkage between assets and liabilities and the buy and hold investment model.

21. In our view, it is not clear whether (or how) the current proposals would permit a similar level of understandability of operating performance for insurers applying the FVP&L approach in accordance with IFRS 17. For example, we note that while a similar approach to that outlined above would be supported by the principle set out in proposed paragraph 42 of the ED, which requires disaggregation when such presentations are relevant to an understanding of the entity's financial performance or financial position, it would be prohibited by paragraph 43(a) as the proposed disaggregation would not be made up of amounts measured in accordance with IFRS Standards. It is also not clear if the GAOP measure would fall to be defined as an MPM within the new standard, thus requiring additional disclosures in the financial statements.

22. We are concerned that, as currently drafted, the ED will result in an unhelpful lack of comparability between insurers adopting the FVP&L approach, compared to those adopting the FVOCI approach under IFRS 17. We strongly urge the IASB to consider this matter further, either as part of this ED or as a separate project.

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### *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?***

23. We support the introduction of an investing category which would include returns from investments ie, income and expenses from assets that generate a return individually and largely independently of other resources held by the entity, and related incremental expenses. However, we have some comments on the proposal set out in paragraph 58, as discussed below.

24. Proposed paragraph 58 requires that gains and losses on derivatives used to manage risks, but not designated as hedging instruments, should be classified in the same category as the income or expense of the item whose risk is being managed, except when doing so would involve undue cost or effort (in which case they would be classified in the investing category). We broadly agree with this proposal and the Board's conclusion in BC96 that 'classifying fair value gains or losses in a manner that reflects an entity's risk management instead of classifying them in a single category will provide a more faithful representation of an entity's activities'. Indeed, we believe the link to the entity's risk management strategy is essential in the application of paragraph 58 and should be referred to explicitly within the standard, rather than only in the Basis for Conclusions.

25. Furthermore, assuming that the purpose of proposed paragraph 58 is that it will permit entities to classify the gains and losses on non-designated derivatives in a way that reflects their risk management, we question whether there is a need for the undue cost or effort exemption. We note the Board's concern outlined in BC97-98 that identifying the category affected by a risk that is being managed might not always be easy, for example, when the derivative is used to manage the risk of various items classified in multiple categories.

26. However, in our view, rather than introducing an undue cost or effort exemption, it would be better to clarify the presentation requirements for situations when there is no particular basis for identifying the category to which the gains and losses on the non-designated derivative relate. For example, to enable entities to establish an approach for determining the category to which the gains and losses would be classified, when the derivative is being used to manage a risk for items spread across various categories.

27. As a final point, we believe it is unclear where hedge ineffectiveness on documented hedges would be presented under the proposed structure. For example, banks could consider this as a trading activity or otherwise as part of their operating activities and it would appear in the operating category, whereas others could consider it to be an investing activity and it would appear in the investing category. Further clarity on this point would be helpful.

### *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?***

28. Yes, we support 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. We also support the proposal that the financing category should include (subject to certain exemptions):
    - Income and expenses from cash and cash equivalents.
    - Income and expenses on liabilities arising from financing activities; and
    - Interest income and expenses on other liabilities.

## 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?***

29. We agree with the conclusion that some form of distinction between the presentation of associates and joint ventures that are considered 'integral' versus 'non-integral' will be helpful to users of the financial statements, where this is an important distinction.

30. This is based on our understanding that, for some entities, information on income and expenses arising from associates and joint ventures accounted for using the equity method is important for users of financial statements. Current diversity in practice on the presentation of this information creates issues for users, in particular, the lack of comparability between entities as to whether equity accounted investments are included in operating profit. We also appreciate that associates and joint ventures will differ in the extent to which they are 'integral' to a reporting entity's main business activities.

31. We also agree that once the distinction between integral and non-integral has been made, income and expenses from integral associates and joint ventures should appear within a separate category below the operating category, with a subtotal showing operating profit or loss and income and expenses from integral associates and joint ventures. Similarly, we agree that income and expenses from non-integral associates and joint ventures would then appear

in the investing category. In our view, this approach will provide more helpful information compared to all income and expenses from all associates and joint ventures appearing in one category, whether that be the operating, investing, or another category. While we raise some concerns below regarding how this distinction is made in the exposure draft, we support the general proposal for separate presentation of income and expenses arising from integral and non-integral associates and joint ventures.

32. As noted, we have some concerns with the proposed approach to distinguishing integral from non-integral associates and joint ventures as set out in the exposure draft. In our view, the proposals may result in confusion, have unintended consequences and result in additional cost and complexity for entities where associates and joint ventures are normally excluded from operating profit.

33. In particular, we have doubts over proposed paragraph 20D to be added to IFRS 12 *Disclosure of Interests in Other Entities*. This paragraph is intended to help entities assess whether an associate or joint venture accounted for using the equity method is integral or non-integral to the entity's main business activities, including examples. However, we are not convinced that the description in paragraph 20D or the examples provided will necessarily help entities make this distinction and in the worst case may result in unhelpful or arbitrary classifications being made. For example, we have considered investment property companies which commonly enter into such joint ventures/associates as part of their business. While such arrangements are clearly integral to the company's main business activities, it is not clear that they would be classified as such in accordance with the description in proposed paragraph 20D.

34. There are clearly going to be challenges when seeking to identify a set of indicators which will help determine whether an associate or joint venture is integral or non-integral. As noted in the Basis for Conclusions, the wide range of business relationships between an entity and its associates and joint ventures means it is not possible to provide an exhaustive list of all criteria. We expect that for some entities, there will always be a significant degree of judgement and assumptions involved when making this classification.

35. In the light of these challenges, we suggest that a better alternative would be to develop a 'management perspective' approach. In other words, management would be required to assess and identify whether it views an associate or joint venture as integral, for management to explain why it has reached this conclusion and to explain any changes in presentation from prior periods ie, any change from integral to non-integral, and vice-versa. Income and expenses from identified 'integral' associates and joint ventures would then be separated out from those arising from other associates and joint ventures as suggested in the exposure draft. In our view, this approach would avoid the risk of arbitrary classifications being made which do not reflect the underlying operations of the entity.

36. If, however, the IASB decides not to explore our suggested 'management perspective' approach, we urge the Board to pursue an approach that is both practical to implement and results in a distinction between integral and non-integral associates and joint ventures that, as closely as possible, would be expected if applying a 'management perspective' approach. This may mean, for example, that if the IASB maintains the proposed approach outlined in the exposure draft, the criteria set out in paragraph 20D of IFRS 12 would need to be clarified.

## 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?***

37. Yes, we agree with the proposed descriptions for the roles of financial statements and notes to the financial statements.

38. We also broadly support the IASB's proposals for the disaggregation and aggregation of information. However, we believe that further consideration is needed in two areas, as discussed below.

39. Proposed paragraphs 27 and 28 allow an entity to aggregate immaterial items with other items that do not share similar characteristics. However, if an entity is unable to describe this aggregated information in a way that faithfully represents the items, it will be required to disclose in the notes, information about the composition of the aggregated items. This appears to suggest that an entity would be required to disclose information about immaterial items. In our view, this is at odds with the requirement in proposed paragraph 24 that an 'entity need not provide a specific presentation or disclosure required by an IFRS Standard if the information resulting from that presentation or disclosure is not material.' If the aggregation is of truly immaterial items that do not share characteristics, we do not see how any additional disaggregation or disclosure could be informative.

40. Also, it is not entirely clear how the minimum line items for the statement of profit or loss, as outlined in proposed paragraph 65, interact with the requirements around aggregation and disaggregation. Our understanding is that an entity would be required to present the line item, unless it is immaterial, in which case it could be aggregated with items in accordance with the requirements around aggregation/disaggregation. In our view, the link between minimum line items, materiality, and aggregation/disaggregation needs to be made clearer within the new standard.

41. As a general point, we suggest that the IASB considers updating its Materiality Practice Statement for any new or amended requirements relating to the aggregation and disaggregation of information and its interaction with making materiality judgements.

***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?***

42. We support the option for entities to present operating expenses using either the nature of expense method or function of expense method. The function of expense method is widely used, including in the UK, and in our view, it is an important method of presentation which provides helpful and insightful information to users.

43. We also welcome the IASB's attempts to help preparers with the application of the two methods within the new standard. In our view, there is currently confusion over the distinction between the nature of expense and function of expense methods which means they have not always been applied correctly or consistently.

44. That said, from our experience in the UK, we believe further clarifications could be made to how the function of expense method is described in the standard. We also believe greater guidance is needed to explain how individual costs might be separated out under the function of expense method. For example, to explain how impairment of goodwill might be split and presented between different functions, although the IASB may need to also identify a default category when splitting such costs between functions is not feasible.

45. We also note that under the proposals it appears that the income statement cannot be used to present material items of income or expense that are necessary to understanding performance unless they fit into the nature or function analysis of operating expenses. This differs from the current requirements of IAS 1.97 and 1.30 which require presentation of such items on the face of the income statement, if sufficiently material. We believe further clarity on this matter is needed to explain/illustrate how such items can be presented on the income statement, using either format.

46. We understand that gross profit is an important metric for many entities and yet there is very little guidance on what is included in cost of sales. While paragraph 70 includes a brief description and one example is given in para B45(a), we believe further guidance on the types of expense that would appear in cost of sales would be helpful. For example, it might be helpful to look at paragraph 97 of IFRS 15 *Revenue from Contracts with Customers* regarding the costs to fulfil a contract.

47. Finally, we believe that the new standards should make clearer that cost of sales is not a minimum line item for entities following the nature of expense method.

***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?***

48. In our response to the IASB's 2017 *Disclosure Initiative – Principles of Disclosure* discussion paper, we expressed the view that unusual (or infrequently occurring) items should not be defined in IFRS. Our rationale was that it would be difficult to clearly define such items and that any definitions might be open to interpretation. However, having considered the Board's further deliberations on this matter we agree that, on balance, defining unusual income and expenses will be helpful for users.

49. We also agree with the proposed definition for unusual income and expenses outlined in paragraph 100 of the exposure draft, although accepting that identifying unusual items, will inevitably be open to interpretation and that entities will be required to exercise judgement in this area.

50. Beyond the definition of unusual income and expenses we have also considered why this information is helpful to users and how the resulting information might be used. In our view, disaggregating unusual income and expenses, as defined in the exposure draft, will provide users with helpful information on material items that have limited predictive value and, therefore, provide insights into the entity's performance and assist with future predictions. Whether or not this information is then taken into account for the purpose of calculating management performance measures is another matter and, in our view, should not be conflated with this primary purpose of identifying and disaggregating information on unusual income and expenses within the financial statements.

51. It is with this primary purpose in mind that we have considered the IASB's proposals. Ultimately, we believe a better way to approach this matter would be to expand the guidance on aggregation and disaggregation in paragraphs 25- 28 of the new standard to provide clear principles for the disaggregation of items that meet the definition of unusual income and expenses. We think this approach could avoid the need for a separate definition of unusual items elsewhere in the standard as it would, instead, be included as part of expanded guidance on aggregation and disaggregation.

52. Proposed paragraphs 25-28 relating to aggregation and disaggregation do not require that certain types of items should be disclosed together in a separate note. As such, we do not believe it is necessary for items of unusual income and expenses to be disclosed together in a separate note. To our mind, presenting the information in this way is only helpful to the extent that it may complement disclosures on management performance measures. Any guidance around how items of unusual income and expenses have been used to calculate alternative measures of performance should be dealt with as part of the requirements for management performance measures.

## 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?***

53. Management Performance Measures (MPMs) provide helpful information to users about how management view an entity's performance. However, unless an entity complies with certain regulatory requirements such as the ESMA Guidelines on Alternative Performance Measures, there can often be a lack of clarity and transparency around how MPMs have been calculated, why they have been selected by management, and how they relate to the numbers in the financial statements. As such, we support the IASB's attempts to improve the disclosure of MPMs within the financial statements

54. We note that entities that comply with regulatory requirements will already provide the information proposed in the exposure draft and will often include this information closer to the management discussion of MPMs. To avoid duplication of information, the IASB might consider allowing such entities to cross refer to any relevant information which is presented outside of the financial statements and satisfies the requirements of the new IFRS.

55. Proposed paragraph 103 defines MPMs as subtotals of income and expenses that: (a) are used in public communications outside financial statements; (b) complement totals or subtotals specified by IFRS Standards; and (c) communicate to users of financial statements management's view of an aspect of an entity's financial performance.

56. While we broadly support the proposed definition, we are concerned with the reference to subtotals that are 'used in public communications outside financial statements'. In our view, this criterion is too broad. It would be very challenging in practice to identify all public communications and all potential measures. For example, it is not clear how far back in time a company would need to go when identifying measures that have been used in public communications (would it be limited to the comparative period or would entities be expected to go further back?) or how far forward in time management would need to look to future expected publications and presentations. We also believe this would lead to challenges for auditors ie, how far back/forward to look to assess whether the appropriate measures have been identified.

57. In our view, it would be more appropriate and realistic for the criteria to refer to any subtotals of income and expenses that are used within the 'annual / interim reporting package' eg, the annual report or interim report, and results announcements/investor presentations relating to the same period as the annual or interim report. Appropriate definitions and explanations would be required within IFRS – it might be helpful to refer to the ESMA guidelines on APMs in this respect. We believe this would provide a more manageable boundary and would still capture key measures used by management to track the entity's performance.

58. We also believe that further clarity is needed with regards to proposed paragraph 105 which states that MPMs shall (a) faithfully represent aspects of the financial performance of the entity to users of financial statements; and (b) be described in a clear and understandable manner that does not mislead users.

59. We assume that the intention of paragraph 105 is to ensure that MPMs included in the financial statements are described appropriately. However, it might also be interpreted as being a 'filter' which would prevent the inclusion of MPMs that, although used by management to communicate the performance of the business, are not considered to 'faithfully represent aspects of the financial performance' of the entity. If, as we have assumed, the IASB's intention is to ensure that any MPMs included in the accounts are appropriately labelled and defined,

this should be clarified in the standard. It might, for example, be helpful not to refer to faithful representation, which has a wider meaning within IFRS.

60. For the avoidance of doubt, we do not support the inclusion of a ‘filter’ as described above. We believe the aim should be to ensure that the requirements capture those MPMs which provide helpful information on how management views an entity’s performance and that these are described clearly and appropriately in the financial statements.

*Income tax and non-controlling interests*

61. Proposed paragraph 106(d) would require an entity to disclose the ‘income tax effect and the effect on non-controlling interests’ for each item included in the reconciliation between an MPM and the most directly comparable IFRS subtotal or total. The Basis for Conclusions clarifies that the reason for requiring this information is to assist users of financial statements to calculate and analyse earnings per share measures alongside any information already provided in accordance with IAS 33 *Earnings Per Share.* Given that the scope of IAS 33 is limited to listed entities, we believe the proposed disclosure requirement in paragraph 106(d) should also be limited to those entities required to, or voluntarily, applying IAS 33.

*MPMs and segmental reporting*

62. Proposed paragraph B83 addresses the situation when an entity’s MPMs may be the same as part of the operating segment information disclosed by the entity when applying IFRS 8 *Operating Segments*. In this situation the application guidance states that an entity may (subject to certain conditions) disclose the required information about those MPMs in the same note used to disclose information about its operating segments. We would suggest that the IASB considers this matter further and provides further clarity on how the proposed disclosure requirements for MPMs interact with measures presented in accordance with IFRS 8, in particular measures for individual segments and the totals of individual segments.

63. In our view, a measure that is disclosed in accordance with IFRS 8 which is then presented elsewhere outside the financial statements, should not also be captured by the additional and separate disclosure requirements for MPMs. Metrics presented in accordance with IFRS 8 are derived from an assessment of how the entity’s management manages the business and are disclosures specified by IFRS Standards. It is not clear, therefore, that requiring the disclosure of further information as required for MPMs will provide helpful information to users of the financial statements.

## 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?***

64. Overall we agree with the IASB's decision not to define EBITDA in the new standard. As noted in the Basis for Conclusions, although it is one of the most commonly used measures of financial performance, it is not used in all industries, and more importantly there does not appear to be any consensus about what it represents or how it should be measured.

65. We agree that having 'operating profit or loss before depreciation and amortisation' as a defined term in the new standard will be helpful, and agree with the decision that this subtotal should not be described as EBITDA.

## STATEMENT OF CASHFLOWS

***Question 13 — statement of cashflows***

***(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?***

66. Yes. We agree with the proposal that operating profit or loss is the starting point for the indirect method of reporting cash flows from operating activities. We also agree with the proposed amendments which specify the classification of interest and dividend cash flows in the cash flow statement.

67. We note that the proposed 'investing' category in the statement of financial performance would include different items compared to the category of the same name within the statement of cash flows. For example, the investing category in the statement of cash flows would include cash flows relating to the buying and selling of PPE, whereas income and expenses relating to the buying and selling of PPE would appear in the operating category on the statement of financial performance. We have heard concerns that this inconsistency might create some confusion, particularly for preparers.

68. However, while we would prefer greater alignment between the statement of financial performance and the statement of cashflows, we do not wish this to delay progress of the current general presentation and disclosures project. Instead, we would encourage the IASB to revisit this matter at a later date, as a separate project. It may be helpful to add this as a matter for consideration in the forthcoming agenda consultation.

69. We also note that the proposed example in paragraph 34D of IAS 7 is not entirely consistent with paragraphs 51 – 52 of the exposure draft. Very broadly, paragraph 34D outlines how an entity whose main business activity is either providing finance to customers or investing activities, must classify in the cash flow statement <u>all</u> interest paid as (a) financing cash flows (if all interest expense is classified as financing in income statement) or (b) either as operating or financing cash flows (ie, in a single category) if some interest expense is classified as operating and some as financing in the income statement.

70. However, an entity whose main business activity is providing finance to customers and is therefore applying proposed paragraph 51 of the exposure draft, would not present <u>all</u> its interest expense in the financing category on the income statement. Similarly, an entity whose main business activity is investing and is therefore applying proposed paragraph 52 of the new presentation standard would be unlikely to present all its interest income in the finance category, unless it all related to non-cash equivalents. We suggest that proposed paragraph 34D might be improved if it is replaced with a numerical example (or perhaps a flow chart) and

demonstrates the more likely situation where all the interest expense for such entities is presented in the operating category on the income statement.

## OTHER COMMENTS

***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?***

### Presentation – columns

71. We understand from the exposure draft that the use of columns would only be prohibited for the presentation of management performance measures in the statement(s) of financial performance. We believe that the use of columns can be helpful when presenting information in the statement(s) of financial performance, for example, for entities such as an investment trust. Indeed, we are not convinced there is a need to prohibit their use even for MPMs and would welcome greater flexibility in this respect.

72. To be clear, if the use of columns is permitted we would still expect there to be a general requirement that if line items do not fit in with the general structure of the statement of financial performance, they can only then be disclosed in the notes. Also, that use of columns must comply with the general principle that sub-totals are made up of items determined in accordance with IFRS.

### Terminology

73. We note that some of the minimum line items outlined in proposed paragraph 65 have lengthy titles/descriptions. Where possible, it might be helpful to consider whether a shortened title could be given, although still keeping the longer description of the line item in question within the standard. This may help preparers and improve comparability between entities ie, as opposed to each entity deciding what title/description to give such line items.

### Transition

74. In general, we agree with proposed transition requirements outlined in the exposure draft. However, we believe it would be helpful for the IASB to clarify whether or not a third balance sheet would be required, when the only material change to the comparative balance sheet relates to the presentation of integral and non-integral associates and joint ventures.

### Drafting

75. There are a number of places within the exposure draft where the requirements are written in a negative way, for example, the requirements relating to specialist entities are expressed as exceptions to the general model. In our view, the overall drafting of the standard would be improved if requirements were expressed in a positive way throughout.

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