CPA Australia Ltd
ABN 64 008 392 452

Level 20, 28 Freshwater Place
Southbank VIC 3006 Australia

GPO Box 2820 Melbourne
VIC 3001 Australia

T 1300 737 373
Outside Aust +613 9606 9677
cpaaustralia.com.au

22 September 2020

Hans Hoogervorst
Chair
International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

Via online submission: www.ifrs.org

Dear Hans

Exposure Draft ED/2019/7: General Presentation and Disclosures

CPA Australia represents the diverse interests of more than 166,000 members working in over 100 countries and regions around the world. We make this submission to the International Accounting Standards Board (IASB) on behalf of our members and in the broader public interest.

CPA Australia appreciates the effort invested by the IASB in developing the ED. We welcome the consultation that takes significant strides towards establishing improved presentation and disclosure requirements to address many of the current shortcomings and challenges identified with presentation in Primary Financial Statements, and associated disclosures.

We broadly support the direction being taken in the ED to improve the structure of the statement of profit or loss and associated disclosures. However, we are of the view that the proposals require further consideration and development to meet the objectives of providing relevant and useful information through improvements to the statement of profit or loss and associated disclosures. We have provided our suggestions in respect of the matters we have identified in our responses to the questions in the ED in the Attachment to this letter.

If you require further information on the views expressed in this submission, please contact Ram Subramanian, Policy Adviser – Reporting, on +61 3 9606 9755 or at ram.subramanian@cpaaustralia.com.au.

Your sincerely

Dr. Gary Pflugrath
Executive General Manager, Policy and Advocacy

Attachment

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?

CPA Australia supports the proposals to present an operating profit or loss subtotal in the statement of profit or loss. This proposal will incorporate within IFRS, a commonly presented metric by entities around the world that prepare IFRS based financial statements.

We agree that, as identified in Paragraph BC237 of the Basis for Conclusions, presenting an operating profit or loss subtotal will be new for some entities. However, establishing this presentation as a requirement will ensure a consistent approach to demarcating the operating profit arising from an entity's main business activities. Please see our response to question 2 below with recommendations in respect of the operating category and the term "main business activities".

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?

Paragraph 46 commences with a requirement for inclusion within the operating category, income and expenses from an entity's main business activities. The paragraph then also states that income and expenses that are not classified under one of the other defined categories in the statement of profit or loss should be classified within the operating category.

We appreciate that the IASB has adopted this dual approach of including both income and expenses that:

- arise from an entity's main business activities; and
- are not classified under one of the other defined categories;

to ensure wide application to entities operating across different sectors and to bring about a degree of consistency in determining the income and expenses included in the operating category. We also note that this proposed definition of the operating category aligns with the definition of operating activities in IAS 7 *Statement of Cash Flows* as "principal revenue-producing activities of the entity and other activities that are not investing or financing activities". Whilst we agree with this proposed approach to the operating category, we suggest the IASB states more clearly in the Basis for Conclusions why this dual approach is necessary.

We also believe some further thought should be given to developing a more robust definition of "operating profit or loss" and "main business activities". We believe entities should give some consideration as to what constitutes their main business activities, and not automatically adopt a residual approach in including all income and expenses that do not belong in one of the other categories, in the operating category.

We note Paragraph 99 (retained Paragraph 138 from IAS 1) requires an entity to disclose a description of its operations and its "main business activities". Arguably, if an entity is able to describe its main business activities as required by proposed Paragraph 99, it should also be able to identify the income and expenses associated with such activities.

We appreciate many businesses have multiple business activities and there is likely to be significant judgement involved in arriving at an accurate classification. We also appreciate that the IASB has attempted to define "main business activities" in the past and has found this challenging. However, we still believe this is a worthwhile exercise, and at the very least, the IASB should seek to develop guidance, including additional examples, to assist entities determine what constitutes their "main business activities". For example, an entity that employs a common pool of assets to support both its main business activities and investment activities (that are not part of its main business activities) would benefit from clear principles and guidance that allows it to classify the income and expenses arising from that pool of assets between those that belong to the operating category and those that belong to the investing category.

If the IASB defines "main business activities" as suggested, with accompanying guidance, the presentation of income and expenses associated with this defined term could be complemented with additional disclosures for an entity to explain the characteristics/criteria it relied on in applying this definition.

Question 3 – the operating category: income and expenses from investments made in the course of an entity's main business activities

Paragraph 48 of the Exposure Draft proposes that an entity classifies in the operating category income and expenses from investments made in the course of the entity's main business activities.

Paragraphs BC58–BC61 of the Basis for Conclusions describe the Board's reasons for this proposal.

Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

We agree with the proposal that entities should classify income and expenses from investments made in the course of the entity's main business activities in the operating category and not in the investing category. However, this will require entities to make judgements about what constitutes their main business activities and what constitutes their investing activities. For example, for some entities that undertake retail franchise operations, the retail operations may be considered their main business activity. However, in addition, the real-estate investments they undertake in order to conduct their retail operations may either be considered as part of their main business activities or part of their investing activities. We believe the definitions, principles and guidance need to be developed further to assist preparers clearly determine what constitutes their main business activities and what constitutes their investing activities.

It is not clear why a similar approach to that proposed in paragraph 51 for entities with financing activities as their main business activities was not contemplated for entities that have income and expenses from investment activities as their main business activity Paragraph 51 of the ED proposes that an entity that provides financing to customers as its main business activity can either treat

- 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.

We suggest the IASB gives further consideration to this matter and provide clarification as to why a different approach is necessary (if appropriate) for entities with investing activities as their main business activities, compared to entities with financing activities as their main business activities.

We note the comment made in paragraph BC57 of the Basis for Conclusions to the ED that "The operating category is designed to include all income and expenses from an entity's main business activities, even if such income or expenses meet the definitions of income or expenses from investing or financing activities". In our view, developing a robust definition of what constitutes an entity's "main business activities" would eliminate the possibility of income and expenses arising from an entity's main business activities meeting the definition of income from investing or financing activities.

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?

Similar to our response to question 3 above, a robust definition of "main business activities" supported by guidance would ensure that any entity that provides financing to customers as a main business activity treats income and expenses arising from this activity under the operating category.

Subject to the above, we agree with the rationale provided in paragraphs BC64-BC66 of the Basis for Conclusions that an entity that may find it difficult to separate income and expenses from financing activities that form part of its main business activity, from income and expenses from financing activities that are not part of its main business activity. The Board also acknowledged in paragraph BC68 that the option proposed in paragraph 51 of the ED could lead to a loss of comparability. We agree with the Board's conclusion that the costs of arriving at an allocation could exceed the benefits.

Whilst we agree with the option proposed in paragraph 51 of the ED for financial institutions such as banks, the option may give rise to challenges in application and a potential loss of information for entities that have multiple main business activities, including a main business activity that gives rise to income and expenses from financing activities. For example, if a furniture manufacturer that also provides financing to its customers (as one of its main business activities) was to choose the option that allows an entity to classify all income and expenses from financing activities and all income and expenses from cash and cash equivalents in the operating category (paragraph 51(b)), it could potentially classify in the operating category, income and expenses arising from financing activities that are unrelated to the provision of financing to customers. If the furniture manufacturer was to fund its manufacturing operations through borrowings and chose to adopt the option provided in paragraph 51(b), the finance costs arising from such borrowings could potentially be allocated to the operating category. We suggest giving further consideration to this matter and clarifying the application of paragraph 51 to avoid inadvertent loss of useful information.

We also highlight additional matters in respect of the proposals relating to entities that provide financing to customers as a main business activity:

- Paragraph 57 of the ED proposes that an entity classifies gains and losses on financial instruments designated as hedging instruments in the same category (operating, investing or financing) as the underlying income and expenses whose risks are being managed through a hedging instrument. It is not clear whether this classification approach equally applies to financial institutions envisaged in paragraph 52, as well as all other entities.

- We seek clarity on how to treat income and expenses that arise from structured notes issued by financial institutions. Should such income and expenses be treated as part of the operating category, or should they be considered as part of the financing category which is subject to an accounting policy choice in paragraph 51?
- Paragraph 56 proposes that an entity should classify foreign exchange differences in the same category as the underlying income and expenses that gave rise to these differences. We are concerned that the cost of complying with this requirement could exceed the benefits that may arise from the allocation. Furthermore, in some cases the allocation may have to be made on an arbitrary basis that could undermine the usefulness of such information. Since foreign exchange differences arise from currency movements, we suggest the IASB considers requiring classification of such differences in the financing 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?

We support the proposal for a separate investing category that includes income and expenses from an entity's investing activities. However, we reiterate our earlier comments about the need for a robust definition of the term "main business activities" and supporting guidance to better operationalise classification of income and expenses between the operating, financing and investing categories.

Using the same overall structure in the Statement of Profit or Loss as is currently used in the Statement of Cash Flows appears a sensible approach. However, the terms "investing" and "financing" have different meanings in the Statement of Cash Flows compared to the proposed description in the Statement of Profit or Loss. This could cause confusion amongst users who do not understand the way in which these descriptions differ between the Statement of Profit or Loss and the Statement of Cash Flows. We suggest that the IASB considers renaming the proposed "investing" and "financing" categories in the Statement of Profit or Loss to avoid such confusion.

The proposed financing category includes income and expenses from cash and cash equivalents. We appreciate that many entities will utilise cash and cash equivalents as finance and in these instances, categorising income and expenses arising from cash and cash equivalents is appropriate. However, in some instances, entities may treat their cash and cash equivalents as investments. For example, an entity may invest surplus cash in short-term deposits for the purpose of earning interest. Under the current proposals there is no scope for an entity to treat such holdings under the investment category. We suggest the IASB considers allowing for the treatment of such holdings under the investment category where appropriate, with adequate disclosure to support such categorisation.

Question 6 – profit or loss before financing and income tax and the financing category

a) **Paragraphs 60(c) and 64 of the Exposure Draft propose that all entities, except for some specified entities (see paragraph 64 of the Exposure Draft), present a profit or loss before financing and income tax subtotal in the statement of profit or loss.**

b) **Paragraph 49 of the Exposure Draft proposes which income and expenses an entity classifies in the financing category.**

Paragraphs BC33–BC45 of the Basis for Conclusions describe the Board's reasons for the proposals.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

We agree with the proposal that all entities, except for those specified in paragraph 64, present a subtotal for profit or loss before financing and income tax in the statement of profit or loss. Many entities currently present an Earnings Before Interest and Taxation (EBIT) subtotal as a non-IFRS measure and we believe the proposed subtotal is similar to the EBIT measure.

Question 7 – integral and non-integral associates and joint ventures

a) **The proposed new paragraphs 20A–20D of IFRS 12 would define 'integral associates and joint ventures' and 'non-integral associates and joint ventures'; and require an entity to identify them.**

b) **Paragraph 60(b) of the Exposure Draft proposes to require that an entity present in the statement of profit or loss a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures.**

c) **Paragraphs 53, 75(a) and 82(g)–82(h) of the Exposure Draft, the proposed new paragraph 38A of IAS 7 and the proposed new paragraph 20E of IFRS 12 would require an entity to provide information about integral associates and joint ventures separately from non-integral associates and joint ventures.**

Paragraphs BC77–BC89 and BC205–BC213 of the Basis for Conclusions describe the Board's reasons for these proposals and discuss approaches that were considered but rejected by the Board. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

We do not support the proposals to define "integral associates and joint ventures" and "non-integral associates and joint ventures" and present them separately in the statement of profit or loss for the following reasons:

- The proposal to present two line items in the statement of profit or loss for the financial results relating to associates and joint ventures accounted for using the equity method places undue importance on these results which is unlikely to be warranted in many cases. Feedback received from our stakeholders indicates there is insufficient demand for these two line items and requiring them to be shown could increase complexity in financial reporting.

- For the reasons set out in paragraph BC82, the IASB decided against including the line item "share of profit or loss of integral associates and joint ventures" within the operating category, instead creating what is essentially a fourth new category for this line item. For the reasons stated above, we do not consider that there is a need for such a prominent presentation.

- The ED proposes to introduce a new term, "integral", that will require the exercise of significant judgement in application. Proposed paragraph 20D of IFRS 12 *Disclosure of Interests in Other Entities* (IFRS 12) sets out criteria for determining whether or not an associate or joint venture is integral, including the existence of "significant interdependency" between the entity's main business activities and the associate or joint venture. Although examples are provided in paragraph 20D on what is meant by "significant interdependency", we do not believe this term, and the term "integral", are sufficiently defined and guided upon to assist in the exercise of necessary judgement to determine whether an associate or joint-venture is integral or non-integral to the main business activities of an entity.

- We believe the requirements in IFRS 12 already adequately address, through disclosures, the information needs that may arise in relation to the results from associates and joint ventures. We suggest the IASB considers, as a separate project, any improvements that may be necessary to the disclosure requirements in IFRS 12 to address identified information needs of users.

We suggest retaining the current requirement in IAS 1 *Presentation of Financial Statements* to present a single line item for the "share of profit or loss for associates and joint ventures accounted for using the equity method". We suggest this line item be included as part of the investing category as, in our view, this category best reflects the results that arise from investments in associates and joint ventures.

For the reasons stated above, we do not support the proposed paragraph 38A in IAS 7 *Statement of Cash Flows* to split cash flows in respect of investments in integral associates and joint ventures from cash flows in respect of investments in non-integral associates and joint ventures. Similarly, we do not support the proposal in paragraph 82 to require two line items for integral and non-integral investments in associates and joint ventures in the statement of financial position.

We also note the IASB has deferred its "equity method of accounting" project until the post implementation reviews of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* are completed. The "equity method of accounting" project may have a bearing on the proposed presentation of financial results and cash flows from associates and joint ventures, and ultimately have bearing on the direction to take in determining how best to present the financial results from investments in associates and joint ventures in the statement of profit or loss, and cash flows from investments in associates and joint ventures in the statement of cash flows. Accordingly, we suggest deferring the proposed presentation of the financial results of "integral" and "non-integral" associates and joint ventures accounting using the equity method, to the "equity method of accounting" project.

Question 8 – roles of the primary financial statements and the notes, aggregation and disaggregation

a) **Paragraphs 20–21 of the Exposure Draft set out the proposed description of the roles of the primary financial statements and the notes.**
b) **Paragraphs 25–28 and B5–B15 of the Exposure Draft set out proposals for principles and general requirements on the aggregation and disaggregation of information.**

Paragraphs BC19–BC27 of the Basis for Conclusions describe the Board's reasons for these proposals. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

We broadly agree with the proposed description of the roles of the primary financial statements and the notes. However, we note that the proposed description of primary financial statements no longer includes "contributions by and distributions to owners in their capacity as owners", which is included in paragraph 9(e) of IAS 1. Whilst we appreciate the reference to "equity" in the proposed description could incorporate the omitted term, we suggest reinstating this omission from the proposed description as we believe it is important for users to know both movements in equity during the period as well as the balances at the period-end.

Proposed paragraph 11 states that "The statements described in paragraphs 10(a)–10(d) are referred to as the *primary financial statements*". Proposed paragraph 10(f) refers to "comparative information in respect of the preceding period as specified in paragraphs 34–35" as a component of a complete set of financial statements. Proposed paragraph 11 as currently drafted therefore appears to exclude comparative information from the description of primary financial statements, although such information is part of a complete set of financial statements. Proposed paragraph 35 (extant paragraph 38A of IAS 1) states that "An entity shall present, as a minimum, a current reporting period and preceding period in each of its primary financial statements and in the notes". This statement appears to indicate that comparatives are part of both primary financial statements and the notes. We are of the view that comparative information presented as part of the primary financial statements are an inherent part of those primary financial statements, and accordingly, we suggest amending proposed paragraph 11 to include paragraph 10(f).

We broadly agree with the proposals for principles and general requirements on aggregation and disaggregation of information presented in the primary financial statements and disclosed in the notes.

We agree with the proposed paragraph 25(c) that "aggregation and disaggregation in the financial statements shall not obscure relevant information or reduce the understandability of the information presented or disclosed". Paragraph 27 states that immaterial information aggregated using a non-descriptive label such as 'other' to describe a group of such items would not faithfully represent those items without additional information, and along with paragraph 28, sets out requirements for addressing such aggregated information. Since the items aggregated are immaterial, we do not agree with the assertion that a description such as 'other' would not faithfully represent those underlying items without additional information. In fact, we believe that providing additional information in the notes as proposed in paragraph would be counter to the definition of materiality and has the potential to obscure relevant information as described in paragraph 25(c).

Question 9 – analysis of operating expenses

Paragraphs 68 and B45 of the Exposure Draft propose requirements and application guidance to help an entity to decide whether to present its operating expenses using the nature of expense method or the function of expense method of analysis. Paragraph 72 of the Exposure Draft proposes requiring an entity that provides an analysis of its operating expenses by function in the statement of profit or loss to provide an analysis using the nature of expense method in the notes.

Paragraphs BC109–BC114 of the Basis for Conclusions describe the Board's reasons for the proposals.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

We agree with the proposed requirements and application guidance on whether an entity should present its operating expenses using the nature of expense method or the function of expense method. Providing an analysis of operating expenses using either the nature of expense method or the function method will ensure consistency and reflect the most appropriate method of analysis that provides the most useful information.

Whilst we agree with the approach in paragraph 68, we note that in practice, and as highlighted in paragraph BC110, many entities use a mixture of both methods presumably because they believe such a method provides the most useful information of their operating income and expenses. We suggest the IASB undertakes further research to establish the prevalence of the mixed method of analysis and why entities consider such an approach provides more useful information.

We also note that although paragraph B46 appears to restrict entities to presenting operating expenses using one method or the other, paragraph B47 requires the presentation of line items specified in paragraph 65, which can result in a mixed method of presenting operating expenses. To overcome the potential conflict between paragraphs B46 and B47, we suggest the IASB introduces a rebuttable presumption that entities will adopt the most appropriate method (nature or function) based on the criteria set out in paragraph B45.

We do not agree with the proposal that an entity that presents its operating expenses using the function of expense method should disclose in a single note, an analysis of its total operating expenses using the nature of expense method. As noted in paragraph BC113, the proposed requirements may prove costly to implement for entities that have implemented accounting systems and procedures to capture information that allows for presentation of operating expenses using the function of expense method. Feedback received from our stakeholders questions the purported benefits to users identified in paragraph BC111 and indicates that the costs of preparing and providing the additional information could exceed any benefits. We are also concerned that if an entity always has to prepare and present operating expenses using the nature of expense method, either on the face of the statement of profit or loss or in the notes, there is a risk that entities will default to this method even if the function of expense method is more appropriate in their circumstances. To address these concerns, we suggest the IASB retains the current requirement in paragraph 104 of IAS 1 that "an entity classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense" and revisit this matter during the post-implementation review phase.

Question 10 – unusual income and expenses

a) **Paragraph 100 of the Exposure Draft introduces a definition of 'unusual income and expenses'.**
b) **Paragraph 101 of the Exposure Draft proposes to require all entities to disclose unusual income and expenses in a single note.**
c) **Paragraphs B67–B75 of the Exposure Draft propose application guidance to help an entity to identify its unusual income and expenses.**
d) **Paragraphs 101(a)–101(d) of the Exposure Draft propose what information should be disclosed relating to unusual income and expenses.**

Paragraphs BC122–BC144 of the Basis for Conclusions describe the Board's reasons for the proposals and discuss approaches that were considered but rejected by the Board. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

We agree with the proposal for entities to disclose unusual income and expenses. However, we believe the IASB needs to undertake further work in order to better operationalise the disclosure of unusual income and expenses. Concerns identified with the current proposals, include:

- We agree that separate identification and disclosure of unusual items is necessary as they have limited predictive value. However, we do not agree with the proposition that unusual items will not have a multi-period effect. For example, many entities that are dealing with the COVID-19 crisis are likely to incur expenses that could be characterised as unusual, and it is entirely possible that such expenses could be incurred over more than one reporting period. We suggest the definition of "unusual" is modified to cater for the occurrence of unusual items over multiple periods.
- Paragraph B69 states that income and expenses could be characterised as unusual due to their type and/or amount. We suggest clarifying how an entity could determine whether an item of income/expense can be considered unusual by amount and highlight below two specific areas for further clarification:
  - Although paragraph B72 states that income and expenses from recurring measurement of items measured at current value would not normally be classified as unusual, it seems to contradict paragraph B69 that states "unusual by amount is determined by the range of outcomes reasonably expected to arise for that income or expense in several future accounting reporting periods". We suggest clarifying this potential contradiction.
  - Certain events could cause significant increases or decreases in the amount of standard line items included in the statement of profit or loss, which could lead to such line items being treated as "unusual by amount". For example, during the current COVID-19 pandemic, an entity may experience a significant drop in revenue which could be considered unusual by amount. Would this mean that the revenue for the period would need to be disclosed as an unusual item?
- We do not agree with the proposal in paragraph B70 that income and expenses be treated as unusual based on expectations about the future rather than past occurrences. This suggests that the reporting and disclosure of

unusual items are potentially based on forward-looking expectations that such items will not recur in the future. Such assessments are likely to be extremely difficult to make, particularly if the unusual items arise out of circumstances outside an entity's control (e.g. the COVID-19 crisis).

- Paragraph B74 states "when an entity discloses comparative information about unusual income and expenses it shall only classify amounts that met the definition of unusual income and expenses in the comparative period as unusual income and expenses". We presume the expectation is that comparative information will be presented for unusual items of a similar nature and not dissimilar nature. We suggest clarifying paragraph B74 to address this uncertainty.

In our view, entities that disclose unusual items of income/expense should also be required to disclose the tax effect of such unusual items (similar to the requirement to disclose the tax effect for management performance measures in paragraph 106(c)). We note that the Illustrative Example for unusual items includes disclosure of the tax effect, which suggests the IASB intended for the disclosure of tax effect to be made.

We note paragraph 87 of IAS 1 that prohibits the presentation of extraordinary items has been omitted from the ED. Although paragraph BC128 reflects the Board's expectation that "…as a result of proposals for categories in the statement of profit or loss, entities would be required to classify all income and expenses in one of the categories and would be prohibited from creating a separate category for extraordinary items". Whilst we appreciate the Board's view, we believe there is merit in retaining the current paragraph 87 of IAS 1 that expressly prohibits the presentation of extraordinary items.

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?

We welcome the IASB's proposals to introduce 'management performance measures' (MPM) into IFRS. It is common practice for companies to include non-IFRS information within financial statements and the proposal to introduce MPM into IFRS can potentially improve the quality of such information by ensuring consistency and understandability of that information.

However, we do not believe the IASB has developed the proposals for MPM sufficiently to address the common concerns expressed with non-IFRS information. The introduction of MPM as proposed may result in different types of information associated with financial reporting being reported, including:

- IFRS based information.
- MPM
- Non-IFRS information that is not considered MPM as per paragraph B80
- Information required by local laws and regulations in some jurisdictions

We note the reasons stated by the IASB in paragraph BC154 as to why it restricted the definition and requirements relating to MPM to subtotals of income and expenses, and why it was not extended to address other financial and non-financial measures. This effectively gives rise to two types of non-IFRS information, MPM and other non-IFRS information that is not defined as MPM, including those highlighted in paragraph B80. Whilst we appreciate the challenges associated with more comprehensively addressing all non-IFRS information, it is our view that the proposed definition of MPM only partially addresses the concerns that have been raised in respect of non-IFRS information. Accordingly, we suggest the IASB undertakes a separate project to more comprehensively address this matter.

Defining MPM as information used in public communications outside financial statements can present audit challenges. Whilst the audit of financial statements that include disclosures of MPM information reconciled back to IFRS based subtotals is feasible, the audit of the completeness of that MPM information which has been included in public communications outside financial statements can be much more challenging. Although we appreciate the audit of IFRS based financial statements is not a primary consideration for the IASB, verifiability is an enhancing qualitative characteristic of IFRS based information as stated in the *Conceptual Framework for Financial Reporting*. To avoid the challenges for the auditor of identifying all public communications in which MPM have been disclosed outside financial statements, we suggest the IASB include a definition of public communications so that auditors can identify the ambit of sources of such MPM for which they need to search in auditing the MPM. We suggest that this issue is also included as part of the discussion around MPM in the Basis for Conclusions.

Whilst paragraph B79 provides examples of public communications as including subtotals "in management commentary, press releases or in investor presentations", if the IASB decides to proceed with the definition of MPM as proposed, we suggest the IASB clearly identifies what is meant by the term "public communications" including a more comprehensive consideration of what constitutes such public communications and when such public communications could be published (at the same time as the financial statements or at another time). If public communications are not defined in this way, auditors may need to include in their reports a list of MPM that they could identify. They may also need to issue a limitation of scope qualification in respect of their audit of MPM contained in public communications outside the financial statements. We would encourage the IASB to outreach to the International Auditing and Assurance Standards Board (IAASB) to explore the audit ramifications of the inclusion of MPM disclosures as proposed.

Neither **Question 11** nor **Question 12** requests feedback in respect of the proposals relating to the list of measures *not* considered to be MPMs as described in paragraph 104. Paragraph 104 states that the items listed in the paragraph are "subtotals specified by IFRS standards". However, as far as we are aware, neither gross profit or loss (paragraph 104(b)) nor operating profit or loss before depreciation and amortisation (paragraph 104(c)), is a subtotal specified by IFRS standards. We suggest providing further clarification on the items included in paragraph 104 and why they should be considered as subtotals specified by IFRS standards.

Subject to the preceding, we agree with the proposals in paragraphs 104(b) and B78 that subtotals representing the difference between a type of revenue and directly related expenses incurred in generating that revenue should not be considered MPM (e.g. gross profit, as stated in paragraph(b)). We suggest that instead of paragraph 104(b) referring to "gross profit or loss (revenue less cost of sales) and similar subtotals (see paragraph B78)", paragraph 104(b) should be amended to state "subtotals representing the difference between a type of revenue and directly related expenses incurred in generating that revenue (see paragraph B78)". This should allow for a more principled approach to the requirement.

Additional presentation/disclosure requirements are often established by local laws and regulations to address information needs specific to those jurisdictions. For example, in Australia, AASB 1054 *Australian Additional Disclosures* requires specific disclosures to be made in financial statements in addition to IFRS based information. Whilst it is likely that such jurisdiction-based additional disclosure requirements are unlikely to be considered MPM, we suggest the IASB clarifies that such information should not be considered MPM or other non-IFRS information, as long as that information does not undermine compliance with IFRS standards.

We have highlighted below, some conflicts identified within the requirements guidance relating to MPM that we believe should be addressed:

- Paragraph B79 states that only subtotals that management uses in communications outside financial statements meet the definition of MPM. This suggests that if management does not disclose such information in communications outside financial statements, this will not meet the definition of MPM. To address this, we suggest removing the word "only" at the beginning of paragraph B79.
- Paragraphs 109 and B81 state that a subtotal presented in the statement(s) of financial performance to comply with paragraph 42 may meet the definition of MPM. However, paragraph 43(a) states that when an entity presents additional subtotals in accordance with paragraph 42, those subtotals shall comprise line items made up of amounts recognised and measured in accordance with IFRS standards.
- Paragraph 106(b) requires disclosure of a reconciliation between MPM and the most directly comparable subtotal or total included in paragraph 104. We presume paragraph 104 does not provide a comprehensive list as it refers to information that could include items listed in that paragraph. This suggests that there may be other items not listed in the paragraph and could imply that the disclosure requirements of paragraph 106(b) will not apply to items not listed in paragraph 104. To address this, we suggest changing the introductory sentence to paragraph 104 to "Subtotals specified by IFRS Standards that are not management performance measures are:".

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?

Paragraph BC172 explains the reasons why the IASB does not define earnings before interest, tax, depreciation and amortisation (EBITDA) and that such information may meet the definition of MPM. While we acknowledge the IASB's reasons for not addressing EBITDA as part of the MPM proposals, we believe that EBITDA is a pivotal measure used by investors and other stakeholders for investment decision-making purposes including business combination and divestment decisions. We believe the IASB should undertake to develop a definition for this frequently used measure, or at least provide a detailed description of what EBITDA is, or should be. Further elaboration on EBITDA would reduce diversity in practice, which in turn will enhance the confidence of users of financial statements.

Question 13 – statement of cash flows

a) **The proposed amendment to paragraph 18(b) of IAS 7 would require operating profit or loss to be the starting point for the indirect method of reporting cash flows from operating activities.**
b) **The proposed new paragraphs 33A and 34A–34D of IAS 7 would specify the classification of interest and dividend cash flows.**

Paragraphs BC185–BC208 of the Basis for Conclusions describe the Board's reasons for the proposals and discusses approaches that were considered but rejected by the Board.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

We support the proposal to require operating profit or loss to be the starting point for the indirect method of reporting cash flows from operating activities. We also support the proposal to specify the classification of interest and dividend cash flows. These proposals are likely to enhance consistent presentation of such information and remove divergence in practice when presenting that information.

Although not directly relevant to Question 13, we have made comments in our responses to Question 2, Question 5 and Question 7 above that relate to the proposals surrounding the statement of cash flows. We request the IASB take these comments into consideration.

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?

- **Challenges and potential costs of distinguishing between the investing and financing category.**
- **Whether any audit and assurance issues arise?**
- **Disclosures for unusual income and expenses?**
- **Delay due to current circumstances? [Board Meeting coming up – decisions will be made soon.]**

Paragraph 114 proposes the final Standard will apply to financial reporting periods beginning 18-24 months from the date of publication [of the Standard]. We do not believe a maximum period of 2 years from the date of publication of the Standard will provide enough time for stakeholders to prepare for what constitutes a major change to the presentation of the statement of profit or loss and associated information and disclosures. We note that the IASB has allowed a longer transition period for recent major IFRS standards. IFRS 15 *Revenue from Contracts with Customers* was published on 25 May 2014 and became effective on 1 January 2018 (approximately 43 months) and IFRS 16 Leases was published on 13 January 2016 and became effective on 1 January 2019 (approximately 35 months). We suggest the IASB sets an effective date for the new Standard to commence 36-48 months from the publication of the Standard.

The current COVID-19 pandemic has highlighted shortcomings relating to the going concern assessment and disclosures. The current requirements relating to the going concern assessment do not address the accounting approach when the going concern basis does not apply. Although we have no objection to moving the requirements relating to the going concern assessment and disclosures from IAS 1 to IAS 8 *Accounting Policy, Changes in Accounting Estimates and Errors* we believe further improvements can be made to both these disclosures. Whilst we appreciate improvements to the going concern assessment and disclosures are not part of this project, we suggest the IASB establish a separate project to explore improvements to these disclosures.

The ED proposes limited amendments to the statement of other comprehensive income in paragraphs 74-76, but otherwise makes no further recommendations for improving this element of the primary financial statements. In our submission in response to Exposure Draft ED/2015/3: Conceptual Framework for Financial Reporting, we recommended that the IASB introduce conceptual clarity between the statement of profit or loss and the statement of other comprehensive income. This ED proposes to introduce structural and definitional improvements to the statement of profit or loss but does not propose any significant improvements to the statement of other comprehensive income. We appreciate the scope of the proposals in this ED are already very broad and far-reaching, and further proposals on improvements to the statement of other comprehensive income could have made the consultation unwieldy and more complex. Therefore, we suggest the IASB initiates a separate project to address improvements to the statement of other comprehensive income.