

30 September 2020

Hans Hoogervorst
Chair
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

Dear Mr Hoogervorst

Exposure Draft 2019/7 – General Presentation and Disclosures

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's ('the IASB's') exposure draft General Presentation and Disclosures.

We support the Board's initiative to improve how information is communicated in the financial statements, in particular the information included in the statement of profit or loss.

However, we strongly disagree with the proposals on unusual items and on management performance measures (MPMs). In both cases, we have serious reservation on whether the proposals could indeed be operationalised. In the case of the proposals on unusual items, we are deeply concerned with the implication that the resulting information could be predictive or complete because it would be based on a highly judgemental and unverifiable assessment by management of the future occurrence of events including those outside its control. In the case of the proposals on MPMs, we do not believe that the Board should mandate or promote the inclusion of alternative performance measures within the financial statements. In our responses to Questions 10 and 11, we suggest alternatives that would allow management to provide information they consider relevant to an understanding of the entity's performance.

We support the objective of improving comparability. However, we believe that this objective will be achieved only if the underlying principles for the determination of the operating category proposed for the statement of profit or loss are expressed more clearly. While we support the proposals that result in including in the operating category all income and expenses of an entity except those that belong in the narrowly defined other categories, we are concerned that this concept is not expressed as clearly as it could. In particular, we believe that the definition and the purpose of identifying what constitutes an entity's main business activities could be clarified. This appears fundamental as it determines whether income and expenses that would otherwise meet the criteria to be classified in investing or financing activities should instead be classified in operating activities.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte Touche Tohmatsu Limited is a private company limited by guarantee incorporated in England & Wales under company number 07271800, and its registered office is Hill House, 1 Little New Street, London, EC4a, 3TR, United Kingdom.

© 2020 . For information, contact Deloitte Touche Tohmatsu Limited.

With respect to the classification of items in the statement of profit or loss, we disagree with two proposals. First, we disagree with the proposals on classification of income and expenses from joint ventures and associates. We believe that the concept of “integral” vs “non-integral” is defined too vaguely and imprecisely such that it will undermine the Board’s objective of improving comparability. We do not believe that it would be possible to identify an alternative that would provide a consistent and relevant distinction of types of joint ventures and associates. This is why we propose that all income and expenses from joint ventures and associates should be classified in a single, separate category.

We also disagree with the proposal to present income and expenses from cash and cash equivalents as part of financing activities. We believe that because cash and cash equivalents are generally assets, a classification as part of investing activities would improve the understanding of investing and financing activities.

We have provided more detailed comments in response to the questions in the appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

A handwritten signature in black ink, appearing to read 'V. Poole', is positioned above a faint, light-colored rectangular stamp or watermark.

Veronica Poole
Global IFRS Leader

Appendix 1

Question 1—operating profit or loss

Paragraph 60(a) of the Exposure Draft proposes that all entities present in the statement of profit or loss a subtotal for operating profit or loss.

Paragraph BC53 of the Basis for Conclusions describes the Board's reasons for this proposal.

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

We support the requirement for all entities to present a subtotal for operating profit or loss in the statement of profit or loss for the reasons stated in the Basis for Conclusions (BC). We note that this subtotal is frequently presented by entities. Requiring its presentation will facilitate the comparison of this key metric between entities. However, this key objective of the project will only be achieved if the composition of the proposed operating category is well defined. Our comments in response to the questions that follow address our concerns with certain aspects of the ED that may hinder comparability.

Question 2—the operating category

Paragraph 46 of the Exposure Draft proposes that entities classify in the operating category all income and expenses not classified in the other categories, such as the investing category or the financing category.

Paragraphs BC54–BC57 of the Basis for Conclusions describe the Board's reasons for this proposal.

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

We agree with the end result that the operating category is comprised of all income and expenses of an entity except for those that belong in the narrowly defined other categories, in particular the investing and financing categories.

However, we believe that this concept could be better explained. We note that paragraph 46 of the ED appears to start by providing a positive definition of the operating category indicating that it consists of income and expenses from an entity's main business activities, before introducing the explanation that in fact the operating category is a residual of income and expenses not classified as investing or financing (as is further explained in the BC). Further confusion arises because paragraph BC57 indicates that the operating activities may include elements that meet the definition of income or expenses from financing or investing activities if these relate to an entity's main business activities.

We understand that the need to identify whether an entity's activity forms part of its term "main business activities" is required to introduce exceptions to the definition of investing and financing (i.e. those situations listed in BC57 that result in classifying within operating activities income and expenses that otherwise meet the definition of financing or investing activities).

In contrast, the term "main business activities" does not appear to be aimed at distinguishing principal and secondary "revenue" generating activities (because of their quantum or frequency) as part of a positive definition of operating activities. For example, an entity that sells goods to customers may offer financing to customers. We understand from the ED that income (revenue) earned from both categories of performance obligations (sale of goods and financing) would be included in operating activities because neither meet the definition of investing or financing activities. Hence, whether or not providing financing to customers is a "main business activity" is not relevant to the conclusion that these should be included in operating activities. However, whether providing financing to customers represents a main business activity is relevant in assessing if the entity should classify some of the income and expenses related to raising financing as part of operating activities applying paragraph 51 (see further discussion in our response to question 4)

If our understanding is correct, we strongly suggest that the Board should clarify that operating activities are comprised of all income and expenses except those that meet the narrow definition of investing and financing (or equity method investment, income tax and discontinued operations) without reference to the

fact that it includes information about income and expenses from an entity's main business activities. While it is true that income and expenses from an entity's main business activities are included in operating activities, this does not appear to be a criterion to define operating activities.

We also suggest that the reason why it is important to identify an entity's "main business activities" should be more clearly explained (i.e. it is needed as part of the narrow definition of investing and financing activities). Guidance to establish an entity's main business activities should be provided (refer to our response to Question 3).

We also believe that the Board should clearly state where to present certain items that do not appear to fit clearly in any category. These include

- Gains and losses on disposal of assets such as items of property, plant and equipment and intangibles. As long as the related items are used as part of an entity's operations, associated items such as depreciation, impairment losses or reversal of impairment losses would be included within operating activities. However, the gain or loss on disposal of the item can be viewed as meeting the definition of investing (it is generated individually and largely independently of other resources held by the entity). If this is correct, it would be useful to include this clarification in the standard along with a clarification of the point in time when the gains and losses cease to be included in operating and become part of investing. For example, does this occur once the item meets the criteria to be classified as held for sale in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*?
- Gains and losses while holding investment property, if the business reason for holding an investment property is capital appreciation and this constitutes a main business activity. Applying paragraph 47, if an entity determines that holding investment properties is a main business activity, it would include the gains and losses as part of operating activities rather than as part of investing activities. Does this extend to all gains and losses on the investment properties or only those that the entity considers part of its main business activity?
- Gains and losses on remeasurement to fair value upon certain changes in ownership interests (e.g. remeasurement at fair value of a previously held interest upon gaining control).

Finally, we believe that it would be appropriate to clarify how to account for a change in an entity's main business activities that may trigger changes in classification of certain items. For example, if an entity ceases providing financing to customers as a main business activity, should it continue applying the requirement of paragraph 51 to include some or all of its own financing income and expenses in operating until the date of the change in its business activities? We presume this would be the case since such a change results from a change in facts and circumstances and not from a change in accounting policy requiring restatement of prior results. Nevertheless, clarification would be useful.

We believe these changes are necessary to achieve the objective of comparability of operating profit or loss, a key metric to compare entities.

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 proposals for the reasons provided in the BC. However, as indicated in our response to Question 2, in order for operating profit or loss to provide useful information (a key objective as explained in paragraph BC58), it is necessary to provide guidance on what constitutes a main business activity as this is a source of judgement that will potentially significantly affect whether certain income and expenses are included in operating activities rather than in investing or financing activities. Currently, paragraph B31 simply notes that if applying IFRS 8 *Operating Segments* an entity reports a segment that constitutes a single business activity, this may indicate that an activity is a main business activity but it does not provide

further indication why it may or may not be the case. We suggest that the information that an entity provides when applying the requirements of paragraph 114 of IFRS 15 *Revenue from Contracts with Customers* may also be relevant in identifying what are the entity's main business activities. We note that the definition of a customer provided in IFRS 15 refers to an entity's "ordinary activities". If "main business activities" and "ordinary activities" are meant to refer to the same concept, we suggest that the same term should be used. If these are different concepts, it would be useful to explain how they differ.

As the determination of an entity's main business activities plays a significant role in classifying certain items of income and expenses, to promote consistency of classification of items over time, we believe that it would be useful to clarify when an entity is permitted or required to reassess what are its main business 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?

We agree that it is appropriate to allow entities that provide financing to customers as a main business activity an accounting policy choice to classify in the operating category income and expenses from financing activities, and from cash and cash equivalents that relate to the provision of financing to customers. However, we do not believe that it would be appropriate to include in operating activities all income and expenses from financing activities and from cash and cash equivalents.

We believe that the operating category is a critical category and should not include amounts that clearly fit in the financing or investing category.

We understand that the proposal to permit all income and expenses from financing activities to be included as part of operating activities is aimed at addressing situations where an entity that has more than one main business activity is unable without undue cost or effort to distinguish financing activities that relate to providing financing to customers from financing activities that relate to the entity's other activities. We would expect that if it is relevant to the analysis of the performance of its "financing to customers" business activity, the entity should be able to identify financing activities that relate directly to that activity. Therefore, if an entity is unable to distinguish its financing activities related to providing financing to customers, we believe that the entity should include all income and expenses related to its financing activities as part of financing activities and all income and expenses from cash and cash equivalents in investing activities (see our response to Question 6).

We believe that entities that provide financing to customers as a main business activity should be permitted, but not required, to include income and expenses from financing activities and from cash and cash equivalents that relate to the provision of financing to customers in operating activities. This will allow entities that believe that this is relevant to an analysis of their operating activities, and have put in place

appropriate systems that allow them to identify the related financing activities, to present operating activities accordingly.

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 agree with the proposals for the reasons provided in the BC. Our comments in response to Question 3 related to the need to provide clearer guidance on what constitutes a main business activity are also relevant here. Please also note our comments in response to Question 6 in which we suggest that income and expenses from cash and cash equivalents should be classified as part of investing activities rather than financing activities.

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

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

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

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

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

We agree with the proposal to require entities (with limited exceptions) to present a profit or loss before financing and income tax subtotal in the statement of profit or loss. As indicated in paragraph BC34, this subtotal provides a useful basis for comparing the performance of entities independently of how it is financed.

However, we do not agree with the proposal in paragraph 49(a) that income and expenses from cash and cash equivalents should generally be included in financing activities. We acknowledge that the discussion in the paragraphs BC39–40 demonstrates that there are valid arguments supporting this proposal.

However, on balance, we believe that income and expenses from cash and cash equivalents should be presented as part of investing activities. Because cash and cash equivalents are generally assets, we believe that this classification would simplify the understanding of financing activities (broadly, income and expenses related to an entity’s liabilities) and investing activities (broadly, income and expenses related to an entity’s financial assets). We also believe that including income and expenses from cash and cash equivalents as part of investing activities has the merit of including in the same category income and expenses from cash equivalents and from other very liquid investments that share many characteristics with, but fail the narrow definition of, cash equivalents.

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 agree with the proposals to require entities to distinguish ‘integral associates and joint ventures’ and ‘non-integral associates and joint ventures’. We believe that this proposal undermines a key objective of this project which is to improve comparability in the presentation and subtotals in the statement of financial performance. We believe that the concept of “integral” vs “non-integral” proposed in the ED is defined too vaguely and imprecisely such that the classification will be highly judgemental. We note that the definition of integral associates and joint ventures appears to indicate that these are integral to the main business activities of an entity such that they do not generate a return individually and largely independently of the other assets of the entity. It is not clear whether this definition involves a “double test” based on both the nature of the activities of the investee and the interdependence of returns. We note that IFRS 12:20D appears to focus on the former as being key. However, we question whether this is the most relevant basis to distinguish different types of equity method investees, especially because some of the examples provided in 20D appear to illustrate a degree of reliance of the entity on its investees (integrated lines of business and business relationships that cannot be replaced without significant business disruption) that is generally not encountered between an entity and its associates. Accordingly, we doubt that the application of the definition will produce relevant information.

However, we cannot identify an alternative that would provide a consistent and relevant distinction of different “types” of joint ventures and associates.

Different reasons explain the difficulties in identifying criteria that establish a different classification of some joint ventures and associates. We believe that it would be difficult to identify a single set of criteria that would apply to joint ventures and associates because joint ventures and associates are significantly different. Because joint ventures are subject to joint control, joint venturers are typically deeply involved in the management of the operations, making the activities of a joint venture more likely to be akin to the activities of a subsidiary (i.e. closer to operating activities). The limited influence of an entity over its associates in many cases may indicate that an investment in an associate is more akin to the investment in a financial asset in the scope of IFRS 9 (i.e. better suited to a classification within investing activities). However, both for joint ventures and associates, there are exceptions to the nature of their activities and we do not believe that it would be appropriate to require all joint ventures to be classified within operating activities and all associates within investing activities. Further, the relationship between the activities of the entity and those of its joint ventures and associates may change over time, introducing a risk of lack of comparability of performance over time.

The measure of performance resulting from the application of the equity method is another key reason why joint ventures and associates do not fit neatly within any of the categories (operating, investing or financing). This is because, as a net number, the share of profit or loss from equity method investments combines income and expenses that arise from the operating, investing and financing activities of the joint ventures and associates.

To promote comparability, we suggest that income and expenses from joint ventures and associates should be presented in a separate category, immediately following operating activities. A subtotal “operating profit

or loss and income and expenses from joint ventures and associates” would be presented. Overall this presentation would be similar to the presentation proposed in the ED with respect to integral associates and joint ventures, but would apply to all associates and joint ventures. Within the separate category, income and expenses from joint ventures would be presented separately from income and expenses from associates. We believe this distinction is warranted because of the significance of the difference between joint control and significant influence. An entity would be allowed to further disaggregate associates and/or joint ventures within the separate category provided the requirements on disaggregation in paragraphs 25-28 are met. If relevant, an entity could provide further information on its joint ventures and associates, in the notes to its financial statements, for example those joint ventures and associates that it considers “core” to its operations or another descriptive the entity considers relevant.

If the Board retains the proposals in the ED, we believe that the concept of interdependency of returns used in the definition of “integral” will need to be more clearly explained. Currently, the interdependency of the entity and its associates or joint ventures is described in IFRS 12:20D solely in terms of the nature of operations. Incorporating in the main standard the discussion in BC85 would be helpful in that regard. We note that IFRS 12:20B explains that the entity should change the classification of a joint venture or associate as integral or non-integral only if the relationship changes. Because the classification of a joint venture or associate as integral or non-integral relies on the identification of an entity’s main business activities, guidance on reassessment of these main business activities as mentioned in our response to questions 2 and 3 will be important to promote consistency in classification over time and to prevent opportunistic reclassification when a joint venture or associate previously classified as “integral” becomes non-performing (or vice-versa).

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?

While we generally agree with the proposals for the reasons stated in the BC, we note that the requirements in paragraph B15 appear inconsistent with the proposals on unusual items in paragraph 100. Paragraph B15, brought forward unchanged from IAS 1, sets out certain circumstances or transactions that would give rise to separate presentation in profit or loss. However, it is not clear why separate presentation of these items is required. Some of the examples listed in paragraph B15 are arguably of a recurring nature (such as inventory write downs) whereas others appear to be possibly non-recurring such as restructurings. Accordingly, paragraph B15 appears to require the separate presentation in profit or loss of items that would not qualify as unusual in the notes to the financial statements.

We also note that disclosures of some of the items listed in paragraph B15 are already required by other standards, such as IAS 2 and IAS 36.

Further, as noted in our response to Question 9, the separate presentation of the items in B15 is incompatible with a presentation by function and therefore contributes to the problem of mixed presentation that the Board is attempting to address in the project.

Accordingly, we suggest that the Board should reconsider whether the requirement to present separately the items in paragraph B15 continues to be relevant and if so, explain the basis for this conclusion.

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 proposals and welcome the additional guidance provided to help an entity assess whether to present an analysis of operating expenses by nature or function. Although the choice provided may hinder comparability between entities, we note that even though the presentation by nature may provide more useful information in many situations as explained in paragraph BC111, this is not the case in all industries and some entities believe strongly that their results are more relevant when operating expenses are presented by function.

We note that paragraph B47 specifies that the lines required by paragraph 65 must be presented in the statement of profit or loss regardless of the method of analysis of expenses used. We also note that one of these lines is cost of sales (in paragraph 65(a)(vii)). However, paragraph 71 appears to indicate that the cost of sales is required to be presented separately by entities applying the function of expense method. Hence, we believe that the Board should clarify when the presentation of a cost of sales is required. We believe that this should be the case only if an entity presents an analysis of expenses applying the function of expense method.

We also note that paragraph B15 requires an entity to either present separately in the statement of financial performance or disclose in the notes certain items of income and expenses (e.g. write-down of inventories or plant and equipment, restructuring, etc.). The separate presentation of these items is only compatible with an analysis of expenses applying the nature of expense method. For example, applying the function of expense method, write-down of inventories would be included in cost of sales instead. These items are not included as part of the exception to the mixed presentation of expenses in paragraph B47. Hence, the Board should clarify whether an entity that presents an analysis of expenses applying the function of expense method is permitted to present separately the line items in paragraph B15 (this would require extending the exception in paragraph B47 to encompass paragraph B15) or whether such entities are only permitted to present the items in paragraph B15 in the notes to the financial statements (if this is the case, this should be clarified in paragraph B15). We believe that the former would be appropriate.

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 that an entity should not be allowed to present items as being unusual on the face of the income statement unless the criteria for disaggregation in paragraphs 25–28 are met. We also agree that an entity should be allowed to identify in the notes to the financial statements items that are unusual and therefore not expected to recur. In fact, we believe that this is consistent with the principle in paragraph 9 of IAS 1

Presentation of Financial Statements that financial statements “assists users of financial statements in predicting the entity’s future cash flows and in particular, their timing and uncertainty” and the requirements in IAS 1:112(c) that the notes shall “provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.”

However, we strongly disagree that such information could be portrayed as being predictive or complete.

Preparers and auditors will encounter difficulty in asserting as to the completeness or accuracy of the identification of unusual items if the definition is based on the expectation that these events will not occur in the future. The assessment of whether it is reasonable that an item will not arise for several future annual periods is highly judgemental and not based on verifiable information including in respect of the future occurrence of events outside an entity’s control.

We also question whether the items chosen to illustrate the application of the proposed requirements (tax reform, restructuring, reversal of write-down of inventory and unusual litigation expense) in the Illustrative Examples would in fact generally meet the definition of unusual items. For example, on what basis could an entity develop a reasonable expectation that another tax reform will not affect its operations for several annual periods (may be in a different jurisdiction)? Also, in the Illustrative Examples, it appears that litigation expense has been deemed unusual because of the event (mislabelling of products) that gave rise to the litigation. While it may be reasonable for an entity to expect mislabelling not to recur for several years, this does not appear a sufficiently valid reason to assess the litigation expense as unusual since legal expenses are a recurring item for many entities (although the source of the litigation may change).

Further, we believe that application of the proposals may give users the impression that the resulting information provides a reliable measure of normalised profit to be expected in the future. This is unrealistic as it is likely that each period will bring its own unusual items.

If the Board believes that it is necessary to bring further discipline on disclosure of unusual items, we suggest that it could provide guidance on identification of such items (or events). Indeed, we believe that management should be allowed to provide an analysis of the entity’s performance in the period by highlighting items or events that are unusual based on their size and/or nature. However, we do not believe that this information should be required except if needed to ensure that the financial statements are understandable. If the Board pursue the requirement to present unusual items, we believe that the assessment of whether an item or event is unusual should be based on the past (i.e., has a similar item of this size or nature occurred in the past) as this is less judgemental and is verifiable. The historical period used to assess whether an item is unusual should be defined by management. We expect that this period would vary depending on factors such as the industry in which the entity operates and the maturity of the entity. Management should be required to (i) ensure that the information provided is balanced, presented in an unbiased manner identifying both unusual income and expenses and properly described, (ii) explain how these items are identified, including the historical period used in the assessment and (iii) apply consistent principles to identify unusual items on an on-going basis. Proper guidance should be provided to ensure the relevance of the information provided.

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 strongly disagree with the proposals to mandate the presentation of all management performance measures (MPM) in the financial statements. Fundamentally, it appears that the Board is seeking to respond to requests from users that should be addressed by regulators.

We have serious reservations whether the proposals could indeed be operationalised.

- The definition proposed casts a wide net on MPMs that include any subtotals of income and expenses referred to in any public communications outside the financial statements that complement totals or subtotals specified in IFRS Standards. The scope of documents (presumably all analysts' presentations, press releases, or any other public communications issued by the entity) that would need to be considered to identify MPMs is likely to create significant risk that completeness of the MPMs will not be achieved.
- Who or what would prohibit an entity from using in other public communications a subtotal of income and expenses that is not included in the financial statements? What checks and balances are expected in that regard?
- Many public communications include subtotals of income and expenses without a corresponding measure specified in IFRS Standards. Are these still deemed to be complementing a total or subtotal specified in IFRS Standards and thus are still subject to the MPM requirements? Alternatively, would entities avoid including a corresponding IFRS measure to subtotals of income and expenses as a means to avoid the MPM requirements. Such a behaviour may result in a decrease of relevant information being provided to users.
- Many public communications are issued in response to transactions or business developments throughout the year and may include subtotals of income and expenses specifically relevant to the transaction contemplated. Would such measures be required to be included in the financial statements and if so, what disclosures should be provided with respect to these one-off measures?

Also, because alternative performance measures (APM) that meet the definition of MPM would be subject to audit by virtue of being included in the financial statements while APMs that do not meet this definition would be subject (at best) to review procedures, there is a risk that this will add further confusion and increase the expectation gap between the role of auditors and the expectation of users of the financial statements.

For these reasons, we strongly encourage the Board to reconsider the proposals on MPMs. While the Board should not be encouraging use of APMs in the financial statements, we suggest that a sensible alternative would be to establish principles on the type of APMs that an entity may chose (without being required) to include in the financial statements and the nature of the disclosures to be provided to accompany the APMs. We believe that the guidelines developed by the International Organizations of Securities Commissions would provide a relevant basis that the Board could refer to in developing revised proposals.

Question 12—EBITDA

Paragraphs BC172–BC173 of the Basis for Conclusions explain why the Board has not proposed requirements relating to EBITDA.

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

We agree with the conclusion reached for the reasons stated in the Basis for Conclusions. We believe that entities wishing to present an EBITDA subtotal can easily do so through presentation of an APM. However, because it serves no clear purpose in the context of IFRS Standards, it should not be defined in those Standards.

Question 13—statement of cash flows

(a) The proposed amendment to paragraph 18(b) of IAS 7 would require operating profit or loss to be the starting point for the indirect method of reporting cash flows from operating activities.

(b) The proposed new paragraphs 33A and 34A–34D of IAS 7 would specify the classification of interest and dividend cash flows.

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

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

We agree with the proposal to require that operating income should be the starting point for determining cash flows from operating activities when the indirect method is used. Even though the composition of operating activities in profit or loss and in the statement of cash flows is not aligned, using operating income as a starting point will reduce the number of adjustments required and thereby improve the clarity of the statement of cash flows. Further, it will improve comparability between entities.

We also agree with the proposals to eliminate the current options on classification of interest and dividend cash flows as this will also improve the clarity and comparability of the statement of cash flows.

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?

We generally believe that the use of the same term to designate dissimilar items should be avoided. Therefore instead of referring to operating, financing and investing activities in both statements, we suggest the use of operating, financing and investing income and expenses for the statement of profit or loss and of operating, financing and investing cash flows for the statement of cash flows.

We agree that the statement of profit or loss and of cash flows serve different purposes and that therefore certain items are classified in different categories in both. However, it would be appropriate to ensure that in all cases the classification in different categories of items in the statement of profit or loss and the statement of cash flows is justified and limited to instances that cannot be avoided. For example, the Board may want to consider whether the classification of cash flows from contracts held for dealing or trading as part of operating activities (required by IAS 7:14(g)) is the most relevant classification if the related income and expenses are classified in investing activities in the statement of profit or loss, because they meet the definition in proposed paragraph 47 and are not generated in the course of an entity’s main business activities. This may be an area where the inconsistency can be avoided.

We note that paragraph 59 proposes that gains and losses on derivatives that are not used to manage risks are classified in the investing category except when they are used in the course of an entity’s main business activities. We agree with this proposal. In addition, we suggest that gains and losses on embedded derivatives that are required to be bifurcated from the host contract applying IFRS 9 *Financial Instruments* should be classified in the same category as income and expenses on the host contract. For example, if the

conversion option in a convertible debt instrument is required to be accounted for separately at fair value through profit or loss, the issuer of the instrument would present both the gains and losses on the conversion option derivative and on the financial liability measured at amortised cost within the financing category. This would be consistent with the presentation of the gains and losses on the convertible instrument if the issuer opted for the fair value option in IFRS 9.