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Mr Hans Hoogervorst
International Accounting Standards Board
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Our ref RD/288

29 September 2020

Dear Mr Hoogervorst,

Comment letter on Exposure Draft ED/2019/7 *General Presentation and Disclosures*

We appreciate the opportunity to comment on the International Accounting Standards Board's ('the Board') Exposure Draft ED/2019/7 *General Presentation and Disclosures* ('the ED'), published in December 2019. We have consulted with, and this letter represents the views of, the KPMG network.

We support the Board's efforts to enhance the comparability and transparency of financial statements and improve the structure of the income statement. We believe that this is an important step towards improving how information is communicated in the financial statements, with an increased focus on their relevance and usefulness.

While we generally agree with the overall direction of the proposals, we have several significant comments on key aspects of the ED and suggestions for the Board to consider.

Structure of the income statement

Analysis of operating expenses

We generally support the requirement to present an analysis of expenses using either the by-function or by-nature of expense method, based on whichever method provides the most useful information to users of financial statements. However, we question how the proposed prohibition against analysing operating expenses using a mixture of the by-nature and by-function method ('mixed presentation') interacts with other proposed requirements, especially if it prevents entities from providing relevant information on the face of the income statement. We are concerned that such explicit prohibition, coupled with the removal of paragraph 97 of IAS 1 *Presentation of Financial Statements*, may diminish the relevance of information provided to users about an entity's financial

performance if the presentation of individually material items of income or expense is not permitted in the income statement.

For example, an entity incurs a significant impairment loss on its property, plant and equipment under IAS 36 *Impairment of Assets*. This impairment loss is the primary reason why the entity records a significantly lower profit compared to the prior year. Paragraph 42 of the ED requires entities to present additional line items in the income statement when such presentation is relevant to an understanding of the entity's financial performance. Paragraph B15(a) of the ED includes impairment losses on property, plant and equipment as one circumstance that would give rise to separate presentation in the income statement or disclosure in the notes. However, it is not clear from the proposals whether the entity is allowed (or required) to present separately the impairment loss when applying paragraphs 42 and B15 if this would result in a 'mixed presentation' (i.e. when the entity uses the by-function method).

We believe separate presentation of individually material items may be relevant to users in understanding an entity's financial performance - when comparing it with the prior year, or with its peers. We believe that a consistent use of a single method to analyse expenses may not necessarily lead to better comparability if the entity's ability to present individually material items separately in the income statement is restricted.

In this regard, we suggest the Board reconsider how the proposed prohibition of 'mixed presentation' accommodates the need for separate presentation of individually material items when this is relevant to users in understanding the financial performance of the entity, including how the prohibition interacts with paragraphs 42 and B15 of the ED. We expect that entities using the by-function method would face challenges particularly in determining how their analysis of expenses would interact with the requirements in paragraphs 42 and B15 of the ED. These challenges are especially prevalent when allocating, for example, impairment losses on goodwill and restructuring costs to specific functions.

We also believe that the proposals are lacking a rationale for allowing the specified minimum line items in paragraph 65 of the ED to override the proposed prohibition of 'mixed presentation'. The proposals retain the existing requirements in IAS 1 to present these specified minimum line items (as specified in paragraph 82 of IAS 1 and now included in paragraph 65 of the ED). These specified line items are to be presented regardless of the method of analysis of expenses used (paragraph B47). This means that even when an entity uses the by-function of expense method, it is required to present separately impairment losses (including reversals thereof) on trade receivables recognised under IFRS 9 *Financial Instruments*. It is not clear from the proposals why IFRS 9 impairment losses are treated differently for presentation purposes than, for example, IAS 36 impairment losses on property, plant and equipment under the 'no-

mixed presentation' proposals. It would be helpful to explain the conceptual basis for such a limited exception.

Based on the technical staff's webinars on the ED, we understand the Board decided to prohibit 'mixed presentation' partly because of the concern over completeness of the amounts included in the resulting line items. For example, if an entity uses the by-function method but presents depreciation separately from cost of sales, this will make the amount presented as cost of sales incomplete. While we understand this concern, we question whether it can be effectively addressed without the introduction of a robust definition of 'cost of sales'. In the absence of a robust definition, entities will continue to use judgement in deciding what to include in cost of sales. Determining whether the amount presented as cost of sales is complete is difficult absent a clear definition or guidance on what this line item should include. If the Board intends to proceed with the prohibition of 'mixed presentation', we suggest the Board consider defining cost of sales in IAS 2 *Inventories*.

New subtotals and categories

We generally support the proposed subtotals and categories in the income statement. However, several new concepts introduced in the ED are subjective and require judgement; we believe these concepts necessitate additional guidance to support their consistent application in practice. In particular, more guidance is needed in determining an entity's 'main business activities' as this determination is key to classifying income and expenses in the different categories in the income statement.

We suggest the Board clarify how the determination of main business activities interacts with similar concepts in other IFRS Standards, such as 'ordinary activities' in IFRS 15 *Revenue from Contracts with Customers*, and 'principal revenue-producing activities' in IAS 7 *Statement of Cash Flows*.

We also suggest the Board clarify the interaction between main business activities and operating segments identified under IFRS 8 *Operating Segments*. We note the proposed guidance in paragraph B31 explains that when an entity reports a segment that constitutes a single business activity, this *may* indicate that that business activity is a main business activity. We consider such situation to be a strong indicator of a main business activity and it should be stated explicitly.

Management performance measures

We broadly support the proposed requirements to disclose management performance measures (MPMs) in the notes to the financial statements in order to provide more discipline over how they are prepared and improve their transparency. However, we

believe the following aspects need further clarification in order for the proposals to be operational.

— **Scope of the communications (i.e. MPMs included in ‘public communications outside financial statements’) is too broad**

Apart from the examples of public communications in paragraph B79 of the ED (management commentary, press releases and investor presentations), it is unclear how broad the suite of public communications is or what period they should cover. For example, it is not clear if public communications would include one-off verbal comments from management in a public event or a press release that is issued after the reporting date but before the financial statements are authorised for issue.

Given the potentially wide variety of public communications provided to users outside the financial statements, their timing and the periods they may cover, it could be operationally challenging to ensure the completeness of MPMs to be included in the financial statements.

In this regard, we suggest the Board narrow the scope of ‘public communications’ to regularly published documents that contain financial statements, such as annual reports and interim reports.

— **Requirement for MPMs to *faithfully represent* aspects of the financial performance of the entity is unclear**

Under the proposals, apart from being described in a clear and understandable manner that does not mislead users, MPMs would also need to ‘faithfully represent’ aspects of the financial performance of an entity (paragraph 105(a) of the ED). We understand from paragraph BC158 the Board considered that MPMs disclosed in the notes to the financial statements would need to comply with the general requirements for information included in financial statements, including the ‘faithful representation’ requirement. However, currently there is no similar requirement in IFRS 8 when disclosing a measure of segment profit or loss in the notes to the financial statements, which is also a performance measure used by management. It is not clear why a higher hurdle is being proposed for MPMs. It is also not clear how an MPM would not faithfully represent aspects of the financial performance of the entity when it is described in a clear and understandable manner that does not mislead users (i.e. when it satisfies the requirement in paragraph 105(b) of the ED).

In the absence of further guidance on *faithful representation*, determining whether an MPM provides a faithful representation of aspects of an entity’s financial performance could be highly subjective, particularly because under the proposals MPMs would not be restricted to amounts determined under IFRS Standards.

We suggest the Board clarify this requirement about faithful representation by, for example, illustrating situations where an MPM is considered *not* to faithfully represent aspects of the entity’s financial performance. We also suggest the Board explain how the requirement in paragraph 105(a) of the ED goes beyond a clear and

non-misleading description (i.e. how paragraphs 105(a) and 105(b) differ from each other, as both criteria need to be met). We believe such clarification is particularly important considering MPMs would not be restricted to IFRS-determined amounts. If clarification is not provided, we suggest the Board remove the requirement about faithful representation and retain only the requirement about a non-misleading description in paragraph 105(b) of the ED.

— **Definition of MPMs is too narrow**

The ED proposes to limit MPMs to subtotals of income and expenses. Other financial measures that are based on assets and liabilities and cash flows are not MPMs and are therefore not subject to the proposed disclosure requirements.

We observe that in practice it is common for companies to use financial measures such as “free cash flows” and “return on assets” to communicate their financial performance outside the financial statements. We suggest the Board consider expanding the definition of MPMs to cover also financial measures that are not subtotals of income and expenses in order to improve the transparency of those measures as well.

Disclosure of unusual income and expenses

We welcome the Board’s efforts to define unusual income and expenses and to require entities to disclose such items in the notes, as such disclosure could provide useful information to users of financial statements. However, we have significant concerns with the proposed definition of unusual income and expenses. Under the proposed definition, classifying income and expenses as unusual is solely based on expectations about the future: entities would not consider whether a similar income or expense has occurred in the past when developing their expectations. As such, these proposals may lead to a counterintuitive outcome e.g. classifying similar income and expenses as unusual for a number of consecutive periods.

We question the proposed guidance in paragraph B71 of the ED which suggests that income and expenses arising from a single event or transaction and affecting multiple reporting periods will not be classified as unusual. We believe that, if the event or transaction itself is unusual, income and expenses arising from that unusual event or transaction will be classified as unusual. Taking COVID-19 as an example, an entity recognises a material impairment loss due to COVID-19 in 2020 and expects that it may need to recognise another material impairment loss due to COVID-19 in 2021. Applying the proposed guidance in paragraph B71, the entity classifies the impairment loss recognised in 2021 as unusual but not the impairment loss recognised in 2020. We consider that such outcome would not provide users with a complete picture as to how the entity is impacted by COVID-19.



Due to the significant concerns described above and further inconsistencies noted in our response to Question 10, we suggest the Board reconsider the proposed definition and guidance on unusual income and expenses.

The Appendix to this letter contains our detailed responses to the questions on the proposals.

Please contact Reinhard Dotzlaw at reinhard.dotzlaw@kpmgifrg.com or Gabriela Kegalj at gabrielakegalj@kpmg.com.ca if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix: Detailed responses to proposals

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 generally agree with the proposals to require all entities to present a subtotal of operating profit or loss in the income statement as this is useful information for users to assess the financial performance of the entity and compare an entity's financial performance intra-period and with the entity's peers.

However, we believe that more guidance on determining 'main business activities' should be provided to assist entities in deciding which items of income and expenses should be included in this subtotal. See our responses to Question 2 for details.

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 generally agree with the proposals to require entities to classify in the operating category all income and expenses not classified in the other categories.

Determining 'main business activities'

However, as described in our covering letter, considering that the concept of 'main business activities' is key in determining operating income and the ED does not define this term, we believe there should be more guidance on determining 'main business

activities' to achieve consistent application among entities. We suggest the Board provide guidance including illustrative examples in the following areas:

- How the determination of 'main business activities' interacts with similar concepts in other IFRS Standards, such as 'ordinary activities' in IFRS 15 *Revenue from Contracts with Customers*, and 'principal revenue-producing activities' in IAS 7 *Statement of Cash Flows*.
- How the concept of 'main business activities' relates to the presentation and disclosure of reportable segments under IFRS 8 *Operating Segments*. We note the proposed guidance in paragraph B31 explains that when an entity reports a segment that constitutes a single business activity, this *may* indicate that that business activity is a main business activity. We consider such situation to be a strong indicator of a main business activity and therefore we suggest removing the word 'may' in paragraph B31.
- How these proposals apply to consolidated financial statements versus separate financial statements i.e. should the entity reassess at the group level whether a main business activity of a subsidiary is a main business activity from the perspective of the group? If such reassessment is required, income and expenses could be classified differently in the financial statements of the subsidiary and in the consolidated financial statements of the group to which that subsidiary belongs.
- How to determine which business activity(ies) is(are) 'main' business activities when an entity has multiple business activities. Presumably such entities would need to exercise greater judgement in determining if all or some of their business activities would be considered 'main' business activities when classifying income and expenses as 'operating'.

Considering that significant judgement may be involved in determining the main business activities of the entity, we suggest the Board introduce specific disclosure requirements in this regard. Current requirements in paragraph 122 of IAS 1 *Presentation of Financial Statements* (which are moved to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* under the proposals) refer to the significant judgements that have an impact on the amounts *recognised* in the financial statements. Some may read paragraph 122 of IAS 1 as not applicable to judgements made on presentation and disclosures. Therefore, it would be helpful to require specific disclosures on significant judgements made in determining the main business activities of the entity (and in other aspects where significant judgements are made to applying the proposals), similar to the proposed amendments to IFRS 12 *Disclosures of Interests in Other Entities* that would require disclosures about significant judgements made in determining whether an associate or joint venture is integral or non-integral. Such disclosures would enable users to understand better how the new definitions are applied, and to compare more easily between entities the basis on which managements make these judgements.

Labelling of the categories in the income statement

According to the ED, the income statement categories (operating, investing and financing) will use the same labels as the existing statement of cash flows category labels. The difference in the definitions / classification categories across the primary financial statements may not be well understood by users. Some may infer that the classification categories are aligned in both primary statements when in fact they are not – e.g. cash proceeds from the disposal of property, plant and equipment are classified as investing activities in the statement of cash flows, but the disposal gain or loss would be classified in the operating category in the income statement. While we agree with the Board’s conclusion described in paragraph BC30 that the focus of the proposals should be on providing information in the income statement that meets the needs of users for that statement (rather than aligning classification across the primary financial statements), we suggest the Board consider how to avoid this potential confusion, possibly by the use of different labels, when finalising the ED.

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 generally agree with the proposals to require entities to classify in the operating category income and expenses from investments made in the course of the entity’s main business activities.

As described in our responses to Question 2, we believe that more guidance should be provided on the concept of ‘main business activities’ as this determination is important to entities when deciding whether income and expenses from investments fall into the exception in paragraph 48 of the ED to be classified in the operating category.

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 are concerned that the proposed accounting policy choice in paragraph 51 of the ED may result in the loss of comparability, as acknowledged in paragraph BC68. We also question whether classifying, in the operating category, all income and expenses from financing activities and from cash and cash equivalents provides relevant information to users in a scenario when an entity provides financing to customers as only one of its main business activities e.g. manufacturers that provide financing to customers to purchase their products.

We suggest the Board require entities to allocate income and expenses from financing activities and from cash and cash equivalents between those relating to the provision of financing to customers and those relating to other main business activities.

Additionally, if we apply the definition of ‘financing activities’ in paragraph 50 to determine whether an entity ‘provides financing to customers’ as a main business activity for the purpose of applying paragraph 51, we are concerned that the meaning of ‘provides financing to customers’ may not capture certain financing arrangements in which the entity does not directly transfer money to the customer – for example:

- quasi-loan arrangements under which an entity makes payments to one party and gets repaid by another party; or
- arrangements where an entity acts as a settlement agent by making payments on behalf of the customer and will get repaid by the customer.

We believe that in the situations described above, the entity provides financing to customers. However, it is not clear whether the definition in paragraph 50 is sufficiently robust to capture such arrangements.

We suggest the Board reconsider the definition of ‘financing activities’ in paragraph 50 so that it will capture financing arrangements in various forms and evolving business models.

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 generally agree with the proposals to require entities to classify 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). It may provide relevant information to users about returns on investments made outside the course of the entity’s main business activities. Additionally, as noted in our response to Question 2, the determination of ‘main business activities’ may involve significant judgement and as such, additional guidance in this regard would be helpful.

We also note the ambiguity of the proposed definition of ‘incremental expenses’ in paragraph 47(b) of the ED. It is not clear from the proposals whether finance costs incurred in financing an entity’s investing activity would meet the definition of incremental expenses to be classified in the investing category.

We also suggest the Board clarify the example in paragraph B32(a)(vii) ‘income and expenses from associates and joint ventures not accounted for using the equity method’. It is not clear whether this example refers to associates and joint ventures that are:

- accounted for at cost or in accordance with IFRS 9 under IAS 27 *Separate Financial Statements*; or
- measured at fair value through profit or loss in accordance with IFRS 9 under IAS 28, *Investments in Associates and Joint Ventures* (when the associates and joint ventures are held by a venture capital organisation, or a mutual fund, unit trust and similar entities); or

- both of the above.

If this example is intended to include associates and joint ventures measured at fair value through profit or loss under IAS 28, we would suggest to highlight the requirement in paragraph 48 below the example as we believe that in most cases venture capital organisations (or similar entities) hold the investments in associates and joint ventures in the course of their main business activities. Applying paragraph 48, such entities would classify income and expenses from investments in associates and joint ventures in the operating category rather than the investing category.

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 generally agree with the proposals to have a separate category for financing activities. However, we believe that the following clarifications are needed in order to ensure consistency in application of the proposed requirements:

- How the definition of 'financing activities' applies to sale transactions that include significant financing components under IFRS 15. In particular, it is not clear whether 'the resource will be returned' in paragraph 50(a) is intended to capture situations where the seller receives advance payments from customers that constitute significant financing components but the seller will not return the resource (cash) to the customers.
- Whether 'payment of a finance charge' in paragraph 50(b) includes notional interest calculated for accounting purposes and not a contractual interest charge. We suggest to clarify that notional interest is included, otherwise loans that are not at a market interest rate (e.g. some inter-company loans) may fail to meet the definition of 'financing activities' while they are generally financing in nature.
- Whether paragraphs 52(b) and (c) are intended to mean that income and expenses on liabilities arising from issued investment contracts with participation features

recognised applying IFRS 9 and insurance finance income and expenses included in profit or loss applying IFRS 17 *Insurance Contracts* will be classified in the operating category regardless of the main business activities of the entity. For example, it is not clear whether the entity will classify insurance finance income and expenses in the operating category even if they arise from an ad-hoc financial guarantee contract accounted for under IFRS 17 and insurance is not the entity's main business activity.

- How an entity would present interest income and expense on other liabilities when it is not allowed to present the subtotal for profit or loss before financing and income tax under paragraph 64. Based on our understanding of the proposals, we believe that when an entity does not present the subtotal for profit or loss before financing and income tax, there will not be a separate category for financing in the income statement. Consequently, the entity will not present interest income and expense on other liabilities in the financing category as described in paragraph 64. We suggest the Board clarify the application of paragraph 64 by illustrating how interest income and expense on other liabilities should be presented in IE10 Example II-3 – in this example the entity does not present the subtotal for profit or loss before financing and income tax.

Finally, as described in the responses to Question 4, we are concerned that the definition of 'financing activities' in paragraph 50 of the ED may not be sufficiently robust to capture certain financing arrangements in which the entity does not directly transfer money to the customer, such as quasi-loan arrangements.

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 support the proposal to present the share of profit or loss of associates and joint ventures separately below the operating profit subtotal. Currently, there is diversity in practice over where the share of profit or loss of associates and joint ventures is presented in the income statement. Many investors analyse the results of investments in equity-accounted associates and joint ventures separately from the results of an entity's operating activities.

We also generally agree with the proposals to require entities to identify 'integral associates and joint ventures' and 'non-integral associates and joint ventures', and present an entity's share of the profit or loss from these investees separately. We believe this distinction will provide useful information to users as these investees may have a different level of importance, and distinguishing between them may provide greater insight into the entity's business model.

We recognise that significant judgement would be required in determining whether an associate or joint venture is integral. If different entities apply the definitions differently, comparability would be impaired.

In order to ensure consistent application of the proposed requirements, we suggest the Board address the following matters.

- How to apply the concept of 'significant interdependency' in the proposed new paragraph 20D of IFRS 12 and provide additional examples – e.g. when the associate or joint venture is in a start-up stage.
- Clarify whether and how the determination of integral and non-integral associates and joint ventures interacts with the identification of associates and joint ventures as operating segments under IFRS 8.
- Expand the example indicators in the proposed new paragraph 20D of IFRS 12: it is unclear how an entity with one main business activity would classify its associates and joint ventures that engage in the same main business activity, yet these investees operate almost entirely or completely autonomously from the entity; they do not have integrated lines of business, they do not share names or brands, and they have no supplier/customer relationship with each other.
- Clarify whether and how the example indicators in the proposed new paragraph 20D of IFRS 12 interact with the factors indicating significant influence in paragraph 6 of IAS 28.
- How the proposals apply to various levels of sub-group and individual company-level reporting. Specifically, it is not clear whether an associate or joint venture determined to be 'integral' in the stand-alone financial statements of an investor-entity needs to be reassessed whether it is 'integral' in the consolidated financial statements of the group to which the investor-entity belongs. If such reassessment is

made, a different conclusion may be reached depending whether a subsidiary is material to the group.

- Amend the definition in Appendix A so that ‘integral’ is not used to define ‘integral’.
- Clarify what will be considered as ‘income and expenses’ from integral associates and joint venture. Paragraph B38 of the ED states that income and expenses from integral associates and joint ventures *include* share of profit or loss, impairment losses, reversals of impairment losses and disposal gains or losses in relation to the integral associates and joint ventures. However, it is not clear whether this list is intended to be exhaustive i.e. whether other income and expenses in relation to the integral associates and joint ventures should be included in this category, e.g. interest income from loans to integral associates and joint ventures.

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?

Role of primary financial statements and the notes

We generally agree with the proposed description of the roles of the primary financial statements and the notes. However, we are concerned that the proposals do not explicitly refer to materiality considerations as a relevant factor in determining whether an item should be presented in the primary financial statements or disclosed in the notes.

As stated in paragraph 30 of IAS 1, ‘an item that is not sufficiently material to warrant separate presentation in those statements may warrant separate presentation in the notes’. IAS 1 is clear that entities are required to consider materiality when determining whether to present an item in the primary financial statements or disclose it in the notes. The proposals do not retain paragraph 30 of IAS 1 or introduce similar requirements to consider materiality when determining the location of information.

We believe that whether an item is individually material is an important consideration to determine whether it should be presented in the primary financial statements or disclosed in the notes. We therefore suggest the Board reinstate paragraph 30 of IAS 1 when finalising the proposals.

Aggregation and disaggregation

We agree with determining aggregation and disaggregation on the basis of 'shared characteristics'. However, we are concerned that the term 'characteristics' could be broadly interpreted and this may result in excess aggregation.

We believe that, in the absence of a requirement to consider the level of importance and relevance of the characteristics, the proposals may not result in the financial statements providing the most relevant and useful level of aggregation or disaggregation to users.

For example, users may find it relevant to disaggregate liabilities to distinguish those that will involve future cash outflows from those that will not. As such, while deferred income may share some characteristics with other accrued liabilities, such as expected timing of reversal, they may not share a relevant characteristic from the perspective of users – nature of settlement, i.e. cash. Under the proposals, it seems that as long as accruals and deferred income share one single characteristic they can be aggregated. We therefore suggest the Board require entities to consider which characteristics are most relevant in relation to the particular item to be aggregated when determining the level of aggregation.

Additionally, we note that it is not clear whether an entity is required to apply paragraphs 27 and 28 of the ED only when the aggregated balance is material. Current drafting seems to imply an entity would apply these paragraphs when the aggregated balance is not material. Absent further clarification, the proposals may result in presentation and disclosure of immaterial items which could obscure the relevant information. Paragraph 28 as drafted suggests that disclosure about an immaterial item is nevertheless required, on a disaggregated basis, even it is ultimately immaterial. We would welcome clarity on the interaction between paragraph 24 and paragraphs 27 and 28 in the ED.

We also note that paragraph B13 of the ED is carried forward from IAS 1. This paragraph seems to suggest that different measurement bases will always result in further disaggregation. Since the proposals explain that measurement basis is only one of the characteristics to consider, we believe it is necessary to amend this paragraph to bring it in line with the proposals.

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?

As described in our covering letter, we generally support the requirement to present an analysis of expenses using either the by-function or by-nature of expense method, based on whichever method provides the most useful information to users of financial statements. However, we question how the proposed prohibition against analysing operating expenses using a mixture of the by-nature and by-function method (‘mixed presentation’) interacts with other proposed requirements, especially if it prevents entities from providing relevant information on the face of the income statement. We are concerned that such explicit prohibition, coupled with the removal of paragraph 97 of IAS 1, may diminish the relevance of information provided to users about an entity’s financial performance if the presentation of individually material items of income or expense is not permitted in the income statement.

For example, an entity incurs a significant impairment loss on its property, plant and equipment under IAS 36 *Impairment of Assets*. This impairment loss is the primary reason why the entity records a significantly lower profit compared to the prior year. Paragraph 42 of the ED requires entities to present additional line items in the income statement when such presentation is relevant to an understanding of the entity’s financial performance. Paragraph B15(a) of the ED includes impairment losses on property, plant and equipment as one circumstance that would give rise to separate presentation in the income statement or disclosure in the notes. However, it is not clear from the proposals whether the entity is allowed (or required) to present separately the impairment loss when applying paragraphs 42 and B15 if this would result in a ‘mixed presentation’ (i.e. when the entity uses the by-function method).

We believe separate presentation of individually material items may be relevant to users in understanding an entity’s financial performance - when comparing it with the prior year, or with its peers. We believe that a consistent use of a single method to analyse

expenses may not necessarily lead to better comparability if the entity's ability to present individually material items separately in the income statement is restricted.

In this regard, we suggest the Board reconsider how the proposed prohibition of 'mixed presentation' accommodates the need for separate presentation of individually material items when this is relevant to users in understanding the financial performance of the entity, including how the prohibition interacts with paragraphs 42 and B15 of the ED. We expect that entities using the by-function method would face challenges particularly in determining how their analysis of expenses would interact with the requirements in paragraphs 42 and B15 of the ED. These challenges are especially prevalent when allocating, for example, impairment losses on goodwill and restructuring costs to specific functions.

We also believe that the proposals are lacking a rationale for allowing the specified minimum line items in paragraph 65 of the ED to override the proposed prohibition of 'mixed presentation'. The proposals retain the existing requirements in IAS 1 to present these specified minimum line items (as specified in paragraph 82 of IAS 1 and now included in paragraph 65 of the ED). These specified line items are to be presented regardless of the method of analysis of expenses used (paragraph B47). This means that even when an entity uses the by-function of expense method, it is required to present separately impairment losses (including reversals thereof) on trade receivables recognised under IFRS 9 *Financial Instruments*. It is not clear from the proposals why IFRS 9 impairment losses are treated differently for presentation purposes than, for example, IAS 36 impairment losses on property, plant and equipment under the 'no-mixed presentation' proposals. It would be helpful to explain the conceptual basis for such a limited exception.

Based on the technical staff's webinars on the ED, we understand the Board decided to prohibit 'mixed presentation' partly because of the concern over completeness of the amounts included in the resulting line items. For example, if an entity uses the by-function method but presents depreciation separately from cost of sales, this will make the amount presented as cost of sales incomplete. While we understand this concern, we question whether it can be effectively addressed without the introduction of a robust definition of 'cost of sales'. In the absence of a robust definition, entities will continue to use judgement in deciding what to include in cost of sales. Determining whether the amount presented as cost of sales is complete is difficult absent a clear definition or guidance on what this line item should include. If the Board intends to proceed with the prohibition of 'mixed presentation', we suggest the Board consider defining cost of sales in IAS 2 *Inventories*.

We also expect entities with more than one main business activity (e.g. financial conglomerates with banking and insurance activities as their main business activities) to encounter difficulties in selecting the method that provides the 'most useful' information

to users. The factors provided in paragraph B45 may, justifiably, result in different methods of analysis for different businesses in the profit or loss statement. We suggest the Board explicitly allow 'mixed presentation' in this situation, or alternatively, provide additional guidance to assist conglomerates in selecting the most useful method.

Question 10—unusual income and expenses

(a) Paragraph 100 of the Exposure Draft introduces a definition of 'unusual income and expenses'.

(b) Paragraph 101 of the Exposure Draft proposes to require all entities to disclose unusual income and expenses in a single note.

(c) Paragraphs B67–B75 of the Exposure Draft propose application guidance to help an entity to identify its unusual income and expenses.

(d) Paragraphs 101(a)–101(d) of the Exposure Draft propose what information should be disclosed relating to unusual income and expenses.

Paragraphs BC122–BC144 of the Basis for Conclusions describe the Board's reasons for the proposals and discuss approaches that were considered but rejected by the Board.

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

As described in our covering letter, we welcome the Board's efforts to define unusual income and expenses and to require entities to disclose such items in the notes, as such disclosure could provide useful information to users of financial statements. However, we have significant concerns with the proposed definition of unusual income and expenses. Under the proposed definition, classifying income and expenses as unusual is solely based on expectations about the future: entities would not consider whether a similar income or expense has occurred in the past when developing their expectations. As such, these proposals may lead to a counterintuitive outcome e.g. classifying similar income and expenses as unusual for a number of consecutive periods.

We question the proposed guidance in paragraph B71 of the ED which suggests that income and expenses arising from a single event or transaction and affecting multiple reporting periods will not be classified as unusual. We believe that, if the event or transaction itself is unusual, income and expenses arising from that unusual event or transaction will be classified as unusual. Taking COVID-19 as an example, an entity recognises a material impairment loss due to COVID-19 in 2020 and expects that it may need to recognise another material impairment loss due to COVID-19 in 2021. Applying

the proposed guidance in paragraph B71, the entity classifies the impairment loss recognised in 2021 as unusual but not the impairment loss recognised in 2020. We consider that such outcome would not provide users with a complete picture as to how the entity is impacted by COVID-19.

Due to the significant concerns described above, we suggest the Board reconsider the proposed definition and guidance on unusual income and expenses.

We also highlight the following areas for which we believe clarifications or further guidance are necessary:

- ‘Several future annual reporting periods’ in paragraph 100

In the absence of any bright lines, entities would interpret the word ‘several’ differently and this would impair comparability. In our experience, entities would often consider local regulatory requirements, if such exists. We therefore suggest the Board provide a clear definition of ‘several future annual reporting periods’ e.g. aligning with the period covered by financial budgets/forecasts approved by management.

We also suggest the use of consistent wording when the requirement refers to ‘several future annual reporting periods’: the ED as drafted uses different phrases, including ‘arise in’, ‘arise for’, ‘recur for’ (paragraphs 100, B67-B71) with potentially different meaning. This could lead to inconsistent application.

- ‘Similar in type’ in paragraph 100

It is not clear whether the ‘type’ refers to the nature of the item of income or expense or the underlying event resulting in that item of income or expense.

Paragraph B68 suggests that an impairment loss resulting from a fire at an entity’s factory is normally an unusual type of expense. However, it is not clear whether it will still be considered as unusual if the entity has a reasonable expectation that it will incur an impairment loss resulting from another non-recurring event in the following year e.g. a distressed sale of another factory. In other words, is the expected impairment loss resulting from a different non-recurring event considered as ‘similar in type’?

- Amount of unusual income and expenses in paragraph B69

It is not clear from the example in paragraph B69 whether the entity should disclose as unusual the entire amount of litigation costs from a particular action or only the portion in excess of the reasonably expected amount. For example, assume the entity regularly receives one legal claim every year and the litigation cost is CU100 for each claim. In the current year it receives one legal claim but the litigation cost for this claim is CU120. In such a case, it is unclear whether the unusual amount of the expense to be disclosed is CU120 - i.e. the entire amount of litigation costs, or CU20 (CU120 – CU100) - i.e. the portion in excess of the reasonably expected amount.

The sentence 'it would classify the costs from that action as unusual' seems to suggest that the entire litigation cost of CU120 is classified as unusual. On the other hand, the last sentence of the paragraph 'The higher litigation costs are outside the range of reasonably expected outcomes and not predictive of future litigation costs' seems to suggest that only the portion higher than usual is classified as unusual.

— Restructuring programme spanning several reporting periods in paragraph B71

It is not clear from paragraph B71 whether the entity should classify restructuring expenses incurred in the final year of the restructuring programme as unusual. We believe that if the entity does not expect to undertake another restructuring programme for several future annual reporting periods, the restructuring expenses incurred in the final year of the programme should be classified as unusual.

However, B71 as drafted seems to suggest that restructuring expenses incurred in a restructuring programme spanning several annual reporting periods should not be classified as unusual at all.

— Recurring remeasurement in paragraph 102

Paragraphs 102 and B72 state that recurring measurements of items measured at a current value would not normally be classified as unusual. For clarity, we suggest to highlight in these paragraphs that recurring measurements could be classified as unusual under unusual market conditions that meet the definition of unusual income or expense e.g. extreme market volatility in commodity prices.

— Separate presentation in the income statement

The proposals are silent on whether unusual income and expenses could be presented separately in the income statement. We suggest the Board clarify whether it is acceptable and if so, provide guidance in what circumstances.

— Interaction with the disclosure requirements in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

We believe that income and expenses from 'discontinued operations' may meet the definition of 'unusual' when they are not expected to recur for several future annual reporting periods. However, it is not clear how the disclosure requirements for unusual income and expenses would apply to income and expenses of discontinued operations when they meet the definition of 'unusual'.

For example, paragraph 101(a) requires entities to disclose the amount of each item of unusual income or expense. In the case of discontinued operations, would this mean that an entity should disclose a full income statement of the discontinued operation in the notes, showing each item of income and expenses from the discontinued operation?

Also, paragraph 101(c) requires entities to disclose the line item in the income statement in which each item of unusual income or expense is included. How would

this requirement apply when an entity presents a single amount of profit or loss of the discontinued operation in the income statement per IFRS 5.33(a)?

— Additional disclosures

We suggest the Board consider requiring an entity 1) summarise in its financial statements for the current year all unusual items disclosed in the previous five reporting periods and 2) provide specific disclosures when it classified an item as unusual in a prior year but this item occurs again in the current year (e.g. disclose this fact and explain why the unusual income or expense recurs). We believe that such disclosures will be relevant to users in understanding how management exercises judgement and how its specific facts and circumstances have changed to result in the recurrence of unusual income or expense previously expected not to recur.

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?

As described in our covering letter, we broadly support the proposed requirements to disclose management performance measures (MPMs) in the notes to the financial statements in order to provide more discipline over how they are prepared and improve their transparency. However, we believe the following aspects need further clarification in order for the proposals to be operational.

— **Scope of the communications (i.e. MPMs included in ‘public communications outside financial statements’) is too broad**

Apart from the examples of public communications in paragraph B79 of the ED (management commentary, press releases and investor presentations), it is unclear how broad the suite of public communications is or what period they should cover. For example, it is not clear if public communications would include one-off verbal comments from management in a public event or a press release that is issued after the reporting date but before the financial statements are authorised for issue.

Given the potentially wide variety of public communications provided to users outside the financial statements, their timing and the periods they may cover, it could be operationally challenging to ensure the completeness of MPMs to be included in the financial statements.

In this regard, we suggest the Board narrow the scope of 'public communications' to regularly published documents that contain financial statements, such as annual reports and interim reports.

— **Requirement for MPMs to *faithfully represent* aspects of the financial performance of the entity is unclear**

Under the proposals, apart from being described in a clear and understandable manner that does not mislead users, MPMs would also need to 'faithfully represent' aspects of the financial performance of an entity (paragraph 105(a) of the ED). We understand from paragraph BC158 the Board considered that MPMs disclosed in the notes to the financial statements would need to comply with the general requirements for information included in financial statements, including the 'faithful representation' requirement. However, currently there is no similar requirement in IFRS 8 when disclosing a measure of segment profit or loss in the notes to the financial statements, which is also a performance measure used by management. It is not clear why a higher hurdle is being proposed for MPMs. It is also not clear how an MPM would not faithfully represent aspects of the financial performance of the entity when it is described in a clear and understandable manner that does not mislead users (i.e. when it satisfies the requirement in paragraph 105(b) of the ED).

In the absence of further guidance on *faithful representation*, determining whether an MPM provides a faithful representation of aspects of an entity's financial performance could be highly subjective, particularly because under the proposals MPMs would not be restricted to amounts determined under IFRS Standards.

We suggest the Board clarify this requirement about faithful representation by, for example, illustrating situations where an MPM is considered *not* to faithfully represent aspects of the entity's financial performance. We also suggest the Board explain how the requirement in paragraph 105(a) of the ED goes beyond a clear and non-misleading description (i.e. how paragraphs 105(a) and 105(b) differ from each other, as both criteria need to be met). We believe such clarification is particularly important considering MPMs would not be restricted to IFRS-determined amounts. If clarification is not provided, we suggest the Board remove the requirement about

faithful representation and retain only the requirement about a non-misleading description in paragraph 105(b) of the ED.

— **Definition of MPMs is too narrow**

The ED proposes to limit MPMs to subtotals of income and expenses. Other financial measures that are based on assets and liabilities and cash flows are not MPMs and are therefore not subject to the proposed disclosure requirements.

We observe that in practice it is common for companies to use financial measures such as “free cash flows” and “return on assets” to communicate their financial performance outside the financial statements. We suggest the Board consider expanding the definition of MPMs to cover also financial measures that are not subtotals of income and expenses in order to improve the transparency of those measures as well.

Apart from the concerns described above, we have the following comments on the presentation and disclosure requirements of MPMs:

— **Additional disclosures when MPMs do not satisfy paragraph 105(a) regarding faithful representation**

On the assumption that paragraph 105(a) of the ED is retained, we suggest the Board require specific disclosures when a performance measure meets the definition of an MPM in paragraph 103 but does not meet the criterion in paragraph 105(a) to be disclosed in the notes to the financial statements.

As noted in BC159(c), entities could avoid the disclosure requirements of MPMs by disclosing specific measures outside the financial statements that they believe would be assessed by their auditors or regulators as not providing a faithful representation.

In this regard, we believe that requiring specific disclosures e.g. disclose the fact that the entity has used a performance measure that meets the definition of an MPM but does not meet the criterion in paragraph 105(a) to be included in the financial statements, could be useful information.

— **Presenting MPMs in the income statement**

Based on paragraph BC165, it appears that entities can present MPMs in the income statement only when the measures:

- fit into the structure of the proposed categories of the income statement;
- do not disrupt the presentation of an analysis of expenses in the operating category using either the function of expense or nature of expense method; and
- comprise amounts recognised and measured applying IFRS Standards.

However, such restriction is not included in the proposed requirements. We suggest the Board elevate the guidance in BC165 to the requirements by expanding paragraph 43 which specifies the conditions for presenting additional subtotals.

— **Potential conflicts between paragraphs B81 and BC31**

According to paragraph B81, when an additional subtotal presented under paragraph 42 meets the definition of MPMs, an entity should disclose all the information required by paragraph 106. According to paragraph B82, all information required to be disclosed about MPMs should be included in a single note.

On the other hand, paragraph BC31 explains that the Board proposes to remove the requirement to reconcile additional subtotals to the required subtotals because the proposed structure and content of the income statement make this requirement redundant.

Reading these paragraphs together, it is not clear whether the entity should disclose the reconciliation required by paragraph 106(b) in a single note when the MPM is also an additional subtotal presented under paragraph 42. Based on paragraph BC31, it seems that it is not necessary to provide the reconciliation in the note because such reconciliation has been effectively presented in the income statement.

We believe clarification should be provided considering the potential contradiction between these two paragraphs.

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 generally agree with the Board's decision not to propose requirements relating to EBITDA.

However, in the circumstances when EBITDA is equivalent to 'operating profit before depreciation and amortisation' - i.e. the specified subtotal in paragraph 104(c), it is unclear from the proposals if there are any specific requirements an entity needs to apply. For example, should the entity give specific disclosures to inform users that its EBITDA equals operating profit before depreciation and amortisation? Based on our understanding of the proposals, it is not an MPM subject to the disclosure requirements in paragraphs 104(c) and B77. We question if this would be sufficiently clear to users if such measure is used outside the financial statements and not included in the single note with MPMs.

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 generally agree with the proposed amendments to IAS 7 as we believe they could improve consistency and comparability.

The proposals include the requirement to use operating profit or loss as a starting point under the indirect method. Considering the interaction with IFRS 5, we suggest the Board clarify how an entity presents its cash flows from discontinued operations in the statement of cash flows. Under the proposals, operating profit or loss *excludes* the results of discontinued operations. It then follows that operating cash flows from discontinued operations will not be included at the start of the statement of cash flows. In such a case, the following questions arise: should the entity add a separate line for operating profit or loss from the discontinued operations at the start of the statement of cash flows and then present a combined subtotal of operating cash flows from continuing operations and discontinued operations before proceeding with the remaining IAS 7 requirements? Or should it present operating cash flows from continuing operations and discontinued operations separately, before arriving at a combined total for cash flows from operating activities? We recommend the Board provide specific guidance on this matter to achieve consistency of presentation.

In addition, as described in our responses to Question 2, we are concerned that using the same labels in the income statement and the statement of cash flows (i.e. operating, investing and financing) may confuse users, considering the classifications in these two primary statements are not the same. We suggest the Board consider how to avoid this potential confusion when finalising the ED.

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?

Interim financial reporting

Paragraph 10 of IAS 34 requires entities to present in their condensed interim financial statements the ‘headings and subtotals’ included in their most recent annual financial statements. However, similar to IAS 1 the ED proposes requirements on *line items*, as well as headings and subtotals.

The proposed specific guidance on line items and new principles for preparing and presenting financial statements are not proposed for inclusion in IAS 34. Consequently, the existing guidance in paragraph 10 of IAS 34 – i.e. additional line items are presented if their omission makes the interim financial statements misleading – would still apply. This means that entities would continue to apply judgement to determine which additional line items they need to include in their interim financial statements.

We observe that there is an element of diversity in current practice regarding the structure of the primary statements included in interim financial reports, specifically, to what extent those statements could be condensed. This diversity in practice impairs comparability. We note that such diversity in practice led to the publication in July 2014 of an IFRS Interpretations Committee agenda decision on presentation and content of condensed statement of cash flows in the interim financial reports.

We therefore recommend the Board introduce similar requirements on line items in the proposed amendments to IAS 34 to promote consistent presentation in condensed interim financial statements.

In addition, we note that paragraphs 15-28 of IAS 1 are moved to IAS 8 as paragraphs 6A-6N. However, unlike the current requirement in paragraph 4 of IAS 1, which explains the applicability of IAS 1 to the preparation of condensed interim financial statements under IAS 34, there is no longer an explicit statement that the new paragraphs 6A-6N of IAS 8 also apply to condensed interim financial statements prepared under IAS 34. The proposed revisions to the scope paragraphs of IAS 8 should be reviewed carefully to ensure their applicability is made clear regarding the preparation of condensed interim financial statements under IAS 34, to avoid unintended consequences and misunderstanding (see current IAS 34.19).

Going concern disclosures

We note that the ED moves to IAS 8 the current requirements on going concern contained in IAS 1 but does not change them. The current business environment has renewed and heightened users' expectations regarding the clarity and relevance of going concern disclosure; consequently, we believe the Board should consider a separate project to properly consider the nature and extent of disclosures entities should provide (i) when there are material uncertainties identified or (ii) when there are no material uncertainties but significant judgement was involved in reaching such conclusion (i.e. in a close scenario). We note that going concern related disclosures (including 'close calls') warrant proper consideration within IFRS Standards, building on the IFRIC agenda decision on IAS 1 *Presentation of Financial Statements – Disclosure requirements relating to assessment of going concern* published in July 2014. In the absence of explicit guidance in IFRS Standards (with only a mere reference to paragraph 122 in IAS 1 as referred in the IFRIC agenda decision) it is often challenging in practice to develop meaningful disclosures that are relevant to users.

Other observations

— Illustrative Example II-1 (a property investment entity)

In this illustration, the property investment entity uses the fair value model to measure its investment properties but recognises depreciation on its right-of-use asset for the land. We believe this may not be an appropriate illustration given paragraph 34 of IFRS 16 *Leases* requires an entity to measure its right-of-use assets that meet the definition of investment property at fair value when the entity uses the fair value model under IAS 40 *Investment Property*.

We also question why the illustration presents all employee benefit expenses outside net rental income. In our experience, some of the employee benefits expenses are directly attributable to the property rental business and should therefore be presented within net rental income.

Additionally, it is not clear why interest expense on lease liabilities is classified in the financing category. As described in our responses to Question 5, the proposals are not clear as to whether finance costs incurred in financing an entity's investing activity will meet the definition of incremental expenses. If such finance costs are regarded as incremental expenses, they will be classified in the operating category under paragraph 48 of the ED when investing is a main business activity of the entity. In the absence of further guidance on 'incremental expenses', some may argue that, for a property investment entity, interest expense on lease liabilities could meet the definition of 'incremental expenses' to be classified in the operating category.

— **Illustrative Example II-2 (an insurance entity)**

Under IFRS 17 *Insurance Contracts* insurance entities will present investment revenue and insurance finance expenses together within the subtotal 'net financial result'. This is a significant improvement compared to current practice. Within the insurance industry, the share of profit or loss of some associates and joint ventures can be an investment return in nature. Such investments are becoming more common as insurers search for higher yields. Illustrative Example II-2 illustrates that following the ED insurance entities would present the share of profit or loss of equity-accounted associates and joint ventures outside the 'net financial result'. We recommend the Board consider the interaction between the proposals on the presentation of integral and non-integral associates and joint ventures and the presentation requirements in IFRS 17 and perform further outreach with preparers in the insurance sector and users before finalising the proposals.

— **Classification of foreign exchange differences on inter-company balances and transactions**

We suggest the Board provide specific guidance on how to classify in the consolidated financial statements foreign exchange differences on inter-company balances and transactions that are eliminated at the group level. These amounts can be material but are not necessarily associated with any specific activity from a group perspective.

— **Proposals on fair value gains and losses on derivatives and hedging instruments in paragraphs 57-59 and B40-B42**

Under the exceptions related to grossing up of gains and losses in paragraph 57 and 'undue cost or effort' in paragraph 58, gains and losses on derivatives would be classified in the investing category. In our experience with financial entities, hedging and risk management activities typically relate to operating or financing activities. Therefore, classification in the investing category may not be a relevant presentation for financial entities.

— **Line items to be presented in the income statement**

As in IAS 1, paragraph 65 of the ED includes revenue as one of the minimum line items. However, we note that Illustrative Examples II-2 and II-3 do not illustrate which income items constitute revenue. The illustrations should be revised to be aligned with the proposed requirement.

— **Capital disclosures**

While we understand that capital disclosures are not the focus of the proposals and the requirements in paragraphs 134-136 of IAS 1 are carried forward unchanged, we suggest the Board take a similar approach as used in IFRS 7 *Financial Instruments: Disclosures* – allowing entities to incorporate the information via cross-reference. For regulated financial institutions, information about capital is often required by the regulators and is already disclosed elsewhere - e.g. management commentary.

We therefore believe that including a cross-reference in the financial statements will be more convenient in locating the information.

— **Other minor drafting points**

- To make it clear that the operating category is a residual category, the first sentence of paragraph 46 should be removed; alternatively, the sentences in the paragraph should be reordered.
- Paragraph 23(f) of IFRS 8 currently includes a reference to material items disclosed under IAS 1. Given paragraph 97 of IAS 1 is not carried forward into the proposals, this reference in IFRS 8 should be removed.
- A typo in paragraph BC115 – it should refer to paragraph 65 instead of paragraph 68.
- A typo in paragraph BC131 – the first sentence should state ‘similar in type *and* amount’ instead of ‘similar in type *or* amount’ to align with the definition of unusual income and expenses in paragraph 100.