29 September 2020

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

Dear Mr Hoogervorst,

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on the International Accounting Standards Board's ('the IASB's') Exposure Draft ('the ED') *General Presentation and Disclosures* (ED/2019/7). In formulating these comments, the views of the constituents within each jurisdiction were sought and considered.

The AOSSG currently has 26 member standard-setters from the Asian-Oceanian region: Australia, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Syria, Thailand, Uzbekistan and Vietnam. To the extent feasible, this submission to the International Accounting Standards Board (IASB) reflects in broad terms the collective views of AOSSG members. Each member standard-setter may also choose to make separate submissions that are consistent or otherwise with aspects of this submission. The intention of the AOSSG is to enhance the input to the IASB from the Asian-Oceanian region and not to prevent the IASB from receiving the variety of views that individual member standard-setters may hold. This submission has been circulated to all AOSSG members for their comment after having been initially developed through the AOSSG Presentation and Disclosure Working Group.

The AOSSG appreciates the IASB's proposals in the ED to improve how information is communicated in the financial statements, with a focus on information about performance in the statement of profit or loss. Views of the AOSSG members on major topics are as follows.

Operating profit or loss and the operating category

Some AOSSG members supported the IASB's proposal to define operating profit or loss based on a residual concept, while some other AOSSG members disagreed with the IASB's proposal.

Those who supported the IASB's proposal (of a residual concept) cited that it is difficult to arrive at direct definition of operating profit or loss that could be applied consistently because entities have various business activities. On the other hand, the member who disagreed with the IASB's proposal expressed concern that operating profit or loss as a residual concept would include income and expenses generated from non-principal activities, which is not a faithful representation of an entity's operating activities.

In addition, some AOSSG members suggested that the IASB provide clear guidance as to what would and what would not constitute investing in the course of the entity's main business activities.

Integral associates and joint ventures

Almost all AOSSG members disagreed with the IASB' proposal to distinguish between integral associates/joint ventures and non-integral associates/joint ventures. Instead, some members suggested that associates/joint ventures accounted for using the equity method be presented in a single, separate category, below operating profit or loss, while a member recommended that associates/joint ventures accounted for using the equity method be classified in the investing category without creating another category. In addition, one member recommended the IASB consider strengthening the existing disclosure requirements in IFRS 12 *Disclosure of Interests in Other Entities* to require entities to provide more information on associates and joint ventures.

Analysis of operating expenses

Some members supported the IASB's proposal to require an entity to analyse its operating expenses using the nature of expense method or the function of expense method. However, one member did not agree with this proposal. This member is of the view that companies should be allowed the flexibility to determine the most appropriate analysis of expenses, even it that results in a mixed analysis.

Unusual income and expenses

Most members generally agreed with the IASB's proposal to require disclosure of unusual items of income and expenses. However, all members mentioned areas that need improvement and clarification. For example, a restructuring program that occurs over a 12-month period, but crosses over the reporting period, would not meet the proposed definition in the first reporting period of occurrence. Some members also raised concerns on the proposed definition of unusual items. One member did not support the IASB's proposal because it has concerns that the proposals as currently drafted will not be operable.

Management performance measures

Some members generally supported the disclosure of management performance measures (MPMs) in the financial statements. Some other members did not support the IASB's proposal to require MPMs to be disclosed in the notes. However, all have concerns with the proposal as drafted. For example, they recommend that the IASB clarify the scope of public communications. Some members also recommend that the IASB widen the scope to cover other non-GAAP measures.

Consistency with the statement of cash flows

Many members have expressed concerns that using the same categories of operating, investing and financing in the statement of profit or loss and the statement of cash flows with different meanings will be confusing for users of financial statements.

In responding to the ED, members have provided their responses to the questions in the ED as described in Appendix A of this submission. Furthermore, the views of the Islamic Finance Working Group members are outlined in Appendix B of this submission. If you have any questions regarding this submission, please contact either one of us.

Yours sincerely

DR. S.B. Zaware	Eui-Hyung Kim
AOSSG Chair	AOSSG Presentation and Disclosure Working Group

asian-oceanian standard-setters group

Appendix A

Comments from some jurisdictions in this paper are based on staff's view. Therefore, these comments may not necessarily reflect the views of the official entity in each jurisdiction.

IASB ED General Presentation and Disclosures

Questions for respondents

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?

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?

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?

AOSSG WG members' comments on Questions 1 to 3

[Australia, India, New Zealand & Singapore]

Australia, India, New Zealand and Singapore principally agrees with the IASB's proposal to define operating profit or loss based on a residual concept. However, they made some suggestions as described below.

Comments from Australia

Australia agrees with the IASB's proposals in Questions 1 to 3. However, Australia suggests that:

- the IASB strengthen the guidance relating to how an entity distinguishes whether an investment is made in the course of the main business activities; and
- the IASB consider providing more guidance on how an entity determines what its 'main business activities' are.

Regarding the first suggestion, Australia notes that paragraph B27 of the ED provides examples of the **types of entities** (emphasis added) that may invest in the course of their main business activities. Australia consider this could provide more useful guidance by instead explaining how an entity assesses whether an investment is made within the course of the entity's main business activities. Such guidance could provide both examples of what would and would not constitute investing in the course of the entity's main business activities.

For example, investments made in the course of the entity's main business may include:

- fair value gains and losses from investment property held by an entity whose main business activity is investing in real estate; and
- fair value gains and losses on agriculture held by an entity whose main business activity is to wholesale such agriculture.

Although simple, Australia considers they assist in illustrating how the proposal would be applied, rather than only listing the types of entities where the occurrence may be common.

Alternatively, examples of situations where an entity would not be investing in the course of its main business activities may also be useful to illustrate the principle, including:

- surplus assets not related to the entity's main business activities;
- an investment property held for rental returns by an entity whose only main business activity is, for example, making wine; and
- assets held for capital appreciation, such as gold, where the entity's main business activity is, for example, investing in real estate.

Regarding the second suggestion, Australia acknowledge proposed paragraph B31 of the ED which states "If, applying IFRS 8 Operating Segments, an entity reports a segment that constitutes a single business activity, that may indicate that that business activity is a main business activity". Australia recommends the IASB provide additional guidance/indicators of main business activities similar and in addition to paragraph B31. However, it also recommends that the guidance should not be too prescriptive and be limited to examples or indicators to help identify main business activities. This is important so that entities still have some flexibility in defining what the main business activities are in their context, given the diverse range of entities reporting under IFRS Standards.

Further guidance will be particularly helpful for diversified groups which have multiple main business activities, with some having grown in significance over time. For example, an entity may undertake significant investment activities in addition to its more 'traditional' main business activities of selling goods or services. Additional guidance on the point at which that additional activity should be considered a main business activity would be useful to ensure appropriate classification of related items of income and expense.

Australia is also aware that in some cases, entities will have a pool of assets which support both the main business activities and produce returns more generally for shareholders. Stakeholders questioned whether the proposals would require such pools of assets to be split between the operating and investing categories to reflect the main purpose of the individual assets. To the extent the IASB assess this as practical through its fieldwork, Australia supports the requirements in the ED which appear to require an entity to categorise the returns on an asset-by-asset basis.

Comments from India

India agrees with the proposals related to Questions 1 and 3. The subtotal of operating profit clearly discloses performance information on the face of the statement of profit or loss and brings more comparability and transparency and would reduce diversity of practices. Further, the subtotal would bring in more consistency particularly within the same industry.

However, India requests the Board to consider our following observations while finalising the Standard:

1) The terms 'operating', 'investing' and 'financing' categories in this Exposure Draft for the purpose of categorising different activities for presentation in the Statement of Profit or Loss carry different meanings than what terms 'operating', 'financing' and 'investing' activities carry for segmentation in IAS 7, *Statement of Cash Flows*. Use of similar terms may lead to confusion in understanding of the users of Financial Statements. Therefore, India recommends that it may be clarified in the Standard that the terms 'operating', 'investing' and 'financing' categories are differently defined compared to the terms 'operating', 'investing' and 'financing' activities defined in IAS 7. This approach has been used in IFRS 2, *Share-based Payment*, wherein paragraph 6A clarifies that the term 'fair value' differs in some respects from the definition of fair value in IFRS 13, *Fair Value Measurement*.

2) Further, India notes that paragraph 46 and paragraph 48 of the Exposure Draft introduce new terms 'main business activity' and 'in the course of entity's main business activity' in the context of operating category to be presented on the face of the Statement of Profit or Loss. IFRS Standards use different definitions of similar terms which form part of operating activities of the entity, for example in:
    - IFRS 15, *Revenue from Contracts with Customers*, defines Revenue as income arising in the course of an entity's ordinary activities.
    - IFRS 8, *Operating Segments*, defines Operating Segment as a component of an entity that engages in business activities from which it may earn revenue and incur expenses.
    - IAS 7 defines Operating activities as the principal revenue-producing activities of the entity and other activities that are not investing or financial activities.

India requests the Board to provide additional guidance on the terms 'main business activity' and 'in the course of entity's main business activity' as these terms are new and not clearly defined so that the distinction between the definitions of similar terms as mentioned above, and in particular, the difference with IAS 7, IFRS 8 and IFRS 15 is more clear. This may help improve comparability and promote easier implementation.

India also suggests symmetry with respect to the presentation of interest income/interest expense mentioned hereunder:

1) Paragraph B33(a) requires interest revenue from trade receivables to be classified in the operating category and B35(c) requires trade payables (for example those negotiated on extended credit terms) to be classified in financing category. With reference to the instant paragraphs, India believes that it might result in inconsistency in case of trading organisations which might purchase on long term credit and sell on long term credit, as the interest income would get classified in Operating category while interest expense would get classified in Financing category. Consequently, there would be a mismatch and 'Operating profit' will appear higher which can be addressed by classifying Trade receivable interest to Financing category.

2) Paragraph B37 requires interest income and expenses on liabilities not arising from financing activities to be classified in the financing category. Such income and expenses include net interest expense (income) on a net defined benefit liability (asset) applying IAS 19, *Employee Benefits* (paragraph B37(a)). With reference to the instant paragraph, items like interest income (net) on Net Pension Assets are likely to be presented as a negative item under financing category. India requests the Board to clarify the situation.

Comments from New Zealand

New Zealand agrees with the proposal that all entities present in the statement of profit or loss a subtotal for operating profit or loss and also agrees with the proposal 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.

New Zealand acknowledges the challenges the IASB faced trying to define operating profit or loss. New Zealand agrees that, because entities have various business activities, it is difficult to arrive at a direct definition of operating profit or loss that could be applied consistently, even between entities in the same industry. Therefore, for practical reasons New Zealand supports the operating category being a default or residual category.

New Zealand agrees with the proposal that an entity classifies in the operating category income and expenses from investments made in the course of the entity's main business activities.

New Zealand acknowledges for some entities, for example, global conglomerates with multiple business activities, significant judgement may be involved in determining the entity's main business activities.

New Zealand notes that the IASB is proposing to bring across paragraph 138 of IAS 1 into the new IFRS X as paragraph 99. This will require an entity to disclose in the notes (if not disclosed elsewhere) a description of the entity's main business activities. New Zealand also notes that an entity may disclose information on the significant judgements involved in determining an entity's main business activities under paragraph 122 of IAS 1, which is moving to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors as paragraph 27E.

Comments from Singapore

The concepts around 'main business activities', including 'activities that are conducted in the course of an entity's main business activities', are crucial to the classification of income and expenses in the statement of profit or loss.

However, there is little guidance provided on those concepts that could be applied to a wide range of business activities. For example, the ED hardly provides any guidance on the determination of main business activities other than paragraph B31, while the Basis for Conclusions simply cite insurers as an obvious example of entities that invest not as a main business activity, but rather in the course of the main business activities. It is exacerbated by the use of similar terms with potentially different meaning in the proposed IFRS X and other IFRS Standards, such as ordinary activities, main revenue-generating activities, and principal revenue-producing activities.

Hence, Singapore suggests that the IASB provides sufficient guidance on the determination of main business activities, and activities that are conducted in the course of an entity's main business activities, that could be applied to a wide range of business activities. There should be clarification on how the term 'main business activities' differs from the other terms such as ordinary activities, main revenue-generating activities, and principal revenue-producing activities.

In addition, the IASB should consider requiring an entity to disclose significant judgements made in determining its main business activities, and whether income and expenses from investments are generated in the course of its main business activities.

Singapore further suggests that the IASB considers extending the concept of 'activities that are conducted in the course of an entity's main business activities' to entities that provide financing to customers, for the proposed exception in paragraph 51 of the ED to classify particular income and expenses in the operating category. For an entity that provides financing to customers only in the course of its main business activities, the difference between interest revenue and the related interest expense provides potentially useful information about the entity's performance from the provision of financing to customers.

[Hong Kong & Korea]

Hong Kong & Korea did not support the IASB's proposal to define operating profit or loss based on a residual concept. Suggestions from each member are described below.

Comments from Hong Kong

Hong Kong considers that determination of an entity's main business activities is an important factor in determining what income and expenses should be classified in operating category. Hong Kong notes that most stakeholders did not agree with the IASB's proposal to define the operating category as a default/residual category, citing that it would be difficult for an entity (especially for a conglomerate entity) to determine what income and expenses should be included in the operating category without a specific and direct definition. Hong Kong also recommends that the IASB provide clear guidance on determining the 'entity's main business activities' (e.g. consider using the definition of business in IFRS 3 Business Combinations or ordinary activities in IFRS 15 Revenue from Contracts with Customers to provide guidance on an entity's main business activities).

Comments from Korea

Korea does not agree with the IASB's proposal to define operating category as a residual concept. Many stakeholders favoured the existing concept of operating profit or loss that is required under Korean IFRS. Korean stakeholders expressed concern that operating PL as a residual concept would include income and expenses generated from non-principal activities, which does not reflect the faithful representation of an entity's operating activities; the inclusion of those items generated from non-principal activities would lead to undermining the comparability between entities.

Korea therefore recommends the IASB define operating profit or loss based on the concept of 'an entity's main business activities' so that operating profit loss excludes 'non-main' items.

Nonetheless, Korea also acknowledges that it could be challenging to define operating profit or loss based on the concept of 'an entity's main business activities.' Provided that the IASB does not accept the recommendation mentioned above, Korea suggests two alternatives.

First, Korea suggests that the IASB use a different title for the subtotal of operating category items in place of 'operating PL.' For example, the IASB might consider using the title, 'operating category PL.' By doing so, Korean companies would be able to continue to use the title, 'operating PL' as a subtotal of K-IFRS operating PL, which would be considered to be a management performance measure.

Second, Korea suggests that the IASB require entities to present the total amount of unusual income and expenses in the operating category below the subtotal, operating PL. For example, the total amount of unusual income and expenses in the operating category could be provided using a bracket below the subtotal, operating PL; the IASB might also require entities to present below the subtotal, operating PL, two separate amounts, i.e. total amount of operating PL without unusual income and expenses and total amount of unusual income and expenses 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?

AOSSG WG member's comments on Question 4

Members generally agree with the IASB's proposal that an entity that provides financing to customers as a main business activity classify in the operating category using one of the two options. One member partly agrees with the accounting policy choice. One member disagrees with the accounting policy choice. Some suggestions from each member are described below.

[Australia]

Australia agrees with the IASB's proposal.

[Hong Kong]

Hong Kong generally supports the IASB's proposal to give banks and other financial institution entities an accounting policy choice for the classification of income and expenses from financing activities, and from cash and cash equivalents. However, Hong Kong is of the view that the accounting policy choice under paragraph 51 of the ED will reduce the comparability of the financial performance between non-financial institution entities that provide financing to customers as the entity's main business activity, and those that do not.

Therefore, Hong Kong suggests that non-financial institution entities that provide financing to customers as one of the entity's main business activities, should be required to classify income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers, in the operating category unless impracticable to do so. If impracticable, then all such income and expenses should be classified in the operating category.

Hong Kong also recommends that the IASB provide illustrative examples for a non-financial institution entity on the allocation of income and expenses from financing activities, and from cash and cash equivalents, between operating and financing categories in order to help these entities apply the requirements under paragraph 51(a) of the ED consistently.

[India]

India partly agrees with Board's proposal to provide an accounting policy choice to classify the following under operating category:

a) income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or

b) all income and expenses from financing activities and all income and expenses from cash and cash equivalents.

The Board may consider that in cases of entities where the main business activity is financing only, for example, banks and financial institutions, giving an accounting policy choice to present income and expenses from financing activities in either operating category or financing category is not appropriate. Income and expenses from financing activities and from cash and cash equivalents for such entities should necessarily be classified as an operating activity. It is conceptually incorrect that an entity that is providing financing to customers as its main business activity exercises the choice to present income and expenses relating to other financing activities apart from the income and expenses that relate to provision of financing to customers, separately from operating activities. It may also lead to lack of comparability among entities in the same sector.

Therefore, India suggests that this particular paragraph may be made situation oriented and the choice may be permitted for class of entities carrying on both financing and non-financing businesses, whereas the entities who have only financing activities as its main business activity should not be provided such accounting policy choice but should be required to present income and expenses from financing activities as operating activities only, which also synchronises with the presentation requirements of IAS 7.

[New Zealand]

New Zealand agrees with the proposal in paragraph 51 of the ED that an entity that provides financing to customers as a main business activity classify in the operating category either:

(a) income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or

(b) all income and expenses from financing activities and all income and expenses from cash and cash equivalents.

New Zealand agrees that when an entity provides financing to customers as a main business activity, the difference between the interest revenue from that activity and the related interest expense (a cost of earning that income) is an important indicator of operating performance. The IASB's proposals would enable entities such as banks to continue presenting a net interest income subtotal.

New Zealand received feedback from some New Zealand banks (the entities most likely to make use of the proposed accounting policy choice) that any methodologies to split (i) income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers from (ii) income and expenses from financing activities and from cash and cash equivalents that are unrelated to the provision of financing to customers would be arbitrary at best.

[Singapore]
In principle, Singapore disagrees with the accounting policy choice proposed in paragraph 51 of the ED, as it would undermine the relevance and faithful representation of financial information, and result in a loss of comparability among entities.

Nevertheless, Singapore recognises that, in some cases, it could be difficult to allocate income and expenses from financing activities, and from cash and cash equivalents, on a reasonable basis between the activity to provide financing and other main business activities.

On balance, Singapore suggests that the IASB considers introducing a rebuttable presumption that an entity is able to allocate such income and expenses between the activity to provide financing and other main business activities on a reasonable basis without undue cost or effort. If the presumption is rebutted, an entity classifies all such income and expenses in either operating or financing category, depending on the significance of the provision of financing to customers relative to the other main business activities. The entity also discloses that fact and the significant judgements made in that assessment.

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?

AOSSG WG members' comments on Question 5

Members generally agree with the IASB's proposal 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. Some suggestions from each member are described below.

[Australia]

Australia agrees with the IASB's proposal.

[Hong Kong]

Hong Kong generally agrees with the IASB's proposal. However, it notes that as mentioned for Questions 1 to 3, it recommends clear guidance on determining the 'entity's main business activities.'

[India]

India agrees with the Board's proposal 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.

However, India believes that it may be helpful to clarify in the first sentence of paragraph 47 of the Exposure Draft that this category excludes those income and expenses related to investments where those are considered to relate to the main business activity. For example, consider a manufacturing entity that has accumulated significant treasury and investment portfolio over time (let's say 45% of its total assets), and which also considers such treasury activity as its main business activity. In this case, the entity may consider such income and expense as operating and not necessarily in the investing category.

Further, it may also be clarified how income and expenses (including receipt of dividend) from investments made in subsidiaries, joint arrangements and associates in the separate financial statements will be classified. Whether an entity will need to follow a similar approach of classification of income and expenses from such investments between integral and non-integral or all such income and expenses be classified in investment category.

[New Zealand]

New Zealand agrees that an investing category will provide users with useful information about the returns from investments that are not part of the entity's main business activities, particularly for non-financial institutions.

In relation to the proposed new categories of 'operating', 'investing' and 'financing' in the statement of profit or loss, New Zealand strongly recommends that the IASB considers using different terms or more descriptive terms than those used in the statement of cash flows. Using the same terms as the statement of cash flows, but with a different meaning will be very confusing for users of financial statements.

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?

AOSSG WG members' comments on Question 6

All members support the proposals. Specific comments are described below.

[Hong Kong]

Hong Kong suggests that the IASB should provide clarification on the following.

- why interest expenses on lease liabilities are classified in the financing category in cases where the leased assets are used in the production of goods; and
- how to classify the effect of financing for a contract that has a significant financing component under IFRS 15.

[India]

India concurs with the Board's proposal that all entities, except for some specified entities (as per paragraph 64 of the Exposure Draft), present profit or loss before financing and income tax subtotal in the statement of profit or loss for the reasons and rationale explained in the Basis for Conclusions. However, this is subject to India's concern in relation to accounting policy choice for classification of income and expenses from financing activities and from cash and cash equivalents, for entities providing financing to customers as a main business activity as articulated in India's response to Question 4. Further, India has following other suggestions:

India notes that the financing activities defined in paragraph 50 are those involving the receipt or use of a resource from a provider of finance with the expectation that: (a) the resource will be returned to the provider of finance; and (b) the provider of finance will be compensated through the payment of a finance charge that is dependent on both the amount of the credit and its duration. In this regard, there may be situations where this definition would not be applicable, for example, an interest free loan provided by a parent to a subsidiary, in which case interest is imputed and recorded in profit or loss. India would expect that in such situations too, the expense should be classified in financing category. India recommends that the guidance in this regard may be added in the Standard.

India notes that paragraph 49 of the Exposure Draft requires an entity to classify the following in the financing category:

a) income and expenses from cash and cash equivalents

b) income and expenses on liabilities arising from financing activities

c) interest income and expenses on other liabilities

Paragraph 49(b) deals with income and expenses on liabilities arising from financing activities which includes trade payable (for example, negotiated on extended credit terms) (as per paragraph B35 (c)) whereas paragraph 49 (c) deals with interest income and expenses on other liabilities which includes unwinding of discount of deferred consideration for business combination among others (as per paragraph B37 (c)). Considering that trade payables essentially involves the financing element although not arising from financing activity per se, it is recommended that trade payables may also be included in Paragraph B37.

[New Zealand]

New Zealand supports the proposal for entities to present a profit or loss before financing and income tax subtotal in the statement of profit or loss, other than some specific entities (i.e. entities that provide financing to customers as a main business activity (e.g. banks) and classify all income and expenses from financing activities and all income and expenses from cash and cash equivalents in the operating category).

New Zealand supports the proposals for entities to classify in the financing category:

(a) income and expenses on liabilities arising from financing activities;

(b) income and expenses from cash and cash equivalents; and

(c) interest income and expenses on liabilities that do not arise from financing activities.

New Zealand acknowledges that some users have different views on the appropriate classification of income and expenses from cash and cash equivalents. New Zealand supports classifying in the financing category for reasons similar to including interest income and expenses on liabilities that do not arise from financing activities i.e. a consistent location for the presentation of information. This consistent location would enable users to reclassify income and expenses from cash and cash equivalents to other categories it they wish to do so.

In addition, New Zealand suggests the IASB clarifies the following.

- How the proposed definition of financing activities interacts with interest recognised on interest free or low interest loans recognised initially at fair value.
- Whether the ‘payment of a finance charge’ would include notional interest calculated for accounting purposes, rather than a contractual interest charge.

[Singapore]

Singapore suggests that the IASB clarifies whether the definition of financing activities would capture the range of financial instruments that are classified as financial liabilities applying IAS 32 Financial Instruments: Presentation, and whether the conclusion would depend on those financial instruments being accounted for in a way that gives rise to an effective interest rate. Examples include financial instruments of which contractual terms do not give rise to a charge that is obviously dependent on both the amount of the credit and its duration.

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?

AOSSG WG members' comments on Question 7

Almost all members disagree with the IASB's proposal to distinguish between integral associates/joint ventures and non-integral associates/joint ventures. One member partly agrees with the IASB's proposal. Specific comments from each member are described below.

[Australia]

Australia does not agree with the IASB's proposal to require entities to distinguish between whether associates and joint ventures are integral or non-integral. Instead, Australia recommends that all associates and joint ventures accounted for using the equity method are presented in a single, separate category, below operating profit. This would revise the proposed subtotal for operating profit or loss and income and expenses from integral associates and joint ventures with a subtotal for operating profit or loss and income and expenses from associates and joint ventures (accounted for using the equity method).

Australia also recommends the IASB gives further consideration to the need for enhancing the requirements of IFRS 12 *Disclosure of Interests in Other Entities* during its forthcoming post-implementation review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12.

Based on the feedback from preparers, Australia identified the following practical challenges in determining whether an investment is integral or non-integral as proposed:

- given the limited guidance, it could be particularly judgemental and difficult when trying to distinguish whether returns occur separately from the other assets of the entity. For example, an associate or joint venture may generate a return by mere association with a recognised brand name of the reporting entity, despite not necessarily sharing or using that brand name. In that case, it may be particularly challenging to determine whether that return occurs individually and largely independently of the brand name;
- proposed paragraph 20D provides guidance that entities should assess whether a 'significant interdependency' exists between the investment and the entity. It is unclear how the concepts of 'generating returns individually and largely independently of other assets' in the definition of integral, and 'significant interdependency' in the guidance in paragraph 20D interact. For instance, it is unclear whether an asset must be recognisable for a significant interdependency to also exist. An example of this might be where the associate and the reporting entity share a brand name (which is noted as a possible significant interdependency in paragraph 20D), but that brand name is internally generated, and hence not recognisable. In that case, would the associate meet the definition of integral?
- further, it is unclear how the definitions of significant influence (for associates) and joint control (for joint ventures) interact with the proposed definition and guidance. In particular, applying paragraph 20D of the proposed amendments to IFRS 12, it could become difficult to conclude that a significant interdependency between an entity and an associate or joint venture does not exist where the parent has significant influence over the investment's financial and operating policies, or jointly controls the entity. However, the management of the entity (which is the source of the interdependency) would not be a recognisable asset and therefore, the associate or joint venture may still produce returns individually and largely independently of the other assets of the entity. Again, it is unclear how the concepts of 'generates returns individually and largely independently of other assets' and 'significant interdependency' are intended to interact, and in some cases it appears that they may conflict;

- BC78-BC79 to ED/2019/7 note the IASB's expectation that most joint ventures would be integral to the business. With that in mind, Australia questions whether it would be more cost-efficient for the IASB to include a rebuttable presumption that joint ventures would be integral?
- if the definition is too broad or lacks guidance, entities may be able to easily reclassify the associate or joint venture when they are performing well or underperforming to reach the desired presentation in the statement of profit or loss; and
- lastly, an associate or joint venture may represent a significant element of a business's financial performance, but may do so individually and largely independently of other assets of the entity (for example, a venture into a new type of business activity, or a similar business activity but using assets entirely independent of the reporting entity). In that case, the associate or joint venture would be classified as non-integral, despite its financial significance to the group. The AASB notes that the definition refers to the investment being integral to the main business activities; however, Australia questions whether that would be well understood by users without an understanding of the technical requirements of the proposals.

Australia also mentioned that users think that distinguishing between integral and non-integral associates and joint ventures appears to be arbitrary; and would not provide additional information on associates or joint ventures that is particularly useful.

In addition, Australia said that some users suggested consideration of requiring proportionate consolidation for joint ventures that might be considered 'integral' instead of equity accounting; Australia recommends that the IASB consider such feedback further as part of its research project on the Equity Method.

[Hong Kong]

Hong Kong appreciates the IASB's proposed split of 'integral' and 'non-integral' associates/joint ventures to reduce the diversity in practice in the presentation of an entity's share of profit or loss of associates/joint ventures. However, it considers that the IASB's proposal for the split of 'integral' and 'non-integral' associates/joint ventures will add burden for preparers, especially for entities that have a portfolio of associates/joint ventures, and the cost of the proposals may outweigh their benefit.

Hong Kong recommends the IASB consider strengthening the existing disclosure requirements in IFRS 12 to require entities to provide more information on the main business activities of associates/joint ventures (e.g. nature of the business), and the subtotal of the statement of profit or loss and nature of unusual items of the associates/joint ventures, instead of proposing the split of 'integral' and 'non-integral', in order to help users of financial statements understand how the company invests in the associates and joint ventures to develop its business.

If the IASB were to proceed with its proposal on the split of 'integral' and 'non-integral' associates/joint ventures, Hong Kong strongly recommends that the IASB should provide more guidance on how to do the split, and provide more key and commonly used indicators, other than significant interdependency as provided in paragraph 20D of IFRS 12 in the ED, that the entity should consider when assessing whether an associate or joint venture is integral or non-integral to an entity's main business. Such indicators could include the investment objective in the associate or joint venture and how management evaluates the performance of the associate or joint venture.

[India]
India encountered divergent views.

Some of its members concur with the Board's proposal that require an entity to 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 for the reasons mentioned in Basis for Conclusions and also for the reasons mentioned below:

With reference to jurisdiction in India, by virtue of the regulatory requirements and act of law in certain business scenarios, entities are prohibited to obtain control of an entity and in such scenarios the investors at the parent level perceive it as an extension of an operating activity. Also, by and large the entity invests in associates and create joint ventures, as they add value to their business and are generally their business is closely related to the entity's business.

Further, the investors of the parent will be interested to know the impact of the business of joint ventures and associates that have significant interdependency with respect to the parent as it provides a significant information and predictive value about how the interdependent associates or joint ventures may perform in future.

India understands that in a principle-based accounting standard, India cannot provide a bright line to make an assessment of existence of interdependency and, therefore, professional judgement should be made to determine whether an associate or joint venture is interdependent. However, India believes that further guidance and illustrations on 'interdependence' should be provided in the Application Guidance to help in making such assessment.

On the other hand, some of its members felt that such bifurcation of associates and joint ventures as integral and non-integral is inappropriate. They explained their rationale and arguments as below:

Considering the definition of integral associates and joint ventures and non-integral associates and joint ventures given in Appendix A of the Exposure Draft, India anticipates that the terms will be subject to different interpretations and thus, will result in diversity in practice. For example, associates and joint ventures (JVs) may be integral to the business but as they are capable of generating returns individually and independently of the other assets of the entity, they may have to be classified as non-integral associates and joint ventures per above definition. Moreover, for the sake of simplicity in financial reporting such a split should be avoided and is not necessary.

Further, the proposed definition is based on a test of interdependency, which may not be the only reason for showing the results of associates and JVs in a separate sub-total with operating profit. For example, certain entities may invest in associates and joint ventures because they are in a similar line of business. In certain industries e.g. real estate, infrastructure, oil and gas, investments are commonly made using JV/associate model, but there may not be any interdependency as contemplated in the current definition, and others may invest for strategic reasons which would result in combined synergies going forward but not current interdependency e.g. IT services companies investing in other start-up technology or product companies. Accordingly, in an attempt to reduce diversity in practice, India suggests continuing with the current approach of providing information for investment in associates & JVs together as one-line item, without further classifying them into integral and non-integral.

However in the event, Board feels it is necessary to provide information for investment in associates & JVs with operating profit, then the definition of such JVs/associates may be amended to classify separately those closely related or not closely related to the main business activities of the investor entity, rather than classifying them as integral and non-integral.

Generally, it is difficult to establish that an associate or a joint venture is non-integral to the business of the investor, as the investee is either a supplier or a customer of the investor or the joint venture is created to share risk or pool resources to pursue a common business objective, i.e. significant interdependency to the main business of the reporting entity. Thus, there will be very few instances, where the company has significant influence or joint control, but is non-integral to the business. However, while doing the capital allocation, companies generally take decisions based on this classification of integral and non-integral, as some of these associates or joint ventures will be strategic investments but may not have dependency to main business as envisaged in the current definition in the exposure draft.

Further, India would like to highlight that the net profit or loss from an associate or joint ventures is after the adjustment of interest and taxes and including such after tax profits in the statement of financial performance as a line item immediately after operating profit and redesignating this again together with Operating Profit is inappropriate as the characteristics of both Operating profit or loss before and after "Share of profit or loss of integral associates and joint ventures" differ. Assuming, the Board necessarily decides to proceed with such a split, one of the suggestions deliberated was whether it would be appropriate to present "Share of profit or loss of integral associates and joint ventures" as a separate line item on the face of statement of profit or loss but only after profit after tax line.

India also seeks clarification in respect of presentation of fair value changes in investments in associates and joint ventures in the Separate Financial Statements of the investor (i.e. whether such fair value changes also need to be presented based on classification into integral and non-integral associates and joint ventures) when an entity measures the investments in associates and joint ventures at fair value through profit and loss by exercising the option given in paragraph 10(b) of IAS 27.

[Korea]

Korea does not support the IASB's proposal to distinguish between integral and non-integral associates and joint ventures. Korea suggests that the IASB requires an entity to present income and expenses from associates and joint ventures in a separate single line item (i.e. no separation between integral and non-integral ones). Korea prefers that the separate line item would be classified in the investing category, but it might be presented in a different category between operating category and investing category.

Korea, however, notes that there are differing suggestions from some stakeholders. Some suggested that integral associates/JVs be classified in the operating category or investing category.

[New Zealand]

New Zealand does not agree with the proposal to classify associates and joint ventures accounted for using the equity method as integral or non-integral. The classification would require significant judgement to be applied, would result in lack of comparability and would be difficult to audit. New Zealand's outreach with investors does not suggest there is a demand for this information. Furthermore, IFRS 12 *Disclosure of Interests in Other Entities* already requires disclosure of information about the nature, extent and financial effects of an entity's interest in associates and JVs.

Although New Zealand does not agree with classifying associates and JVs as integral or non-integral, New Zealand does agree that separately presenting operating profit or loss and income and expenses from associates and JVs provides useful information to users of financial statements.

New Zealand suggests, for simplicity, that the IASB considers requiring the separate presentation of associates and JVs immediately below operating profit (so effectively part of the investing category but as a separate line item). New Zealand recommends requiring the presentation of two line items to differentiate between

(a) share of profit or loss from associates and JVs (for equity-accounted associates and JVs); and
(b) FV movements for other associates and JVs measured at fair value (given the feedback from users).

[Singapore]

Singapore is supportive of distinguishing particular equity-accounted associates and joint ventures from others, but disagrees with the proposals. In particular:

- An entity applies different principles to the classification of income and expenses from associates and joint ventures, depending on whether it accounts for those investments using the equity method, or at fair value or cost. It is unclear how the approach is supported on conceptual grounds.
- Applying the definition of integral associates and joint ventures, an entity may end up classifying in the investing category, income and expenses from certain associates and joint ventures that are reasonably considered to be integral to the entity. For example, when an entity's main business activity is dependent on an associate or joint venture, but the latter generates a return individually and largely independently of other assets of the entity.

Instead, Singapore suggests that the IASB considers an approach that:

- Overlays the classification of income and expenses from equity-accounted associates and joint ventures with the general classification principles based on main business activities.
- Classifies income and expenses from equity-accounted associates and joint ventures that are invested in the course of an entity's main business activities in the operating category. The classification is expected to affect only a limited group of entities, such as some venture capital organisations and similar entities. For such entities, income and expenses from investments made in the course of their main business activities would be classified consistently, regardless of whether those investments are equity-accounted associates and joint ventures or any other investments that are measured at fair value or cost. Separate

presentation would enable users of financial statements that disagree with the classification in the operating category to adjust the results of operating activities for their analysis.

- Classifies income and expenses from all other equity-accounted associates and joint ventures in the investing category, with separate presentation for integral and non-integral associates and joint ventures. This is because income and expenses from integral associates and joint ventures are strictly not part of the results of the entity's main business activities, but may nonetheless significantly affect the results of the entity's main business activities.
- Defines an associate or joint venture as being integral to an entity's main business activity, if the entity does not generate a return largely independently of that associate or joint venture in respect of that business. The concept of integral would focus on significant dependency of the entity's main business activities on an associate or joint venture, rather than significant dependency of an associate or joint venture on the entity, or significant interdependency between them.

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?

AOSSG WG members' comments on Question 8

All members agree with the IASB's proposal to define the role of the primary financial statements and the notes. They also generally agree with the proposed principles and general requirements on the aggregation and disaggregation of information. However, they made some suggestions. Comments from each member are described below.

[Australia]

Australia agrees with the IASB defining the roles of the primary financial statements and the notes. Australia also generally agree with the proposed principles and general requirements on the aggregation and disaggregation of information.

However, Australia recommends the IASB link materiality more closely with the aggregation and disaggregation principles. Whilst paragraph B9 of proposed IFRS X clarifies that it is the concept of materiality that drives aggregation and disaggregation in the notes, it recommends that materiality, particularly the qualitative assessment of it for the purpose of presentation and disclosure, is incorporated more clearly as a key component of aggregation and disaggregation in the body of proposed IFRS X.

Australia also questions whether it is necessary to require a disaggregation of the 'other' category, so far as that category is only an aggregation of individually immaterial items. If the aggregation and disaggregation principles incorporate the concept of materiality (both quantitatively and qualitatively), then by definition an 'other' category should not require further disaggregation or explanation of its content. The requirement as proposed could also be quite onerous for preparers to undertake and could result in a significant amount of immaterial information disclosed in the notes.

If the IASB does retain the proposed requirements for the 'other' category, then Australia recommend the IASB illustrates such a requirement, noting that the illustrative examples as proposed include a line item labelled with 'other'.

Australia also received feedback noting a current lack of clear guidance in IAS 1 on the presentation of certain items in the statement of financial performance, for example where to present a day one gain or loss, the unwinding of a discount or a gain/loss on derecognition of certain types of financial instruments under IFRS 9. The participant also noted the challenges of classifying the interest on a lease liability. Australia considers that the proposals will be useful in assisting entities in determining the most appropriate aggregation category for such items. However, it understands that the additional guidance required for the items noted above goes beyond the scope of the current project.

[Hong Kong]

Hong Kong generally supports the proposed description of the roles of the primary financial statements and the notes and the IASB's proposal to improve disaggregation of information in the financial statements which could help users of the financial statements to understand the nature and amount of the items. Hong Kong agrees with the reasons stated in paragraph BC26 of the ED for not providing quantitative thresholds for disaggregation.

[New Zealand]

New Zealand's comments on each sub-question are as follows.

Question 8(a)

- New Zealand agrees with the proposed description of the roles of the primary financial statements and the notes.
- In its view, the notes form an integral part of the financial statements. It is the combination of the primary financial statements and the notes that meets the objective of financial statements. New Zealand would like the IASB to acknowledge in IFRS X that while the primary financial statements and the notes do have separate roles to play, they are both equally important in meeting the objective of financial statements.

Question 8(b)

- While New Zealand generally agrees with the principles and guidance for aggregation and disaggregation included in the ED, New Zealand has identified below some areas for further consideration by the IASB.

Materiality

- New Zealand is of the view that the concept of materiality and materiality judgements plays a critical role in the presentation and disclosure of information in financial statements. Because an entity makes materiality judgements when making decisions about recognition and measurement, as well as presentation and disclosure, New Zealand can understand the IASB's rationale for proposing to move the definition of material and associated guidance to IAS 8 as the concept of materiality is pervasive in the preparation of financial statements. However, New Zealand believes the IASB has missed an opportunity to embed the concept of materiality into a general presentation and disclosure standard.
- With presentation and disclosure – and particularly disclosure – there are good reasons why a general presentation and disclosure standard should include specific guidance on applying materiality. By including such guidance in a general presentation and disclosure standard, that guidance could then be applied (via cross-reference) to all other standards containing disclosure requirements.

Materiality – other comments

- The IASB is not proposing to carry forward paragraph 97 from IAS 1 which states "when items of income and expense are material, an entity shall disclose their nature and amount separately". New Zealand believes that the IASB should include this paragraph in a new general presentation and disclosures standard.

The label 'other'

- New Zealand is in complete agreement that disaggregation of material items of income and expenses provides useful information to users. However, New Zealand would caution the IASB against requiring an entity to disaggregate an 'other expenses' line made up of immaterial items where the entity has made every effort to apply the principles set out in paragraphs 25 to 28 in the ED, and the resulting amount in the line item 'other expenses' is immaterial. New Zealand recommends amending paragraph 28 to clarify this. New Zealand also suggest including this scenario in the illustrative examples.

- In support of its comments in the paragraph above, New Zealand has received feedback that too much emphasis on disaggregation is counterinitiative with the focus in recent years on decluttering financial statements. The concern is that the proposals in the ED may cause the pendulum to swing too far in the other direction and have the effect of cluttering the financial statements.

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?

AOSSG WG members' comments on Question 9

Some members generally agree with the IASB's proposal to require an entity to present its operating expenses using either the nature of expense method or the function of expense method of analysis; they also generally agree with the IASB's proposal to require an entity that provides an analysis of its operating expenses by function in the statement of profit or loss to provide an analysis of using the nature of expense method in the notes. However, two members did not agree with those two IASB's proposals. Specific comments from each member are described below.

[Australia]

Australia supports the IASB's proposals to require an entity to analyse its operating expenses using the nature of expense method or the function of expense method, whichever is more appropriate. This is primarily on the basis that the proposal would bring greater comparability to the financial statements, particularly where comparing entities with similar business activities.

Users place importance on consistency in analysing an entity's operating expenses either by nature or by function. While some users were indifferent to the method used, others also supported the IASB's proposal to require re-analysis by nature in the notes where a functional analysis is undertaken on the face of the statement of profit or loss.

Australia notes that during outreach, some preparers argued that the proposals may be costly to implement. However, it did not identify any new arguments in that outreach that the IASB had not already considered in its Basis for Conclusions.

However, Australia are concerned that paragraph B47 of proposed IFRS X inappropriately requires the presentation of the required line items listed in paragraph 65. This requirement may result in a mixed analysis in a situation when an entity analyses the operating expenses by function but is required to include some minimum line items (e.g., impairment loss), which fits into the analyses by nature. Australia considers that it is inconsistent with the requirement to use a single method.

Australia also notes that the required line items appear to have been carried over from IAS 1 without a reconsideration of whether they are appropriate in the context of the revised IFRS X. Australia recommends the IASB re-consider the appropriateness of the required line items as a whole, particularly given those required line items have accumulated over a series of time through new and revised standards, and therefore not necessarily with the same motivations for their inclusion. Australia considers this project provides an opportunity to review the required line items as a package. As an example, why are impairment losses related to financial assets (which are a required line item) deserving of more prominence than impairment losses related to non-financial assets (which are not a required line item)?

[Hong Kong]

Hong Kong supports the IASB's proposed requirements in paragraphs 68 and B45-47 of the ED to present an analysis of operating expenses using the single method that would provide the most useful information to the users of financial statements, including the corresponding application guidance.

Hong Kong also agrees with the proposed disclosure requirements in paragraphs 72 and B48 of the ED to provide analysis by nature in the notes for an entity that provides analysis of operating expenses by function in the statement of profit or loss to facilitate investors in performing forecasts.

[India]

India concurs with the Board's proposal of requiring entities to analyse operating expense using the nature of expense method or the function of expense method and also with the proposal 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. However, India submits the following suggestions:

The exposure draft stipulates certain factors or indicators to consider in deciding which of the two methods should be adopted i.e. key components of the drivers of the entity's performance, the way the business is managed and how management reports internally, industry practice and whether allocation to functions would be arbitrary. India appreciates the Board's effort to provide such principles. However, India believes that this could result in diversity in practice and higher level of subjectivity, and consequently will adversely impact comparability.

India notes that paragraphs 68-72 require an entity to present analysis of expenses using the method that provides the most useful information to the users. This essentially allows for two types of presentation based on nature of expense or function of expense depending on the management's judgement. In other words, it is likely to be interpreted that it is an accounting policy choice. It may be noted that these proposed requirements are quite different from the existing IAS 1 requirements that provide accounting policy choice to the entities. It is also relevant to note, that regulators across the world may also have specific preferences or views on the presentation of such expenses. In India, there is a strong preference for nature of expense method of presentation of expenses, as regulatory authorities in India believe that the presentation of expenses by using nature of expense method is more reliable and relevant, as it does not involve allocation of expenses to different functions arbitrarily. Arbitrary allocation of expenses to different function might adversely impact the desired quality of 'neutrality'.

Accordingly, India suggests that such indicators based assessment be substituted by the current language in IAS 1.99 be retained: "An entity shall present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant."

Paragraph 65 requires presentation of certain items including "cost of sales". Further, paragraph B47 requires that information to be presented in paragraph 65 is regardless of the method adopted to present analysis of expenses, though paragraph 71 specifies that an entity applying the function of expense method shall present its cost of sales separately from other expenses. Considering the intent of the Exposure Draft, "cost of sales" will be a line item only in function of expense method of presentation. India requests the Board to suitably reword/ amend or clarify to remove any contradiction between paragraph 65(vii) and paragraph B47.

[Korea]

Korea agrees with the IASB's proposal to require an entity to present an analysis of operating expenses in the statement of profit or loss.

However, Korea is concerned that the IASB strictly prohibits the mixture of both methods, i.e. the nature of expense method and the function of expense method. Although Korea principally agree with the IASB that entities need to choose one of the methods, Korea believes that it is more appropriate to allow some flexibility. For example, if an entity can provide grounds for using the mixture of the methods, then we think such an entity can be permitted to do so.

Korea thus suggests that while the IASB principally maintains the proposal in the ED (i.e. not allowing the mixture of the methods), an entity be permitted to use the mixture of the methods if it can provide reasonable grounds for doing so.

[New Zealand]

New Zealand does not agree with the proposal that an entity shall present in the operating category of the statement of profit or loss an analysis of expenses using a classification based on either their nature or function. The reasons are as follows.

- In practice, New Zealand observes that it is common for companies to provide a mixed method of analysis based on the type of analysis that companies regard as providing the most useful information to users of their financial statements. Its view is that companies should be allowed the flexibility to determine the most appropriate analysis of expenses, even it that results in a mixed analysis.
- New Zealand has received feedback that companies report an analysis of expenses that reflects the way they track and manage the expenses internally. Requiring companies to then report in a different manner in its view will add to the costs for little benefit.
- its outreach has shown that there is not a good understanding of what is meant by an analysis of expenses by nature or function.
- Additionally, New Zealand notes that despite paragraph B46, which states that an entity shall not use a mixture of the nature of expense method and the function of expense method, paragraph B47 states that an entity shall present the line items required by paragraph 65 (which are by nature). Therefore, in practice, paragraph B47 is requiring a mixture of methods for an entity analysing operating expenses by function.

New Zealand acknowledges that its comments above may be seen as inconsistent with views expressed earlier, where it agreed with increased structure in the statement of profit or loss (by way of categories and subtotals) to aid comparability. In New Zealand's view standardisation of the structure of the statement of profit or loss—including the key subtotals—is sufficient to improve comparability, without the need to take that standardisation a step further by being overly prescriptive in how expense line items are presented.

New Zealand does not agree with the proposal that an entity presenting an analysis of expenses using the function of expense method shall also disclose in a single note an analysis of its total operating expenses using the nature of expense method. New Zealand's reasons are as follows.

- Some may argue that the above is already required under the existing requirement in IAS 1, but in its experience the existing requirement is not interpreted as requiring a comprehensive analysis in the notes. Rather, selected additional information is provided, for example, depreciation, amortisation and employee benefit expense (possibly because these items are individually listed in paragraph 104 of IAS 1).
- New Zealand has concerns with the practical application of the requirement. Some entities may not have the ability to be able to analyse operating expenses by more than one method in their accounting/reporting systems. Therefore, these entities would need to incur additional costs to track operating expenses using another method outside of their current systems.
- As well as the practical application problem above, there is also a conceptual problem with requiring 'cost of goods sold' to be reanalysed. Conceptually, if this line item is just made up of inventory, then it is not actually a functional line item. Rather, it is the cost of an asset (inventory) that is expensed at the point that it is sold to another party. For a manufacturing entity, the analysis required under the proposals (and existing IAS 1, if you follow the illustrative example) involves a decapitalisation process, to break down the cost of this asset into the original inputs (for example, raw materials, employee costs, etc) that were then capitalised into inventory under IAS 2 Inventories. Then, to balance the total cost of inputs purchased back to the COGS expense, there is an adjusting line item for the movement in inventory. Therefore, these input costs included in the analysis are not "expenses" as defined in the conceptual framework.

The IASB has acknowledged in the Basis for Conclusions that it did think about the costs to preparers when it developed this proposal. However, the IASB went ahead with the proposal due to the strong demand from users for this information to forecast future operating expenses. New Zealand does understand the driver for the proposal, but it suggests that the IASB considers alternatives. For example, given that users seem to be looking for information that is based on cash flows rather than accrual accounting, an alternative is to consider the presentation and disclosure requirements in IAS 7.

Other comments

New Zealand would like the IASB to consider the removal of paragraph 65 in the ED. This paragraph requires the presentation in the statement of profit or loss of minimum line items.

New Zealand would like to challenge the status quo here – why do we need to continue to have minimum line items in a general presentation and disclosure standard? The IASB has worked hard to develop new proposals, including principles and general requirements on the aggregation and disaggregation of information. The application of the IASB's proposals plus its recommendation in question 8 above to give greater emphasis to the concept of materiality should be sufficient for preparers to determine what information is presented and disclosed in the statement of profit or loss.

Further to the above, the requirements in paragraph 65 are an ad hoc collection of line items that have accumulated over the years, with no coherent rationale for singling out particular income or expense items.

As an alternative to paragraph 65, New Zealand would be supportive of the IASB retaining requirements for entities to disclose particular types of income or expenses in the notes to the financial statements, if necessary to meet user information needs, as opposed to requiring the disclosure of these line items on the face of the statement of profit or loss.

[Singapore]
Singapore is generally supportive of the proposals. However, the proposal in paragraph B47 of the ED could result in a mixed approach to the analysis of operating expenses, and the reported functional line items within each category being incomplete. There is no compelling reason for singling out specific items related to specific Standards for separate presentation in the statement of profit or loss.

Therefore, Singapore suggests that the IASB amends the proposal to enable an entity to disclose in the notes the specific items of operating expenses listed in paragraph 65, if presenting those items in the statement of profit or loss would result in a mixed approach to the analysis of operating expenses. If those specific items are disclosed in the notes, the entity should also disclose the line items in the statement of profit or loss in which each of those specific items are included.

Moreover, the IASB could take this opportunity to reconsider the merits of requiring an entity that uses the nature of expense method of analysis to present the specific items related to specific Standards in the statement of profit or loss.

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?

AOSSG WG members' comments on Question 10

Most members generally agree with the IASB's proposal to require disclosure of unusual items of income and expenses. Some members raised concerns on the proposed definition of unusual items. One member did not support the IASB's proposal because it has concerns that the proposals as currently drafted will not be operable. Specific comments from each member are described below.

[Australia]
Australia generally supports the IASB's proposal to require disclosure of unusual items of income and expenses. It agrees that such disclosure has the potential to provide useful information to estimate future cash flows. However, Australia has some concerns regarding the determination and the definition of the items.

Paragraph B70 of proposed IFRS X states that income or expenses are classified as unusual based on expectations about the future rather than past occurrences. Australia agrees that items of income and expense should be classified on the basis of expectations of the future. However, Australia considers the IASB should also permit entities to consider the past to assess the reasonableness of the entity's expectations of the future. In other words, Australia recommends that an indicator of whether an item of income or expense is likely to recur should be whether the entity's assumptions about the future are consistent with past events.

However, Australia stresses that where the circumstances or conditions are not consistent with similar past events, expectations of the future should take precedence. This would be important to ensure that the entity does not classify an item as unusual because it did not occur over the several previous reporting periods, despite the entity expecting the expense is to recur within the next several reporting periods. Whilst Australia acknowledges it is not perfectly comparable in purpose or operation, this could be similar in principle to IAS 36 *Impairment of Assets* paragraph 34, which requires management to assess the reasonableness of its assumptions in future cash flow projections with reference to actual past events.

Australia considers this would provide a more objective basis for both preparers and auditors to make the requisite judgements in assessing whether an event is likely to recur. Australia acknowledges that proposed paragraph B70 seems to imply this would be possible, given references to the entity identifying 'a developing pattern' in the case of an event that has previously occurred. However, as noted, Australia recommends that consideration of the past is made one of the more prominent indicators.

More generally, Australia recommends that the IASB develop additional criteria to identify when it is reasonable to expect an item of income or expense has limited predictive value. As drafted, the proposals would require significant judgement which may not lead to appropriate and consistent assessments

Australia also has a concern regarding items of income or expense that occur over multiple reporting periods but may still be unusual in substance. For example, a restructuring program that occurs over a 12-month period, but crosses over the reporting period, would not meet the proposed definition in the first reporting period of occurrence (to the extent the related expenses are expected to recur in similar in type and amount). However, the expenses would be disclosed as unusual in the second reporting period where the restructuring occurs, which Australia is concerned may call into question why the expense was not highlighted in the previous reporting period when it was occurring. This may also be further exacerbated by applying paragraph B74 of proposed IFRS X, which requires that comparative information is only presented for unusual items of income and expense to the extent that the item was also unusual in the comparative reporting period. In the example provided above, it appears no comparative information would be provided in the second year when the unusual item is disclosed.

Australia acknowledges and agrees that the requirement should provide information for users to assess future cash flows; however, it questions whether a timeframe based on the reporting date achieves this object or would be too short-term in focus. Australia also question whether it is useful to only have disclosure in the final year of an unusual multi-year item.

However, Australia also recognises the strong feedback from users (including users in Australia) to limit the scope of the proposed definition, so as not to allow inappropriate use of the ability to describe items of income and expense as unusual. With that in mind, the practical difficulties in defining unusual items of income and expense are acknowledged. However, Australia recommend the IASB consider whether the definition could be expanded to include those short-term items of income or expense that may recur in the next reporting period, but are also appropriately expected not to recur thereafter. Users also noted the importance of clear disclosure of management's judgements and expectations relating to items classified as unusual. Australia recommends that the income tax effect and the effect on non-controlling interests is disclosed for each item of unusual items of income and expense. Users noted that this information is important for reasons similar to those the IASB has noted in paragraph BC134 in relation to management performance measures.

Some stakeholders raised questions during outreach as to whether unusually low revenue would require disclosure. Australia acknowledges that proposed IFRS X refers to items of income and expense being unusual in type or amount. However, it is unclear whether the IASB's intention is for entities to identify a type of income as unusual if it is expected to recur as a **higher** amount for several future periods. One view would be that the amount of income is expected to be of a different (higher) amount and is therefore unusual. Another view is that the disclosure is about amounts that have been incurred and recognised and not those that had been expected to be recognised, but have not been. Australia recommends the IASB clarify its intention. If the IASB is proposing that unusually low revenue should be disclosed as unusual, Australia recommends the IASB provide a clear explanation and rationale for this, noting that entities in Australia would not generally disclose such information.

[Hong Kong]
Hong Kong appreciates the IASB's proposal to define unusual income and expenses and its proposed disclosure requirements because this would increase the transparency and comparability across entities, and reduce entities' opportunistic classification of expenses as unusual. In view of the comments from stakeholders on the proposed definition in paragraph 100 of the ED that the definition is unclear and highly judgemental, Hong Kong suggests the IASB should take into account both the past occurrence and the future expectations of an item for determination of unusual income and expenses, and clearly state in the Basis for Conclusions that the past occurrence is not a decisive factor. This could help to reduce interpretation which would improve comparability across entities, and reduce difficulties for audit and enforcement.

Hong Kong also recommends the IASB to provide more illustrative examples on how the determination of unusual income and expenses should be made in order to improve the application consistency.

[India]

India concurs with the Board's proposal of the requirements relating to unusual income and expense. However, with reference to paragraph 100, as the terms "several" and "limited predictive value" are susceptible to different interpretations, the Standard should provide additional guidance or guidance maybe provided in the form of illustrations, on how "several" and "limited predictive value" are to be interpreted.

India notes that the example given in paragraph BC133 of Basis for Conclusions that impairment losses due to drop in product prices should not be classified as unusual income or expenses. However, paragraph BC131 explains that to ascertain whether an item is unusual, an entity should assess whether it is reasonable to expect that income and expenses similar in type or amount will not arise for several future annual reporting periods. Therefore, India requests the Board to clarify whether in the mentioned example, even though drop in product prices is usual, however if the quantum of drop in the price of product is substantial or unusual (say the prices dropped by more than 50%) and resulted in a large amount of impairment charge, then will the impairment losses be classified as unusual expenses.

Further, India seeks clarification as to whether the tax on unusual items should be reported separately as well. Also, in certain cases, the tax itself might be an unusual item and not the income, which is taxed, due to certain reasons for example change in tax regime.

For information, India would like to mention that in India, there is a regulatory requirement of presenting 'Exceptional items' separately in the Statement of Profit or Loss. In this regard, guidance has been prescribed that exceptional items are those items which meet the test of 'materiality' (size and nature) and the test of 'incidence'.

This may be considered by the Board while developing guidance on what may constitute 'unusual income and expenses.'

[Korea]

Korea supports the IASB's proposal to require unusual income and expenses to be disclosed in the notes. However, Korea considered the two facts that determining unusual income and expenses could be onerous for preparers; the information usefulness of unusual income expenses in the operating category would be higher than those in other categories. Based on these two facts, Korea suggest that the IASB reduce the scope of items for disclosure requirements by requiring entities to disclose unusual income and expenses only for items within the operating category.

[New Zealand]

New Zealand does not agree with the IASB proposals to define and require disclosure by all entities of unusual income and expenses. New Zealand has concerns that the proposals as currently drafted will not be operable.

New Zealand's suggestion is that the IASB relies on the existing requirements in IAS 1 (existing paragraphs 97 and 98) for the disclosure of material items, adds "occurrence of other unusual or infrequently occurring items" to the list of circumstances that would give rise to the separate disclosure of items of income and expense, and adds requirements for the fair presentation of these unusual or other infrequently occurring items.

[Singapore]

Singapore is generally supportive of the proposals relating to the disclosures of unusual income and expenses. Nevertheless, Singapore has the following comments and suggestions:

Focus on future non-occurrence of income and expenses

- An event that is commonly considered to be unusual, for example an ad-hoc restructuring exercise, can span over more than one annual reporting period. Applying the proposals, an entity would disclose unusual income and expenses only in the last reporting period, without comparative information. This is notwithstanding that the entire income and expenses from the event would have limited predictive value for future reporting periods.
- Therefore, Singapore suggest that the IASB considers a definition of unusual income and expenses that focuses on future non-occurrence at the event level. An entity discloses unusual income and expenses arising from an event, if it is reasonable to expect that another event that gives rise to income and expenses of similar type and amount will not occur for several future annual reporting periods after the end of the first event. The entity also discloses the expected timeline that the first event will end, in addition to the reason supporting non-occurrence of the specified event for several future annual reporting periods.

Occurrence of unusual income and expenses that is inconsistent with past expectations

- An entity may have an item that meets the definition of unusual income and expenses, even though it had disclosed unusual income and expenses of similar type and amount in the immediate or recent prior annual reporting periods. The same may be true, even if the definition of unusual income and expenses is based on future non-occurrence at the event level.
- Therefore, Singapore suggests that an entity discloses the fact that, and the reason why, unusual income and expenses have occurred in the current reporting period despite its past expectations.

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?

AOSSG WG members' comments on Question 11

Some members generally support the IASB's proposal for the disclosure of management performance measures (MPMs) in the financial statements. However, some other members did not agree with the IASB's proposal. Specific comments from each member are described below.

[Australia]

While acknowledging that might find the proposed information useful, Australia recommends the IASB reconsider whether it is necessary to require disclosure of MPMs in the financial statements, or whether this could be better addressed in the IASB's project to revise the Management Commentary Practice Statement.

In Australia, where non-IFRS measures are commonly disclosed outside the financial statements, regulatory guidance is specifically directed toward ensuring guidance that those measures are not misleading, including a reconciliation to IFRS measures. The disclosures/reconciliations do not form part of the financial statements and hence are not subject to audit. Australia understands that this approach is similar to many other jurisdictions. While Australia acknowledges that the audit of the disclosures may increase the usefulness to users, Australia is uncertain that these incremental benefits would outweigh the additional costs incurred in the preparation and audit of the financial statements.

Australia therefore recommends the IASB reassess whether it is appropriate to require the disclosure of all MPMs used in public communications in the notes to the financial statements. As proposed in paragraph 21 of proposed IFRS X, the role of the notes is to:

- provide further information necessary for users of financial statements to understand the items included in the primary financial statements; and
- supplement the primary financial statements with other information that is necessary to meet the objective of financial statements.

The objective of financial statements, as proposed in paragraph 19 of proposed IFRS X, is to provide financial information about the reporting entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's economic resources. Australia recommends the IASB analyses and explains how the proposals for MPMs satisfy this objective. As mentioned above, Australia recommends that in doing so, the IASB considers whether the proposed requirements could be more appropriately dealt with in the IASB's project to revise the Management Commentary Practice Statement.

Australia acknowledges that some entities seek to include MPMs in the financial statements to provide additional information to users on management's view of its performance. With that in mind, Australia recommends that the IASB could alternatively permit (but not require) the disclosure of MPMs so that entities are able to report MPMs in the financial statements where they are considered material to an understanding of the entity's financial performance. In that case, Australia supports the need for disclosure as proposed in ED/2019/7 (subject to further comments below), so that the inclusion of those measures is robust, not misleading and capable of being audited.

If the IASB decides to proceed with its proposals to require disclosure of MPMs in the financial statements, Australia has some concerns regarding the proposals as drafted in ED/2019/7 in addition to those set out above. These generally relate to the restrictive nature of the proposals, as well as the practicality of some proposals with respect to the audit.

<u>Point 1: Restrictive nature of the definition</u>

Overall, Australia considers the definition of MPMs is overly restrictive. There is a risk that many non-GAAP measures reported by management publicly would not be subject to the enhanced disclosure and transparency requirements of ED/2019/7. Such disclosure is expected to be useful to users of financial statements, and accordingly it is recommended that the definition is widened to include more performance measures than proposed, as well as other measures that could be reconciled to IFRS financial information. Some specific restrictions are discussed below.

Faithful representation

Australia acknowledges and shares concerns that disclosing performance measures that do not faithfully represent what they purport to represent could provide incomplete or misleading information that users rely upon.

However, there is also concern that requiring management performance measures to meet a ‘faithful representation’ criterion before being subject to the proposed enhanced disclosure requirements may reduce the inclusion of useful information in the financial statements. Australia has also received feedback that this may be particularly costly from both a preparation and audit perspective, due to the significant judgement involved in determining (and opining) on whether a measure provides a faithful representation. This is particularly so given ED/2019/7 does not provide further guidance on when a management performance measure would, or would not, provide a faithful representation.

In addition to the cost constraints noted above, Australia recommends this requirement is removed from the proposals on the following basis:

- IFRS 8 Operating Segments does not impose similar restrictions on the disclosure of segment information that reflects the views of management. It is not clear why the IASB has proposed something different in ED/2019/7;
- the related disclosures and reconciliations would provide information for users on what the measures represent. This would include an explanation of the how the measures are calculated, how they provide useful information about the entity’s performance and a reconciliation to the most directly comparable IFRS subtotal or total. Given the IASB is unable to prevent the use of measures publicly, it would appear that including this information would be more beneficial than having measures reported publicly without robust disclosure. Users would then be able to make their own judgement as to whether the measure is appropriate and/or provides a faithful representation; and
- the presentation of management performance measures within the financial statements as subtotals would still be prohibited from having more prominence than subtotals and totals required by IFRS standards, reducing the potential for misleading users (as per paragraph 43(d) of proposed IFRS X).

Complementing totals or subtotals specified by IFRS Standards

It is not clear what the criterion in paragraph 103(b) that management performance measures “complement totals or subtotals specified by IFRS Standards” is intended to mean. For example, it is not clear if the IASB is simply suggesting that the measure must be reconcilable to an IFRS-defined total or subtotal, or something else. Without clarification, there could be significant judgement (potentially leading to additional cost) involved in assessing this criterion.

Subtotals of income and expenses

Subtotals of income and expenses are only a subset of the non-GAAP measures that entities might report. Other non-GAAP measures are also reported that incorporate measures from the statement of financial position or elsewhere, for example (but not limited to) return on assets or equity, current ratio or debt-equity ratio. However, where such measures use inputs that are adjusted from amounts recognised in accordance with IFRS Standards, whether that be in the statement of financial position or statement of cash flows, Australia considers users would benefit from the same disclosure as subtotals of income and expenses.

Australia acknowledges the IASB's objective to focus on financial performance. However, it considers that not including other measures linked to amounts recognised in accordance with and reconcilable to IFRS standards, the IASB would miss an opportunity to enhance transparency. Australia emphasises this point noting that the IASB has no active indication of undertaking a project focussing on financial position or cash flow.

Public communications

Feedback has suggested that it is not clear how far the IASB intends 'public communications' to span. For example, whether this is intended to include information made available via social media, other statutory or voluntary reports (such as a sustainability report), or only in connection with the release of the financial statements. This could also become a practical challenge for auditors if they are required to understand and review all of the various ways that an entity could communicate publicly.

Australia recommends the IASB clarify the scope of public communications accordingly.

<u>Point 2: Additional disclosure</u>

Australia also recommends the IASB consider additional disclosure related to management performance measures and their linkage to unusual items of income and expenses – that is if and how unusual items of income and expenses are incorporated into management performance measures. Australia also considers that required disclosure of if and how management uses the performance measures internally may provide additional useful information on how management views the performance of the business.

[Hong Kong]

Hong Kong appreciates the IASB's proposal to define MPM to provide insight to investors on how management views and manages an entity's financial performance. To address the comments from stakeholders that the proposed scope of MPM in paragraph 103 of the ED is too narrow, Hong Kong recommends the IASB to widen the scope to cover other non-GAAP measures which are financial related and derived from IFRS reduce audit difficulties, and to enhance the comparability among entities with required disclosures for all MPM.

Hong Kong also suggests the IASB restricts the 'public communications' criterion of the definition of MPM to those communications published together with the annual/interim reports and covering the same reporting period to minimise audit difficulties, given the current proposed scope of public communications appears very wide.

Furthermore, Hong Kong recommends the IASB clarify the linkage between MPM and segment reporting under IFRS 8 to avoid diversity in practice in MPM disclosures, as the relationship is not clear in paragraph B83 of the ED. It also suggests the IASB clarifies whether a change in the adjustment for unusual items, for example when new items meet the proposed definition of unusual items, constitutes a change in calculation of the MPM (if MPM adjusts for unusual items).

[India]

India agrees with inclusion of management performance measures (MPMs) in the financial statements as it would enhance reliability, transparency, and consistency of MPMs. However, India's suggestions to the Board are discussed below:

India understands that the intention of the Board, for the time being, is to restrict MPMs to subtotals of income and expenses in the statement of profit or loss. However, as the terminology of MPM as is currently understood in common business parlance is quite broad. India, therefore, recommends the Board to change the terminology "MPM" to may be "MPM related to Statement of Financial Performance" reflecting usage of this term in a restrictive manner.

Further, India requests the Board to clarify if the entities are prohibited from giving information about revenue, assets and liabilities, cash flows or key financial ratios and equity in MPM.

As per paragraph 103 of Exposure Draft, "Management performance measures are subtotals of income and expenses that are used in public communications outside financial statements". However, the scope of "Public Communications" which seems to be quite broad is not defined in the Exposure Draft. Thus, India requests the Board for prescriptive guidance on what constitutes “Public Communications” – whether such public communications refer to ‘regular communications’ made or also include a ‘one-off communication’. If such ‘one-off communication’ is considered to be within the scope of “Public Communications” then it is difficult for the auditor to ensure completeness on what all information has been communicated by the management and what all is in public domain.

As per Paragraph B81 of the Exposure Draft, a subtotal presented in the statement(s) of financial performance can also be MPM and requires an entity to disclose all the information required by paragraph 106. Further, Paragraph 106(b) of the Exposure Draft requires for each MPM an entity to disclose in the notes reconciliation between the management performance measure and the most directly comparable subtotal or total included in paragraph 104. India requests the Board for clarification in the Standard as to when a subtotal is presented in the statement of financial performance is a MPM, then is the entity still required to give a reconciliation and if yes, then to what this needs to be reconciled with.

Additionally, India requests the Board to clarify that the requirements to present tax and non-controlling effects as per Para 106 (c) and (d) would be applicable only when MPM is at an after tax or after non-controlling interest level. However, if the requirements to present tax and non-controlling effects as per paragraph 106 (c) and (d) would be made applicable to all the MPMs then the costs of preparing this information would outweigh any potential benefits.

Finally, it may also be helpful to clarify that such disclosures of MPMs are not required for private companies other than those who are in the process of listing and provide such MPMs.

[Korea]
Korea does not support the IASB’s proposal to require MPMs to be disclosed in the notes.

Korea is concerned that requiring the disclosures of MPMs in the notes of the financial statements would be at odds with the role of IFRS standards because public communications are outside the financial statements. As proposed in the ED, the role of the notes is to provide further information necessary for users of financial statements to understand the items in the primary financial statements; and supplement the primary financial statements with other information that is necessary to meet the objective of financial statements.

Korea is also concerned that the scope of ‘public communications’ is unclear and could be interpreted to be wide so that it includes unofficial and ad hoc materials. The ambiguity of the scope of ‘public communications’ would not only make it hard for preparers to identify all relevant public communications in which MPMs are used but also pose a challenge for auditors to ascertain the validity of the information.

[New Zealand]

New Zealand agrees:

- That MPMs can provide useful information to users of financial statements.
- There is a demand from users for information about MPMs.
- That information about MPMs should be included in the financial statements and be subject to audit.
- That the proposals will bring more transparency and discipline to the reporting of these financial performance measures.

MPM definition – subtotals of income and expenses

Limiting MPMs to financial performance measures that are subtotals of income and expenses will mean in some cases only a subset of the non-GAAP financial measures used by management in its public communications will be MPMs. The remainder of the non-GAAP financial measures used by management will continue to be reported outside the financial statements, for example, in management commentary.

New Zealand recommends that the definition of MPMs is widened to include non-GAAP financial measures that are derived from an IFRS amount in the financial statements. The first part of the MPM definition could be replaced with: "a numerical/financial measure of historical financial performance, financial position, or cash flows……".

Internationally, this would be consistent with the approach taken in the ESMA's Guidelines on Alternative Performance Measures, IOSCO's Statement on Non-GAAP Financial Measures (IOSCO's statement) and US SEC Conditions for Use of Non-GAAP Financial Measures.

In New Zealand, this would align with the FMA guidance on Disclosing non-GAAP financial information (which is broadly aligned with the IOSCO statement). The FMA guidance sets out guidelines for FMC reporting entities to follow when they disclose non-GAAP financial information outside the financial statements. New Zealand is of the view that analysts and investors would welcome the inclusion in the financial statements of other key financial measures that are used by management.

Definition of an MPM – scope of public communications

New Zealand believes that the IASB needs to provide guidance to clarify the intended scope of 'public communications outside the financial statements' used in the definition of MPMs for the following reasons.

- The proposed guidance (see paragraph B79) provides examples of public communications (management commentary, press releases and investor presentations). However, the guidance does not limit public communications to these forms of communication.
- Some constituents have questioned whether public communications outside the financial statements would include posts on social media made by the company.
- Other constituents have raised concerns from an audit perspective, noting the challenges of having to review all of an entity's public communications for possible MPMs.
- New Zealand also has concerns that the IASB has not provided guidance on the timeframe regarding public communications. It is not clear from the proposed definition of an MPM or associated guidance, whether an entity would need to consider all public communications during the year (such as quarterly investor communications) or only those communications relating to the interim/annual reporting period.
- Do financial statements meet the definition of public communications – if a measure is only in the financial statements does it meet the MPM definition?
- It is not clear whether an entity must make the required MPM disclosures when it publicly communicates adjusted profit measures for different branches/business activities. For example, an entity publicly communicates, via investor presentations, different adjusted profit measures regarding its activities in two different cities. Is the entity then required to make the disclosures proposed in the ED for both these adjusted profit measures?

Definition of an MPM – complement totals or subtotals specified by IFRS Standards

New Zealand has received feedback that the purpose of subparagraph 103(b) of the proposed definition of MPMs is not clear. This subparagraph states that MPMs are subtotals of income and expenses that "complement totals or subtotals specified by IFRS Standards". New Zealand believes that the requirement in subparagraph 103(b) is needed in order for an MPM to be reconciled back to an IFRS specified subtotal in the statement of profit or loss. But New Zealand also questions whether the IASB intended this subparagraph to restrict MPMs to those that are subtotals of income and expenses that cover the same reporting period as the financial statements (see previous comment on the scope of 'public communications'). New Zealand recommends that the IASB considers adding an explanation for the purpose of this requirement in the application guidance.

Faithful representation

New Zealand has concerns with paragraph 105(a) of proposed IFRS X which specifically restricts the disclosure of MPMs in the financial statements to those MPMs that "faithfully represent aspects of the financial performance of the entity to users of the financial statements".

- New Zealand acknowledges there is a general requirement in IFRS Standards that financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of information.
- Paragraph 2.13 of the Conceptual Framework for Financial Reporting states "To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error. Of course, perfection is seldom, if ever, achievable. The Board's objective is to maximise those qualities to the extent possible."
- New Zealand notes that IFRS 8 Operating Segments does not place a similar explicit restriction on the disclosure of segment information which reflects the views of management (see paragraph BC160).
- The restriction in paragraph 105(a) does not prevent entities from using such MPMs outside of the financial statements.
- In its view, there can be tension between:
  - communicating to users of financial statements management's view of an aspect of an entity's financial performance; and
  - the restriction that MPMs must faithfully represent an aspect of an entity's financial performance.
- New Zealand believes that where entities are reporting such MPMs outside the financial statements, information about these MPMs is still useful to users of the financial statements and should be disclosed in the financial statements and be subject to audit.
- Additionally, New Zealand has heard concerns from auditors and preparers about how to interpret 'faithfully represents' in the context of MPMs and subsequently how this will be audited.

Therefore, New Zealand recommends that the IASB removes this restriction. New Zealand considers that paragraph 105(b) of proposed IFRS X, which requires MPMs to be described in a clear and understandable manner that does not mislead users, will be sufficient.

New Zealand acknowledges that removing paragraph 105(a) will allow MPMs that might not faithfully represent an aspect of an entity's financial performance to be included in the financial statements. However, New Zealand believes that such MPMs should not be restricted from being included in the financial statements. Information about such MPMs could provide useful information to users, for example, why the MPM presents management's view of performance and a reconciliation back to a comparable total or subtotal specified by IFRS Standards.

If the IASB retains the restriction in paragraph 105(a), then New Zealand believes that further guidance is needed to clarify when an MPM faithfully represents aspects of the financial performance of the entity to users of the financial statements.

Proposed disclosures

Generally, New Zealand agrees with the proposed disclosure requirements.

New Zealand has received feedback that some companies do not adequately explain why a non-GAAP measure provides useful information to users (regardless of whether this non-GAAP information is inside or outside the financial statements). In most cases companies are providing very generic explanations. It has also received feedback that the illustrative example in the ED is too generic and is not very helpful.

New Zealand has heard concerns that the reconciling items between the MPM and the IFRS number may not be described in a useful manner. New Zealand notes that paragraph B85 requires that reconciling items meet the requirements in paragraphs 25 to 28, which includes a requirement that the description of the items in the financial statements shall faithfully represent the characteristics of those items. New Zealand recommends the IASB considers whether it should add to paragraph 106(b) that reconciling items must be described in a clear and understandable manner.

[Singapore]

In principle, Singapore is supportive of requiring an entity to disclose in its financial statements certain management performance measures and related explanatory information, if the entity already provides those measures in its public communications issued in connection with its financial statements and earnings releases.

However, Singapore has the following comments:

- The ED does not prohibit management performance measures that are based on amounts that do not comply with IFRS Standards. As a result, an entity may use management performance measures to work around the recognition and/or measurement requirements of IFRS Standards.
- The assessment of faithful representation for measures that are based on amounts that do not comply with IFRS Standards is expected to be significantly more difficult and subjective in comparison with an assessment of faithful representation when selecting, or making voluntary changes to, accounting policies applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, which requires the foremost consideration of the requirements in IFRS Standards dealing with similar and related issues.

- The term ‘public communications outside financial statements’ appears to be unduly onerous in terms of scope. It would be difficult for both entities and auditors to ensure the completeness of management performance measures being disclosed in the financial statements. In addition, the term does not address the timing of issuance in determining whether a particular public communication should be considered in identifying management performance measures that are required to be disclosed in the financial statements.

Therefore, the IASB should consider restricting management performance measures to address the above issues. Should the IASB decide not to prohibit management performance measures that are based on amounts that do not comply with IFRS Standards, the IASB should provide guidance on the assessment of faithful representation for such measures. For example, whether and when an accounting method that had been rejected by the IASB, when it developed the related requirements in IFRS Standards, would faithfully represent aspects of financial performance.

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?

AOSSG WG members’ comments on Question 12

All members agree with the IASB’s proposal not to define EBITDA. Specific comments from each member are described below.

[Australia]

Australia agrees with the IASB not defining EBITDA. Given its current diversity, Australia agrees that it would be extremely challenging for the IASB to reach a generally agreed definition.

Australia also notes and supports permitting the use of an ‘operating profit or loss before depreciation and amortisation’ subtotal without requiring the disclosure for management performance measures. However, for clarity and avoidance of doubt, Australia recommends that the IASB clarify that such a subtotal must be defined according to the IFRS-specified operating profit subtotal, and depreciation and amortisation as recognised in accordance with IFRS standards.

[Hong Kong]

Hong Kong supports the IASB not to define EBITDA for the reasons explained in paragraphs BC172 and BC173 of the ED.

[New Zealand]

New Zealand agrees with not proposing requirements relating to EBITDA. In its view, the calculation of EBITDA is diverse in practice. It would be difficult for the IASB to come up with a globally accepted definition of EBITDA.

However, as EBITDA is an almost universal measure of performance (not just in financial statements), New Zealand would suggest that the IASB provides guidance to clarify when EBITDA would be able to be presented on the face of the statement of profit or loss. New Zealand suggests it would also be helpful to clarify that EBITDA can be presented in the notes to the financial statements as an MPM. In paragraph 85 below New Zealand recommends that the IASB considers including the content of paragraph BC165 in the ED, as this explains when the IASB would expect that an MPM such as EBITDA would meet the requirements for presentation on the face of the statement of profit or loss.

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?

AOSSG WG members' comments on Question 13

All members generally agree with the IASB's proposals on the targeted improvements to the statement of cash flows. Specific comments from each member are described below.

[Australia]

Australia generally agrees with the IASB's proposals for the statement of cash flows. However, some stakeholders shared concern that users would not understand the varying definitions of operating, investing and financing between the statement of financial performance and the statement of cash flows. Australia recommends the IASB consider aligning the definitions more closely, or to the extent that is impracticable for this project, to consider alternate titles in one of the statements.

Australia also notes feedback from a user of financial statements that disagreed with the proposal for interest paid, interest received and dividends received. That member considered those items should be included in operating cash flows in an attempt to make the operating category in the cash flow statement the equivalent of net profit after tax. However, other users were comfortable with the IASB's proposals.

[Hong Kong]
Hong Kong supports the IASB's proposals on the targeted improvements to the statement of cash flows, particularly to eliminate options for the classification of interest and dividend cash flows under IAS 7 to improve comparability across entities. In addition, Hong Kong recommends the IASB should review IAS 7 as a separate project to align the categorisation in the statement of cash flows with those used in the statement of profit or loss, and reconsider the definition of cash and cash equivalents.

[New Zealand]
New Zealand's comments on each sub question are as follows.

Response to question 13(a)

The indirect method of reporting cash flows from operating activities is not prevalent in New Zealand. Therefore, New Zealand has not commented on this question.

Response to question 13(b)

New Zealand agrees with the feedback received by the IASB that diversity in how companies classify interest and dividend cash flows reduces comparability between companies, making analysis by investors/users difficult. Therefore, New Zealand supports the proposal to remove the classification choice for interest and dividend cash flows for most entities.

New Zealand strongly recommends that the IASB explores further the use of different labels between the two statements before finalising the proposals. (see its response to question 5 above).

In line with New Zealand's response to question 7 above, New Zealand does not agree with the proposal to separate cash flows from investments into those from integral and non-integral associates and JVs.

[Singapore]

Singapore is supportive of improving consistency of classification and presentation in the statement of cash flows, by specifying operating profit or loss as the starting point for the indirect method of reporting cash flows from operating activities, and eliminating classification options for interest and dividend cash flows.

However, in removing classification options for dividends received and interest received/paid, the IASB prioritised classifying those items in a single category, based on alignment with the statement of profit or loss to the extent possible. The approach would result in different classifications between the statement of profit or loss and the statement of cash flows. It is not obvious that those classification differences are justified on conceptual grounds or practical considerations. Those classification differences would reduce understandability, particularly when both statements use the same terms namely operating, investing and financing.

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?

AOSSG WG members' comments on Question 14

[Australia]

Australia notes the IASB's intention to keep the scope of this project to focus on the statement of financial performance. However, feedback from stakeholders have suggested that some other topic areas or project are of importance for the IASB to consider, which Australia has listed below for consideration in the IASB forthcoming agenda consultation.

Going concern

Australia is aware of a range of improvements that are justified to the current requirements relating to going concern. In Australia, going concern assessments and disclosures have been spotlighted during a Parliamentary enquiry into the regulation of auditing in Australia (relevant to the audit quality debate), and the COVID-19 pandemic has further exacerbated challenges and feedback from stakeholders on the matter. In particular, Australia considers the IASB should undertake a project to consider:

- the adequacy of disclosure requirements relevant to management's assessment of the going concern assumption, particularly the interaction with the requirements of auditing standards; and
- the lack of guidance on what basis of preparation to use when the entity is no longer a going concern.

Other comprehensive income

Australia received feedback that the IASB should undertake a fundamental review of the requirements for when items should be classified in other comprehensive income, and the role of the statement itself.

[Hong Kong]

Hong Kong commented on the following topics.

Structure of the statement of profit or loss

Based on Hong Kong's research on the presentation of the statement of profit or loss in Hong Kong, Hong Kong observed that operating profit or loss is one of the most commonly used subtotals. It also observed that various different subtotals are used by companies in the statement of profit or loss, and there is diversity in practice in the labelling and calculation of these subtotals. Therefore, Hong Kong supports the IASB's proposals for introduction of subtotals and categories in the statement of profit or loss to reduce the diversity in practice and improve the comparability of financial information between entities.

Hong Kong understands that the IASB is not seeking full alignment between the categories in the statement of profit or loss and those in the statement of cash flows. However, in view of its stakeholders' concerns about the similarly named categories in both statements, Hong Kong suggests the IASB should explain more clearly the linkage and differences between each category in these two statements in the Basis for Conclusions.

Classification of fair value gains and losses on derivatives and of exchange differences

Based on the stakeholders' feedback, Hong Kong considers the proposals summarised in paragraphs 56-59 and B39-B40 of the ED are complicated and significantly increase the workload for preparers, but provide limited information to investors. Hong Kong recommends the IASB aim to balance the costs and benefits and reconsider whether to pursue the proposals. Hong Kong also recommends the IASB carefully consider the points noted from its stakeholders with regard to the classification of fair value gains and losses on derivatives noted below to ensure that entity's risk management activities are appropriately and consistently represented.

Examples suggested by the financial instruments expert practitioners to be clarified by the IASB include:

a) Whether the classification of fair value gains and losses on embedded derivatives (e.g. conversion option separately accounted for and not classified as equity in a convertible bond) follows the general proposal for derivatives or depends on where the embedded derivatives originate (e.g. because the fair value gains and losses originate from a convertible bond, so it should be classified as financing).
b) How to classify the fair value gains and losses of a hybrid financial instrument which has been designated as a fair value through profit or loss financial instrument as a whole.
c) For an interest rate swap with two legs separated and designated for different purposes, whether the corresponding changes in fair value of the interest rate swap should be classified according to the risks being managed by the entity or wholly recognised under the investing category, e.g. whether part of the change in fair value of the swap goes into one line item of the statement of profit or loss and the other part goes through a different line item.
d) Whether the ineffective portion of the fair value changes of a qualified hedging instrument should be classified in a different line item in the same category as the effective portion, or in the investing category by default.

A financial instruments expert practitioner raised concerns about how to operationalise the 'undue cost or effort' exemption in paragraph 58 of the ED, in particular from an audit perspective. This practitioner thought that an entity should be expected to understand the objectives of holding derivatives, and hence should not have to incur undue cost or effort to determine the classification of the corresponding fair value gains and losses. The practitioner recommended the IASB to provide more clarity in the application of the proposed requirements.

A group of banking industry preparers considered the proposed requirements in paragraph 58 of the ED for derivatives used to manage risks but not designated as hedging instruments could effectively imply an introduction of a new category of 'hedging' which could create confusion and complication in the existing hedge accounting framework, and could result in inconsistency in application and interpretation. They suggested the IASB reconsiders the cost and benefit of the proposal and whether it should be pursued.

This group of stakeholders also considered the proposed requirements in paragraphs 56 and B39 of the ED would require significant and complicated changes to accounting systems in order to allocate foreign exchange differences based on the originating activity for which it arises. Foreign exchange risks are often be managed centrally (e.g. by a central treasury function) even though the foreign exchange exposure arises from various types of activities. Presenting all foreign exchange differences in an aggregated total could be equally relevant, if not more appropriate, for users of the financial statements as that can better reflect the actual risk management activities and resulting economic position of an entity. They suggested the IASB revisiting the cost and benefit of the proposal and whether it should be pursued.

Other comments

Some practitioners noted changes in terminology used in the ED, for example 'equity shareholders of the company' used under IAS 1 Presentation of Financial Statements is replaced by 'holders of claims against parent classified as equity' in page 6 of the illustrative examples accompanying the ED. They questioned the reasons for the change as this increases the difficulties in understanding the financial statements and creates confusion for users.

Hong Kong recommends the IASB should minimise the change in terminology as mentioned above to reduce misunderstanding, and if necessary, explain clearly the reasons for such change in the Standard.

[India]

India requests the Board to consider some of its concerns and comments regarding the Exposure Draft as listed below:

1. Paragraph B39 (a) gives an example that foreign exchange differences on trade payable not negotiated on extended credit terms denominated in a foreign currency to be presented in the same category as the expenses for the purchase of the goods—that is, normally the operating category. India believes that the use of the word 'normally' is not required. If there are instances where the foreign exchange differences may be classified into a category other than operating, India requests the Board to provide description of such instances in application guidance. Further, India requests the Board to clarify that foreign exchange differences (to the extent of interest component) on trade payable negotiated on extended credit terms shall be classified in the financing category.

2. In cases where main business activity of a Parent Company differs from main business activity of Subsidiary Company, a clarity is required as to under which category 'Operating' or 'Investing', result of the Subsidiary would be classified in the Consolidated Financial Statements. In such a case, if the parent company considers Operating income and expenses of such a subsidiary as its investing activity and accordingly classifies it in the investing category (whereas its subsidiary considers it as its main business activity and hence classify it in the operating category), would it be considered as compliance of line by line consolidation as required by IFRS 10, *Consolidated Financial Statements.*

3. Paragraph B36 (b) refers to “debt extinguishment and debt restructuring expenses”; however, it can also be an income. This may be suitably worded to avoid any unintended consequences by removing the word ‘expenses’.

4. Paragraph 11 of the exposure draft states that the statements described in paragraph 10(a)-(d) are referred as the primary financial statements as follows:

   (a) *a statement(s) of financial performance for the reporting period (see paragraph 13);*

   (b) *a statement of financial position as at the end of the reporting period;*

   (c) *a statement of changes in equity for the reporting period;*

   (d) *a statement of cash flows for the reporting period*

   Paragraph 10(f) of the exposure draft lists comparative information in respect of the preceding period as specified in paragraph 34-35 as one of the elements of complete set of financial statements. Paragraph 35 of the exposure draft states that an entity shall present, as a minimum, a current reporting period and preceding period in each of its primary financial statements and in the notes. Since paragraph 35 requires preceding period information in each of its primary financial statements, the comparative information so presented should also be considered as part of primary financial statements. Accordingly, paragraph 11 may be amended as follows:

   The statements described in paragraphs 10(a)–10(d) (together with comparative information presented in these statements as required by para 35) are referred to as the primary financial statements.

5. India requests the Board to define the term “finance charge” used in para 50(b) in Appendix A

6. Paragraph 52(b) provides that an entity also excludes the following income and expenses from the financing category and classifies them in the operating category: ……; (b) income and expenses on liabilities arising from issued investment contracts with participation features recognised applying IFRS 9, *Financial Instruments*;…. The aforesaid requirement may create an impression that the income and expenses from the said investment contracts of an insurance entity which would accounted for the same in accordance with IFRS 17, *Insurance Contracts*, would not be considered to fall within operating category, which would not be appropriate because even if such contracts are accounted for as per IFRS 17, these should be categorised under operating activities.

[Korea]

Korea comments on the following topics.

1. Foreign exchange differences

The ED requires an entity to classify foreign exchange differences included in profit or loss in the same category of the statement of profit or loss as the income and expenses from the items that gave rise to the foreign exchange differences. Korea believes that this classification principle does not necessarily lead to a faithful representation of the information of all companies.

First reason is conceptual one. Korea observes that there is no clear conceptual consensus on what the translation of foreign exchange differences implies. Broadly speaking there could be three view: (View 1) the translation of foreign exchange differences is a mechanical translation from one currency to another currency; (View 2) the translation of foreign exchange differences is a process to measure the exposure to currency risk; (View 3) the translation of foreign exchange differences is a process to measure foreign exchange differences on each individual item. As the IASB ED only reflects View 3, it does not consider the possibility of View 1 and View 2.

Second reason is a practical one. There are some companies that centrally manages foreign exchange differences and thus does not allocate foreign exchange differences to each line item; it can be said that these companies implicitly reflect View 2 above.

Given this observation, Korea thinks that companies, if they manage foreign exchange differences centrally and thus does not allocate foreign exchange difference to each line item, should be permitted to present foreign exchange differences in the operating category although the IASB' proposal is maintained as a default treatment.

2. Classification of fair value gains and losses on derivatives and hedging instruments

Th ED describes the classification of fair value gains and losses on derivatives in the two exceptions as follows:

- when an entity would involve grossing-up gains and losses, then classify in the investing category;
- An entity has not designated derivatives as a hedging instrument and if an entity would involve undue cost or effort in applying the presentation requirements for derivatives designated as hedging instrument to those derivatives, then classify in the investing category.

Korea thinks that in those two cases, fair value gains and losses should be classified in the operating category. Korea believes that fair value gains and losses in those two cases do not meet the definition of any categories per se because they would have been separate into operating, investing or financing category if the exception had not been applied. It means that those gains and losses cannot be classified into any particular category. In this regard, Korea thinks that the operating category as a residual category is useful for such cases because a residual category should include all items that cannot be classified into any particular category. Therefore, Korea suggests that in those two exceptions, the IASB require entities to classify fair value gains and losses on derivatives and hedging instruments in the operating category rather than the investing category.

3. Separate line items for foreign exchange differences and derivatives and hedging instrument.

Korea notes that a user considers gains and losses on foreign exchange differences and derivatives and hedging instrument and therefore has requested those gains and losses to be presented on the face of the profit or loss statement. Korea thinks that such information would help users assess potential risks that could arise from volatile markets more easily and from a preparer's perspective, there would be little incremental burden to preparers in presenting those items in line items because the ED requires an entity to identify foreign exchange differences and fair value gains and losses on derivatives and hedging instrument on an item-by-item basis.

Korea thus suggests that the IASB require an entity to present foreign exchange differences and fair value gains and losses on derivatives and hedging instrument in line items.

4. Guidance on separate financial statements

The ED does not address issues in the separate financial statements. However, in Korea separate financial statements prepared in accordance with IFRS are considered by users as a source of important information. Korea thus thinks that the IASB needs to address issues relating to the separate financial statements.

For example, there could be an issue as to how a holding company should account for its investments. If a holding company, whose main business is to invest in subsidiaries, should it classify in the operating category income and expenses from the investments? If yes to the above question, the IASB also needs to clarify whether a holding company can classify in the operating category income and expenses from its investments in associates using the equity method.

[New Zealand]
New Zealand comments on going concern as follows.

The economic impact of the COVID-19 pandemic is expected to increase the level of uncertainty over the ability of many entities to continue as a going concern for financial reporting purposes. As a result, the NZASB recently issued domestic narrow-scope amendments to FRS-44 New Zealand Additional Disclosures to improve going concern disclosures to provide better information to users of financial statements during this period of exceptional circumstances.

The issue of New Zealand specific disclosures is a short-term measure to deal with the most pressing need for improved disclosures. New Zealand strongly recommend that the IASB adds a project to its agenda to look at going concern issues more comprehensively. The major economic disruption from COVID-19 has highlighted this matter as an area where improvements are needed.

Appendix B

Comment letter from AOSSG Islamic Finance Working Group

AOSSG Islamic Finance Working Group: Comments on IASB ED/2019/7 *General Presentation and Disclosures*

The AOSSG Islamic Finance Working Group (WG) of the Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide its comments on IASB ED/2019/7 *General Presentation and Disclosures* (Exposure Draft).

These comments are additional to those in the letter developed by the AOSSG Working Group on Presentation and Disclosure dated 29 September 2020, and only focuses on concerns relating to Islamic financial reporting.

1. General comment

1.1 The WG supports retaining the principle of IAS 1 *Presentation of Financial Statements* on presentations of additional line items, headings and subtotals in the statement of financial performance and statement of financial position when such presentations are relevant to an understanding of the entity's financial performance or financial position.

1.2 This would allow entities engaged in Islamic finance activities, such as Islamic banking institutions to include additional line items which are important and relevant to users of financial statements in making economic decisions. For example, it is common to note that Islamic banks present separately income and expenses according to sources of funds such as '*income from investment of depositors funds*' and '*income derived from investment of investment accounts funds'*. Similar description is also used in the statement of financial position to differentiate between principal guaranteed deposits and those which are not (i.e. investment accounts[1]).

2. Scope of the [draft] Standard

2.1 We propose adding a sentence to the end of paragraph 7 as underlined below:

[1] Investment account typically refers to the type of *deposits* which are not principally guaranteed and it is arranged using profit-sharing contracts such as *Mudarabah*. Profit from the investment accounts is shared based on a pre-agreed ratio and losses, if any, is borne by the customers.

> 7 *This [draft] Standard uses terminology that is suitable for profit-oriented entities, including public sector business entities. If entities with not-for-profit activities in the private sector or the public sector apply this [draft] Standard, they may need to amend the descriptions used for particular line items, categories, subtotals or totals in the financial statements and for the financial statements themselves.* ***Similarly, some types of private sector profit-oriented entities, may also need to amend the descriptions to best reflect the nature of the entity and its transactions, provided that the meaning is clear*****.**

2.2 Our proposal intends to broaden the scope of the Standard to include profit-oriented entities engaged in Islamic finance. The current drafting (albeit being carried forward from the existing paragraph 5 of IAS 1 *Presentation of Financial Statements*) only refers to not-for-profit entities and public sector entities.

Inclusiveness of Islamic finance

2.3 The proposal aims to promote inclusiveness of Islamic finance sector in IASB standard-setting process. The WG believes that the proposal would allow for some form of customisation without compromising comparability of financial information.

Principle-based Standards

2.4 The proposal would also clarify that IFRS Standards can be applied to Islamic finance and that it has been considered when IASB develops the [draft] Standard. While IFRS Standards have been applied by Islamic financial institutions around the world, notably in countries such as Malaysia and Saudi Arabia, undoubtedly, some stakeholders still contend that IFRS Standards are not designed to cater for the uniqueness of Islamic financial transactions and are not concerned about the information needs of the users of financial statements of entities in that industry. In this regard, the WG believes that the proposal would provide clarification that IFRS Standards are a set of principle-based Standards that can be applied to all industries, including Islamic finance without diluting its essence.

2.5 The WG is of the view that the proposal is consistent with the broad principle of the Exposure Draft on amending descriptions and labels in the statement of financial performance and statement of financial position. For example, paragraphs 83(b) and B57 of the Exposure Draft state (emphasis added):

83 (b) *the descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position.*
For example, a financial institution may amend the descriptions in paragraph 82 to provide information that is relevant to the operations of a financial institution.

B57 Paragraph 87 requires an entity to classify as non-current all assets not classified as current. This [draft] Standard uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature. *It does not prohibit the use of alternative descriptions as long as the meaning is clear*.

3.0 A description of the nature of the entity's operations and its main business activities

3.1 In connection with our proposal above, we also recommend that an entity must disclose whether its operation is subject to any externally imposed requirements that materially affect the conduct of its main business activities and/or the manner it presents the outcomes of its transactions. We believe such disclosure would be very useful to the users of financial statements. For example, Islamic banking institutions, which are subject to Shariah rulings, enter into transactions where the bank collects money from depositors for investment on a *Mudarabah* basis (as explained in footnote 1 above). According to IAS 32 *Financial Instruments: Presentation,* such a transaction would likely meet the definition of a financial liability and hence the 'deposit' would be classified as a liability in IFRS-compliant financial statements.

3.2 The underlying feature of a *Mudarabah* contract is 'profit-sharing, loss-bearing' whereby customers would be expecting to share profits with the banks based on a pre-agreed ratio and to bear any losses arising therefrom. This feature means the instrument has some of the characteristics of equity and therefore must be disclosed accordingly. In such a situation, and to comply with IFRS, an Islamic bank would present such an 'investment account' differently from other customers' deposits. For example, some banks include a sub-category under liability in the statement of financial position that is labelled in a way that helps to identify its key features. Some other Islamic banks include additional line item of 'investment accounts' within the category of liability, separately from 'deposits'.

3.3 The differentiation is key to represent the inherent feature of 'investment accounts' which is riskier than 'conventional deposits'. Without disclosing the effect of external and/or additional requirements on an entity's main business activities, users of the financial statements may not be able to understand some contents of the financial statements and the reasons behind some descriptions and presentation.

3.4 We believe this is consistent with the principle of effective communication as mentioned in the Conceptual Framework for Financial Reporting. Specifically, paragraph 7.2 states:

> *7.2 Effective communication of information in financial statements makes that information more relevant and contributes to a faithful representation of an entity's assets, liabilities, equity, income and expenses.*
> *It also enhances the understandability and comparability of information in financial statements. Effective communication of information in financial statements requires:*
> *(a) focusing on presentation and disclosure objectives and principles rather than focusing on rules;*
> *(b) classifying information in a manner that groups similar items and separates dissimilar items; and*
> *(c) aggregating information in such a way that it is not obscured either by unnecessary detail or by excessive aggregation.*

3.5 Therefore, we propose adding a subparagraph (ba) to paragraph 99 as indicated by the underlined text below:

> *99 An entity shall disclose in the notes the following, if not disclosed elsewhere in information published with the financial statements:*
> *(a) …*
> *(b) a description of the nature of the entity's operations and its main business activities;*
> *(ba) <u>when relevant, the description in (b) includes an explanation of the manner in which externally imposed requirements affect the entity's main business activities and the entity's descriptions or presentation of line items in order to faithfully represent the outcomes of transactions in its financial statements and enhance the understandability and comparability of financial statements.</u>*

4.0 Basis for Conclusions

4.1 We also propose that the Basis for Conclusions could help to explain the amended wording suggested for paragraph 7 (see 2.1 above). We propose the following drafting:

> *In considering the scope of the [draft] Standard, particularly the choice for entities to amend the descriptions used for particular line items, categories, subtotals or totals in the financial statements, the Board has considered that there may be entities engaged in profit-oriented activities that would need to choose descriptions of particular meaning for their users. For example, Islamic financial institutions may need to amend the description of 'interest income' to 'income from financing'. The Board is of the view that the use of such descriptions will result in financial statements being relevant and useful to their users by better reflecting the nature of a particular transaction to those users.*

4.2 Alternatively, if the IASB were to proceed with the existing wording in paragraph 7 of the [draft] Standard, we strongly urge the IASB to include the above suggested messaging in the Basis for Conclusions.

5.0 Conclusion

5.1 Although Islamic and conventional finance greatly differ in philosophy and in legal form, the former is often structured to provide a corresponding economic effect as the latter. This is especially true in jurisdictions where there is an incentive or compulsion to maintain parity with conventional banking. It is not surprising that IFRS Standards are applied by Islamic financial institutions around the world[2] due to its principle-based approach that allows for reporting of Islamic financial transactions to faithfully represent what it purports to represent.

5.2 In this regard, we believe that our proposal, if finalised, would attract greater number of entities engaged in Islamic finance to apply IFRS Standards. The IASB's support for Islamic finance is evident through the establishment of Islamic Finance Consultative

[2] Financial Reporting by Islamic Financial Institutions, published by AOSSG in 2017 indicated that out of 132 financial statements of Islamic financial institutions reviewed in 31 countries, 63 or 48% applies IFRS.

Group and we are certain that IASB would continue supporting a USD 2.19[3] trillion global industry.

5.3 We thank you for this opportunity to share our views. If you have any queries regarding this submission, or require further information on any aspect of Islamic finance, the Working Group would be pleased to offer its assistance.

Yours sincerely,

Mohamed Raslan Abdul Rahman

Malaysian Accounting Standards Board

(AOSSG Islamic Finance Working Group Leader)

[3] Islamic Financial Services Industry (IFSI) Stability Report published by Islamic Financial Services Board in July 2019.