

Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany



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Mr Hans Hoogervorst  
Chairman of the  
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London E14 4HD

Berlin, XX September 2020

Dear Hans,

**IASB Exposure Daft ED/2019/7 *General Presentation and Disclosures***

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the Exposure Daft ED/2019/7 *General Presentation and Disclosures* issued by the IASB on 17 December 2020 (herein referred to as 'ED'). We appreciate the opportunity to comment on the ED.

[TBD]

Our response to the ED questions is laid out in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact Ilka Canitz ([canitz@drsc.de](mailto:canitz@drsc.de)) or me.

Yours sincerely,

*Andreas Barckow*

President

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## Appendix – Answers to the questions in the ED

### Questions 1 – 6

[TBD; Gegenstand der kommenden Sitzung des IFRS-FA]

#### 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?

#### *Proposed definition of ‘integral’ and ‘non-integral’ associates and joint ventures’ (proposed new paragraph 20D of IFRS 12)*

We support the proposal to differentiate between ‘integral associates and joint ventures’ and ‘non-integral associates and joint ventures’. In practice, entities currently apply different accounting policies with respect to the presentation of the share of the profit or loss of associates and joint ventures accounted for using the equity method. While some entities present the share of the profit or loss of associates and joint ventures within ‘operating profit or loss’ in the statement of profit or loss, other entities apply a different approach and present income and expenses from associates and joint ventures outside ‘operating profit or loss’. Thus, we believe that the proposal will improve comparability across entities.

However, determining which associates and joint ventures are integral to an entity’s main business activities requires significant judgement. We are therefore concerned that in practice entities will face difficulties in distinguishing between ‘integral’ and ‘non-integral’ associates and joint ventures on a consistent basis.

Hat der IFRS-FA Anmerkungen zu den weiteren vorgeschlagenen Änderungen? Kommentiert sind bislang noch nicht die folgenden Änderungsvorschläge:

- Para. 75(a) – Ausweis im OCI
- Para. 82(g) und (h) – Ausweis in der Bilanz
- IAS 7.38A und BC207 f. – Ausweis der Cashflows von integralen assoziierten Unternehmen / Gemeinschaftsunternehmen in der Kapitalflussrechnung
- IFRS 12.20E – Notes-Angaben zu assoziierten Unternehmen und Gemeinschaftsunternehmen
- Ausweis von Wertminderungen sowie Veräußerungsgewinnen bzw. -verlusten (BC84 ff.)



Whilst we agree with the distinction of *'integral'* and *'non-integral'* associates and joint ventures, we believe that the proposed definition of *'integral'* is too narrow in terms of a 'significant interdependency' between the entity and an associate or joint venture.

For example, the proposed definition of 'integral' associates and joint ventures might not cover:

- associates and joint ventures that are operated largely independently but that are active in the same line of business as the reporting entity (i.e. both – the associate or joint venture and the reporting entity – share the same main business activity),
- associates and joint ventures in a start-up phase, and
- research and development co-operations that have been entered into in order to develop new business opportunities or technologies and that will contribute in the future to the entity's cash flows.

In these instances, the associate or joint venture might not be classified as 'integral'. As, e.g. associates and joint ventures in a start-up phase and R&D co-operations, are setting up a new business, they do not have integrated lines of business or a supplier or customer relationship with the entity. However, in practice, these associates and joint ventures are often considered as 'strategic' holdings.

Therefore, we would propose another definition of 'integral': An associate or joint venture should be classified as 'integral' if the business activity of the associate or joint venture is closely related to the main business activities of the group (i.e. both entities – the associate or joint venture and the reporting entity – share the same main business activity).

*Proposed presentation of the share of the profit or loss of 'integral' associates and joint ventures in the statement of profit or loss (paragraphs 53 and 60(b))*

We do not agree with the proposal to introduce a new category *'integral associates and joint ventures'* and to require entities to classify income and expenses from integral associates and joint ventures in a separate category. As a result, income and expenses from integral associates and joint ventures will not be presented within the operating category solely because these investments are structured as associates and joint ventures.

Instead, we prefer the alternative approach discussed by the IASB in paragraph BC82 of the Basis for Conclusions, i.e. requiring entities to classify the share of profit or loss of integral associates and joint ventures in the operating category. This approach is more consistent with the view that integral associates and joint ventures are closely related to the entity's main business activities and, hence, do not meet the definition of income and expenses from investments.

As explained in paragraph BC82 of the Basis for Conclusions, the IASB rejected this approach because many users of financial statements analyse the results of investments in associates and joint ventures accounted for using the equity method separately from the results of an entity's operating activities. It should be stressed that also under the alternative approach the information needed for such an analysis is directly available for users as the IASB is proposing two minimum line items in paragraphs 65(a)(iii) and 65(a)(iv) for the share of the profit or loss of associates and joint ventures in the statement of profit or loss. Thus, users are provided with the information required to eliminate the share of the profit or loss of integral associates and



joint ventures from operating profit or loss, should they decide that an adjustment is more useful.

For the same reason, we do not agree with the proposal in paragraphs 60(b) to present in the statement of profit or loss an additional subtotal for the '*operating profit or loss and income and expenses from integral associates and joint ventures*'. In our opinion, a separate subtotal – especially in combination with the requirement in paragraphs 65(a)(iii) and 65(a)(iv) of two separate line items – gives undue prominence to the share of the profit or loss of associates and joint ventures.

*Proposed presentation for entities that, in the course of their main business activities, invest in associates and joint ventures in the statement of profit or loss*

Unlike the general presentation requirement for income and expenses from investments that are generated in the course of a entity's main business activities, paragraph 48 includes a prohibition of classifying income and expenses from 'non-integral' associates and joint ventures in the operating category. This means, that entities that invest in associates and joint ventures in the course of their main business activity (e.g. insurers, private equity investors, and holding companies) cannot classify the share of profit or loss of associates and joint ventures in the operating category, even though the share of profit or loss of associates and joint ventures was generated in the course of their main business activities.

In our opinion, such a presentation does not provide useful information to investors, as it means income and expenses from (integral and non-integral) associates and joint ventures will not be presented within the operating category solely because these investments are structured as an associate or joint venture. We therefore suggest the IASB that for entities that, in the course of their main business activities, invest in associates and joint ventures, the presentation of income and expenses from these associates and joint ventures should follow the proposed general principle in paragraph 48, i.e. classified in the operating category.

**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?



*Proposed description of the roles of the primary financial statements and the notes (paragraphs 20–21)*

We agree with the proposed description of the roles of the primary financial statements and the notes. In our view, as already explained in our comment letter to DP/2017/1 *Disclosure Initiative – Principles of Disclosure*, the proposals reflect the common understanding and terminology already used in practice in our jurisdiction.

However, we have noticed that the proposed definition of the primary financial statements in the proposed new paragraph 11 of the ED does not include the comparative information in respect of the preceding reporting period. This becomes particularly relevant in the context of the proposed new principles for aggregation and disaggregation. Proposed new paragraph 25 states:

*“An entity shall present in the primary financial statements or disclose in the notes the nature and amount of each material class of assets, liabilities, income or expense, equity or cash flow. To provide this information an entity shall aggregate transactions and other events into the information it discloses in the notes and the line items it presents in the primary financial statements. [...]”*

Within this context, the question arises whether the principles for aggregation and disaggregation apply only to the presentation of the current reporting period or also to the comparative information presented in accordance with the new proposed paragraph 34 of the ED (i.e. paragraph 38 of IAS 1 respectively). We therefore suggest the IASB clarify that:

- the definition of the primary financial statements includes the comparative information presented, and
- the principles for aggregation and disaggregation need to be applied to the primary financial statements including the (minimum) comparative information presented.

*Proposed principles and general requirements on the aggregation and disaggregation of information (paragraphs 25–28 and B5–B15)*

We agree with the proposed principles and general requirements on the aggregation and disaggregation of information. In our opinion, the proposed principles and guidelines on aggregation and disaggregation are straightforward and reflect the common understanding in our jurisdiction.

Though we welcome that the IASB is proposing general principles and requirements, we doubt that merely introducing an overarching principle is sufficient to change entities' practice.

Firstly, we doubt that entities have not understood the current requirements on the disaggregation of information in the primary financial statements and the notes; rather, many may simply have sought to bypass the necessary use of judgment involved and may therefore present – as a practical expedient – the same amount of detail as in prior years.

Secondly, there are no specific disclosure requirements that require entities to disaggregate operating expenses presented in the statement of profit or loss (e.g. cost of sales, selling, general and administrative expenses, etc.) into categories in the notes. This means, unlike e.g. paragraph 114 of IFRS 15 that requires entities to *'disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of*



revenue and cash flows are affected by economic factors', there is a lack of similar disclosure requirements on the disaggregation of operating expenses reported in the statement of profit or loss. Thus, if the IASB's intention is to require entities to disaggregate specific expense line items (e.g. cost of sales, selling, general and administrative expenses, etc.) in the notes, we doubt that the introduction of a general principle will achieve this objective.

Thirdly, we notice that the proposed principles on the aggregation and disaggregation of information shall be applied to each of the primary financial statements. However, the IASB decided not to consider changes as part of the project to the statement of changes in equity (ref. paragraph BC13 of the Basis for Conclusions) and to the statement of cash flows (except for limited changes to the statement of cash flows to improve consistency in classification by removing options; ref. paragraph BC12 of the Basis for Conclusions). Therefore, in our opinion, it is not clear whether the IASB expects entities to change their presentation in the statement of cash flows and in the statement of changes in equity.

For the reasons above, we doubt that the proposed principles and general requirements on the aggregation and disaggregation of information will lead to changes in the practice of presentation in the notes and the primary financial statements. Whilst we agree with the substance of these principles, we believe that they are too generic and do not provide clear guidance on which additional information should be disclosed in the notes or which line items should be presented in the primary financial statements.

Furthermore, we regret that the current proposals do not reflect the impact of structured electronic reporting technologies that could remove many of the presentation issues addressed by the IASB (including the lack of disaggregation in primary 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?

*Requirements 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*

We understand from the proposals that the IASB aims to strengthen the existing requirements, as investors have raised concerns that, in practice, companies may not choose the method

Im IASB Meeting, März 2017, Agenda Paper 21C wird die „Ausgangslage“ wie folgt beschrieben:

10. During our outreach some users indicated that some line items within the primary financial statements provide information that is too highly aggregated to be useful. For example, users noted that:

(a) 'selling, general and administrative expenses' or 'costs of sales' are commonly presented as a single line item and not disaggregated by their natural components (ie labour cost, cost of materials, etc); and

(b) large 'other' categories (ie other assets, other liabilities, other operating cash flows) are commonly presented without further disaggregation causing important information to be obscured or lost.

11. Users stated that providing greater disaggregation of the information included in the primary financial statements would enable them to better compare this information across entities and within the same entity.

<https://cdn.ifrs.org/-/media/feature/meetings/2017/march/iasb/primary-financial-statements/ap21c-pfs.pdf>



that provides the most useful information in their circumstances (ref. IASB, *Snapshot: General Presentation and Disclosures*, p. 9). Consequently, the IASB emphasises that the selection of the method is not a free choice and provides a set of indicators to help entities assess which method provides the most useful information to the users of their financial statements.

However, the IASB does not make clear, under which circumstances the method selected by entities, in practice, did not provide the most useful information to the users of the financial statements. In our opinion, it is unclear, under which circumstances entities should have reached to another conclusion when selecting their presentation method in statement of profit or loss. Therefore, we doubt that the proposed requirements would achieve the desired objective, as the objective itself is unclear.

Further, we question whether the proposed indicators in paragraph B45 are appropriate to help entities assess which method provides the most useful information in their circumstances. We have received feedback from our constituents claiming that the proposed indicators '*information about the key components or drivers of the entity's profitability*' (paragraph B45(a)) and '*the way the business is managed and how management reports internally*' (paragraph B45(b)) are neither supporting the nature of expense nor the function of expense method in their circumstances, as internal reports and communication to investors focus on items of income and profit (i.e. revenue, EBIT and EBITDA, profit before tax) rather than on expense items. Therefore, in practice, the third proposed indicator '*industry practice*' (paragraph B45(c)) will likely be the predominant factor, as only uniform industry practice enables comparisons across entities. Furthermore, the proposals do not provide guidance for situations where one or more indicators support the nature of expense method, but other indicators support the function of expense method.

For the reasons above, we do not believe that the proposals, in practice, will lead to changes in the presentation method selected in the statement of profit or loss. Further, we question whether there is a need for strengthening the requirement that entities shall select the method that provides the most useful information to the users of their financial statements. As the IASB is proposing to require entities using the function of expense method to disclose in the notes an analysis of their total operating expenses using the nature of expense method, this means, that the information necessary to compare both methods would be available for the users of financial statements. |

Another issue the IASB might want to consider when improving the guidance proposed relates to changes in the presentation of the method of expense analysis. If an entity – after considering the indicators in paragraph B45 – concludes that it needs to change its method of expense analysis, it should be clear that a change in presentation is to be applied retrospectively. We therefore suggest the IASB clarify that changes in the presentation of the method of expense analysis are a change in accounting policies in accordance with IAS 8 *Accounting policies, changes in accounting estimates and errors*.

Hier fehlt ggf. noch eine Einwertung des IFRS-FA zu den Vorgaben zur Wahl der Darstellungsmethode, z.B.:

- Ablehnung der Verschärfung der Vorgaben zur Wahl der anzuwendenden Methode (UKV, GKV); stattdessen: Befürwortung einer Methodenwahlfreiheit?



*Additional disclosure requirements for entities presenting an analysis classified in the operating category using the function of expense method (paragraph 72)*

We do not agree with the proposal in paragraph 72 to extend the disclosure requirements for entities that currently present their analysis of operating expenses by function in the statement of profit or loss.

According to the paragraph BC111 of the Basis of Conclusions, *'this proposal reflects feedback from users of financial statements that analysing expenses using the function of expense method can lead to a loss of useful information. Information is lost because functional line items combine expense items with different natures that respond differently to changes in the economic environment, making it difficult for users to forecast future operating expenses.'* However, in our opinion, the predictive value of some expense line items under the nature of expense method might be low. Considering the Illustrative Example (Part I, Note 1), we question whether the line items *'reversal of inventory write downs', 'impairment of property, plant and equipment', 'impairment losses on trade receivables', 'gains (losses) on derivatives',* and especially *'other miscellaneous expenses'* provide information that is more relevant for forecasts than a presentation by function.

Further, under current proposals, the IASB is not requiring a set of minimum line items specifically required under the nature of expense method. Proposed new paragraph 69 rather enumerates typical line items of the nature of expense method, *'such as information about expenses related to materials (raw materials, employees (employee benefits), equipment (depreciation) or intangible assets (amortisation)'*. However, this information is already required to be disclosed under current paragraph 104 of IAS 1 for entities classifying expenses by function. Therefore, in our opinion, it is unclear, which additional information the IASB is seeking to be disclosed and whether a disclosure of *total* operating cost by nature provides users of financial statements with information needed to forecast future operating expenses of the entity. We therefore encourage the IASB to investigate further, which information about operating expenses by nature is needed by users of financial statements.

In addition, we have received feedback from our constituents that the information needed to disclose their total operating expenses by nature cannot easily be obtained from their accounting systems. Some entities told us that they are unable to track the original nature of the expenses once the expenses have been allocated to functions, because their accounting systems are not designed for this purpose. This is often the case for large multinational companies that internally allocate a large number of items of income and expense to various functions or cost centres. As a result, the proposal to disaggregate total operating expenses by nature is costly to implement for entities that currently present their analysis of operating expenses by function in the statement of profit or loss. Such entities will have to adjust their accounting systems to enable them to obtain the information about the nature of inputs used. Implementation costs will be especially significant for large multinational groups with a diverse ERP system landscape. We therefore doubt that the benefits of having information about the operating expenses by nature will exceed the costs of implementation.

We also have received feedback that gathering information about expenses by nature might especially be difficult to implement for group entities from foreign jurisdictions that are not familiar with the nature of expense method, as a presentation of expenses by nature is not allowed under the relevant national accounting framework (e.g. US GAAP). Therefore, it might





be particularly difficult to adapt accounting systems in foreign jurisdictions that are not familiar with the nature of expense method, as it means to start from scratch. For instance, following an acquisition of a US subsidiary during the reporting period, the acquirer would need to adapt the accounting systems of the acquiree until the end of the reporting period in order to ensure that the total operating expenses of the acquiree can be included in the group's disclosures of total operating expenses by nature. Given the tight reporting schedules, we question whether entities will be able to comply with the requirement to disclose an analysis of their total operating expenses using the nature of expense method.

*Prohibition of a mixture of the nature of expense method and the function of expense method (paragraph B46)*

We understand from proposed new paragraph B46 that entities should not use a mixture of the nature of expense method and the function of expense method except when required to do so by paragraph B47. Paragraph B47 requires entities to present in the statement of profit or loss the line items required by paragraph 65 regardless of the method of analysis of expenses used.

We have several concerns regarding these statements in paragraphs B46 und B47. Firstly, we regret that the IASB itself is weakening its proposed principle that entities shall not use a mixture of the nature of expense method and the function of expense method by articulating an exception to this principle in paragraph B47. Furthermore, no (principle-based) rationale for the exemption is provided. As a result, in practice, it may be difficult to explain why entities should not mix both methods, which could result in a lower acceptance of that principle.

Secondly, the link between paragraph B15 and paragraph B47 is unclear. Paragraph B47 – as an exception to the principle that entities shall not use a mixture of the nature of expense method and the function of expense method – requires entities to present in the statement of profit or loss the line items required by paragraph 65. Paragraph 65 includes a reference to further application guidance in paragraph B15 and B44. Paragraph B15, in turn, enumerates circumstances that would give rise to the separate presentation in the statement of financial performance or disclosure in the notes of items of income and expense (such as write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs, restructurings of the activities of an entity, disposals of items of property, plant and equipment, etc.). It should be noted that the circumstances listed in paragraph B15 are expenses analysed by nature. We therefore question whether the IASB also aims to exclude the circumstances listed in paragraph B15 from the prohibition of a mixture of both methods, or whether the reference in paragraph B47 applies to the line items listed in paragraph 65 only.

Thirdly, according to paragraph BC110 of the Basis for Conclusions, users have raised concerns that useful information can be lost because entities choose which method to use and because, in practice, many entities use a mixture of both methods. Therefore, the IASB proposes to strengthen the requirements by requiring an entity to use the single method that would provide the most useful information to the users of the financial statements. We do not completely agree with that statement. Regarding the concerns raised by users, we think it would be necessary to analyse in detail which information is lost or obscured by a mixture of



both methods. Based on the results of this analysis, we suggest the IASB to clarify which line items would (not) fit into the structure of the respective method.

On the other hand, in our opinion, it is not clear under the current proposals whether and to what extent the IASB is requiring a *'pure presentation'*, i.e. whether the notion of *'the single method'* in paragraph BC111 means that any kind of *'mixed presentation'* is prohibited. However, we do not completely agree with the view that any kind of mixed presentation will lead to a loss of information. Instead, we believe that additional line items – although they may not fit into the structure – may provide useful information to users of the financial statement.

For instance, some entities using the function of expense method currently present impairment losses and restructuring expenses as a separate line item in the statement of profit or loss or choose to present these expense items within the line item *'other operating expense'*. On the one hand, this may be considered as not to be in line with the *'single method'* presentation. On the other hand, allocating impairment losses and restructuring expenses to functions would result in volatile line items across different reporting periods. To enhance comparability between different reporting periods and across entities, a presentation as a separate line item (or disclosure in the notes) would provide users with useful information. For that reason, some entities currently choose to present restructuring expenses and impairment losses within *'other operating expenses'*. Allocating these expenses to functions would be a significant change for entities currently using the function of expense method. Furthermore, allocating impairment losses to functional areas would result in corresponding explanations in the notes, which might be scrutinised by users and investors.

For the reasons above, we suggest the IASB investigate and clarify further:

- what useful information is lost – according to the concerns raised by users – because in practice many entities use a mixture of both methods,
- specifically address the concerns raised by users more specific and clarify which line items would (not) fit into the structure of the nature of expense method (or the function of expense method respectively), and
- whether and to what extent a *'pure'* presentation shall be required, i.e. whether any kind of *'mixed presentation'* shall be prohibited.

*Relationship between required line items and the proposed categories in the statement of profit or loss (paragraph BC108 of the Basis for Conclusions)*

The IASB explains in paragraphs B44 and BC108 of the Basis for Conclusions that in order to achieve a faithful representation of the categories in the statement of profit or loss, entities shall be required to disaggregate a required line item, for example impairment losses on financial instruments, and present it in different categories of the statement of profit or loss.

We do not completely agree with that statement. Whilst we agree with the principle that the categories shall be presented faithfully, we do not agree with the conclusion that required line items shall be presented separately in each section of the statement of profit or loss, as this means that the same required line item (e.g. impairment losses on financial instruments) would appear in more than one section. Firstly, in our view, this approach would result in a proliferation of line items which could obscure information and reduce the understandability of the statement of profit or loss. Secondly, in applying this approach the information about the

total amount of e.g. impairment losses on financial instruments is lost, as it is separated into different categories of the statement of profit or loss. Thirdly, applying this approach might also result in a presentation that depict an incomplete picture of the line items by function. This means that the line items to be presented under the function of expense method (i.e. 'cost of sales', 'selling expenses', general and administration expenses', etc.) would in general exclude amounts related to the requirements of IFRS 9 that need to be presented separately in accordance with paragraph 65(b).

We therefore encourage the IASB to investigate whether the line items required according to the proposed new paragraph 65(b) shall continue to be presented separately on the face of the statement of profit or loss.

*Requirement to present the cost of sales in the statement of profit or loss (paragraphs 65(a)(vii) and 71)*

The IASB proposes in paragraphs 65(a)(vii) to require an entity to present in the statement of profit or loss a separate line item 'cost of sales'. Proposed new paragraph 71 states that 'an entity applying the function of expense method shall present its cost of sales separately from other expenses'.

However, in our opinion, paragraphs 65(a)(vii) is confusing as it requires an entity to present a (minimum) line item in the statement of profit or loss, but that requirement applies only to entities that apply the function of expense method. By contrast, all other line items listed in paragraph 65 are applicable to all entities, irrespective of whether the nature of expense method or the function of expense method is applied. As the IASB explains in paragraph BC115 of the Basis for Conclusions, this is even valid for expense line items required to be presented in the statement of profit or loss that are expenses analysed by nature (e.g. impairment losses determined in accordance with IFRS 9). The IASB further explains in paragraph BC116 of the Basis for Conclusions that 'to ensure that these line items continue to be presented prominently, the Board proposes to require entities to present them separately in the statement of profit or loss whichever method of analysis of operating expenses is used.'

We suggest the IASB to clarify that an entity that applies the nature of expense method need neither present nor disclose its cost of sales. This means that paragraph 71 should be read as an exception to the principle that all line items listed in paragraph 65 are applicable to all entities regardless of the method of analysis of expenses in the operating profit section.

Furthermore, it might be helpful to explicitly include a requirement in the new IFRS Standard (e.g. in paragraph B44) that the minimum line items in the statement of profit or loss are required to be presented (if material) regardless of the method of analysis of expenses in the operating profit section. Currently, this is only reflected in paragraph BC116 of the Basis for Conclusions.

### 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?

#### *Proposed definition of 'unusual income and expenses' (paragraph 100)*

We think that users of financial statements would benefit from greater comparability and transparency of information among entities if more standardisation were available regarding the presentation of unusual items. The current lack of IFRS guidance – and the explicit prohibition of labelling items as 'extraordinary' – results in a variety of different approaches for reporting unusual or infrequently occurring transactions or events in IFRS financial statements.

Whilst we agree with the IASB's objective, we think that the proposed definition of income is very narrow in terms of whether *'it is reasonable to expect that income or expenses that are similar in type and amount will not arise for several future annual reporting periods'* (paragraph 100). In our view, the reference to whether similar income or expenses *'will not arise for several future annual reporting periods'* may result in income or expenses that have limited predictive value being not identified as 'unusual'. For example, gains and losses from the disposal of assets that arise regularly will not be covered by the proposed definition. However, signalling that 'economic substance' was divested provides useful information to investors. To provide an indication of recurring earnings, in practice, gains and losses from the disposal of assets are commonly adjusted, for example by insurers and investment property entities. As a result, the proposed narrow scope might result in a loss of useful information and users of financial statements will only receive an incomplete picture of what is to be considered as 'unusual' or 'non-recurring'.

Another issue that the IASB should consider when improving the guidance proposed relates to the question whether unusual income and expenses are not expected – by type and amount (or: either by type or amount) – to recur in the future. On the one hand, the proposed definition of unusual income and expenses in paragraph 100 is referring to *'by type and amount'*. On the other hand, the IASB explains in paragraph B69 that: *'Income and expenses that are not unusual by type may be unusual by amount'*. However, considering the guidance provided, e.g. in paragraphs B71 and BC133 of the Basis for Conclusions, in which the IASB is providing

Gibt es nach Ansicht des IFRS-FA weitere Sachverhalte, bei denen die vorgeschlagene Definition nicht zu einem sachgerechten Ergebnis führt?

examples for income and expenses that are not deemed unusual 'by type', we wonder whether, in fact, both conditions (i.e. by type and amount) need to be met to classify an income or expense item as unusual. We, therefore, suggest the IASB clarifying whether both conditions (i.e. both, by type and amount) need to be met to classify an income or expense item as unusual.

Determining whether income and expenses are 'unusual' is highly dependent on an entity's specific facts and circumstances. Accordingly, the identification of whether an item is 'unusual' will inevitably remain judgmental to a certain degree. Thus, we understand why the IASB is seeking to set limits to what extent an item is not deemed unusual. However, the proposed new IFRS Standard is introducing a couple of examples of items that might be considered as 'unusual' depending on an entity's specific facts and circumstances, for example, an impairment loss resulting from a fire at an entity's factory (paragraph B68), litigation expenses incurred higher than reasonably expected (paragraph B69), restructuring expenses (paragraph B71), the effect of a tax reform (Illustrative Example) and a drop in the market price of inventories (Illustrative Example). Given this broad range of events and transaction, that may give rise to 'unusual income and expenses', we question whether the IASB's objective of setting limits and reducing entities' leeway regarding the classification of expenses as unusual (ref. paragraph BC123 of the Basis for Conclusions) will be achieved.

For the reasons above, we do not agree with the proposed definition of unusual income and expenses. In our opinion, the proposed definition is too narrow as it does not cover many income and expense items with low predictive value that are currently, in practice, labelled as 'unusual items'. As a result, users of financial statements will only receive an incomplete picture of what is to be considered as 'unusual'. Hence, we believe that under the proposed definition the IASB's objective – of enabling users to identify income and expenses which may not persist – will not be achieved.

#### *Proposed definition of 'unusual income and expenses' in the light of the current Covid-19 crisis*

We are concerned whether, in times of an economic crisis such as the current Covid-19 crisis, the proposed definition of 'unusual income and expenses' can achieve the desired objective of providing useful information about income and expenses which may not persist. Due to high uncertainty in times of an economic crisis, entities are facing difficulties in forecasting their future fiscal results and thus might not be able to provide a forecast. Consequently, as the definition of 'unusual' is based on an expectation about the future, entities might not be able to forecast their future 'usual' income and expenses, and thus, will not be able to predict whether or not it is reasonable to expect that income or expenses similar in type and amount will arise in any of several future annual reporting periods.

Further, considering the current Covid-19 crisis, we question whether the outcome under the proposed definition provides useful information to users:

- A shortfall in revenue, which is probably the main effect under the current Covid-19 crisis, is not covered by the proposed definition of 'unusual', as the definition focuses on recognized income and expenses. Thus, the definition of 'unusual income and expenses' represents only a limited view on the impact of the crisis on the entity's financial performance.

Abstimmung einer Positionierung insgesamt noch ausstehend.

Möchte der IFRS-FA eine Alternative aufzeigen? Z.B.:

- Keine Regulierung
- Nur Vorgabe von grundsätzlichen Leitlinien zur Darstellung von als „ungewöhnlich“ (o.Ä.) bezeichneten Posten – so z.B. vom IASB in Tz. BC123(b) erwogen



- Further, we question whether the proposed definition is practicable. For example, the determination of idle cost requires that a normal capacity of the production facilities (even in times of a crisis) can be determined in order to separate the portion of 'unusual' idle cost. Again, entities will likely face difficulties in determining the production expected to be achieved on average over a number of periods 'under normal circumstances'. As the Covid-19 pandemic currently demonstrates, the expectation of what can be expected to be achieved 'under normal circumstances' needs to be revised to a yet unknown 'new normal' (post crisis).
- In addition, in defining 'unusual income and expenses' the IASB seems to have in mind individual events or transactions (e.g. a fire at an entity's factory) which have effects on the statement of financial performance that can be isolated and quantified easily. However, an individual event (such as the Covid-19 pandemic) may have an impact on many transactions and business lines, so that it is hardly possible to determine what was caused by the singular event and how the 'normal' course of business would have been without that event.

For the reasons above, we question whether the proposed definition provides a robust differentiation between of 'usual' and 'unusual' income and expenses in times of an economic crisis. However, in our view, a proposed definition and related disclosures requirements should provide robust results under 'normal circumstances' as well as in times of an economic crisis. Therefore, we do not agree with the proposed definition of 'unusual income and expenses'.

*Information to be disclosed about unusual income and expenses (paragraph 101)*

In general, we are in favour of the IASB's objective of providing users with information about 'unusual income and expenses'. Therefore, we agree with the proposal of allowing entities to disclose unusual (or similarly described) income and expenses and to report performance measures that have been adjusted to reflect the effect of unusual income and expenses. However, as explained above, we do not agree with the proposed definition of 'unusual income and expenses'.

We doubt that the proposed guidelines will reduce the extent to which performance measures are adjusted, nor that the use of alternative performance measures will be reduced by the proposed guidelines. As explained above, the IASB has already enumerated a couple of examples of unusual income and expenses (e.g. impairment losses, restructuring expenses, etc.). Therefore, we are concerned that the IASB is weakening its new product (i.e. the proposed new subtotals and the proposed new structure in the statement of profit or loss) through the proposals on 'unusual income and expenses'.

Regarding the proposed disclosure requirements in the proposed new paragraph 101, we agree with the proposal to require a narrative description of the transactions or other events that gave rise to each item of unusual income and expense and why income and expenses that are similar in type and amount will not arise for several future annual reporting periods. In our opinion, these disclosures would provide users with relevant information and currently, in practice, there is room for improvements regarding the explanations provided by management as to why an item is 'unusual'.



Hat der IFRS-FA weitere Anmerkungen zu den vorgeschlagenen Angabepflichten zu „ungewöhnlichen Erträgen und Aufwendungen“?

•Ort der Angabe (*in a single note*)

•Art der Angaben:

- Betrag jedes Postens  
○den Posten in der Ergebnisrechnung, in dem die ungewöhnlichen Erträge und Aufwendungen jeweils enthalten sind  
○eine Aufgliederung der ungewöhnlichen Aufwendungen nach dem Gesamtkostenverfahren, sofern das Unternehmen das Umsatzkostenverfahren anwendet

#### 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?

#### *Proposed definition of ‘management performance measures’ (paragraph 103)*

We think that users of financial statements would benefit from greater transparency by requiring entities providing insights into how management views the entity’s performance and how the entity is managed. Furthermore, current disclosure requirements throughout IFRS Standards do not provide entities flexibility to ‘tell their story’ in IFRS financial statements. Thus, requiring disclosures for management performance measures has the potential to better link information presented in IFRS financial statements to information presented outside financial statements (such as the management commentary).

However, in our opinion, there are some conceptual weaknesses regarding the proposed definition of ‘management performance measures’:

- According to paragraph BC153 of the Basis for Conclusions, the IASB has decided to limit the scope of the project on improvements to the reporting of financial performance and the related notes. Therefore, the proposed definition of ‘management performance measures’ is limited to subtotals of income and expenses. Other financial measures (including measures related to the statement of financial position or cash flows) are not management performance measures. This exemption is particularly relevant for measures such as ‘free cash flow’ or ‘net debt’ which are commonly reported by corporate entities in the non-financial sector.
- Furthermore, proposed paragraph B80(a) states that individual items or subtotals of only income or expenses are not management performance measures. This exemption is particularly relevant for ‘adjusted revenue’ measures which is one of the most commonly reported performance measure for entities in the non-financial sector.
- In the insurance industry, cost-to-income ratios are typically reported by insurers as one of their most significant financial key performance indicators. Again, these



measures would not be covered by the proposed definition of 'management performance measures' as financial ratios are excluded by paragraph B80(c).

We do not agree with the IASB's decision that these measures should not be considered as management performance measures. Depending on how an entity is managed and industry practice, these measures are commonly reported in practice and disclosing such measures provide useful information to users. Excluding these measures would result in an incomplete picture of how management views the entity's financial performance and how the business is managed.

In addition, paragraphs 104 and B78 propose to exempt some performance measures (e.g. 'gross profit' and similar subtotals) from the definition of management performance measures. As the IASB explains in paragraph BC170 of the Basis for Conclusions, these subtotals are exempted from the disclosure requirements as they are – though not specified by IFRS Standards – *'commonly used in the financial statements and are well understood by users of financial statements.'* Whilst we agree with the statement that these subtotals are well understood in practice, such an approach of casuistic exceptions may raise questions to also exempt other performance measures that also might be well-known or widely used within an industry. We, therefore, do not support the proposal to exempt these measures by providing a list of specified measures; we would rather suggest developing a principle-based approach.

However, we do not suggest the IASB to extend the definition of management performance measures. Rather, we encourage the IASB to investigate how the proposed guidelines and disclosures requirements interrelate with similar disclosure requirements about performance measures, published by regulators. For example, with respect to our constituency, entities are required to present information about:

- alternative performance measures (APMs) as defined by the ESMA Guidelines on Alternative Performance Measures (when disclosing APMs in management reports, ad-hoc disclosures and prospectuses),
- their most significant financial key performance indicators that are also used for the internal management of the group (*GAS 20 Group Management Report*), and
- measures required to be presented in accordance with European or national legislation, this is particularly relevant for banks and insurance companies.

It should be noted that the scope of these guidelines does not coincide with the scope of the IASB's proposals regarding management performance measures. This would not be problematic if the scope of the IASB's proposals regarding management performance measures were to include those performance measures that are not already covered by other guidelines (such as the ESMA APM Guidelines). However, this is not the case. Rather, the IASB's proposals are overlapping with the ESMA APM Guidelines, with the scope of the IASB's proposals being much narrower. For example, the ESMA APM Guidelines include measures related to the statement of financial position or cash flows. This means, that entities ultimately may end up in disclosing information about:

- management performance measures (as defined by the proposed new paragraph 103) in the notes
- APMs in accordance with the ESMA APM Guideline in the management report, if not already reported in the notes (subject to the IASB's disclosure requirements), and



- performance measures eventually required by other regulators in the management report.

Furthermore, the scope of the IASB's proposals is very broad in terms of 'public communication'. Paragraph B79 states: 'Only subtotals that management uses in public communications outside financial statements, for example, in management commentary, press releases or in investor presentations, meet the definition of management performance measures.' This requires entities to investigate all possible communications.

In addition, this may raise the question on whether the IASB should require the disclosure of performance measures that are presented outside the financial statements; the disclosure of which is already required by regulators.

#### *Information to be disclosed about management performance measures (paragraph 106)*

As explained before, we think that users of financial statements would benefit from greater transparency arising from disclosures about management performance measures.

Within our jurisdiction, the relevant guidelines with respect to the disclosure of performance measures are well-known to entities and entities already have a sound experience with respect to providing such disclosures (which are similar to the disclosure requirements proposed by the IASB). As disclosures about management performance measures are mandatorily to be presented within the management report, these disclosures are subject to the audit of the financial report and to enforcement procedures by the national competent authority. However, in our experience, some deficiencies persist in practice regarding explanations for the use of performance measures (including an explanation of material reconciling items).

Nevertheless, the disclosure of the effect on tax and non-controlling interests of each reconciling item (paragraph 106(c)) would be a change for entities in our jurisdiction. Regarding this disclosure, we question whether users are explicitly requesting information about the earnings adjustments attributable to the parent and the tax effect of those adjustments that can be used to calculate a related earnings per share figure (ref. paragraph BC177 of the Basis for Conclusions).

[...]

#### *Location of information to be disclosed about management performance measures*

We support the proposal that information about management performance measures shall be within IFRS financial statements as this means that disclosures about management performance measures will be subject to the audit of the IFRS financial statements. In our opinion, incorporating disclosures about management performance measures in the IFRS financial statements would improve the discipline with which these disclosures are prepared and, thus, would result in providing users with more transparent information and a reasonable assurance about the adjustments and amounts used in determining management performance measures.

One suggestion that the IASB might want to consider when improving the guidance proposed relates to the question whether entities should be allowed to make references to other

Hat der IFRS-FA weitere Anmerkungen zu:

- den Angabepflichten in Tz. 106 des ED
- den Grundsätzen der Darstellung von MPMs
- zum Illustrative Example oder
- zu den vorgeschlagenen Änderungen an IAS 33 / IAS 34 im Zusammenhang mit MPMs?



documents when complying with the proposed disclosures requirements. As explained above, as far as our constituency is concerned, entities are required by GAS 20 *Group Management Report* and by the ESMA APM Guidelines to disclose information about their performance measures (including a reconciliation) in their group management report, which is also subject to the audit of the financial statements. To avoid fragmentation of information, it would be helpful if entities were allowed to provide the disclosures required by proposed new paragraphs 106(a)-106(d) by cross-reference from the IFRS financial statement to some other statement, such as a management commentary (as permitted, for example, by IFRS 7.B6).

Further, we question whether entities are prohibited from presenting – on a voluntary basis – information about performance measures that are excluded from the IASB's scope of management performance measures. In our opinion, it is unclear whether entities can choose to voluntarily present information about measures such as 'ROCE', 'adjusted revenue', 'free cash flow', etc. in the same single note that it uses to disclose information about its management performance measures and, if so, whether entities would need to comply with the disclosure requirements set out by paragraphs 106(a)–106(d).

#### Questions 12 – 14

[TBD; Gegenstand der kommenden Sitzung des IFRS-FA]