Deutsches Rechnungslegungs Standards Committee e.V.
Accounting Standards Committee of Germany
DRSC

DRSC e. V. • Joachimsthaler Str. 34 • D-10719 Berlin

IFRS Technical Committee
Phone: +49 (0)30 206412-12
E-Mail: info@drsc.de

Mr Hans Hoogervorst
Chairman of the
International Accounting Standards Board
Columbus Building
7 Westferry Circus / Canary Wharf
London E14 4HD

Berlin, 30 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 2019 (herein referred to as 'ED'). We appreciate the opportunity to comment on the ED.

The ASCG is clearly supportive of the IASB's objective to increase comparability between entities and over time as regards reporting performance and providing corresponding disclosures. It is evident that IAS 1 in its current form does not provide sufficiently robust requirements for key information about an entity's performance to be reported in a way that was consistent to the reporting of other entities. Many of the proposed requirements seem appropriate and are supported by us; for some, we provide specific comments that we hope will contribute to improve the proposals further.

Notwithstanding our general support, we also flag areas where we believe that the proposals:

- Will likely not yield the desired outcome as the respective requirements are not articulated sufficiently clear for them to be understandable, auditable and enforceable and contributing to consistent application and, hence, limit the potential to increase relevance;
- Seem to lack a conceptual underpinning, thereby making them difficult to defend;
- Are based on false or incomplete assumptions as to what the today's IT systems and landscapes in entities can and cannot provide for, thus potentially leading to a substantially different cost-benefit assessment;
- Will likely yield a greater comparability in the statement of profit or loss, but at the price of reducing understandability by not proposing similar changes to the statement of cash flows where this was feasible (and, as we see it, warranted and appropriate).

Key terminology being introduced but not defined or not defined robustly enough

We note that the IASB adds new terminology, either without defining it at all, or by defining it in a way that is not sufficiently robust to achieve what the IASB is trying to achieve. Examples include the notion of *'an entity's main business activities'*, *'in the course of an entity's main business activities', 'integral associates and joint ventures'* and *'unusual items'*.

The concept of *'an entity's main business activities'* may sound intuitive when relating those to operating income and expenses; yet, it is far from clear as what the activities encompass, especially as the IASB is defining the operating category as a residual category – which seems to be contradictory to stating that income and expenses from the entity's main business activities should be included in operating. Conversely, if more than main business activities could be part of operating, what is the purpose of putting the emphasis on 'main business activities'?

Further, we regret that the IASB did not find a way of defining the operating category positively but only as a residual. Doing so runs the risk that items are included in that category that do not meet the requirements of being included in investing or financing and only for that purpose are allocated to the operating category. For this purpose, we are providing proposals for how the operating category could be articulated and defined in a clearer way. Our suggestions do foresee the inclusion of income and expenses from ancillary activities as well as from certain financing and investing activities in operating, if they are incurred to facilitate the main business activities and are therefore linked to these activities.

As regards the proposal to differentiate between *'integral associates and joint ventures'* 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. As explained in more detail in our answer to question 7, we propose another definition of 'integral'.

Lastly, we think that the proposed definition of *'unusual income and expenses'* is too restrictive and therefore recommend the IASB include only general requirements for fairly presenting and disclosing 'unusual income and expenses' and allowing entities to develop and apply consistently their own definition of 'unusual income and expenses'.

Proposals grounded on false assumptions as to what the current IT systems and landscape can deliver

The ASCG has performed outreach in its constituency and has sought evidence as to whether the proposals in the ED could be implemented easily or at least in a cost-beneficial way. The feedback obtained showed that some of the proposals would lead to significant system changes. The most prominent example would be a change in presenting income and expenses by nature or function into the respective other format. Whilst there are some entities that have undergone system changes that provide for a matrix presentation and would allow to break down any cost incurred by a function by nature, the majority of entities is not in a position to yield the required numbers by just pushing the button.

The existing disclosures of certain expenses by nature when applying a presentation by function have mostly been implemented in a hard-wired form (so the information is submitted by all group entities to headquarters as a separate piece of information). The main reason cited is that subsidiaries are provided with a degree of budgeting freedom and only need to meet the overall targets set – without HQ mandating precise limits for each type of cost incurred.

Hence, before such a change in presentation was required of certain companies, we would have to see the rationale for such a change, including a cost-benefit analysis. None of the entities that did take part in our outreach or in our questionnaire survey did say that they had ever been asked by any user to change their presentation format. We also note that there is already a great deal of consistency in how entities within a certain industry present their income and expense items. We have therefore difficulty in understanding where these calls on the IASB to propose such requirements are coming from and whether they have actually been raised more widely.

Proposals on the new structure and content of the statement of profit or loss and (non-) alignment with the statement of cash flows

The proposals on the structure and content of the statement of profit or loss are one of the cornerstones of the ED. The IASB is proposing to structure the statement in a similar way as the statement of cash flows and to use the same labels to shape the categories (i.e. operating, financing, and investing). However, despite using the same labels, the sections are defined differently for no obvious conceptual reason. Whilst we understand that the IASB tries to ringfence the current project and puts the focus predominantly on the statement of profit or loss, we do not find that reasoning sufficiently convincing, honestly.

Both, the statement of profit or loss, and the statement of cash flows, are flow statements. They depict certain transactions that have occurred over the reporting period. Both statements aim to make visible transactions that have occurred in the ordinary course of business and are tied to the entity's core business activities. We fully understand that not all transactions that are recorded in one statement will automatically show up in the other statement as well – mostly for timing reasons (i.e. the same transaction will be presented in different periods in the two statements) or for reasons that a cash transaction does not meet the definition of income or expenses. Hence, the two statements will not necessarily depict the same transactions in the operating category for a given period.

However, there are quite a few requirements the IASB is proposing in the ED where an alignment could have been achieved. And for these, we would like to see a conceptual reasoning as to why corresponding changes have not been proposed to the statement of cash flows. These include, but are not limited to, the proposals on associates and joint ventures, income taxes and discontinued operations, where separate sections in the statement of profit or loss are envisaged that have no equivalent in the statement of cash flows. We present our reasoning in more detail in the appendix and demonstrate in our answers on the respective questions where we believe greater alignment was feasible.

Our responses to the complete set of questions raised in the invitation to comment are 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) or me.

Yours sincerely,

Andreas Barckow

Appendix – Answers to the questions in the ED

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? do you suggest and why?

Presentation of an operating profit or loss subtotal in the statement of profit or loss (paragraph 60(a))

In general, we agree with the IASB's proposal to require all entities to present in the statement of profit or loss a subtotal for operating profit or loss, as it provides users of financial statements with information about the entity's operating performance. 'Operating profit or loss' is one of the most commonly used subtotals in practice. Given that entities calculate operating profit in different ways, the introduction of a defined subtotal will contribute to reducing diversity in practice and to improving comparability of financial statements across entities. Therefore, we agree with the proposal of introducing such a subtotal.

Notwithstanding our general agreement, we believe that any subtotal must meet two key characteristics: (a) it must be robustly and clearly defined in order to facilitate consistent application, and (b) it must faithfully reflect what it purports to reflect. Otherwise, entities will continue to present information on alternative operating profit performance measures. In this context, we summarise our key conclusions on the proposals regarding the operating category as follows:

- Given the prominence of the operating category, we would have preferred that it be defined directly and not as a residual (although we acknowledge that the outcome should be the same provided that the other categories are defined robustly);
- further guidance is needed regarding the notion of '*an entity's main business activities*', especially when considering different levels of reporting entities in a group context;
- income and expenses from 'non-core' or 'ancillary' activities of an entity that are incurred in the execution of its business model should also be classified in the operating category; and
- the statement of cash flows should be aligned as much as possible to the proposed new structure and content of the statement of profit or loss, as using the same labels to mean different things in the two statements is confusing and reduces understandability. Else, different labelling should be sought.

Please also refer to our detailed comments below.

Proposed definition of the 'operating category' as a residual category

The IASB proposes to define the operating category as a residual category. In the IASB's view, defining operating profit or loss as a default category will result in a faithful representation of an entity's operating activities, because all income and expenses included in profit or loss, other than those related to financing, tax, some investments or discontinued operations, arise from an entity's operations (ref. paragraph BC55). We understand the IASB's rationale and concede that, in the end, it should not make much difference which category is made the residual one. Rather, it is key that the categories are defined robustly and free of overlap.

However, since the operating profit or loss subtotal is one of the most common subtotals analysed by investors, every effort should be made to define it directly rather than as a 'dumping ground' for everything not captured elsewhere. Also, we feel that clarification is needed as to how the IASB's concept of '*an entity's main business activities*' can be reconciled with a residual notion (which seems to allow for more items being recognised in that category rather than solely those that relate to an entity's main business activities). Hence, we recommend the IASB reconsider its tentative decision and define the operating category directly. For further details on that issue please refer to our answer to question 2 below.

The notion of 'an entity's main business activities' is unclear and too narrow

We note that the term '*an entity's main business activities*' is not defined in the proposed new IFRS Standard. Therefore, it is unclear which items of income and expense should be classified as belonging to the operating category.

Further, we believe that the proposed classification principle ('*income and expenses from an entity's main business activities*') is too narrow. Instead, we believe that *income and expenses arising from an entity's activities in executing its business model* would be a clearer articulation for items to be classified in the operating category.

As a result, an entity's main business activities and the accompanying 'ancillary' or 'non-core' business activities should both be presented in the operating category. According to this approach, the operating category would include income and expenses from:

- an entity's main business activities (i.e. its 'core' activities), as suggested by the IASB;
- an entity's ancillary activities (i.e. its 'non-core' or 'supplementary' activities);
- an entity's ancillary activities related to 'investing' activities (e.g. insurance services provided as a by-product of goods sold), if these activities are closely related to the entity's main business activities; and
- an entity's ancillary activities related to 'financing' activities (e.g. sales financing of the goods sold or leases), if these activities are closely related to the entity's main business activities.

For further details please refer to our answer to question 2 below.

Alignment of the statement of cash flows with the statement of profit or loss (paragraphs BC30 and BC194)

We understand from paragraph BC30 that – except for the classification of interest and dividend cash flows – the IASB is not seeking to further align the classification of the statement of cash flows with the statement of profit or loss. This means that under the current proposals, the proposed descriptions for the categories in the statement of profit or loss (i.e. '*operating*', '*investing*' and '*financing*') would be used inconsistently across IFRS Standards, because IAS 7 *Statements of Cash Flows* uses the same descriptions (i.e. cash flows classified by '*operating*', '*investing*' and '*financing*' activities), and classification in the statement of profit or loss would not be aligned with the classification in the statement of cash flows.

We regret that the IASB is missing the opportunity to further align the statement of cash flows with the statement of profit or loss. Using the same terms with a different meaning creates confusion and reduces understandability of the information provided in the primary financial statements, especially for those that are less proficient with the IFRS literature. The IASB itself explains in paragraph BC194 that '*when alignment can be achieved, it can increase the understandability of the resulting information*'. Since the statement of cash flows and the statement of profit or loss have very similar objectives (i.e. presentation of information about flows from transactions), it is not clear to us why the categories in both primary financial statements should have different contents and definitions. We are, of course, aware of the fact that some items cannot be aligned, e.g. accruals or cash in-/outflows that do not represent items of income or expense, respectively. On the other hand, where alignment was possible, we believe that it should be pursued.

In our opinion, further alignment could be achieved, as both primary financial statements communicate information about flows (i.e. movements due to transactions rather than account balances). Therefore, we suggest the IASB to consider aligning the categories of the statement of cash flows with the corresponding categories of the statement of profit or loss wherever possible. By contrast, we do <u>not</u> recommend the IASB to consider aligning the statement of financial position to the statement of profit or loss, in terms of the newly introduced categories, as had been attempted unsuccessfully before.

When investigating how to further align the classification of the statement of cash flows with the statement of profit or loss, the IASB should reconsider the following matters:

- the proposals on the separate presentation of the new categories in the statement of profit or loss (paragraph 45 introduces six categories in the statement of profit or loss, namely: *operating*, *investing*, *financing*, *integral associates and joint ventures*, *income tax*, and *discontinued operations*; however, in the statement of cash flows corresponding separate categories for cash flows from *integral associates and joint ventures*, *income tax*, and *discontinued operations* are lacking);
- the description and the content of the proposed new categories (i.e. an alignment of the content of the proposed new categories '*operating*', '*investing*' and '*financing*'; currently the ED is only proposing to align the definition of '*financing activities*' within the financing category);
- the proposed presentation requirements and principles for entities that provide financing to customers or invest in assets, both in the course of their main business activities (currently these principles are not reflected in IAS 7);

- the proposed new presentation requirements for specific items (e.g. the classification of fair value gains and losses on derivatives and hedging instruments in the statement of profit or loss); and
- current presentation requirements of IAS 7 (e.g. the presentation of income taxes differs between the statement of cash flows and the statement of profit or loss).

We believe that the IASB should consider an alignment with regard to all six categories introduced by the proposed new paragraph 45:

- operating;
- investing;
- financing;
- integral associates and joint ventures;
- income tax; and
- discontinued operations.

For example, the IASB should align the definition of cash flows from investing activities with the proposed new definition and content of the investing category in the statement of profit or loss. This means, that – in accordance with the new proposed definition of the investing category – cash flows from investing activities should comprise only cash payments and cash receipts related to '*investments in assets that generate a return individually and largely independently of other resources held by the entity*'. Conversely, cash payments to acquire (and cash receipts from sales of) property, plant and equipment and intangible assets should be classified as cash flows from operating activities, as corresponding income and expenses from these assets (such as depreciation, amortization and gains/losses on disposals) are classified in the operating category in the statement of profit or loss. We acknowledge that, as a consequence of such an alignment, the content of cash flows from investing activities would change significantly.

For the reasons above, we suggest the IASB launch a separate project for undertaking a review of IAS 7 in the light of the proposals on the new structure and content of the statement of profit or loss. Should the IASB decide not to align the categories of the statement of profit or loss with the corresponding categories of the statement of cash flows, we strongly recommend using different terms when describing the new categories of the statement of profit or loss.

To enhance the understandability of the new proposals further, we recommend the IASB to include definitions for each of the new categories – '*operating'*, '*investing'* and '*financing'* – in Appendix A of the new IFRS Standard.

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?

Proposed definition of the 'operating category' as a residual category (paragraphs 46, BC54 and BC55)

We agree in substance with the IASB's view that – if all other categories are described clearly – defining the operating category as a residual category would result in a faithful representation of the operating profit or loss subtotal (ref. paragraph BC55). However, since the operating profit or loss subtotal is one of the subtotals most commonly analysed by investors, we believe that defining the operating category as a residual category is unfortunate. Since the objective of the proposals is to increase comparability by requiring entities to present new defined subtotals, we encourage the IASB to provide a positive, principles-based definition of the operating category.

Further, we note that the IASB is proposing in paragraph 46 a classification principle for the operating category: '*The operating category includes information about income and expenses from an entity's main business activities'*. However, we note that the term '*main business activities*' is not defined by the IASB; hence, it is unclear which items of income expenses should be reported in the operating category. Secondly, we believe that clarification is needed since *'include'* could be understood to mean *'comprise'* and therefore be conclusive and definitive.

As explained in more detail below, we believe that the proposed classification principle for the operating category should include income and expenses that were incurred by an entity in the execution of its business model, i.e. the operating category should also include income and expenses from an entity's ancillary business activities. Should the IASB decide to adopt such a broader definition of the operating category, this would largely alleviate our concerns as to whether the operating category was defined directly or as a residual.

The notion of 'an entity's main business activities' is not sufficiently clear (paragraph 46)

As explained above, we note that the proposed classification principle that the operating category could be understood to (only) include information about income and expenses from an entity's '*main* business activities'. If that was the IASB's understanding, we would not be supportive of such a notion as it appears to be in conflict with a residual category and would be unduly narrow. Instead, as explained below, we propose the IASB to enhance the wording by clarifying that income and expenses *from 'non-core' or 'supplementary' activities of an entity* *that were incurred in the execution of its business model* should also be classified in the operating category.

Further, we have some concerns regarding the notion of *'an entity's main business activities'*:

- The ED does not provide further guidance as to whether – and under which circumstances – a business activity that is not reported as a segment per IFRS 8 can be considered a main business activity (e.g. operating segments that do not meet the quantitative thresholds in paragraph 13 of IFRS 8 and, thus, are combined with other operating segments or are reported within an 'all other segments' category). Consequently, it may be difficult for entities with multiple business activities to determine their main business activities.
- Further, it is not clear whether income and expenses arising from activities that, in applying paragraph B31 of the ED, are not an entity's main business activity, shall be classified in the operating category. This applies to 'ancillary' or 'non-core' business activities.
- The ED is not clear as to whether the classification made at a lower reporting entity level shall be maintained upon consolidation of the entity into a group. Consider, for example, a subsidiary that operates an advertising agency that is included in the consolidated financial statements of a bank (business activity: customer finance). In this case, it is not clear from the proposals whether the revenues from the business activity of the subsidiary (i.e. the advertising agency) shall be classified in the operating category of the group's consolidated financial statements.
- The guidance proposed for determining whether an entity provides financing to customers as a main business activity is not sufficiently clear. In our view, the current proposals might result in an inconsistent classification by those entities for which the sale of products is the 'main business activity' and the realisation of interest income is a by-product of that activity (e.g. construction manufacturers that provide sales financing). In these instances, the entity's business activities are clearly focused on the production and sale of products, but sales financing is common within that industry. We render the view that in these instances the 'customer finance' business activity is linked to the operating activities, with the result that the 'manufacturing' main business activity and the 'customer finance' business activity should be treated as one bundle of business activities. Similar considerations apply to insurance services rendered as a by-product of the sale of products to customers.

In our opinion, income and expenses arising from these 'ancillary' business activities should be presented in the operating category as well.

Therefore, we believe that the IASB's approach could be clarified by stating that *income and expenses arising from an entity's activities in executing its business model* should be classified in the operating category. As a result, an entity's main business activities and its 'supplementary' or 'non-core' business activities would be presented in the operating category, which would then include income and expenses from:

- an entity's main business activities (i.e. its 'core' activities) – as suggested by the IASB;
- a subcategory for an entity's ancillary business activities (i.e. its 'non-core' or 'supplementary' activities);

- a subcategory for an entity's ancillary business activities related to 'investing' activities (e.g. insurance services provided as a by-product of goods sold); and
- a subcategory for an entity's ancillary business activities related to 'financing' activities (e.g. sales financing of the goods sold or leases).

If an entity classifies material amounts of income and expense from its ancillary business activities in the operating category, these amounts should be disclosed in the notes.

If the IASB followed our suggestion to clarify the classification principle, we would agree with the standard setter's proposal of classifying interest revenue from trade receivables to the operating category – however for different reasons, as explained above.

It should be noted that paragraph B35(c) proposes to classify income and expenses on trade payables in the financing category. This difference in classification of interest revenue from trade receivables (operating category) on the one hand and interest expenses on trade payables (financing category) on the other hand is not convincing. In our opinion, it would be more consistent to assume that both trade payables and trade receivables are linked to the operating activities of a company, so that income and expenses on both items need to be presented within the operating category. We therefore recommend the IASB to consistently require entities to classify both, interest expenses on trade payables and interest revenue from trade receivables, in the operating category.

Furthermore, it is not clear whether the examples provided in paragraphs B33 (operating category), B32 (investing category) and B34-B37 (financing category) are exhaustive or whether these paragraphs only illustrate items that typically would be classified in each of the categories. Also, we question whether the classification of the items listed in these paragraphs is mandatory or whether an entity – depending on its specific facts and circumstances – may reach a different conclusion. For example, according to paragraph B32, income and expenses from investment property would be included in the investing category (except when paragraph 48 requires the entity to classify them in the operating category). However, we have been presented with the example of an automotive manufacturer who might earn rental income from leased dealerships that are accounted for as investment property. As an automotive manufacturer's main business activity consists in the production and sale of vehicles, and vehicles are sold by dealerships, it may be concluded that rental income from leased dealerships should equally be classified in the operating category.

The ED also lacks guidance as to the circumstances under which a change in the classification of an item of income and expense is allowed or required. IFRS Standards contain specific requirements that may result in a change in presentation (e.g. transfers according to paragraph 57 of IAS 40). However, with the exception of the proposed requirements in paragraphs 20B and 20C of IFRS 12 addressing changes in classification of associates and joint ventures as 'integral' or 'non-integral', there is no further guidance as regards changes in classification.

Lastly, as explained in our overarching remarks in our answer to question 1, to increase the understandability of the statement of cash flows, we suggest the IASB to reflect the proposals on the definition and content of the operating category in IAS 7 *Statement of Cash Flows*. This means that the IASB should also add a requirement in IAS 7 to present cash flows that arise from an entity's activities in executing its business model as cash flows from operating activities.

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?

Income and expenses from investments classified in the operating category (paragraph 48)

We agree with the proposal to require an entity to classify in the operating category income and expenses from investments generated in the course of its main business activities. In our opinion, specific requirements are needed for the presentation by entities that, in the course of their main business activities, invest in assets (such as insurers).

However, we do not agree with the proposal in paragraph 48 to prohibit an entity to classify income and expenses from non-integral associates and joint ventures in the operating category, if such income and expenses are incurred in the course of its main business activities. As explained in our answer to question 7, we suggest that the IASB require classification of income and expense from non-integral associates and joint ventures as operating for entities that invest in associates and joint ventures in the course of their main business activities.

Lastly, and in line with our overarching remarks in our answer to question 1, we suggest the IASB to reflect the proposals in IAS 7 *Statement of Cash Flows* as well to increase the understandability of the statement of cash flows. This means, the IASB should also add to IAS 7 a requirement to present cash flows from investments generated in the course of its main business activities as cash flows from operating activities.

Determining whether income and expenses from investments arise in the course of an entity's main business activities (paragraphs B28 and B31)

As explained above, we support the IASB in proposing specific presentation requirements regarding the classification of income and expenses by entities that, in the course of their main business activities, invest in assets. However, as explained in our answer to question 2, we render the view that the proposed classification principle is too narrow: If an 'investing' business activity is closely linked to another main business activity (e.g. insurance services rendered as a by-product to goods sold), income and expenses from these 'ancillary' business activities should be presented in the operating category as well.

Although the terms

- ‘an entity’s main business activities’;
- ‘in the course of an entity’s main business activities’; and
- the ‘operating category’

determine which income and expenses should be classified in operating profit or loss, we note that none of these terms has been defined by the IASB. Even though the IASB is providing some guidance on how to determine *‘an entity’s main business activities’* (ref. paragraphs B27, B29 and B31), we are concerned that entities might face difficulties in assessing whether income and expenses from investments arise in the course of their main business activities. For example, paragraph B31 explains that if, in applying IFRS 8 *Operating Segments*, an entity reports a segment that constitutes a single business activity, this may indicate that such business activity was a main business activity. In our opinion, reporting a segment that constitutes a single business activity is a considerably high threshold to be taken for a ‘main business activity’. Furthermore, it is unclear whether business activities that do <u>not</u> constitute an operating segment might nonetheless be considered as being part of an entity’s main business activity: For example, a car manufacturer that has captive insurance and financing activities may report a segment ‘automotive manufacturing’ and a segment ‘financial services’ (by combining information about the insurance and financing activities).

We understand from paragraph 27 that examples of entities the IASB had in mind when developing the requirements include, but are not limited to, investment entities as defined by IFRS 10, investment property companies and insurers. However, in practice, it might not be straightforward to assess which business activities constitute a ‘main business activity’, especially for entities with more than one business activity (i.e. ‘conglomerate’ entities that have many different business activities). Consequently, we believe that further guidance should be developed to help entities in determining their ‘main business activities’.

Lastly, we believe that income and expenses from ‘ancillary’ or ‘supplementary’ business activities should also be presented in the operating category. As a result, income and expenses from investments should also be classified in the operating category, if these ‘investing’ activities are closely linked to the entity’s main business activities. As explained in our answer to question 2, we would therefore propose to clarify that *income and expenses arising from the activities of an entity in executing its business model* should be classified in the operating category.

Question 4 – the operating category: an entity that provides financing to customers as a main business activity

Paragraph 51 of the Exposure Draft proposes that an entity that provides financing to customers as a main business activity classify in the operating category either:

- income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or
- all income and expenses from financing activities and all income and expenses from cash and cash equivalents.

Paragraphs BC62–BC69 of the Basis for Conclusions describe the Board's reasons for the proposals.

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

Income and expenses from financing activities, and from cash and cash equivalents classified in the operating category (paragraph 51)

We agree with the proposal to require an entity that provides financing to customers as a main business activity to classify in the operating category income and expenses from financing activities, and from cash and cash equivalents. In our opinion, specific requirements are needed for the presentation by entities that provide financing to customers as a main business activity (such as banks).

However, whilst we understand the reasoning provided, we render a critical view on the proposal to provide these entities with an accounting policy choice between classifying in the operating category:

(a) all income and expenses from financing activities and all income and expenses from cash and cash equivalents, or
(b) only income and expenses that are related to its provision of financing to customers.

As the IASB explains in paragraph BC64, in some situations, entities may be unable to identify which income and expenses from financing activities and income and expenses from cash and cash equivalents relate to the provision of financing to customers and which do not without undue cost or effort. Alternatively, if the IASB followed the reasoning of our answer to question 2, a principles-based approach could be established to address the issue.

As explained in our answer to question 2, we believe that the operating category should include income and expenses from an entity's main business activities and its ancillary business activities (including customer-financing activities that are closely related to its main business activities). We therefore suggest that – as a general principle – entities should be required to allocate income and expenses between those business activities that are related to the provision of financing to customers and those that are not. As an exception to this principle, entities should be permitted to include all income and expenses from financing activities and all income and expenses from cash and cash equivalents in the operating category only if allocating such income and expenses to the respective categories would involve undue cost or effort.

Further, we note that the IASB is not proposing consequential amendments to IAS 7 *Statement of Cash Flows*. As explained in our overarching remarks in our answer to question 1, to increase the understandability of the statement of cash flows, we suggest the IASB to also reflect the proposals on the presentation by an entity that provides financing to customers as a main business activity in IAS 7. This means that for entities that provide financing to customers as their business activity, the IASB should also include in IAS 7 the requirement to present certain cash flows from financing activities and from cash and cash equivalents in the cash flows from operating activities.

Determining whether an entity provides financing to customers as a main business activity (paragraphs 29 and B31)

As already explained in our answers to the questions 2 and 3, we believe that the notion of '*an entity's main business activities*', '*in the course of an entity's main business activities*', and the '*operating category*' are unclear and warrant clarification.

We acknowledge that the proposed requirements are aimed at a consistent application in practice. However, the guidance proposed for determining whether an entity provides financing to customers as a main business activity (i.e. '*when the difference between interest income and the related interest expense is an important indicator of operating performance*') is not sufficiently clear in this respect. We understand from paragraph B29 that examples of entities the IASB had in mind when developing the requirements include, but are not limited to, banks and entities that have captive finance activities (such as car manufacturers). However, the link between the proposals of the ED and the requirement to separately account for a significant financing component in accordance with paragraphs 60 seq. of IFRS 15 is not addressed in the ED.

In our view, the current proposals might result in an inconsistent classification by those entities for whom the sale of products is the 'main business activity' and the realisation of interest income constitutes a by-product of that activity. This seems to apply to entities that earn interest income in the course of their main business activity, such as:

- automotive manufacturers (regarding sales financing of the products sold or leases);
- construction manufacturers (regarding sales financing); and
- rail companies (infrastructure financing).

In these instances, the entity's business activities are clearly focused on the production and the sale of products, but sales financing is common in the respective industry. We believe that in these instances the 'customer finance' business activity is linked to the main business activity, with the effect that the 'manufacturing' business activity and the 'customer finance' business activity have to be treated as one bundle of business activities. As explained in our answer to question 2, we therefore suggest that interest income and expenses from financing activities that are closely linked to a manufacturing activity (or another business activity that is presented within the operating category) be classified in the operating category.

Question 5 – the investing category
Paragraphs 47–48 of the Exposure Draft propose that an entity classifies in the investing category income and expenses (including related incremental expenses) from assets that generate a return individually and largely independently of other resources held by the entity, unless they are investments made in the course of the entity's main business activities. Paragraphs BC48–BC52 of the Basis for Conclusions describe the Board's reasons for the proposal. Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

Presentation of an investing category (paragraph 45(b))

According to paragraph 47, the objective of the investing category is to communicate information about returns from investments that are generated individually and largely independently of other resources held by an entity. The IASB explains in paragraph BC49 that '*information about the income or expenses arising from such assets would provide useful information to users of financial statements who often analyse returns from an entity's investments separately from the entity's operations*.'

Whilst we agree with the reasoning that information about returns from investments should be presented outside the operating category, we believe that some entities will present only few items of income and expense in the investing category (such as the share of the profit or loss of non-integral associates and joint ventures, fair value gains and losses on equity instruments measured at fair value through profit or loss, and interest and dividend income from financial assets).

As explained in our overarching remarks in our answer to question 1, to increase the understandability of the statement of cash flows, we suggest the IASB further align the definition of cash flows from investing activities with the proposed new definition and content of the investing category in the statement of profit or loss. This would imply that – in accordance with the new proposed definition of the investing category – cash flows from investing activities should comprise only cash payments and cash receipts related to '*investments that generate a return individually and largely independently of other resources held by the entity*', i.e.:

- cash payments to acquire (and cash receipts from the sale of) investments in financial assets and other investments, including interest and dividends received;
- cash payments to acquire (and cash receipts from the sale of) interests in non-integral associates and joint ventures, including dividends received from such non-integral associates and joint ventures;
- cash payments to acquire (and cash receipts from the sale of) investment property, including cash receipts from rents and cash payments for direct operating expenses; and

- cash payments and cash receipts from derivatives and hedging instruments (if the related fair value gains and losses on derivatives are presented in the investing category in the statement of profit or loss).

Conversely, we believe that cash receipts from the sale of (and cash payments to acquire) property, plant and equipment and intangible assets should be presented as cash flows from operating activities, as corresponding income and expenses from these assets (e.g. depreciation, amortization and gains/losses on disposals) are presented within the operating category in the statement of profit or loss. We acknowledge that, as a result, significantly fewer items than today would be reported in the cash flows from investing activities under our proposal.

The principle for classifying income and expenses in the investing category is unclear (paragraphs 47-48)

In our opinion, the principle for classifying income and expenses in the investing category is unclear and requires reconsideration. Although paragraph B32 is providing some guidance as to which items of income and expenses typically would be included in the investing category, we think that further guidance is needed.

Firstly, it should be noted that the classification principle in paragraph 47 (*income and expenses from assets that generate a return individually and largely independently of other resources held by the entity*) is not explained further. This is in contrast to the classification of associates and joint ventures where the IASB is providing additional guidance to help entities assess whether an associate or joint venture is 'integral' or 'non-integral' to an entity's main business activities (ref. proposed new paragraph 20D of IFRS 12).

Secondly, it is unclear whether the examples provided in paragraph B32 have to be presented in the investing category, or whether an entity – depending on its specific facts and circumstances – may reach another conclusion. For example, it is not clear whether income and expenses on investment property should always be presented in the investing category, or whether (and, if so, under which circumstances) an entity may classify income and expenses on investment property in the operating category (even if the entity does not operate a business model under which it invests in assets in the course of its main business activities). We refer to our illustration on page 10 in this regard. Therefore, we recommend the IASB clarify further the classification of income and expenses in the investing category.

When improving the guidance proposed, the IASB should consider the classification of income and expenses from venture capital investments and investments in start-up companies. In our opinion, income and expenses from such investments should be classified in the operating category if the activities of these investments are closely related to an entity's main business activities. However, when considering the guidance proposed in paragraph B32(a), income and expenses from such financial assets would need to be presented in the investing category. Therefore, we recommend the IASB consider applying a principles-based approach to address the issue: If the IASB agreed with our line of argument to also classify income and expenses from those activities that are closely related to an entity's main business activities as operating (such as 'ancillary' activities), income and expenses from venture capital investments and investments in start-up companies would be classified in the operating category, if the activities of these investments are closely related to an entity's main business activities.

Question 6 – profit or loss before financing and income tax and the financing category
(a) Paragraphs 60(c) and 64 of the Exposure Draft propose that all entities, except for some specified entities (see paragraph 64 of the Exposure Draft), present a profit or loss before financing and income tax subtotal in the statement of profit or loss. (b) Paragraph 49 of the Exposure Draft proposes which income and expenses an entity classifies in the financing category. Paragraphs BC33–BC45 of the Basis for Conclusions describe the Board's reasons for the proposals. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

Presentation of a profit or loss before financing and income tax subtotal in the statement of profit or loss (paragraphs 60(c) and 64)

We agree with the proposal that entities shall present a '*profit or loss before financing and income tax*' subtotal in the statement of profit or loss, as it allows users of financial statements to analyse an entity's performance independently of how that entity is financed. Currently, operating profit or loss or EBIT is one of the most commonly used performance measures. However, as entities use different performance measures in practice, there is no consensus as to what EBIT represents. Therefore, we support the IASB's proposal to introduce a mandatory subtotal '*profit or loss before financing and income tax*' that is comparable between entities.

However, the IASB '*<u>decided not to describe the proposed subtotal as EBIT</u> because such a description would imply that all interest is excluded from the subtotal, and that the subtotal only excludes interest and tax and nothing else. <u>This may not be the case and so the description would be misleading</u>*' (ref. paragraph BC47). Whilst we understand the IASB's seeking to set limits to the extensive use of management performance measures as well as the Board's reasoning from a conceptual point of view, we do not agree with the decision not to allow entities to describe the proposed new subtotal as 'EBIT' or 'operating profit or loss'. Firstly, these measures constitute one of the most important performance measures used in capital market communication. We therefore believe that entities should be allowed to label the new defined subtotal as 'EBIT' or 'operating profit or loss', provided that the performance measure does not contain any significant amounts of interest income or expense (for financial institutions for whom interest income and expense are the most significant items of income and expense, we would agree with the IASB's prohibition to use 'EBIT' and suggest using 'operating profit or loss' instead). Secondly, we are conscious of the flipside of the IASB's decision, i.e. we believe that entities are likely to continue to communicate (entity-specific) EBIT measures as part of their capital market communication. Therefore, we recommend the IASB reconsider its tentative decision.

Income and expenses from cash and cash equivalents (paragraphs 49(a) and B34)

We understand from paragraphs BC39 and BC40 that the IASB proposes to classify income and expenses from cash and cash equivalents in the financing category because cash and cash equivalents are interrelated with an entity's decisions about debt and equity financing. Conversely, the IASB proposes to classify income and expenses from investments other than cash and cash equivalents in the investing category.

We note that – due to the persistent low interest rate environment and the narrow definition of cash and cash equivalents according to IAS 7 – income and expenses from cash and cash equivalents will be insignificant for most entities. From a materiality perspective, requiring entities to separately present income and expenses from cash and cash equivalents and income and expenses from investments other than cash and cash equivalents would not be cost-beneficial for most entities.

In the rare circumstance, however, that income and expenses from cash and cash equivalents were material, we suggest the IASB reconsider whether income and expenses from cash and cash equivalents should be classified in the financing category. Instead, the IASB might consider one of the following alternative approaches:

- *Investing category* – The IASB might require entities to classify income and expenses from cash and cash equivalents in the investing category. This approach has the advantage that entities do not need to split income and expenses from investments between amounts that arise from cash and cash equivalents and those that do not.
- *Operating category* – As the IASB explains in paragraph BC40(c), entities predominantly use cash for operational purposes (e.g. purchasing/cash payments for the acquisition of input factors used in the course of operating activities). Therefore, the IASB might also consider requiring entities to classify income and expenses from cash and cash equivalents in the operating category.
- *Management approach* – The IASB could consider allowing entities to develop their own accounting policy depending on how cash and cash equivalents are managed by them: An entity might determine that cash and cash equivalents constitute part of its capital structure and classify income and expenses from cash and cash equivalents in the financing category. On the other hand, an entity might conclude that it uses cash and cash equivalents predominantly for operational purposes and therefore classify income and expenses from cash and cash equivalents in the operating category. However, management would have different views on what constitutes capital structure. We acknowledge that this approach would be inconsistent with the IASB's objective of improving comparability across entities, but believe that in most cases the amounts reported would not be significant anyway so that the differences in approach may be justified.

Income and expenses on liabilities arising from financing activities (paragraphs 49(b), B35-B36, and BC37)

We appreciate that the IASB is providing a definition of financing activities by expanding and clarifying the definition of financing activities in IAS 7 and applying it to the statement of profit or loss (ref. BC37).

We observe that there is a striking similarity between the definition of 'financing activities' (as proposed by paragraph 50(b)) and the classification of '*financial asset measured at amortised cost*' (as defined by paragraph 4.1.2(b) of IFRS 9): In order for a financial asset to qualify for amortised cost measurement, it needs to give rise to cash flows that are '*solely payments of principal and interest*' on the principal amount outstanding (ref. paragraph 4.1.2(b) of IFRS 9). In turn, paragraph 50 of the proposed new IFRS Standard refers to a compensation '*through the payment of a finance charge that is dependent on both the amount of the credit and its duration*'. Therefore, we question whether the IASB intended a similar meaning regarding the definition of 'financing activities' in the ED and the SPPI criterion in IFRS 9. For example, we question whether a finance charge that is not a compensation that depends solely on the amount of the loan and its duration (e.g. in the case of an embedded derivative) would be covered by the definition of financing activities.

Further, we believe that the following items of income and expense should also be classified as belonging to the financing category:

- changes in the fair value of contingent consideration that are not measurement period adjustments (in accordance with paragraph 58 of IFRS 3),
- remeasurements of a financial liability arising from an entity's obligation to purchase is own equity instruments, and
- transaction costs incurred that are not attributable to issuing new capital or new shares (e.g. costs attributable to listing existing shares, share splits or secondary offerings).

However, the definition of 'financing activities' is not sufficiently clear in this respect. Therefore, we suggest the IASB clarify that these items should be presented within the financing category by including these items in the list of examples in paragraph B36.

Interest income and expenses on other liabilities (paragraphs 49(c) and B37)

We support that the IASB is proposing clear presentation requirements regarding the classification of income and expenses from the unwinding of a discount on liabilities that do not arise from financing activities, as this will improve comparability across entities.

We understand from paragraph BC43 that the IASB is proposing to include income and expenses from the unwinding of a discount on liabilities that do not arise from financing activities (such as net defined benefit liabilities and other long-term provisions) in the financing category as many users consider such income and expenses to be similar to income or expenses from financing activities. Whilst we understand the IASB's reasoning, we note that there are different views in practice regarding the presentation of an unwinding of a discount on long-term provisions (especially net defined benefit liabilities) – with the effect that many entities will need to change their presentation practice.

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 help improve comparability across entities.

However, determining which associates and joint ventures are integral to an entity's main business activities requires significant judgement. 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 to develop new business opportunities or technologies and that will contribute to the entity's cash flows in the future.

In these instances, the associate or joint venture might not be classified as 'integral'. For example, associates and joint ventures in a start-up phase and R&D co-operations are setting up a new business, and thus, do not have integrated lines of business or a supplier or customer relationship with the entity. In addition, start-up companies are often granted a certain entrepreneurial autonomy. Hence, they are not integrated into the same corporate structures as other group entities. 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 its business activity is closely related to the main business activities of the parent entity or one of its significant subsidiaries (i.e. both – the associate or joint venture and the parent entity (or one of its significant subsidiaries) – share one 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 agree with the proposals to introduce a new category '*integral associates and joint ventures*' and a new subtotal, and to require entities to classify income and expenses from integral associates and joint ventures in a separate category.

We understand from paragraph BC87 that the proposed presentation and the subtotal requirement aim at balancing the needs for: (a) an operating profit or loss subtotal that is comparable across entities and that provides a comparable basis for calculating operating margins; and (b) a separate presentation of income and expenses from associates and joint ventures that are integral to the entity's main business activities. Whilst we understand and agree with the IASB's reasoning, we note that there are different views in practice regarding the presentation of income and expenses from associates and joint ventures, which seem to depend on the proximity of the business activities of the respective associate or joint venture to those inherent in the group – with the effect that many entities will need to change their presentation practice. We believe that the objectives of the IASB can be achieved and the rationale by such entities be addressed, if the IASB changed the label's name from '*operating profit or loss **<u>and</u>** income and expenses from integral associates and joint ventures*'' to '*operating profit or loss **<u>including</u>** income and expenses from integral 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 an 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 regularly invest in associates and joint ventures in the course of their main business activities (e.g. insurers, private equity entities, and holding companies) cannot classify the share of profit or loss of non-integral associates and joint ventures as part of operating profit or loss, 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 always provide useful information to investors, as it means income and expenses from associates and joint ventures will not be presented within operating profit or loss solely because these investments are structured as an associate or joint venture that are accounted for using the equity method:

- For an insurance entity, the proposed requirements regarding income and expenses from (non-integral) associates and joint ventures would result in a presentation that undermines the link between the investment return on its assets and its insurance finance income or expenses, as required by IFRS 17 *Insurance Contracts*.
- For a private equity entity, the proposed requirements would result in an inconsistent presentation of the investments returns generated in the course of its main business activities: Applying the investment entity exception, investments in subsidiaries would be measured at fair value through profit of loss in accordance with IFRS 9. In accordance with paragraph 48 of the ED, the investment returns, as well as any fair value gains and losses on these investments would be presented within the operating category. By contrast, income and expenses from associates and joint ventures accounted for using the equity method shall not be classified in the operating category, even though these investments are held for the same purpose, i.e. returns from capital appreciation, investment income, or both. Conversely, paragraph 18 of IAS 28 incorporates an accounting policy choice to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity on an investment-by-investment basis. Applying paragraph 48 of the ED, the investment returns, and fair value gains and losses on associates and joint ventures measured at fair value through profit or loss would be presented within the operating category.

We therefore suggest the IASB reconsider that entities that invest in associates and joint ventures in the course of their main business activities should follow the proposed general principle in paragraph 48 for the presentation of income and expenses from non-integral associates and joint ventures, i.e. classify those results in operating profit or loss. It should be noted that under this alternative approach the information about income and expenses from non-integral associates and joint ventures is directly available for users as well, since the IASB is proposing a separate line item for the share of the profit or loss of non-integral associates and joint ventures.

Furthermore, as explained in our overarching remarks in our answer to question 1, we recommend the IASB to align the presentation in the statement of cash flows with the new structure and content of the statement of profit or loss. Consequently, we suggest the IASB to require presentation of cash flows from associates and joint ventures in statement of cash flows in the same category as done in the statement of profit or loss. This means that for entities that, in the course of their main business activities, invest in associates and joint ventures, cash receipts and cash payments regarding non-integral associates and joint ventures should be presented in the operating category.

Potentially unintended consequences arising from the new defined terms 'integral' and 'non-integral' associates and joint ventures in combination with other parts of the literature

In the ED, the IASB is introducing the new defined terms '*integral'* and '*non-integral*', which classify associates and joint ventures according to whether a '*significant interdependency*' between an entity and the associate or joint venture exists. These two terms supplement other terms and definitions used throughout IFRS Standards, such as the classification of investees by type of influence (i.e. '*subsidiary*', *'joint ventures*', and '*associates*' as defined by IFRS 10, IFRS 11 and IAS 28).

As explained in our answer to question 2, the IASB should ensure that the proposed new terms are consistent with the terms used by other IFRS Standards. With respect to the proposed definitions of '*integral'* and '*non-integral*', it should be ascertained that the proposed terms fit into the context of other terms already used throughout IFRS Standards and are consistent with other concepts and terms introduced by the ED (such as '*an entity's main business activities'*, '*operating'* and '*investing')*.

For example, it should be noted that:

- Paragraphs BC5.25 and BCE.67 of IFRS 9 are referring to 'strategic' (equity) investments.
- Paragraphs 23-29 of IAS 21 (1993) included a classification of foreign operations as either '*foreign operations that are integral to the operations of the reporting enterprise*' or '*foreign entities*'. This classification used similar terms and indicators as the IASB is proposing in the ED for the classification of 'integral' and 'non-integral' associates and joint ventures: For example, paragraph 24 of IAS 21 (1993) stated: '*A foreign operation that is integral to the operations of the reporting enterprise carries on its business as if it were an extension of the reporting enterprise's operations.*' Paragraph 26 of IAS 21 (1993) included indicators for the classification of a foreign operation as either a 'foreign entity' or an 'integral foreign operation'. For example, '*a significant degree of autonomy from the activities of the reporting enterprise*' or the fact that '*transactions with the reporting enterprise are not a high proportion of the foreign operation's activities*' would indicate that a foreign operation is not integral to the operations of the reporting entity.

We observe that there is a high similarity between the definition of a 'non-integral' associate and joint venture (as proposed by paragraph 20D of IFRS 12) and a 'foreign entity' (as defined by IAS 21 (1993)). We therefore question whether this was the intention of the IASB.

Proposed requirements to present information about integral associates and joint ventures separately from non-integral associates and joint ventures

We agree with the proposals in paragraphs 53, 75(a) and 82(g)-82(h) of the ED and the proposed new paragraph 20E of IFRS 12 that require an entity to provide information about integral associates and joint ventures separately from non-integral associates and joint ventures.

Proposed presentation of income and expenses from integral associates and joint ventures (paragraph B38)

We also agree with the proposal in paragraph B38 that impairment losses and reversals of impairment losses on integral associates and joint ventures and gains and losses on disposals of integral associates and joint ventures should be presented in the same category as the share of profit or loss of integral associates and joint ventures. In our opinion, this presentation would result in a faithful representation of the categories as defined by the IASB in paragraph 45 of the ED.

Presentation in the statement of cash flows (proposed new paragraphs 16(c), 16(d) and 38A of IAS 7)

We do not agree with the proposal that cash flows from the acquisition and disposal of, as well as dividends received from, 'integral' associates and joint ventures be classified as cash flows from investing activities in the statement of cash flows.

As explained in our overarching remarks in our answer to question 1, we recommend the IASB align the presentation in the statement of cash flows with the new proposed categories of the statement of profit or loss. Therefore, should the IASB decide to retain the proposal on introducing a separate category '*integral associates and joint ventures*' in the statement of profit or loss, we believe that cash receipts and cash payments related to these associates joint ventures should be presented in a separate category in the statement of cash flows, too, and IAS 7 should be amended consequentially.

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, the proposals reflect the common understanding and terminology already used in practice in our jurisdiction, as previously explained in our comment letter to DP/2017/1 *Disclosure Initiative – Principles of Disclosure*.

However, we note that the proposed definition of the primary financial statements in the 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 new principles for aggregation and disaggregation. Proposed 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 as to whether and under which circumstances an entity may or must change its presentation, if, in its current reporting period, it reaches a different conclusion regarding the level of aggregation or disaggregation compared to the presentation in its prior year financial statements. We therefore suggest the IASB clarify whether an entity applying the principles of aggregation and disaggregation:

- would (not) need to retain the amount of detail presented in prior year financial statements (if it has concluded that another level of aggregation or disaggregation was appropriate); or
- may change its presentation (including a restatement of the 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.

Notwithstanding our agreement with the IASB 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, which 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 was 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 would achieve this objective.

Thirdly, we note that the proposed principles on the aggregation and disaggregation of information should 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) 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). 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 indeed lead to significant 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.

Lastly, 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 (paragraphs 68 and B45)

Whilst we understand that the IASB aims at further reducing the use of judgement in determining whether the nature of expense method or the function of expense method should be used per current IAS 1, we do not consider that the suggested additions in the ED will achieve the desired objective and therefore disagree with the proposals. As explained in more detail below, we doubt that the proposals will 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. Hence, we do not believe that the proposals will lead to significant changes in practice regarding the presentation method currently selected.

We understand from the proposals that the IASB aims at strengthening the existing requirements, as investors have raised concerns that, in practice, companies may not choose the method 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 where and in which cases the method currently selected by entities has failed in practice to provide the most useful information to the users of financial statements. Therefore, we doubt that the proposed requirements would achieve the desired objective, as the objective itself is unclear. During our outreach events, we have obtained feedback that both methods are perceived to provide users with relevant information and that neither method is thought to be 'superior' to the other. A presentation by nature of expenses allows users to better forecast operating expenses for future operating expenses, while a presentation by function of expenses facilitates the calculation of some performance metrics and margins. Feedback received therefore suggests that both methods have a certain relevance for analysts. Therefore, we do not believe that determining which method to choose is the issue to address, because both methods provide users with useful information. Rather, as also explained on page 29 below, we suggest the IASB investigate further which information about operating expenses (by function and/or by nature) is needed by users of financial statements.

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 within a particular industry. However, current presentation practice might vary from entity to entity within the same industry, as other factors have an impact on an entity's selection of the presentation method (e.g., the size of the company, whether the entity is operating nationally or internationally, or whether the entity's domicile is in a jurisdiction that is not familiar with the nature of expense or the function of expense method). 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.

It should be noted that if entities would need to change their presentation method in applying the proposed new requirements, these entities might not be able to easily generate their statement profit or loss using the other presentation method. We have been presented with mixed evidence by companies during our outreach events, where some entities might be able to switch presentation formats by pushing the button and others might not be able to do so given legacy systems. The latter group of entities confirmed that information on certain expense items required by IAS 1 could be retrieved because of a specific hard-wired data field. For these entities, changing the presentation method would result in extensive changes regarding the entity's accounting systems and processes (e.g. allocating costs to functions) which is coupled with considerable implementation costs. This is further amplified by the fact that such changes would not only have to be carried out at the parent entity level but would have to be executed group-wide, which in some cases might encompass several hundred entities. We therefore doubt that requiring such a change would be cost-beneficial.

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 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. Therefore, we suggest the IASB to 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*.

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, '*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 items under the nature of expense method might be low. Considering the Illustrative Example (Part I, Note 1), we question whether disclosures regarding the '*reversal of inventory write downs'*, '*impairment of property, plant and equipment*", '*impairment losses on trade receivables*', '*gains (losses) on derivatives*', and '*other miscellaneous expenses*' really provide information that is any more relevant for forecasts than a presentation by function.

It should be stressed that current paragraph 104 of IAS 1 already requires entities classifying expenses by function to disclose additional information on the nature of expenses, including depreciation and amortization expense and employee benefits expense. This means that under current IFRS the most important expense items are already to be disclosed by nature. 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. However, requiring entities to disclose their total operating cost by nature would constitute a significant change for many entities that currently use the function of expense method which will be costly to implement. We therefore encourage the IASB to investigate further which information about operating expenses by nature is needed by users of financial statements.

We note that there are different views regarding the cost and benefits of providing information about operating expenses by nature and the counterargument to the information wishes raised by users are reflected by concerns of preparers: We have received feedback from preparers from our constituency that the information needed to disclose their total operating expenses by nature cannot easily be obtained from their accounting systems, as already eluded to above. 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.

Lastly, we have also 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). 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 the 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 proposals. Firstly, we regret that the IASB is weakening its proposed principle itself when stating, on the one hand, that entities shall not use a mixture of the nature of expense method and the function of expense method and, on the other hand, articulating an exception to this principle in paragraph B47. Furthermore, no (principle-based) rationale for the exemption has been provided. As a result, in practice, it will 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, lists circumstances that would give rise to separate presentation in the statement of profit or loss 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, 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 financial statements. We do not completely agree with that statement. Regarding the concerns raised by users, we think that it would be necessary to analyse in detail which information would get lost or become obscured by a mixture of both methods. Based on the results of this analysis, we suggest the IASB clarify which line items would (not) fit into the structure of the respective method.

In our opinion, it is not clear 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. We have not been presented with compelling evidence that any kind of mixed presentation would automatically lead to a loss of information. Instead, we believe that additional line items – although they may not fit into the structure if one took a purist view – may still provide useful information to users of financial statements.

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 within the line item 'other operating expense'. On the one hand, this may be considered as not being 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, we believe that presentation as a separate line item (or disclosure in the notes) does provide users with useful information. Some entities currently choose to present restructuring expenses and impairment losses within 'other operating expenses' for exactly that reason. We get the impression from the Illustrative Example that the IASB's intention was to require entities to allocate expenses currently presented within the line item 'other operating expense' to functions (as the analysis of operating expenses by function in the statement of profit or loss in the Illustrative Example only includes a line item 'other income', but a line item 'other expenses' is lacking). We note that allocating these expenses to functions would be a significant change for entities currently using the function of expense method. We believe that some expense items will be difficult to allocate to functions (e.g. impairment losses on goodwill). In our opinion, it seems more appropriate to present these expense items as a separate line item or within 'other operating expenses' rather than to allocate them to functions. In this context, allocating impairment losses to functional areas would result in corresponding explanations in the notes, which might be scrutinised by users and investors.

In summary, we suggest the IASB investigate and clarify:

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

Relationship between required line items and the proposed categories in the statement of profit or loss (paragraph B44)

We agree with the proposal in paragraph B44 and the reasons for the proposal provided in paragraph BC108. In our opinion, a faithful representation of each of the categories in the statement of profit or loss should be given a higher priority than the presentation of the line items (by nature).

One disadvantage of this approach consists in a potential proliferation of line items presented because the same required line item (e.g. impairment losses on financial instruments) could be required to be presented in more than one section. However, in our opinion, this disadvantage is mitigated by the fact that IFRS 7 *Financial Instruments: Disclosures* requires detailed disclosures regarding items of income, expense, gains, or losses on financial instruments.

Therefore, we agree with the proposed requirement in paragraph B44 that an entity may need to present a required line item in different categories of 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?

Proposed definition of ‘unusual income and expenses’ (paragraph 100)

We support the IASB’s intention to highlight ‘unusual’ items of income and expenses and to require entities to disclose ‘unusual income and expenses’ in the notes. We think that users of financial statements would benefit from greater transparency of information if clear guidelines regarding the presentation of ‘unusual income and expenses’ were available. However, as explained in more detail below, we think that the proposed definition of ‘unusual income and expenses’ is too restrictive and therefore do not agree with the proposed definition. We believe further that it is not possible to develop a definition that can be applied across all entities and industries. Rather, any assessment whether income and expenses are ‘unusual’ can only be made on the basis on an entity-specific approach. Therefore, we recommend the IASB include only general requirements for the fair presentation and disclosure of 'unusual income and expenses' and allow entities to develop and apply consistently their own definition of 'unusual income and expenses'.

The assessment under the proposed definition of 'unusual income and expenses' of whether or not an item is 'unusual' will require significant judgement and will be difficult to implement. With the use of hindsight, it is obviously easy to determine whether an item of income or expense has recurred in subsequent periods. However, due to the uncertainty of future events, it will be particularly difficult to ex ante assess whether unusual items that have occurred in the current period could reasonably be expected to recur in the near future. This assessment may have a significant impact as classifying an item as 'unusual' may be called into question by users of financial statements, if an entity classified an item as 'usual' and in the next periods may be required to explain why an 'unusual' item of income may have recurred.

The complexity of the assessment whether similar income and expenses will not recur for several future annual reporting periods becomes particularly apparent in times of an economic crisis (such as the current Covid-19 pandemic): 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 predict whether income or expenses of similar type and amount will not arise in several future annual reporting periods. Uncertainties relate to the following:

- The beginning, end, and expected duration of a crisis are difficult to determine. For example, as of 31 December 2019, it was hardly possible for entities to forecast the effects of the Covid-19 pandemic. Currently, entities are confronted with the questions of how long the crisis will last and how it will impact their business. In this context, the extent to which the crisis affects several future reporting periods is also important for assessing whether income and expenses incurred due to the Covid-19 pandemic would qualify as 'unusual'.
- The expectation of what is to be considered as usual '*under normal circumstances*' has to be revised to a yet unknown 'new normal' course of business (post-crisis). Therefore, it will be difficult to separate the portion of 'unusual' income and expenses as the expectation of what would have been considered as 'usual' income and expenses is unknown (e.g. entities in some industries, e.g. online retailers, are currently generating 'unusual' additional revenue due to the Covid-19 pandemic).
- 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) that are clearly identifiable and whose effects on the statement of profit or loss can easily be isolated and quantified. However, an individual event (such as the Covid-19 pandemic) may have an impact on many transactions and business activities, making it difficult to determine what had been the cause for that singular event and how the 'normal' course of business would have been without that event (e.g. whether an insolvency was caused by the crisis or whether an entity was threatened by insolvency before).

Further, we think that the proposed definition of 'unusual income and expenses' 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*' (ref. 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 definition 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 concerns the fact, that the assessment of whether income and expenses are considered as ‘unusual’ can change over time. For example, if an entity expects to dispose of large amounts of assets over the next three years, income and expenses from the sale of these assets will not meet the definition of ‘unusual’ until no further similar income and expenses are expected to be incurred in future reporting periods, i.e. only income and expenses that were incurred in the last reporting period (the third year) would be captured by the definition of ‘unusual’. As a result, income and expenses resulting from similar circumstances would be classified inconsistently.

In addition, the proposed definition has practical limits for some industries. For example, for insurance entities, due to the specific circumstances of their business model it will be difficult to determine whether an insured event meets the definition of ‘unusual’. According to paragraph BC133, an earthquake in a non-earthquake-prone zone is deemed to be a transaction or event that may give rise to income or expenses that are unusual in nature. However, as the IASB explains in paragraph BC134, if the earthquake gives rise to expenses that are expected to arise for a number of years, these expenses are not covered by the definition of ‘unusual’. For insurance entities, determining whether expenses arising from an earthquake (as an insured event) are ‘unusual’ is even more complex, as their business model may just be the insurance of such events. Therefore, for insurance entities, only a small number of instances would likely meet the definition of ‘unusual’ income and expenses.

Similar difficulties may arise for entities in a start-up or expansion phase that are in the process of developing their business. For these entities it might be difficult to determine whether revenues from a large contract with a new customer is to be considered as ‘unusual’ if these entities are on a growth path and similar transactions might occur in the future.

Another issue that the IASB should consider relates to the question whether unusual income and expenses are not expected – by type *and* amount (or: either by type or by 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, we wonder whether, in fact, both conditions (i.e. by type *and* amount) need to be met to classify an item as unusual. We, therefore, suggest the IASB clarify whether both conditions (i.e. both, by type *and* amount) would have to be met to classify an item as unusual.

Further, 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 that are 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 transactions, 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) will be achieved.

For the reasons cited above, we do not believe that a definition of unusual income and expenses can be developed that can be applied across entities and industries. Rather, the assessment whether income and expenses are 'unusual' can only be made on the basis on an entity-specific approach. We therefore recommend the IASB not define unusual income and expenses. Instead, entities should be required to develop, apply and disclose their own accounting policy regarding the definition of unusual income and expenses.

In turn, as discussed by the IASB in paragraph BC123(b), the guidance in the new IFRS Standard should include general requirements for the fair presentation and disclosure of 'unusual income and expenses', including:

- requiring entities to disclose their accounting policy as to how the entity's management defines an item to be 'unusual' (including an explanation regarding the period over which an entity assesses it is reasonable to expect that similar income or expenses will not arise),
- emphasizing that a neutral and unbiased approach should be applied in identifying unusual or infrequent items (i.e. an entity shall not unilaterally identify expenses/losses to be 'unusual' and exclude unusual income/gains from its definition of 'unusual'),
- requiring entities to classify and present unusual income and expenses consistently over time,
- requiring entities to disclose information about 'unusual income and expenses' (as proposed by the IASB in paragraph 101), including an explanation why an item was classified as 'unusual' in the reporting period, and
- a guidance how an entity should present 'unusual' items that were determined to be 'unusual' in previous reporting periods, but – due to new facts and circumstances – are not considered to be 'unusual' in the current period.

In our opinion, this approach would allow entities flexibility in identifying items as unusual according to their business and industry, while investors would still be provided with relevant information about what an entity considers as its 'sustainable earnings'.

Presentation of unusual income and expenses within the defined categories in the statement of profit or loss (paragraph BC56)

We support the IASB's proposal that unusual income and expenses should be attributed to the categories in the statement of profit or loss. This means that the operating category (or any other category) includes unusual income and expenses. We agree with the reasoning provided in paragraph BC56 that '*a low predictive value*' is not a characteristic that differentiates whether income or expenses are operating (or any other category).

In our view, a presentation of unusual income and expenses within the categories would result in a faithful representation of the categories. Therefore, we agree with the proposal.

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

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’.

As explained above, we do not agree with the proposed definition of ‘unusual income and expenses’ and recommend the IASB develop general requirements for the disclosure and faithful representation of such items instead. If the IASB followed our recommendation, entities should be required to disclose their accounting policy adopted regarding the (entity-specific) definition of ‘unusual income and expenses’ (i.e. how the entity has determined that an item of income or expense is considered to be ‘unusual’ or ‘non-recurring’).

Further, if the IASB allowed entities to apply their own entity-specific definition of ‘unusual’, we recommend adding principles and requirements for the fair presentation and disclosure of ‘un-usual income and expenses’ to the new IFRS Standard, such as:

- information about ‘unusual income and expenses’ should be neutral (as discussed by paragraph BC130); and
- income and expenses should be classified consistently as ‘unusual’ over time.

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 weaknesses regarding the proposed definition of 'management performance measures':

- According to paragraph BC153, 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 deemed 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 measures 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 the prevailing industry practice, these measures are commonly reported in practice, and disclosing such measures does 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, 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 might be equally 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 the IASB develop a principles-based approach.

However, we do <u>not</u> suggest the IASB 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 that have been 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 (German Accounting Standard 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 Guidelines 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 (or in other official documents to be filed with the regulatory bodies).

Furthermore, the IASB's reference to 'public communication' seems to be very broad and not really specific enough to be robustly implemented, audited and enforced. 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.*'. We suggest the IASB clarify this paragraph.

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. Therefore, in general, we agree with the proposed disclosure requirements.

In 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 to be presented mandatorily 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 exist in practice regarding explanations for the use of performance measures (including an explanation of material reconciling items).

Notwithstanding the above, 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. We have not been made aware of such a request and believe that the cost for obtaining and auditing the disclosures of the effect on tax and non-controlling interests (including the processes and internal controls that need to be implemented to generate the information required) may be substantial and not cost-beneficial in every case, so need to be considered as well.

We note that the IASB is proposing a simplified approach for calculating the income tax effect of the reconciling items in proposed new paragraph 107. However, in our opinion, the term of '*a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction(s) concerned or by another method that achieves a more appropriate allocation in the circumstances*' is unclear and requires further clarification as to how an entity should calculate the applicable tax rate (such as whether an entity would be allowed to apply the same tax rate across all reconciling items and over all reporting periods, whether the same rate should be used for all management performance measures, etc.).

Location of information to be disclosed about management performance measures

In general, we acknowledge the intention of the IASB's proposal that information about management performance measures shall be provided within IFRS financial statements as this means that disclosures about management performance measures would be subject to the audit of the IFRS financial statements. 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 any adjustments made and amounts used in determining management performance measures.

Our first preference would, however, be to locate these disclosures as part of management commentary, since management performance measures provide insight into how management views the company's financial performance. This would also be in line with the purpose of management commentary as explained in paragraph 15 of IFRS Practice Statement 1 *Management Commentary - A framework for presentation*. As far as our constituency is concerned, entities are required by German Accounting Standard 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 audit (with reasonable assurance). To avoid fragmentation of information and redundancies, 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 statements to some other statement, such as a management commentary (as permitted, for example, by paragraph B6 of IFRS 7). We suggest the IASB consider this possibility.

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).

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?

The IASB's decision not to propose requirements relating to EBITDA (paragraph BC172)

We disagree with the IASB's decision <u>not</u> to define '*earnings before interest, tax, depreciation and amortisation*' (EBITDA).

As the IASB explains in paragraph BC172, in practice, a large variety of EBITDA measures is used, and the calculation of these measures is diverse in practice. As a result, there is no consensus about what EBITDA represents. It is exactly for that reason that we would have preferred that the IASB provides a definition of EBITDA to increase comparability across entities.

We note that the IASB is proposing a definition of the subtotals '*operating profit or loss*' and '*profit or loss before financing and income tax*': As the IASB explains in paragraph BC46, '*EBIT and similar subtotals are not comparable between entities because of the diverse ways in which entities classify items between finance income and expenses and other income and expenses. […] The proposed subtotal of profit or loss before financing and income tax would* *be comparable between entities.*' Therefore, in our opinion, the reasoning provided in paragraph BC172 is not convincing. Providing a definition of EBITDA would enhance comparability between entities and might eliminate the current diversity in how measures labelled 'EBITDA' are calculated in financial statements.

We acknowledge that providing a definition of EBITDA may give rise to complex questions regarding the classification of income and expense items, effecting that the proposed definition might face objections in practice. Nonetheless, we encourage the IASB to develop a direct definition of EBITDA.

Exemption of the measure 'operating profit or loss before depreciation and amortization' from the disclosure requirements for management performance measures (paragraph BC173)

As explained above, we disagree with the IASB's decision not to define '*earnings before interest, tax, depreciation and amortisation*' (EBITDA).

Nonetheless, we understand that the IASB is proposing – as a pragmatic compromise – to exempt the measure '*operating profit or loss before depreciation and amortization*' from the disclosures for management performance measures. However, this approach lacks a principle-based substantiation. As explained before, we would have preferred a direct definition of EBITDA as this would lead to the effect that the *'operating profit or loss before depreciation and amortization'* subtotal would become a subtotal 'specified by IFRS Standards'.

Question 13 – statement of cash flows

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

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

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

Starting point for the indirect method (proposed amendment to paragraph 18(b) of IAS 7)

We agree with the proposal and the reasoning provided in paragraphs BC186-188. The operating profit or loss subtotal as a starting point has the advantage that fewer reconciling items have to be adjusted when determining cash flows from operating activities.

However, as explained in our overarching remarks in our answer to question 1, we reiterate our view that the IASB should further align the presentation in the statement of cash flows with the statement of profit or loss to the extent possible. Currently the IASB proposes to use the same labels with different meanings when describing the categories in the new structure of the statement of profit or loss which might create confusion and reduces understandability.

Therefore, we recommend the IASB to launch a separate project for undertaking a review of IAS 7 in the light of the proposals on the new structure and content of the statement of profit or loss. In aligning the statement of cash flows to the statement of profit or loss, the IASB should consider:

- the proposals on the new structure and categories in the statement of profit or loss,
- the description and the content of the proposed new categories (i.e. an alignment of the content of the new categories '*operating'*, '*investing'* and '*financing*'),
- the proposed presentation requirements for entities that provide financing to customers as their main business activity or invest in the course of their main business activities,
- the proposed new presentation requirements for specific items (e.g. the classification of fair value gains and losses on derivatives and hedging instruments and their corresponding cash flows upon settlement), and
- current presentation requirements of IAS 7 (e.g. the presentation of income taxes differs between the statement of cash flows and the statement of profit or loss).

Classification of interest and dividend cash flows (proposed new paragraphs 33A and 34A–34D of IAS 7)

We agree with the proposals, for both, entities from the financial and non-financial sector. In our opinion, the proposals will result in a more consistent classification of interest and dividend cash flows.

When applying the IASB's proposals, most entities from the non-financial sector would be required to change their presentation. In our jurisdiction, entities currently classify interest cash flows predominantly as cash flows from operating activities.

We also support the IASB in seeking '*to align the classification of interest and dividends in the statement of cash flows with the classification in the statement of profit or loss in most cases*' (ref. paragraph BC197). However, we acknowledge that this approach does not achieve a complete alignment, and that the IASB concluded that – as a pragmatic compromise – '*classification of interest or dividend cash flows in a single category in the statement of cash flows is more useful than full alignment*' (ref. paragraph BC197). As explained in more detail in our answer to question 1, we emphasise that we believe that the statement of cash flows should be aligned as much as possible to the proposed new structure and content of the statement of profit or loss. Therefore, we encourage the IASB to investigate whether a fuller alignment regarding the classification of interest or dividend cash flows can be achieved without undue cost or effort.

An issue the IASB might want to consider when improving the guidance proposed relates to the presentation of interest and dividend cash flows for entities that have more than one business activity (e.g. a manufacturer that also provides financing to customers). According to the proposed new paragraph 34B of IAS 7, an entity that provides 'financing to customers' as a main business activity or that 'invests in the course of its main business activities in assets that generate a return largely independently of other resources held by the entity' is required to classify dividends received and interest paid and received '*in a single category*' of the statement for cash flows. However, it is unclear, e.g. for a manufacturer that also provides financing to customers, whether paragraphs 34B-34D of IAS 7:

- apply only to interest received and paid in the course of its 'customer-financing' business activity, or
- apply to both, interest received and paid from the 'manufacturing' as well as the 'customer-financing' business activity.

We acknowledge that, for the statement of profit or loss, an entity that provides financing to customers as a main business activity has an accounting policy choice: As it may be difficult to allocate expenses from financing activities to the main activities, these entities are allowed to present all income and expenses from financing activities and all income and expenses from cash and cash equivalents in the operating category (paragraph 51). However, with respect to the statement of cash flows, requirements addressing the presentation of interest and dividends for entities with more than one business activity are lacking. Therefore, we suggest the IASB clarify whether entities with more than one business activity should allocate interest and dividend cash flows to their main activities which may result in a presentation of interest and dividend cash flows in more than one category in the statement of cash flows. For example, a manufacturer that also provides financing to customers will be required to present interest received from its 'manufacturing' business activity as investing cash flows; while interest received from its 'customer-financing' business activity will be presented as operating cash flows.

Also, as explained before, we are concerned that entities will face difficulties in determining whether the conditions for the specific presentation requirements of '*an entity that provides financing to customers as a main business activity or in the course of its main business activities invests in assets*' are met (please refer to our answers to questions 3 and 4).

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?

Classification of foreign exchange differences (paragraphs 56 and B39)

We agree with the principle that foreign exchange differences should be classified 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. IFRS Standards currently do not include requirements regarding the classification of foreign exchange differences. Classifying exchange differences in the same category of the statement of profit or loss as the income and expenses from the items that gave rise to them would contribute to a faithful representation of the categories. Therefore, we agree with the proposals.

It should be noted that some entities would be required to change their presentation of foreign exchange differences. Currently, some entities already allocate foreign exchange differences according to their source and include exchange differences arising from operating activities in their operating profit or loss measure, while other entities instead include all foreign exchange differences in finance cost (i.e. they do not classify exchange differences in the same category as the income and expenses from the items that gave rise to them). These entities will need to change their internal processes and adapt their accounting systems to classify foreign exchange differences into the proposed categories in the statement of profit or loss. We have received feedback from our constituents that classifying foreign exchange differences to the categories of the statement of profit or loss is complex and costly to implement. To allow entities sufficient time to make any necessary updates to their accounting systems and resolve any operational challenges, we recommend the IASB to extend the transition period by a further year, as explained further in our comment on the effective date below.

We note that – unlike the classification of fair value gains and losses on derivatives and hedging instruments – the IASB is not proposing any default category for the classification of foreign exchange differences for those instances where more than one category is affected by the foreign currency translation of an item. We wonder whether the IASB's intention was that income and expenses from an asset or a liability can only affect one category in the statement of profit or loss. Therefore, we suggest the IASB clarify the presentation of foreign exchange differences when income and expenses from the items that gave rise to the foreign exchange differences are classified in more than one category.

Classification of fair value gains and losses on derivatives and hedging instruments (paragraphs 57-59 and B40-B42)

We agree with the proposal that fair value gains and losses on derivatives and hedging instruments should be classified in the category affected by the risk the entity manages. IFRS Standards currently do not require a classification of fair value gains and losses on derivatives and hedging instruments according to the category affected by the risk the entity manages. Therefore, some entities would need to change their presentation.

However, we have concerns regarding the proposal that fair value gains and losses on derivatives and hedging instruments shall be classified in the investing category (as a default category), if a classification in the category affected by the risk the entity manages would involve grossing up gains and losses and for derivatives that are not used for risk management. This could result in entities being required to present an investing category simply due to their hedging and risk management activities which will be difficult to explain to users of financial statements. We also believe that it is unlikely that entities use derivatives for purposes other than risk management. Therefore, we recommend the IASB to redeliberate whether:

- an accounting policy choice should be permitted to classify fair value gains and losses on derivatives and hedging instruments in a single category; or
- the operating or financing category should be designated as the default category, as they usually entail activities that are typically related to risk management.

In our opinion, the new presentation requirements should apply to both, embedded derivatives and stand-alone derivatives.

Whilst the IASB is proposing new presentation requirements for the classification of fair value gains and losses on derivatives and hedging instruments in the statement of profit or loss (paragraphs 57-59), corresponding proposals for the statement of cash flows are lacking. As explained in our overarching remarks in our answer to question 1, we therefore recommend the IASB to reflect its proposed presentation requirements on the presentation of fair value gains and losses in the statement of cash flows.

Presentation of goodwill as a separate line item in the statement of financial position (paragraph 82(d))

We agree with the proposal and the reasoning provided in paragraph BC119. In our opinion, the characteristics of goodwill are sufficiently different from those of other intangible assets. In addition, the current IFRS taxonomy already contains an element for a separate presentation of goodwill. Therefore, we support the proposal to require entities to present goodwill as a separate line item in the statement of financial position.

However, we note that in its Discussion Paper DP/2020/1 *Business Combinations – Disclosures, Goodwill and Impairment* the IASB considers requiring entities to present in their statement of financial position the amount of total equity excluding goodwill. Whilst we agree with the proposal in paragraph 82(d) of this ED, we disagree with the proposal in the DP/2020/1 to present a separate line item '*total equity excluding goodwill*'.

Renaming the categories of other comprehensive income (paragraphs 74 and BC117)

As the IASB is solely changing the description of the two categories, we do not believe that renaming the categories will achieve the desired objective. This means, that we do not think that relabelling the categories of other comprehensive income will increase the understandability of amounts included in other comprehensive income.

Further, as explained in our comment letter to the Discussion Paper DP/2013/1 *A Review of the Conceptual Framework for Financial Reporting*, we regret that the IASB has not addressed further questions regarding other comprehensive income. These questions include, for example, the distinction between profit or loss and other comprehensive income and under which circumstances income and expense previously recognised in other comprehensive income should be recognised subsequently in profit or loss (i.e. recycled).

Effective date and transition (paragraphs 117-119)

We agree with the proposal that the proposed new IFRS Standard and the proposed amendments to other IFRS Standards shall be applied retrospectively in accordance with IAS 8. As the IASB is proposing changes to the structure of the statement of profit or loss, a restatement of comparatives is necessary to provide users with information that is comparable and comprehensible.

We also agree with the proposal that the new presentation requirements should be applied to the condensed interim financial statements in the first year an entity applies the new IFRS Standard (paragraphs 118, BC184 and BC225).

However, we do not agree with the statement that '*a restatement of comparatives should be relatively straightforward*' (ref. BC184). Depending on their current presentation practice, entities might need to adapt their accounting systems and processes in order to comply with the new requirements. This is particularly relevant regarding the following proposals:

- classification of foreign exchange differences (paragraph 56),
- analysis of total operating expenses by nature when the primary analysis of expenses is by function (paragraph 72).

As these proposals relate to transactions with large volumes that are processed automatically, entities will need to adapt their accounting systems to comply with the new presentation and disclosure requirements.

Since these changes are not narrow, we are concerned that the proposed transition period of 18-24 months (from the date of the publication) does not allow entities sufficient time to adapt their accounting systems and collect the information needed to restate comparatives. In fact, due to retrospective application of the new IFRS Standard, entities affected would need to change their systems until the beginning of the comparative period. Thus, in fact, these entities would have a transition period of 6-12 months instead of 18-24 months. Therefore, should the IASB retain these proposals, we would suggest the IASB to extend the transition period by a further year.

With respect to insurance entities, we suggest the IASB that the effective date (or a permitted earlier application) of the new IFRS Standard should be aligned to the effective date of IFRS 17/IFRS 9.