Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

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Berlin, 10 January 2023

Dear Andreas,

Re: Targeted Outreach Activities on Primary Financial Statements

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on selected tentative decisions of the IASB on which the Board has recently conducted targeted outreach activities.

We thank you for the opportunity to participate in the IASB's targeted outreach activities. We appreciate that the IASB is seeking feedback from constituents to help it assess whether the selected tentative decisions will function as intended and achieve the intended balance of costs and benefits.

The ASCG is clearly supportive of the IASB's *Primary Financial Statements* project and the IASB's objective to increase comparability between entities and over time as regards reporting performance and providing corresponding disclosures. We acknowledge that the IASB has already undertaken considerable efforts and has made significant progress in its redeliberations on the proposals included in the Exposure Draft. We appreciate that the IASB is carefully analysing and reviewing its proposals with the necessary due diligence.

In particular, we appreciate that the IASB is responsive to the cost concerns raised by preparers of financial statements and is taking them into consideration when reviewing its proposals. However, we note that some of the IASB's proposals will still result in significant changes for preparers in our jurisdiction. We are concerned that some of the compromises currently being discussed by the IASB are, to a certain extent, also not satisfactory for users of financial statements, in terms of relevance of the information provided, which may affect their acceptance of the final IFRS Standard.

The outreach conducted by the ASCG showed that some elements of the revised proposals are still subject to significant debate amongst stakeholders and the consequences of some of those tentative decisions have not fully settled with them. To our understanding, this is consistent with the feedback the IASB has received from other outreach activities. While we appreciate that considering the need for re-exposure is an integral part of the IASB's due process,

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in this case we believe it worth emphasising that the IASB carefully considers whether re-exposure might be necessary after it has concluded its redeliberations and has formed its positions. Some of the tentative decisions discussed during the targeted outreach include new thinking, are still controversial and in some cases their consequences are not fully understood. In addition, during the outreach other potential solutions have emerged that deserve due consideration. The IASB would potentially benefit from re-exposure, even if it only asks for comments on selected topics. This is even more relevant as not all stakeholders had the opportunity to comment on the recent tentative decisions as the IASB has conducted targeted outreach activities in selected jurisdictions only.

As a result of our roundtable discussion held jointly with the IASB and EFRAG, and based on our more detailed discussions, we have identified the following issues which we believe are relevant and potentially require further consideration and public consultation by the IASB:

- the proposed disclosures of depreciation, amortisation and employee benefits included in each line item in the statement of profit or loss as these disclosures continue to be the most critical proposal of the entire project,
- the level at which ‘main business activities’ are assessed – especially for conglomerates with specified main business activities,
- the proposed presentation of income and expenses from associates and joint ventures (accounted for using the equity method) by insurance entities,
- management performance measures – the proposed disclosures of the tax effect and the effects on non-controlling interests for each reconciling item, and
- the interaction of the proposed new subtotals as well as management performance measures with segment reporting.

Our responses to the complete set of outreach questions 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,

Sven Morich

Vice President

Appendix – Answers to the outreach questions

Question 1 – Subtotals in the statement of profit or loss
The IASB seeks feedback on the following questions: (a) Is the revised proposal for classifying income and expenses within the financing category clearer and easier to apply than the proposal in the Exposure Draft? (b) Are you aware of any issues that may arise from the expected change in outcome from the Exposure Draft for lease liabilities and amounts payable for goods and services received discussed in paragraphs 12 and 15(b)? (c) Does the revised proposal for classifying income and expenses in the financing category result in a change from the proposals in the Exposure Draft for the classification of any income and expenses from liabilities other than lease liabilities and amounts payable for goods and services received? (d) Are you aware of any entities that provide financing to customers as a main business activity that do not also invest in financial assets as a main business activity that would be impacted by the possible change to the Exposure Draft explained in paragraph 16?

Change in approach for classifying income and expenses within the financing category

We appreciate that the IASB is revisiting its proposals on the classification principles for the financing category. We believe that the revised approach for classifying income and expenses into the financing category addresses many concerns and application issues raised by stakeholders.

However, we also believe that detailed application guidance is needed to enable entities to apply the proposals as intended by the IASB. When considering the IASB's tentative decisions (ref. IASB Update, July 2021 meeting), we believe that the wording is not clear, and it is not intuitive how the revised proposals shall be applied in practice.

For instance, we believe that it is not clear from the IASB's tentative decisions:

- how the notion of 'other liabilities' (in contrast to 'liabilities that arise from transactions that involve only the raising of finance', as well in the context of classifying income and expenses from hybrid contracts) should be read,
- that only income and expenses arising from liabilities are eligible for a classification in the financing category (which means that any expenses related to the entity's equity, such as costs attributable to listing existing shares, share splits or secondary offerings, must not be classified in the financing category),

- how the ‘cash/own shares for cash/own shares criteria’ is to be understood and to be applied in practice. We believe that additional guidance (beyond a typical loan arrangement vs. a lease arrangement) is needed to explain how the classification principle should be applied.
- how the revised classification principles should be applied to some specific items of income and expenses (e.g., changes in the fair value of a contingent consideration that are recognised in profit or loss in accordance with paragraph 58 of IFRS 3 and changes and remeasurements of a financial liability arising from an entity’s obligation to purchase its own equity instruments),
- whether an entity – in applying the proposals on ‘specified income and expenses from other liabilities’ – would be required to disaggregate income and expenses beyond the requirements of IFRS Standards solely for the purpose of classifying income and expenses to the financing category (e.g., whether an entity would be required to disaggregate the change in the fair value of share-based payments into components depicting service cost, interest expense, remeasurements etc.); and whether an entity that currently, in practice, has voluntarily chosen to disaggregate such amounts may continue to do so.

We acknowledge, however, that the IASB Staff Papers already provide helpful explanations that we believe entities would hugely benefit if they were added as additional application guidance in order to apply the revised proposals appropriately (ref. IASB meeting, July 2021, Agenda Paper 21A, Appendix A, as well as IASB meeting, May 2021, Agenda Paper 21A, Appendix A).

Furthermore, we question whether, in some instances, the revised classification principle will result in consistent presentation. For instance, we believe that both changes in the fair value of a contingent consideration recognised in profit or loss in accordance with IFRS 3 as well as remeasurements of a financial liability arising from an entity’s obligation to purchase its own equity instruments (such as put options or forward contracts written on non-controlling interest) shall be classified in the same category. Both types of liabilities often have a redemption price that is linked to the performance of the acquired subsidiary; therefore, the underlying reason of why remeasurements occur and are recognised as income or expense in the statement of profit or loss is quite similar. However, applying the revised proposal, a change in the fair value of a contingent consideration would be classified in the operating category; while a remeasurement of a financial liability arising from an entity’s obligation to purchase its own equity instruments (if recognised in profit or loss) would be classified in the financing category.

We, therefore, recommend the IASB reconsider whether the revised classification principle for the financing category results in relevant outcomes when applied to specific liabilities as well as to incorporate application guidance into the final IFRS Standard that enables entities to understand how to apply the requirements on classifying income and expenses to the financing category.

Classifying income and expenses from cash and cash equivalents in the investing category

We welcome that the IASB has tentatively decided that entities shall classify income and expenses from cash and cash equivalents in the same category as income and expenses from other investments held as part of their treasury activities. 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.

However, we have also received feedback from preparers in our constituency that cash and cash equivalents are managed as part of their capital structure and, therefore, these entities would have preferred classifying income and expenses from cash and cash equivalents in the financing category. As cash and cash equivalents are reported internally as part of 'financing', many entities would need to provide disclosures on management performance measures and reconcile the presentation of income and expenses from cash and cash equivalents. These entities are concerned that the proposed disclosure requirements on management performance measures (especially the disclosures on the income tax effect and the effect on non-controlling interests of each reconciling item) will be costly to prepare. For further details please refer to our answer to question 2 below.

Classifying income and expenses from cash and cash equivalents for entities that provide financing to customers as their main business activities

We welcome that the IASB investigates further the classification of income and expenses from cash and cash equivalents for entities with specified main business activities. According to the feedback that we have received, conglomerates from our constituency (i.e., car manufacturers that also provide financing to customers as their main business activity) would be impacted if the IASB were to withdraw the accounting policy choice that was proposed in paragraph 51 of the Exposure Draft. These conglomerates explained that – although financing is a main business activity – they do not also invest in financial assets as a main business activity. Therefore, these entities would not be able to classify income and expenses from cash and cash equivalents in the operating category, even though those income and expenses are part of their net interest income.

Feedback from these preparers also suggests, that these entities would choose to apply the accounting policy based on how income and expenses are allocated in internal reporting:

- Some preparers explained that they would prefer to classify only those income and expenses from cash and cash equivalents that relate to the provision of financing to customers, as cash is managed at segment level (i.e., these entities have separate treasury departments within their operating segments). These entities would, thus, allocate only the portion of income and expenses that relates to the provision of financing to customers to the operating category.
- Another preparer explained that it would prefer classifying all income and expenses from cash and cash equivalents in the operating category, as cash is managed at group level.

Furthermore, the question arises of whether investing in financial assets is a main business activity, i.e., whether the accounting policy choice is eligible at the reporting-entity level. This assessment may result in different outcomes depending on the level at which that assessment is performed (group level, subgroup level or legal entity level). For further details on that issue please refer to our response below.

For the above reasons, we recommend the IASB reconsider its tentative decision to withdraw the accounting policy choice in paragraph 51 of the Exposure Draft. As an alternative way

forward, we 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 classify all income and expenses from financing activities and all 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.

Entities with specified main business activities – level at which 'main business activities' are assessed

We have received feedback from our constituency that conglomerates (i.e., car manufacturers that also provide financing to customers) are concerned about the consequences of the IASB's tentative decision on the level at which the entity's 'main business activities' are assessed in a group. According to the IASB's tentative decision, that assessment should be performed at the reporting-entity level. Consequently, that assessment may result in different outcomes depending on the level at which it is performed (group level, subgroup level or legal entity level). If the assessment of whether a group invests as a main business activity or provides financing to customers as a main business activity differs from the assessment by legal entities within the group, it would result in items of income and expenses being classified in different categories within the statements of profit or loss for the group and the legal entities within the group.

However, a different assessment of what is a 'main business activity' at each level within a group might be confusing to investors and difficult to explain in capital market communication, especially when a group consists of more than one subgroup whose equity instruments are traded in a public market (and, thus, have to prepare IFRS consolidated financial statements). Further, for internal management, it may also prove difficult to explain to a 'business' (i.e., a legal entity) that its operating profit is not included in the (sub)group's 'operating profit or loss' due to IFRS requirements.

Moreover, to implement the proposals, internal reporting structures would need to be adapted and restructured, as current reporting systems in multinational groups follow a different logic. In particular, current reporting systems und structures do not provide for a specific 'layer' that would allow a conglomerate group to easily identify those amounts that – depending on at which level within the group the 'main business activities are assessed – should be included in the group's (or subgroup's) 'operating profit or loss' and those that should not. The proposals might, therefore, be complex and costly to implement, especially as more than one business activity is often performed within a legal entity.

Furthermore, internal management of an entity's business activities will not be affected by the IASB's proposed new subtotals in the statement of profit or loss, as entities will continue to assess the performance of their business activities in their internal reporting as they have done in the past, and regardless of whether or not an activity is a main business activity according to the proposed new IFRS Standard. Consequently, entities will report a different operating performance in segment reporting in accordance IFRS 8 (in line with the management approach) than in the statement of profit or loss (in accordance with the proposed new IFRS Standard). The IASB's tentative decisions will, thus, result in a disconnect between the statement of profit or loss and segment reporting that will be difficult to understand for investors, as well.

Therefore, we recommend the IASB reconsider its tentative decisions on requiring entities to assess their 'main business activities' at the reporting-entity level, in particular for conglomerates with specified main business activities. According to the feedback that we have received, the IASB's tentative decisions can be complex to implement, especially for conglomerates, and may result in information that is confusing for investors and, thus, needs to be explained extensively in capital market communication. Conglomerates from our jurisdiction therefore suggest that the assessment of whether a business activity is a 'main business activity', should be made at level of the 'business' (i.e., at legal entity level) and retained at group level for the purposes of consolidated financial statements.

Proposed presentation of income and expenses from associates and joint ventures (accounted for using the equity method)

Whilst we acknowledge the reasons for the IASB's tentative decision, we regret that the IASB has tentatively decided not to proceed with the proposal to require an entity to identify and present income and expenses from integral associates and joint ventures separately from income and expenses from non-integral associates and joint ventures.

We note that there are different views in practice regarding the presentation of income and expenses from associates and joint ventures, which depend on the proximity of the business activities of the respective associate or joint venture to those inherent in the group, and how these associates and joint ventures are managed internally. In practice, some entities internally manage their associates and joint ventures similarly to other operating activities. Therefore, these entities will need to change their presentation in the statement of profit or loss once they apply the proposed new IFRS Standard.

However, according to the feedback that we have received from our constituency, these entities will continue to include income and expenses from (integral) associates and joint ventures in 'operating profit or loss' in their internal reporting. In accordance with the management approach according to IFRS 8, income and expenses from associates and joint ventures would, thus, continue to be included in the measure of profit or loss for reportable segments. As a result, many entities would need to provide a reconciliation for income and expenses from associates and joint ventures, either when disclosing information about management performance measures or when providing a reconciliation of the total reportable segments' measure of profit or loss to the group's profit or loss before income tax in accordance with paragraph 28 of IFRS 8 (or both).

However, as already explained above, we are concerned that the management approach under IFRS 8 is not consistent with the IASB's proposals on the structure and the new defined subtotals in the statement of profit of loss and will result in a disconnect between the statement of profit or loss and segment reporting. As a consequence, it might be difficult to understand for investors how the two measures of 'operating profit or loss' (presented in segment reporting and in the statement of profit or loss) are interrelated. We, therefore, recommend the IASB investigate on how segment reporting and the proposed new subtotals interact with each other and how the divergence in the presentation of the 'operating profit or loss' in the statement of profit or loss and segment reporting can be resolved for users of financial statements.

As an alternative, specifically as regards the classification of income and expenses from associates and joint ventures accounted for using the equity method, the IASB also might consider allowing entities to classify income and expenses from integral associates and joint ventures in the operating category (provided these entities present a separate line item in the statement of profit or loss). This approach would allow entities to adopt a management approach to the presentation of income and expenses from their integral associates and joint ventures, and would provide users of financial statements with the information they need to eliminate such income and expenses from operating profit (if they wish for an operating profit that does not include an after-tax share of the profit or loss from associates and joint ventures).

Proposed presentation of income and expenses from associates and joint ventures (accounted for using the equity method) – insurance entities

We regret that the IASB has tentatively decided that entities with specified main business activities shall classify income and expenses from associates and joint ventures accounted for using the equity method in the investing category – without any exception for insurance entities. Firstly, we believe that this tentative decision contrasts with the general classification principle for entities with specified main business activities, as an entity that invests as a main business activity will classify income and expenses from other assets (that would otherwise be classified in the investing category) in the operating category. Secondly, as explained in more detail below, classifying income and expenses from associates and joint ventures in the investing category would result in a presentation mismatch for insurance entities, when these investments in associates and joint ventures accounted for using the equity method are held to cover insurance contract liabilities.

- A typical example for such investments in associates or joint ventures in practice are direct investments in infrastructure projects in which an insurance entity has invested in order to meet the objective of its 'net zero' investment strategy.
- In internal management, these investments are managed like other investments that are held to cover insurance contract liabilities, thus, income and expenses from these investments in associates and joint ventures are presented within operating profit (within segment reporting). Should the IASB adhere to its tentative decision, the operating result according to segment reporting and the operating profit or loss (as defined by the IASB within the *Primary Financial Statements* project) would differ.
- For an insurance entity, the IASB's tentative decision on the presentation of income and expenses from 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.
- The reasoning by the IASB that an insurance entity may elect to account for investments in associates and joint ventures at fair value through profit or loss in accordance with paragraph 18 of IAS 28 in order to classify income and expenses from these associates and joint ventures (that would otherwise be accounted for using the equity method) in the operating category is not valid, as especially non-life insurers and reinsurers cannot apply the election in paragraph 18 of IAS 28.

These concerns raised by insurance entities are not mitigated by the IASB's tentative decision of permitting entities to present an additional subtotal of '*operating profit or loss and income*

and expenses from investments accounted for using the equity method' (as a specified subtotal, which is not a management performance measure, as tentatively decided by the IASB). Firstly, income and expenses from associates and joint ventures would still be presented outside the operating category, even though those investments are held to cover insurance contract liabilities. Insurance entities would, thus, need to explain to investors as to why such income and expenses are classified to the operating result in their internal reporting. And, secondly, introducing a new line item and a new subtotal would unnecessarily increase the number of line items in the statement of profit or loss.

For the reasons above, we recommend the IASB reconsider its tentative decision that entities that invest as a main business activity shall classify income and expenses from associates and joint ventures accounted for using the equity method in the investing category. As an alternative way forward, the IASB might want to consider requiring insurance entities to classify income and expenses from investments accounted for using the equity method in the operating category, if such investments are held to cover insurance contract liabilities within the scope of IFRS 17.

Question 2 – management performance measures

The IASB seeks feedback on the following questions:

(a) Do you think that establishing the rebuttable presumption that a subtotal of income and expense included in public communications outside financial statements represents management's view of an aspect of the entity's financial performance will achieve the objectives described in paragraph 20? Why or why not?

(b) If not, what alternative approach would you suggest and why?

(c) Does the IASB's tentative decision to revise the method used to calculate the tax effect of individual reconciling items in paragraph 23 provide a better balance of costs and benefits than the proposal in the Exposure Draft?

Rebuttable presumption

We understand and agree with the proposal to introduce a rebuttable presumption that a subtotal of income and expense included in public communications outside financial statements represents management's view of an aspect of the entity's financial performance. We agree with the IASB's underlying reasoning that – if an entity reports a metric in public communications outside financial statements – that metric is likely to represent a management performance measure and, accordingly, should be subject to the proposed disclosure requirements.

Interaction of the proposals on management performance measures with segment reporting in accordance with IFRS 8

Regarding the definition of management performance measures, constituents from our jurisdiction questioned whether the proposed disclosures requirements on management performance measures would apply only to management performance measures that are reported at group level, or whether also management performance measures that are reported at segment level would be subject to the proposed disclosure requirements. This question arises if internal management is based on different sets of metrics and, thus, different metrics are reported at group level and segment level (which is typical for, but not limited to, conglomerates).

Given the complexity of the proposed disclosure requirements, in particular regarding the proposed disclosures of the income tax effect and the effects on non-controlling interests for each reconciling item, we recommend the IASB limit the scope of the disclosure requirements to management performance measures that are reported at group level (i.e., not extend the scope to metrics reported at segment level, or any low level within the group).

Simplified method of calculating the income tax effects for reconciling items

We have received feedback from preparers from our constituency that calculating the income tax effects for each reconciling item is complex and costly to implement. This applies in particular to reconciling items within 'operating profit or loss' that generally affect a large number of legal entities across the group.

Calculating income tax effects with the simplified method would, therefore, require an entity to implement a new reporting process to collect (at least) the statutory tax rate(s) applicable for each reconciling item in each jurisdiction concerned and to establish internal controls in order to ensure the necessary data quality. These reporting structures are currently not in place and would need to be implemented and rolled out across all group entities. However, even the simplified method would be accompanied by some complex challenges and require significant judgement (e.g., entities would be required to determine whether a reconciling item is a taxable income or a deductible expense).

However, the income tax effects calculated under the simplified method provide only a high-level information which might also be materially different from those calculated based on a reasonable pro rata allocation of the current and deferred tax of the entity in the jurisdictions concerned. We, therefore, wonder whether calculating tax effects using the group's effective tax rate would provide users of financial statements with similar information. This applies even more since presentation in the statement of profit or loss does not require an entity to separately present the income tax effects and the effects on non-controlling interests for each line item presented in the statement of profit or loss, which means that the disclosures for reconciling items would be more onerous than the disclosures required for items in the statement of profit and loss. It is therefore difficult to understand whether users actually need and how they will use disclosures on income tax effects and effects on non-controlling interests.

Furthermore, the calculation of the income tax effects would need to be documented by the entity and would be subject to the audit of financial statements. However, the auditability and enforceability of the proposals could also prove difficult as the proposed requirements under

the simplified approach are vague and subject to significant judgement. Consequently, in practice, an entity might need to justify whether a better (i.e., more accurate) calculation of the tax effects was feasible and/or more appropriate in the entity-specific circumstances.

As the IASB states that users of financial statements would be satisfied with high-level information about the income tax effects, we wonder whether the calculation of the income tax effects could be based on the group's effective tax rate (according to IAS 12). In our view, such an approach would contribute to a much better-balanced cost-benefit ratio as, the cost for obtaining and auditing the disclosures of the effects on income tax (including the processes and internal controls that need to be implemented to generate the information required) – even under the simplified approach – may be substantial and not cost-beneficial in every case. Therefore, we also recommend the IASB explore further with different groups of users of financial statements whether and how they need disclosures on income tax effects for their own analyses.

We also would like to draw the IASB's attention that similar concerns apply to the disclosures on the effects on non-controlling interests for each reconciling item which would be a change for entities in our jurisdiction, as well, and, therefore, data capturing mechanism are not in place and would need to be implemented.

Interaction of management performance measures with segment reporting

We understand and agree with the IASB's tentative decision that entities should be required to disclose a reconciliation between a management performance measure and the most directly comparable subtotal or total specified in IFRS Standards.

However, according to the feedback that we have received, preparers from our constituency question the usefulness of disclosing the income tax effects and the effects on non-controlling interest for each reconciling item in certain circumstances. This applies in particular when a reconciling item relates to an item of income and expense that an entity adjusts for, as the new IFRS Standard requires that item to be included in (or excluded from) 'operating profit or loss', but the entity manages that item of income or expense internally in a different way. These preparers argue that they understand users' information needs with respect to adjustments, such as restructuring cost, but not regarding items that the entity manages differently (than the proposed new IFRS Standard requires them to present such income and expenses in the statement of profit or loss). Further, these preparers claim that the number of reconciling items will increase under the IASB's proposals, as the IASB is taking ownership of the new defined subtotals 'operating profit or loss', as well as 'profit or loss before financing and income tax'.

This applies, for instance, to the following reconciling items:

- income and expenses from cash and cash equivalents, if cash and cash equivalents are managed as part of the entity's capital structure,
- interest expense on lease liabilities, e.g., when such income is managed as part of the 'net interest income' (which is typical for banks),
- interest expense from the unwinding of the discount on provisions (such as a decommissioning or a similar liability), if an entity considers these liabilities as part of their operating activities, and

- income and expenses from (integral) associates and joint ventures accounted for using the equity method.

Preparers explained that it will be costly to prepare the disclosures of the income tax effects and the effects on non-controlling interest, and that the information value of these disclosures is limited for investors, as a reconciling item arises in these cases due the IASB's definition of 'operating profit or loss' being different from how the entity is internally managed.

We note that the IASB has not yet discussed how management performance measures interact with segment reporting. However, as already explained above, we are concerned that the IASB's proposed new subtotals will result in a disconnect between the statement of profit or loss and segment reporting which might be confusing for investors and, hence, would need to be explained extensively by preparers in their capital market communication. We, therefore, recommend the IASB investigate on how segment reporting and the proposed new subtotals interact with each other and how the divergence in the presentation of the 'operating profit or loss' in the statement of profit or loss and segment reporting can be resolved.

Question 3 – Disclosure of operating expenses by nature
The IASB seeks feedback on the following questions: (a) Does the IASB's tentative decision to disclose the amounts of depreciation, amortisation and employee benefits included in each line item in the statement of profit or loss provide a better balance of costs and benefits than the proposal in the Exposure Draft? (b) Do you think the list of line items in the requirement in question 3(a) should also include impairments and write-downs of inventories? Why or why not? (c) Do you think requiring an entity to disclose, for all other operating expenses disclosed in the notes, the amounts included in each line item in the statement of profit or loss would provide a similar balance between costs and benefits as the revised proposal described in question 3(a)? Why or why not? (d) Do you think an undue cost or effort relief to the proposed requirement in question 3(c) is required to achieve the right balance between improving disclosures provided by entities and ensuring that entities do not incur excessive costs to provide the information? Why or why not?.

Disclosure of depreciation, amortisation and employee benefits included in each line item in the statement of profit or loss

We acknowledge that the IASB's tentative decision is aiming to balance users' information needs and preparers' concerns regarding the implementation cost. Therefore, we welcome that the IASB investigates further the proposals on disclosures of operating expenses by nature.

However, feedback from our constituency reveals that the IASB's tentative decision to require entities to disclose the amounts of depreciation, amortisation and employee benefits included in each line item in the statement of profit or loss is still costly to implement, depending on what an entity's IT systems and landscape can deliver. Whilst there are some entities that have undergone system changes that would allow to break down cost incurred by a function by nature, the majority of entities is not able to obtain that information without undertaking significant changes to their ERP systems. Therefore, in our view, disclosures of operating expenses by nature continue to be the most critical proposal of the entire project.

Specific problems that have been brought to our attention relate to the following:

- Obtaining information on the nature of expenses included in cost of sales is complex and challenging because entities using standard-costing systems are not able to 'unbundle' standard costs. This applies in particular to large multinational groups when the manufacturing process involves multiple locations.
- Requiring entities to disclose the cost incurred (i.e., whether expensed or capitalised as cost of inventories) in each line item in the statement of profit or loss, may work for some entities, but not for others. Again, it really depends on what an entity's ERP systems can deliver.
- Obtaining information on the nature of expenses might especially be difficult to implement for group entities from foreign jurisdictions that are not familiar with the nature of expense method. For instance, following an acquisition of an 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 information on the nature of expense of the acquiree can be included in the group's disclosures.
- One constituent explained that disclosing depreciation and amortisation included in each line item in the statement of profit or loss would be feasible if that disclosure requirement refers to the total of depreciation and amortisation; but not if the disclosures should be provided separately for depreciation expenses and amortisation expenses, as the company's ERP system does not distinguish between depreciation and amortisation expenses.

Given that preparers raise significant concerns, we wonder whether the IASB can achieve the right balance between providing users with the information they need and ensuring that entities do not incur excessive costs to provide that information.

Further, we wonder whether the compromise currently being considered by the IASB still meets users' information needs. In other words, we wonder whether the current proposals are satisfactory neither for users of financial statements (as users do not get the information they need) nor for preparers of financial statements (as the implementation is costly and burdensome). With respect to the effects analysis, we, therefore, recommend the IASB to carefully analyse whether the additional information value of the proposed disclosures (when compared to existing disclosure requirements in accordance with paragraph 104 of IAS 1) outweigh the cost of preparing that information.

As we believe that current disclosure requirements under IAS 1 provide users of financial statements with information that is quite similar to what the IASB is currently discussing, we wonder, whether an alternative way forward might be to strengthen and reinforce current disclosure

requirements and add additional expense items to the list in paragraph 104 of IAS 1 (such as impairment losses according to IAS 36 and write-downs of inventories).

Disclosure of impairments and write-downs of inventories

According to the feedback that we have received from our constituency, preparers are much less concerned about disclosure of impairments and write-downs of inventories (even if entities were required to disclose the amounts included in each line item in the statement of profit or loss). This is because classification of impairments and write-downs of inventories to functions is generally straightforward, and the information is, thus, easy to retrieve from ERP systems. For example, write-downs of inventories are usually recognised in cost of sales. Therefore, preparers did not raise any concerns regarding the cost-benefit-balance of the proposal to disclose for impairments and write-downs of inventories the amounts included in each line item in the statement of profit or loss.

Introduction of a general requirement to disclose, for an expense item disclosed in the notes, the amounts included in each line item in the statement of profit or loss

We disagree with the alternative proposal to introduce a general requirement that would require an entity to disclose, for each item of expense that an entity is required to disclose in the notes, the amounts included in each line item in the statement of profit or loss. We believe that such an approach would unnecessarily increase the volume of disclosures in the notes, irrespective of whether users of financial statements need that item of information. We would therefore prefer the IASB introduce targeted disclosures that directly respond to users' information needs.

Question 4 – unusual income and expense
Do you have any comments on the IASB tentative decision to withdraw the proposals for unusual income and expenses?

We understand and agree with the reasons of the IASB's tentative decision. We are also concerned that it is not possible to develop an appropriate definition of unusual income and expenses in a timely manner, i.e., without deferring the finalisation of the project. Therefore, we agree with the IASB's tentative decision to withdraw the proposals for unusual income and expenses.