

FRC Outreach Activities on IASB's General Presentation and Disclosures Project

Feedback Statement

October 2020

1 Purpose

The purpose of this feedback statement is to summarise the FRC's outreach on the IASB's *General Presentation and Disclosures* Exposure Draft (the ED), the main comments and views received, together with the FRC's response.

2 Background

The ED proposals aim to improve how information is communicated in the financial statements, with a particular focus on the statement of profit or loss. The IASB developed these proposals as part of its Primary Financial Statements project, which is part of the Board's work on 'Better Communication in Financial Reporting'.¹

The ED sets out proposals for a draft IFRS Standard on presentation and disclosures in financial statements that, when finalised, would replace IAS 1 *Presentation of Financial Statements*. It also sets out proposed amendments to other IFRS Standards.²

The ED was issued in December 2019 and the comment deadline was 30 September 2020. FRC's final comment letter was published on 30 September 2020.

3 Outreach activity

FRC's outreach activities took place during the period April to September 2020. They included roundtables, a joint IASB panel event, field testing, and public consultation on FRC's draft comment letter. The aim of these outreach activities was to obtain an overview of UK stakeholder opinions on the IASB's proposals and the implications of their potential use by UK companies. We also exchanged views with other national standard setters.

Outreach activities resulted in a wide range of comments and views on the IASB's project from investors, preparers, audit firms, professional bodies. A summary of the ED's main proposals together with comments received from UK stakeholders and the final position in the FRC's comment letter is below. Appendix 1 details the different outreach activities analysed by respondent type.

¹ Further details are available on the [IASB website](#).

² IAS 7 *Statement of Cash Flows*; IFRS 12 *Disclosure of Interests in Other Entities*; IAS 33 *Earnings per Share*; IAS 34 *Interim Financial Reporting*; IAS 8 *Accounting Policies, Changes in Accounting Estimates, and Errors*.

4 ED main proposals, stakeholder views and FRC's position

i. ED Proposals: Present the statement of profit or loss using defined subtotals and categories.

Stakeholder views:

There was general support for the comparability and consistency it is anticipated these proposals will provide. However, most stakeholders requested additional clarity on the definitions of the subtotals and categories.

Preparers from the UK insurance sector questioned the relevance of the operating profit subtotal for insurance entities, particularly in conjunction with the proposal to restrict the presentation of MPMs in the statement of profit or loss, and the interactions of the ED's proposals with the changes to insurance company financial statements brought about by the introduction of IFRS 17.

Many UK stakeholders highlighted inconsistencies between existing statement of cash flow category definitions and proposed statement of profit or loss category definitions. One stakeholder highlighted the need for any future IASB project to address the extent to which the statement of cash flows meets user needs, rather than the consistency of categories with the statement of profit or loss.

FRC's final comment letter:

The FRC's final comment letter supported the proposals for statement of profit or loss defined subtotals and categories but went on to request further clarity on the concept of 'main business activities' underpinning the definitions of the categories.

The issues raised by the UK insurance sector were further explored through field-testing. As a result, the FRC's comment letter requested that the IASB consider the practicalities and timescales of implementation of IFRS 17 and the interactions with any new standards or amendments arising from the finalisation of the ED proposals.

FRC recommended that IASB commence a separate comprehensive project to review the statement of cash flows, to assess the extent to which it meets user needs and to identify potential improvements.

ii. ED Proposal: Analyse operating expenses by nature, either on the face of the statement of profit or loss or in a note.

Stakeholder views:

Investors generally welcomed the predictive information it is anticipated this proposal would provide. However, preparers taking part in outreach events and field-testing generally expressed concern regarding the cost and timescale of the systems changes it would necessitate.

Most stakeholders highlighted the lack of clarity about the extent to which a mixed presentation of operating expenses by nature and by function would be permitted in the statement of profit or loss.

FRC's final comment letter:

FRC supported the predictive value of the proposed analysis but advised the IASB to seek stakeholder input on expected costs of implementation and compare these against the potential benefits for investors.

FRC's comment letter noted that the method used to analyse operating expenses in the statement of profit or loss should be the one which is most relevant to the reporting entity. The letter also stated that the FRC would not support an outcome where the cost burden of analysing operating expenses by both nature and function had the effect of driving entities to present an analysis of operating expenses by nature in the statement of profit or loss, in order to avoid an additional analysis on a different basis in the notes.

FRC's comment letter included a request for clarity on the extent to which mixed presentation would be permitted by the IASB's final requirements. It went on to highlight that if many exceptions to presentation, either by nature or by function, were permitted the predictive value of the analysis would be limited.

The comment letter also noted that if the proposals were developed further, then the required degree of granularity in the analysis of operating expenses by nature would need to be specified.

iii. ED Proposal: Present results from associates and joint ventures as integral or non-integral on the face of statement of profit or loss.

Stakeholder views:

A minority of stakeholders supported the separate presentation of integral and non-integral associates and joint ventures in the statement of profit or loss. However, most stakeholders were of the view that such an analysis was potentially cumbersome, commercially sensitive, or not relevant.

Most stakeholders supported the proposal to present results from associates and joint ventures outside of operating profit. In particular there was support for the greater comparability this would bring to operating margins.

FRC's final comment letter:

FRC's comment letter observed that the split between integral and non-integral associates and joint ventures may not be relevant for many entities. It highlighted that the IASB's objective behind this proposal, to provide greater insight into the business model of reporting entities, could be better achieved via additional disclosures.

FRC supported the presentation of results from associates and joint ventures outside of operating profit and the greater comparability this would bring to operating margins.

iv. ED Proposal: Define the role of the primary financial statements as providing a structured and comparable summary, with the notes providing additional information.

Stakeholder views:

Stakeholders generally supported the proposed definitions of the primary financial statements and notes. Many stakeholders recommended that the proposed definition of the primary financial statements should be expanded to include a reference to the stewardship function of financial statements, as set out in the Conceptual Framework.

One stakeholder, in response to the FRC's draft comment letter, expressed disagreement with the IASB's proposed definition of the role of the primary financial statements, highlighting concerns about the interaction of the proposed definition of the role of the primary financial statements with UK legislation.

FRC's final comment letter:

Consistent with the majority of stakeholders, the FRC's letter supported the proposed definitions of the primary financial statements and the accompanying notes. However, it went on to request that the IASB consider incorporating references to the stewardship function of the financial statements and to understandability as well as comparability in the proposed definition of the financial statements.

The FRC did not change its position in response to the comment from the stakeholder who highlighted concerns about the interaction of the proposed definition of the role of the primary financial statements with UK legislation, as the FRC believes that the proposals in the IASB's Exposure Draft are consistent with UK legislative requirements.

FRC's letter asked for further principles to be developed on whether understandability or consistency year-on-year should take precedence in the disclosure notes.

v. ED Proposal: Disclose unusual items in a single note and restrict presentation of unusual items in the statement of profit or loss.

Stakeholder views:

There was no consensus amongst stakeholders on the proposed introduction of unusual items or their definitions. Some stakeholders supported the objective of improving the predictive value of financial information. Others expressed concern about the practical difficulties and subjectivity involved in identifying and auditing unusual items.

However, there was a general lack of support for IASB's proposed definition of unusual items. The proposed definition centres around reasonable expectation that items similar in type or amount will not recur for several future annual reporting periods. Stakeholders highlighted that some items of income and expense would not meet the definition simply because they straddled a year end. One comment letter identified that the proposed definition would lead to problems with consistency from one reporting period to the next, and that the phrase 'similar in type' required a clearer definition to ensure consistency of application. Concerns were also expressed about the verifiability of 'reasonable expectation.'

Several stakeholders sought clarity on whether unusual items would be permitted as separate line items in the statement of profit and loss under the IASB's proposals.

FRC's final comment letter:

FRC's comment letter was generally supportive of the introduction of unusual items. However, it went on to propose an alternative definition focussing on whether the trigger for the item of income or expense was expected to recur. The letter highlighted that this proposal would help address the issue of items straddling a year end falling outside the definition. FRC's letter also incorporated the stakeholder concern that there was a risk of inconsistent application from one reporting period to the next and that the phrase 'similar in type' required a clearer definition to ensure consistency of application.

FRC's comment letter also proposed additional disclosures, intended to encourage the disciplined use of judgement in identifying items as unusual.

FRC's comment letter went on to ask for clarity on the extent to which the IASB intended to permit unusual items to be presented as separate line items in the statement of profit or loss. The letter included a recommendation that including unusual items as a line item within each statement of profit or loss category, with detail included in a note, would help strike an appropriate balance between understandability and comparability.

vi. Disclose management performance measures in a single note and restrict their inclusion in the statement of profit or loss.

Stakeholder views:

Stakeholders expressed mixed views on including management performance measures (MPMs) in the financial statements. Some welcomed the discipline and transparency they anticipated it would bring. Others opposed the introduction of non-IFRS measures into the financial statements, highlighting the consequent scope for confusion.

Most stakeholders did not support IASB's proposed scope or definition of MPMs. The IASB's proposed scope, to include all MPMs in published information, was deemed too broad to be practicable. By contrast, the majority view was that the proposed definition of an MPM, as a subtotal of income and expenses, was too narrow. Stakeholders believed that the definition should be broadened to include subtotals of any combination of assets, liabilities, equity, income or expenses which include items derived from IFRS figures. In outreach events, two stakeholders expressed concern that the IASB's proposed definition could inadvertently capture regulatory ratios such as the solvency ratio.

Most stakeholders supported better alignment of the IASB's proposals with existing regulatory or other guidance on MPMs. One comment letter sought clarity on whether only ratios comprised of IFRS figures were intended to be included in the FRC's proposed definition of MPMs, or whether the definition in fact intended to capture any subtotal of assets, liabilities, equity, income or expenses which includes items derived from IFRS figures.

Several preparers also expressed concern that the proposed disclosure note could replicate information included elsewhere in the annual report, for example in the strategic report.

FRC's final comment letter:

FRC's comment letter supported the disclosure of MPMs in a single note to the financial statements as it would bring greater discipline and transparency to the use of MPMs.

However, the letter went on to recommend that the scope should be narrowed to include only MPMs in the annual and interim reporting packages, and that the definition should be broadened to include subtotals of assets, liabilities, equity, income and expenses which include items derived from IFRS figures.

On MPMs, the FRC letter highlighted the possibility that the IASB's definition could inadvertently capture regulatory ratios such as the solvency ratio. It suggested that this unintended consequence would be avoided if the scope were narrowed to include only ratios and subtotals where figures were derived from IFRS figures.

FRC recommended that a cross-reference to MPMs included in a single location elsewhere in the annual report be accepted as a practical expedient, provided the same disclosure requirements were met and the MPMs were subject to audit in the same way.

FRC's comment letter identified areas of potential alignment with existing regulatory and other guidance on MPMs for consideration when the IASB further develops its proposals.

Appendix 1

Outreach event / activity	Analysis of participants / respondents by type						Total participants / respondents ³
	Preparers	Investors and investor representatives	Accounting firms	Professional bodies	Other Standard setters	Academics and independent registrations	
Investor roundtable	-	8	-	-	-	-	8
Preparer roundtable	19	-	-	-	-	-	19
Joint IASB roundtable	6	4	-	2	1	-	13
Joint IASB panel event	17	4	9	4	2	14	50
Field testing	3	-	-	-	-	-	3
Comment letters on FRC's DCL	1	1	1	1	-	-	4
Total	46	17	10	7	3	14	97

³ Totals may include more than one interaction with the same stakeholder.