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Dear Mr Babington

Invitation to Comment: Exposure Draft ED/2019/7 General Presentation and Disclosures

We welcome the opportunity to respond to the Financial Reporting Council (FRC) invitation to comment on the IASB's Exposure Draft (ED) – General Presentation and Disclosures.

We have summarised our responses to the questions posed below. Our detailed responses are included in Appendix 1.

Question	**Summary of response**
UK-Q1 Do you anticipate that the proposed operating profit subtotal will work sufficiently well for entities in general, and for financial institutions in particular? Please explain your rationale.	Whilst we support the IASB's attempt to define operating profit, we are concerned that the definition both necessitates the application of judgement and is inconsistent with the classification of items in the cash flow statement.
UK-Q2 Do you anticipate any issues in implementing the proposed requirement to include in the operating category income and expenses from investing activities undertaken in the course of the entity's main business activities? Please describe any issues and your proposed solution.	Johnson Matthey does not expect to have significant income and expenses classified as investing activities and we are concerned that the category will not be significant for many companies on the basis that the definition excludes returns on investments in tangible and intangible assets undertaken in the course of an entity's main business activities. As above, an element of judgement is required and the definition is inconsistent with the cash flow statement.
UK-Q3 To what extent is it feasible to analyse financing income and expenses into those which relate to the provision of financing to customers and those which do not? UK-Q4 Is information on the income and expenses from providing finance to customers already available to meet regulatory requirements, in other sources available to the public, or in investor presentations? UK-Q5 If information on the income and expenses from providing finance to	We do not provide financing to our customers as a main business activity and we do not have significant financing components in our customer contracts and therefore we will not comment extensively on questions 3, 4 and 5. We agree, it is appropriate for businesses who provide financing to their customers as part of their main business activity to present the associated income and expenses under the operating category. Although non-financial institutions may struggle to reliably extract the financing component of long-term customer contracts.

customers is not already available, what practicalities and costs would be involved in providing it? Please provide details.	
UK-Q6 To what extent is the IASB's proposed split of associates and joint ventures into an integral category and a non-integral category desirable and feasible? What costs and practicalities would be involved?	We do support the IASB's proposed requirement to split associates and joint ventures between integral and non-integral. Making the distinction between integral versus non-integral could be time consuming for management.
UK-Q7 To what extent do you support our proposals for enhanced disclosures on associates and joint ventures? What practicalities would be involved? How many associates and joint ventures do you report on?	Whilst Johnson Matthey only has two immaterial associates and joint ventures, as above, we support the proposals of the IASB and therefore do not think the FRC's proposals go far enough.
UK-Q8 To what extent is the proposed presentation and disclosure of immaterial items in paragraphs 27 and 28 of the Exposure Draft desirable and practical? What are the costs and practical implications?	We support the IASB's proposals to enable entities to aggregate immaterial items and provide additional explanatory disclosures. Johnson Matthey does not generally present balances as "other" or aggregate immaterial items in its financial statements and so there would not be a significant burden in complying with the proposal and adding more detail to our disclosures.
UK-Q9 How feasible are the proposals to require an analysis of operating expenses by nature either in the statement of profit or loss or in the notes? Please provide details of the practicalities and costs that such an analysis would involve.	We agree with the FRC that mandating the analysis of operating expenses by nature, as well as by function when only an analysis by function is provided, would be inherently costly and complex and subject to the limitations of accounting systems. The major expense items are already disclosed in the statement of profit or loss and/or the notes under other accounting standards, notwithstanding the format of the analysis of expenses.
UK-Q10 To what extent are the IASB's proposals to define and disclose unusual items practicable and useful? Please explain the rationale for your answer.	We welcome the IASB's attempt to define unusual items but are concerned that certain items considered by Johnson Matthey to be "non-underlying" i.e. excluded from our measure of underlying profit, such as material impairments, might be excluded from the IASB's definition.
UK-Q11 To what extent is our proposed definition of unusual items and associated disclosure requirements practicable and useful? Please explain the rationale for your answer.	Whilst the FRC's proposed definition of unusual items is an improvement on the IASB's proposed definition, it still focuses on the timing, rather than the nature or the size, of items that should be included which we consider to be important to users of the accounts.
UK-Q12 Are there any particular aspects of the regulatory environment in the UK which would conflict with the IASB's proposals on MPMs? Please provide the rationale for your answer.	We support the IASB's proposals to define MPMs and mandate certain disclosures to improve the understanding of the performance of entities. We do foresee challenges for external auditors in providing assurance over the completeness of disclosures on MPMs. On the basis that they relate to all MPMs in "public communications outside financial statements". This would also be a significant compliance burden for entities if this definition is not restated in some way.
UK-Q13 To what extent would it be beneficial to adopt our recommendations on MPMs? Please provide the rationale for your answer.	We support most of the FRC's recommendations on MPMs, but do not agree with limiting the scope of MPMs to those in annual and interim reports. The MPMs included in market updates should be consistent with those defined in the annual and interim reports.

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	We agree with the FRC that MPMs should only be derived from IFRS figures. However, we note inconsistencies in the FRC's definition of MPMs between paragraphs A62, A63 and A65. We support the FRC's recommendation to provide a list of exemptions, although we note that it is inconsistent with, for example ESMA guidance and there are some exempt items that we believe are MPMs, in particular IFRS 8, measurements of segment profit or loss. We can see the benefit of defining earnings before interest, tax, depreciation and amortisation (EBITDA) from a consistency objective, however companies will still present their underlying performance in a way that reflects the nature of their business, and this appears to defeat the purpose of the FRC's recommendation.

Yours sincerely

Mitesh Gami
Group Reporting Director

Appendix 1

Subtotals and Categories

UK-Q1 Do you anticipate that the proposed operating profit subtotal will work sufficiently well for entities in general, and for financial institutions in particular? Please explain your rationale.

We support the proposal to define operating profit with the aim of providing comparability across companies. However, the IASB's proposals will require companies to exercise judgement in their application of the standard and users of the accounts will still focus on underlying profit measures which necessarily vary by entity.

We have identified the following challenges to the proposed operating profit subtotal:

- The classification of items between categories in the statement of profit and loss depends on the interpretation of the definition of "main business activity" and, therefore, introduces an element of judgement. Aside from the requirement for judgement, certain similar items would be classified in different categories depending on the company's "main business activity" (ED paragraph 46) which would reduce the comparability between businesses.

- The use of categories of income and expense in the statement of profit and loss which are consistent with the cash flow (operating, investing and financing) is desirable. However, we agree with the FRC that the classifications are not consistent, thus undermining the objective of consistency across the primary statements.

- We believe that, notwithstanding the introduction of an operating profit metric, users of the accounts will focus on underlying measures of performance.

UK-Q2 Do you anticipate any issues in implementing the proposed requirement to include in the operating category income and expenses from investing activities undertaken in the course of the entity's main business activities? Please describe any issues and your proposed solution.

Johnson Matthey does not expect to have significant income and expenses classified as investing activities as defined by the IASB and so we do not anticipate any implementation issues. However, we do have concerns about the proposed requirement, aside from the judgement involved in the determination of what constitutes "in the course of main business activities". Whilst it makes sense to include income and expenses from investing activities undertaken in the course of an entity's main business activities in the operating category, it is not consistent with the cash flow statement and would undermine the objective of consistency across the primary statements. We do not anticipate that investing activities will be a significant category for many companies on the basis that returns on investments in tangible and intangible assets would go through operating activities and so the proposal will provide limited benefit to the users of financial statements. We recommend more guidance is provided by the IASB on the types of items that would be included in investing activities.

UK-Q3 To what extent is it feasible to analyse financing income and expenses into those which relate to the provision of financing to customers and those which do not?

UK-Q4 Is information on the income and expenses from providing finance to customers already available to meet regulatory requirements, in other sources available to the public, or in investor presentations?

UK-Q5 If information on the income and expenses from providing finance to customers is not already available, what practicalities and costs would be involved in providing it? Please provide details.

We do not provide financing to our customers as a main business activity and we do not have significant financing components in our customer contracts and therefore we will not comment extensively on questions 3, 4 and 5.

We agree, it is appropriate for businesses who provide financing to their customers as part of their main business activity to present the associated income and expenses under the operating category. Although non-financial institutions may struggle to reliably extract the financing component of long-term customer contracts.

Integral and non-integral associates and joint ventures

UK-Q6 To what extent is the IASB's proposed split of associates and joint ventures into an integral category and a non-integral category desirable and feasible? What costs and practicalities would be involved?

Whilst the IASB's proposal would not impact Johnson Matthey on the basis that our associates and joint ventures are immaterial, we do support the IASB's proposals.

The financial statement presentation would match the other communications that companies make to markets which may include integral associates and JV within their underlying profits and exclude non integral entities. The distinction introduces judgement as to what is integral and non-integral and the IASB would need to set out a clear definition in IFRS 12 *Disclosure of Interests in Other Entities*.

IFRS 12 already requires substantial disclosures and so companies should capture most of the information required to meet the proposed requirements. The most time-consuming aspect will be in the determination of what is integral versus non-integral which is a management judgement.

UK-Q7 To what extent do you support our proposals for enhanced disclosures on associates and joint ventures? What practicalities would be involved? How many associates and joint ventures do you report on?

As above, we do support the IASB's proposals, and so while we support the FRC's proposals for enhanced disclosures, we believe requirements should go further to include presentation on the primary financial statements.

We have one immaterial joint venture and one immaterial associate and, as stated above, would not be impacted by the proposals.

Definitions of the role of the primary financial statements and the notes

UK-Q8 To what extent is the proposed presentation and disclosure of immaterial items in paragraphs 27 and 28 of the Exposure Draft desirable and practical? What are the costs and practical implications?

We support the IASB's proposals in respect of immaterial items and would ask the IASB to consider how to ensure that entities do not give undue prominence to individually immaterial items where they have attempted to meet the requirement to provide a faithful description of dissimilar items that have been aggregated (ED paragraph 27 (b)).

We support the IASB's proposal to allow preparers to aggregate groups of either similar or dissimilar immaterial items (ED paragraph 27) because this gives preparers flexibility and the requirement to provide appropriate descriptions of the groupings will ensure that useful information is provided to users of the accounts. In addition, we consider that ED paragraph 28, the requirement to provide more information on groupings of immaterial items, such as the nature and amount of the largest item in the aggregation, in the event that the requirements of ED paragraph 27 do not lead to descriptions that result in a faithful representation, will provide another way for entities to comply and ensure that useful information is provided to users of the accounts.

We do not consider that ED paragraph 24, which states that "an entity need not provide a specific presentation or disclosure required by an IFRS standard if the information resulting from the presentation or disclosure is not material.", is inconsistent with the intentions of ED paragraphs 27 and 28 on the basis that those paragraphs deal with the provision of information in respect of the aggregation of groups of individually immaterial items which might be material rather than individual immaterial items.

Johnson Matthey does not generally present balances as "other" or aggregate immaterial items in its financial statements and so there would not be a significant burden in complying with the proposal and adding more detail to our disclosures.

Analysis of operating expenses by nature

UK-Q9 How feasible are the proposals to require an analysis of operating expenses by nature either in the statement of profit or loss or in the notes? Please provide details of the practicalities and costs that such an analysis would involve.

We agree with the FRC that mandating the analysis of operating expenses by nature, as well as by function when only an analysis by function is provided, would be inherently costly and complex and subject to the limitations of accounting systems. Moreover, we do not see the benefit of the disclosure of additional expense categories because we do not believe that it would necessarily provide useful information to the users of accounts. The major expense items, such as inventories, employees, depreciation and amortisation, are already disclosed in the statement of profit or loss and/or in the notes to the accounts under other accounting standards. If the analysis is made a requirement, we would like to see the IASB at least define the categories of expenses by function that it would like entities to disclose.

Unusual items

UK-Q10 To what extent are the IASB's proposals to define and disclose unusual items practicable and useful? Please explain the rationale for your answer.

Whilst we welcome the IASB's attempt to define unusual items, and mandate disclosure, the proposed definition is unhelpful for two reasons: 1) We do not understand why excluded items from the unusual category have to be "similar in type and amount" nor why the IASB has chosen to exclude items that will not arise for several future annual reporting periods. 2) As the FRC explains in paragraph A49, certain items that we would expect to be included in unusual items, such as profits or losses on business disposals and material impairments, might be reasonably expected to recur in the following reporting period if an entity is undertaking a restructuring, for example.

Johnson Matthey presents non-underlying items on the face of its income statement and excludes these items from its underlying profit measures in order to provide users of the accounts with measures of profitability that are comparable over time. Non-underlying items are excluded from underlying profit measures on the basis that they are not deemed to be relevant to an understanding of the underlying performance of the business. Non-recurring items include profit or loss on disposal of businesses and major impairment and restructuring charges. Certain items included in this definition might be excluded from the IASB's definition of unusual items.

UK-Q11 To what extent is our proposed definition of unusual items and associated disclosure requirements practicable and useful? Please explain the rationale for your answer.

The FRC's proposed definition of unusual items is an improvement on the IASB's proposed definition as it addresses our concern that the IASB's definition would exclude items that might be reasonably expected to recur in the following reporting period. However, the definition still focuses on the timing, rather than the nature or the size, of items that should be included. There is a risk that the definition is, therefore, too wide to be useful to users of the accounts.

We do not support the FRC's proposal to disclose unusual items from the "previous five periods alongside a statement of whether the event or condition triggering the unusual items recurred in subsequent reporting periods and triggered similar items of income or expense" (paragraph A53). We believe the requirement would be unduly onerous and would not be of significant value to the users of accounts. As above, we believe the size and nature of unusual items, rather than timing, is of more importance.

We support the FRC's suggestion that unusual items are disclosed on the face of the income statement, although it would be better to allow entities to present more than one line item where there are individually material items or material subtotals of items that share characteristics to provide users of the accounts with more useful information without having to refer to the notes to the accounts.

Management performance measures

UK-Q12 Are there any particular aspects of the regulatory environment in the UK which would conflict with the IASB's proposals on MPMs? Please provide the rationale for your answer.

We support the IASB's proposals to define MPMs and mandate certain disclosures to improve the understanding of the performance of entities. The proposals include many of the requirements of ESMA's Guidelines on Alternative Performance Measures and so they are consistent with existing practice.

We do foresee challenges for external auditors in providing assurance over the completeness of disclosures on MPMs. On the basis that they relate to all MPMs in "public communications outside financial statements". This would also be a significant compliance burden for entities if this definition is not restated in some way.

UK-Q13 To what extent would it be beneficial to adopt our recommendations on MPMs? Please provide the rationale for your answer.

We do not support limiting the scope of the IASB's proposals to those MPMs included in annual and interim reporting packages. Outside of annual and interim reporting packages, the requirements will also be relevant to financial performance measures included in quarterly or other RNS announcements, such as ad hoc market updates. These publications, in our view, should use consistent measures which do not change from period to period i.e. the MPMs included in market updates should be consistent with those defined as such in annual and interim reports. However, as above, we agree with the FRC that all "public communications outside financial statements" is too broad as a definition.

We note that there is inconsistency in the FRC's definitions of MPMs between paragraphs A62, A63 and A65.

We agree with the FRC that MPMs should only be derived from IFRS figures (paragraph A62) rather than "complement totals or subtotals specified by IFRS standards" as defined by the IASB. However, the FRC's recommended definition of MPMs that they should be "derived from totals or sub-totals specified by IFRS standards" (paragraph A63) implies that MPMs can only be combinations of IFRS totals or sub-totals. We would like the FRC to clarify whether this precludes, for example, the inclusion of adjustments for significant items of income and expense disclosed in accordance with IAS 1 (98) in the definition of an MPM. Although it does appear to contradict the definition in paragraph A63, we agree with the FRC's recommendation to broaden the definition of MPMs to include "any sub-total or ratio of income, expenses, assets, liabilities or equity which is presented in the annual or interim reporting package and is derived from IFRS figures" (paragraph A65), Whilst the IASB's definition is already broad enough to include sub-totals, we support the inclusion of ratios derived from IFRS figures in the definition of MPMs as they are commonly used.

We support the FRC's proposal to include examples of categories of performance measures which fall outside the scope of MPMs e.g. operating and statistical measures; measures of profit or loss or assets, liabilities and equity that meet the segment disclosure requirements of IFRS 8; and regulatory measures relevant to the reporting entity (paragraph A63). Whilst we support the FRC's recommendation to provide a list of exemptions, we note that the list is not consistent with, for example, the ESMA guidance. We would also welcome clarity on what "operating measures" are and why they should be excluded. Similarly, we cannot see why regulatory measures should be excluded per se. IFRS 8 measures of segment performance should be included in the definition since they are management performance measures i.e. "an entity shall also disclose…the measure of segment profit or loss reviewed by the chief operating decision maker" (IFRS 8 paragraph 23). We also note that the IASB's definition of MPMs includes the IFRS 8 operating segment information (ED paragraph B83).

We support the disclosure requirements to provide an explanation of the reconciling items and a calculation of the reconciling items if the reconciling items are not drawn directly from the financial statements (paragraph A67). However, we note that, if MPMs are "derived from totals or sub-totals specified by IFRS standards", the reconciling items are drawn directly from the financial statements.

We agree with the FRC's recommendation to allow the multi-column format as a means of presenting MPMs in the statement of profit and loss (paragraph A70). We believe that this would provide preparers with additional flexibility in the presentation of financial information.

We can see the benefit of defining earnings before interest, tax, depreciation and amortisation (EBITDA) from a consistency objective, however companies will still present their underlying performance in a way that reflects the nature of their business, and this appears to defeat the purpose of the FRC's recommendation. Nevertheless, EBITDA is a commonly used performance measure and we recommend that EBITDA is included in the scope of MPM disclosure requirements.