Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London
E14 4HD

30 September 2020

Dear Mr Hoogervorst

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

This letter sets out the comments of the UK Financial Reporting Council (FRC) on the above Invitation to Comment.

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by the UK Endorsement Board in its capacity as advisor to the UK Secretary of State on endorsement of definitive IFRS standards in the UK.

We welcome this consultation on general presentation and disclosures as we anticipate it will lead to more consistent and relevant financial information.

Subtotals and Categories

We welcome the proposed statement of financial performance subtotals and categories, as we believe they have the potential to contribute to greater consistency of financial information. However, we believe that more clarity is needed on what constitutes '*in the course of main business activities*' as this concept underpins the proposed operating category. We believe the tension between the residual definition of the operating category and the concept of income and expenses arising '*in the course of main business activities*' needs to be explored and resolved. We do not support the proposed accounting policy choice on the classification of finance costs when an entity provides financing to customers in the course of its main business activities. We believe the policy choice for such entities jeopardises the comparability and consistency improvements introduced by other proposals in the Exposure Draft. If the accounting policy choice is retained, we propose additional disclosures which would go some way to mitigating the lack of comparability. In addition, we recommend that before finalising these proposals, the IASB gives consideration to the practicalities and timescales of implementation of IFRS 17 together with any new standards or amendments arising from the ED.

Analysis of operating expenses by nature

We concur with the proposed analysis of operating expenses by nature or function in the statement of financial performance, but we observe that more clarity is needed on how the proposed analysis interacts with minimum line items required by other IFRS. We note that the proposal to present an analysis of operating expenses by nature, either on the face of the statement of profit or loss or in a note, is intended to enhance the predictive value of financial information by assisting the forecasting of future cash flows. However, as this proposal has the potential to require significant investment in systems changes by preparers of financial statements, we ask that the IASB seeks stakeholder input on the potential costs and timescales required. Before finalising the proposals, IASB should endeavour to evaluate these costs against the potential benefits accorded to investors to ensure they are justified.

Integral and non-integral associates and joint ventures

We acknowledge that the proposed distinction between integral and non-integral associates and joint ventures may provide greater insight into main business activities and investing activities for some business sectors. However, requiring separate presentation of integral and non-integral associates and joint ventures in each of the primary financial statements carries the risk of giving undue prominence to an analysis that is not significant for many entities. Rather, we suggest that disclosures requiring management to state whether they consider associates and joint ventures as an integral part of the business model together with their rationale for this, may better meet the IASB's stated objective of providing greater insight into main business activities and investing activities. As a minimum, we recommend that more clarity is provided on distinguishing between the two proposed categories of associate and joint venture.

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

We mainly agree with the proposed definition of the role of the primary financial statements and believe that an appropriate balance between comparability and relevance is proposed. However, we recommend that in order to reflect more fully the objective of financial statements as set out in the Conceptual Framework[1], the definition of the role of primary financial statements is expanded to refer to the provision of useful information for assessing the prospects of future cash flows and for assessing management's stewardship of the entity's resources.

We support the proposals on aggregation and disaggregation and recommend that they are clarified and expanded to restrict the presentation of non-material items in financial statements.

Unusual items

We welcome the progress on proposals to identify and disclose unusual items. We recommend that to support the stated objective of improved predictive value, unusual items should be defined as, '*income and expenses which have limited predictive value because they are triggered by events or conditions which are not expected to recur within the next reporting period or on a frequent or regular basis in the future*'. Our proposed definition would prevent items from failing to meet the definition of unusual items simply because they straddled the end of a reporting period. We propose additional disclosure to mitigate any risk posed to faithful representation by the need for significant judgement in identifying unusual items.

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[1] The objective of financial statements is to provide information about the reporting entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the reporting entity and in assessing management's stewardship of the entity's economic resources.

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In addition, we believe further clarity is necessary on the extent to which the proposals allow the presentation of unusual items on the face of the statement of profit or loss. We recommend that unusual items are presented as a single separate line item within the relevant category on the face of the statement of profit or loss, supported by appropriate disclosures. This would support the role of the statement of profit or loss in providing information which is relevant as well as comparable.

Management performance measures

We agree with the intention to provide more transparency and reliability around management performance measures. However, we believe that the proposed scope to include all management performance measures in published financial information is too broad to work in practice. Instead, we recommend that the scope is restricted to management performance measures included in annual and interim reporting packages. We also believe that the proposed definition of management performance measures should be expanded to include not only subtotals of income and expenses, but any sub-total or ratio presented in an annual or interim reporting package which includes any items of income, expenses, assets, liabilities or equity derived from IFRS figures. In our view, greater understandability and consistency would be achieved by aligning the proposals on MPMs with existing requirements, such as those stipulated by the US SEC Conditions for Use of Non-GAAP Financial Measures, IOSCO's Statement on Non-GAAP Financial Measures, and ESMA Guidelines on Alternative Performance Measures.

Given its importance to users of accounts, we recommend that the IASB considers defining EBITDA so that it is not captured within the management performance measure definition and would therefore be exempt from the proposed additional disclosure requirements.

Statement of cash flows and other primary financial statements

We support the proposed changes to the statement of cash flows as they reduce optionality. However, we observe that the Exposure Draft's proposed statement of profit or loss categories are inconsistent with the categories used in the statement of cash flows. We recommend that a project to undertake a more comprehensive review of the statement of cash flows is commenced to consider the extent to which the statement of cash flows meets user information needs and to identify potential improvements.

We note that the Exposure Draft focuses on the statement of profit or loss and encourage any subsequent projects to undertake a more comprehensive review of the other primary financial statements and a holistic review of all primary financial statements and disclosures, balancing additional disclosures with opportunities to streamline.

Re-exposure

Given the number of areas that may require further significant development, we ask the IASB to consider the potential need to re-expose those elements as part of a limited exposure draft. This would enable stakeholders to fully understand the impact of the final proposals and ensure a smooth implementation.

Our responses to the questions in the Invitation to Comment are included in Appendix 1 to this letter. If you would like to discuss these comments, please contact me or Alison Stiles at GPD@frc.org.uk

Yours sincerely

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk

Mark Babington
Acting Executive Director, Regulatory Standards

8th Floor, 125 London Wall, London EC2Y 5AS Tel: +44 (0)20 7492 2300 Fax: +44 (0)20 7492 2301 www.frc.org.uk

Appendix 1: Questions on ED/2019/7 General Presentation and Disclosures

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

A1 We agree with the proposal to require entities to report an operating profit or loss subtotal in the statement of profit or loss, as we recognise the value of operating profit as a predictive metric. Our view is that this proposal, combined with the requirement to provide 'a description of the nature of the entity's operations and its main business activities'[2], will also contribute to the role of financial statements in providing information to help users assess management's stewardship.

A2 In the UK, the current practice is for most entities to report an operating profit figure; however, this is sometimes described in different ways, for example as 'operating result' or 'earnings before interest and tax'. Thus, there is inconsistency in current practice in the description of operating profit. A small minority of entities does not disclose an operating profit figure. These proposals would require those entities to disclose an operating profit figure, leading to enhanced consistency of presentation.

A3 We note that the proposed requirement would represent a change in approach from the essentially permissive style of IAS 1, under which a wide variety of presentations of the statement of profit or loss is acceptable on the grounds of providing relevant information. In particular, when applying IAS 1, entities may amend the descriptions used and the ordering of items when this is necessary to explain the elements of financial performance and financial institutions may amend descriptions to provide information that is relevant to the operations of a financial institution.[3]

A4 The flexible approach in IAS 1 would be removed by the current proposals and we have considered whether they work sufficiently well for entities generally and for financial institutions in particular. In general, we believe that the ED has sufficient scope to enable entities to faithfully represent their performance and management's stewardship through a combination of profit or loss categories and sub-totals, as well as unusual items and MPMs disclosures. However, we recommend that consideration is given to the practicalities and timescales of implementation of IFRS 17 together with any new standards or amendments arising from the ED.

A5 Overall, given the current disparity in practice and the consistency which the proposal would bring, we are generally supportive of the proposal for all entities to present an operating profit or loss subtotal in the statement of profit or loss. We note that the board proposes to retain the requirement for entities to present additional subtotals

[2] ED paragraph 99 (b), brought forward from IAS 1 paragraph 138

[3] IAS 1, paragraph 86.

when relevant to understanding the entity's financial performance[4], provided such subtotals fit in the proposed structure of the statement of financial performance and comprise line items made up of amounts recognised and measured in accordance with IFRS Standards[5]. Since this requirement provides flexibility for relevant information to be disclosed through additional subtotals provided the subtotals fit within the proposed structure for the statement of profit or loss, our view is that the proposal strikes an appropriate balance between relevance and comparability.

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

A6 Under current practice, there is inconsistency in the definition and calculation of operating profit, leading to a lack of comparability. For example, some entities include the results of associates and joint ventures in operating profit, whereas others present these items separately below operating profit. Some entities present unusual items outside the operating category and others do not.

A7 Therefore, we support this proposal and the intention to bring consistency to what is included in the operating category.

A8 We recognise that the proposed definition of the operating category is a residual definition, since paragraph 46 states that an entity shall classify in the operating category all income and expenses included in profit or loss that are not classified in other statement of profit or loss categories proposed by the Exposure Draft.

A9 We support the proposed residual definition, since having a residual definition allows for application across many sectors, thereby supporting consistency; whilst the proposals retain sufficient flexibility by allowing other relevant sub-totals such as gross profit to be included within the operating category. We support the view that defining operating profit as a residual category will lead to less judgement and more consistency across reporting entities, than applying a definition of operating items would.

A10 Whilst we support the proposal, we note that the definition of the operating category proposed for the statement of financial performance is not consistent with the definition of operating activities used in the statement of cash flows. For example, the purchase of a new machine to maintain production at existing levels would be shown in the investing category in the statement of cash flows. However, the associated depreciation cost of the new machine would be recorded in the operating category in

[4] General Presentation and Disclosures Exposure Draft, paragraph 42, BC 31.

[5] General Presentation and Disclosures Exposure Draft, paragraph 43(a).

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the statement of financial performance. This could be confusing for users. We welcome the IASB's work in improving consistency of classification within the statement of financial performance, and we recommend that the IASB undertake a future project to consider the extent to which the statement of cash flows meets users' information needs and to identify any potential improvements.

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

A11 We support this proposal, as it would provide greater comparability between entities and more insight into their operating performance. Currently there is diverse practice, with some entities including investment income and expenses in operating profit and other entities presenting these items below operating profit. Therefore, we support the proposal as it would lead to greater consistency in classification, which would support comparability whilst retaining sufficient flexibility to support relevance.

A12 However, we recognise that putting this proposal into practice as it currently stands would require exercise of significant judgement as to what constitutes an investment made in the course of an entity's main business activities. The need to exercise significant judgement in this classification would jeopardise comparability both between entities and across different reporting periods for the same entity. Indeed, the application guidance acknowledges in paragraph B27 that '*Whether income and expenses from investments arise in the course of an entity's main business activities is a matter of judgement*.'

A13 We acknowledge that there is some clarification in the application guidance and in the Basis for Conclusions on the application of this proposal. For example, we welcome the guidance in paragraph BC60 which explains that an investing activity undertaken in the course of main business activities may not necessarily be a main business activity in itself: the investment may be made to support the main business activity, as in the case of insurers. Additionally, paragraph B31 states that if a segment is reported under IFRS 8, that may indicate it is a main business activity. However, our overall view is that more guidance is needed on what constitutes '*in the course of main business activities*', and that examples of investments made outside the course of the entity's main business activities would also be welcome, to support consistency of application.

A14 Therefore, while we support this proposal, we recommend that the IASB gives further guidance on what does and what does not constitute *'in the course of main business activities*' to enable consistent application. Otherwise there is a risk that comparability

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is not improved and significant judgements about what constitutes a main business activity are applied.

A15 We also note that most financial institutions currently report all investment income and expenses within their operating result. This proposal would require them to analyse investment income and expenses into the operating category where the investing activity is undertaken in the course of the entity's main business activities, and the investing category where it is not.

A16 We note that there is a tension between the IASB's proposed treatment of operating profit as a residual and the definition of operating items as those undertaken in the course of the entity's main business activities. Paragraph 46 starts with an activity-based definition but moves to a residual definition.[6] We suggest that this tension is explored and resolved.

Question 4—the operating category: an entity that provides finance 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 Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

A17 We concur with the proposal to classify income and expenses from financing activities and from cash and cash equivalents in the operating category where the entity provides financing to customers as a main business activity, as this would provide users with useful information on operating performance.

A18 There is currently diversity of practice where entities provide finance to customers as a main business activity. Some entities present the results of providing finance to customers within the operating category, and indeed this is typically the case in the financial sector. However, other entities which for example manufacture or retail goods as well as providing financing to customers as a main business activity may present the results of the provision of financing to customers either in the operating category or in the financing category. The proposals would therefore allow a more consistent

[6] 'The operating category includes information about income and expenses from an entity's main business activities. An entity shall classify in the operating category all income and expenses included in profit or loss that are not classified in investing, financing, integral associates and joint ventures, income tax, or discontinued operations.' Paragraph 46, Exposure Draft, *General Presentation and Disclosures*.

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application of the concept of operating profit being the result of income and expenses arising '*in the course of the entity's main business activities'* across different business models.

A19 However, as noted in our response to the proposals outlined in Question 3 above, we recommend that more clarity is provided on what constitutes a main business activity, since without such clarity significant judgement will be needed to classify the results of different activities correctly, and this could reduce consistency and comparability.

A20 We note that a choice of accounting treatment is proposed, reducing comparability, as acknowledged in the Basis for Conclusions in paragraph BC68. An entity could elect to report all income and expenses from financing activities and from cash and cash equivalents in the operating category, which could reduce comparability and would also result in loss of relevant information, and therefore we do not support the proposed choice of accounting treatment.

A21 If the proposals to allow an accounting policy choice are developed, to mitigate the potential reduction in comparability and relevance, we recommend that an entity using the accounting policy choice to include the results of finance provided to customers in the operating category proposed in paragraph 51 of the Exposure Draft should be required to disclose the amounts recognised in the operating category to assist comparability. We also recommend a requirement to disclose when activities are reclassified from financing or investing into operating, or vice versa.

A22 We suggest that, to enhance clarity, paragraph 51 is redrafted from '*it shall make an accounting policy choice to not classify in the financing category* …' to '*it shall make an accounting policy choice to classify 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 course of business. Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

A23 We support this proposal as it may provide useful information to users on returns on investments made outside the course of the entity's main course of business.

A24 Current practice is mixed, as some entities present an investing category within their statement of profit or loss while others include income and expenses from all investments within operating results. This limits the usefulness of information on both operating and investing activities for users.

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A25 Implementing the proposal would give more useful information on both operating performance and returns on investments which are made outside the course of the entity's main course of business.

A26 However, as noted in our response to Question 3 above, we have concerns about the extent to which subjective judgement will be needed to decide whether an investment has been made in the course of the entity's main business activities or not, and the consequential impact of this on consistency and comparability of the information presented. Therefore, whilst we support this proposal, we recommend that the IASB further considers what constitutes '*in the course of main business activities'* in order to enable consistent application. Otherwise there is a risk that subjective judgements on what constitutes a main business activity are applied, inconsistent classification of items in the operating category continues, and the usefulness of the financial information is not improved.

A27 We also note that there is a lack of consistency between the definition of the investing category in the statement of profit or loss and its definition in the statement of cash flows. In IAS7 Statement of Cash Flows, investing activities are defined as the acquisition and disposal of long-term assets and other investments not included in cash equivalents. This definition includes long-term assets such as property, plant and equipment used in the course of the entity's main business activities. In contrast, the investing category in the statement of profit or loss under the proposals would include results from investments made outside the course of the entity's main business activities. The inconsistency between these definitions is potentially confusing for users, and we recommend that a further project with a broader remit to cover all primary statements is undertaken.

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, 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.

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

A28 We concur with the IASB's proposal for all entities, apart from those which opt under proposal 4 above to present all financing income and costs and all gains and losses on cash and cash equivalents in operating profit, to present a subtotal of profit or loss before financing and income tax in the statement of profit or loss. Currently there is diversity of presentation and not all entities present a sub-total of profit or loss before financing and income tax. The proposal will therefore provide consistently useful information on entities' pre-financing and pre-tax financial performance.

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A29 We concur that the following should be included in the financing category: income and expenses from cash and cash equivalents; income and expenses on liabilities arising from financing activities; and interest income and expenses on liabilities which are not finance liabilities[7]. Specifying the costs to be included in the financing category will improve the consistency and comparability of financial information for users. Whilst we note that unwinding the discount on liabilities that do not arise from financing activities, such as decommissioning and pensions, could be viewed as an operating expense rather than a financing expense, we conclude that it is appropriate to treat these costs as finance costs, since this is consistent with the prescribed treatment in IAS 37.[8] We recommend that paragraphs B35 and B37 are expanded to include the conceptual basis for including the items listed in the financing category.

A30 We recommend that incremental expenses relating to financing should be included in the financing category in the statement of profit or loss. This would be consistent with the proposal to include incremental expenses relating to investing in the investing category in the statement of profit or loss[9].

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.

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

A31 We do not agree with the proposal to require entities to present separately integral and non-integral associates and joint ventures in each of the primary financial statements. In our view this may give undue prominence to an analysis that is insignificant for many entities. The proposed sub-total of '*operating profit or loss and income and expenses from integral associates and joint ventures'* seems unwieldy, reflecting the potentially

[7] For example, unwinding the discount on decommissioning and other provisions; unwinding the discount on the costs to sell a non-current asset or disposal group under IFRS 5; and net interest expense on a net defined benefit liability.

[8] IAS 37 paragraph 60 states 'Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as borrowing cost.'

[9] General Presentation and Disclosures Exposure Draft paragraph 47b.

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cumbersome outcome which the proposed split would create. We also note that the proposed classification of associates and joint ventures into the integral and non-integral categories may require the exercise of significant judgement. We suggest that additional disclosures, focusing on whether management see associates and joint ventures as an integral part of the business model and why, may address both these concerns. The disclosures would achieve the objective of providing greater insight into the business model of reporting entities. The disclosures would also better align with the role and function of the primary financial statements and the notes as proposed in the Exposure Draft.

A32 We agree with the proposal to require entities to present income and expenses from associates and joint ventures separately from operating profit. At present, there is diversity in classification of results of associates and joint ventures, as some entities include these results in operating profit and others present them elsewhere within the statement of profit or loss. Our view is that greater consistency and usefulness of information will be achieved by presenting a subtotal for '*operating profit or loss and income and expenses from associates and joint ventures'* in the statement of profit or loss.

A33 According to the proposed new IFRS12 para 20D, a significant interdependency between a reporting entity and an associate or joint venture indicates that the associate or joint venture is integral. Three examples of a significant dependency between an entity and an associate or joint venture are provided. If the proposal to create an integral category of associates and joint ventures is developed, we recommend that the concept of significant interdependency is further explored and defined, and that a broader range of examples of significant interdependency is provided to support practical application. Other examples could include start-ups, research and development co-operations, and co-operations in international markets.

A34 We note that there is misalignment between the proposed presentation of integral and non-integral associates and joint ventures in the statement of cash flows and in the statement of financial performance. In the statement of financial performance, the results of non-integral associates are presented in the investing category, but the results of integral associates and joint ventures are included in a separate subtotal, '*operating profit or loss and income and expenses from integral associates and joint ventures.*' However, all dividends from associates and joint ventures are included in the investing section of the statement of cash flows Therefore, we recommend a more extensive project is undertaken to consider the extent to which other primary financial statements meet user needs and to identify any potential improvements..

Question 8— Roles of primary financial statements and 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.

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

A35 We mainly agree with the proposed description of the role of the primary financial statements set out in paragraph 20 of the Exposure Draft.[10] We agree that the primary financial statements should *'provide a structured and comparable summary of the elements of financial statements and identify items or areas about which users of financial statements may wish to seek additional information in the notes.'* We believe that this definition helps to distinguish the role of the primary financial statements from the role of the notes. However, we recommend that in order to reflect more fully the objective of financial statements as set out in the Conceptual Framework[11], the definition of the role of primary financial statements is expanded to refer to the provision of useful information for assessing the prospects of future cash flows and for assessing management's stewardship of the entity's resources.

A36 We also note that the proposed definition of the role of primary financial statements includes the word 'comparable' but does not include the word 'understandable.' We recommend that the understandability of the primary financial statements continues to be given prominence alongside comparability in developing these and future proposals. Our recommended approach would be consistent with the Conceptual Framework statement that '*The statement of financial position and statement(s) of financial performance depict an entity's recognised assets, liabilities, equity, income and expenses in structured summaries that are designed to make financial information comparable and understandable.*'[12]

A37 We agree with the proposed definition of the role of the notes being *'to provide further information necessary for users of financial statements to understand the items included in the primary financial statements, and to supplement the primary financial statements with other information that is necessary to meet the objective of financial*

[10] The role of the primary financial statements is to provide a structured and comparable summary of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows, which is useful for:

(a) Obtaining an overview of the entity's assets, liabilities, equity, income, expenses and cash flows

(b) Making comparisons between entities, and between reporting periods of the same entity; and

(c) Identifying items or areas about which users of financial statements may wish to seek additional information in the notes.

[11] The objective of financial statements is to provide information about the reporting entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the reporting entity and in assessing management's stewardship of the entity's economic resources.

[12] Conceptual Framework, 5.2

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statements.'[13] We observe that the proposed definition of the notes is helpful in distinguishing between the respective roles of the primary financial statements and the notes.

A38 The Exposure Draft proposes the aggregation of items with shared characteristics provided this does not override the requirements of other IFRS and provided it does not obscure relevant information or reduce understandability[14]. We agree with this proposal, as we anticipate it will lead to the provision of more useful information for users. At present there is diversity in practice, as some entities include line items such as 'other operating expenses' in the statement of financial performance without sufficient analysis in the notes to make them understandable; while other entities present so much detail in the primary financial statements that understandability is compromised as relevant items are not given adequate prominence.

A39 Paragraph 24 of the Exposure Draft 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.*'[15] However, paragraphs 27 and 28 go on to state that where immaterial items which do not share similar characteristics are aggregated, labels such as '*other*' do not faithfully represent them without additional information, and propose that in order to faithfully represent such items an entity shall disclose in the notes '*information about the composition of the aggregated items.'* We would welcome clarity on the interaction between paragraph 24 and paragraphs 27 and 28. The proposals in paragraphs 27 and 28 could lead to presentation and disclosure of immaterial items which could obscure the presentation of relevant information.

A40 Therefore, while we welcome the confirmation provided in paragraph 24 of the Exposure Draft that: *'an entity need not provide a specific presentation or disclosure required by an IFRS Standard if the information resulting from that presentation or disclosure is not material, and that this is the case even if the IFRS standard contains a list of specific requirements or describes them as minimum requirement*' we reiterate the recommendation from our response to the Disclosure Initiative Exposure Draft:[16] '*that the IASB should ensure the language in (the proposals) consistently encourages entities to omit disclosures that are not material, as we believe that the disclosure of immaterial information can impair understandability and obscure useful information*.' We therefore recommend that paragraph 24 of the Exposure Draft is reworded to read '*an entity* should exclude *a specific presentation or disclosure required by an IFRS Standard if the information resulting from that presentation or disclosure is not material, and that this is the case even if the IFRS standard contains a list of specific requirements or describes them as minimum requirements*.'

A41 We anticipate that the Exposure Draft's proposals on the purpose of the primary financial statements and the notes will support the development of useful financial

[13] General Presentation and Disclosures Exposure Draft, paragraph 21.

[14] General Presentation and Disclosures Exposure Draft, paragraph 25c.

[15] General Presentation and Disclosures Exposure Draft, paragraph 24.

[16] FRC's response to Exposure Draft 'Disclosure Initiative (Proposed Amendments to IAS 1) 7 July 2014

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information. However, we ask the IASB to consider whether the proposals should be more extensive. We reiterate our recommendations from our response to the Exposure Draft: *Disclosure Initiative* that the proposals should:

i. Provide guidance on whether to prioritise understandability over consistency from year to year, or the comparability of the financial statements with those of other entities when determining an appropriate structure for the notes.

ii. Propose that disclosure requirements for the notes should be met by including a cross-reference in the notes to information provided elsewhere in the financial report. This would reduce the duplication of information in different components of the financial report.

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

A42 We support the proposals to require entities to present an analysis of operating expenses either by nature or by function in the statement of profit or loss. We believe that this proposal will support the completeness of each line item included in the operating category. We observe that the method by which operating expenses are analysed in the statement of profit or loss is not an accounting policy choice, but rather that the proposal requires entities to choose the method that provides the most useful information to users.

A43 Currently, IAS1 requires an analysis of operating expenses by nature or by function and allows management to choose which basis is most relevant and reliable. IAS1 encourages but does not require management to present their chosen analysis in the statement of profit or loss. Therefore, many entities mix the presentation of operating expenses by nature and by function in the statement of profit or loss and disclose an analysis by nature or by function in a note. Current practice therefore limits consistency and comparability and leads to information which may be of limited usefulness in forecasting the cash flows of the entity. Our view is that the proposals would improve the consistency and comparability of financial information, as well as its usefulness.

A44 However, we recommend that more clarity is provided on whether, and to what extent, any exceptions to the requirement to present an analysis of operating expenses either by nature or by function in the statement of profit or loss will be allowed. Paragraph B15 identifies circumstances that would give rise to separate presentation in the

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statement of financial performance or disclosure in the notes.[17] This suggests that the proposed accounting treatment of these items has not changed from the current IAS 1 requirements. We would welcome clarity on the extent to which flexibility to present separate material items of income and expense is retained or prohibited by the proposals, particularly given the proposed removal of IAS 1 paragraph 30 which requires consideration of materiality when deciding what should be presented in the financial statements and what should be presented in the notes . In addition, we note that it may be helpful to provide an explanation of the conceptual basis for the separate presentation of the items listed in paragraph B15.

A45 Moreover, paragraph 65 of the Exposure Draft identifies separate line items to be presented in the statement of profit or loss, as required by IFRS 9 and IFRS 17. Paragraph B47 clarifies that an entity shall 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 recommend that additional clarity is provided within paragraph 68 that the requirement to analyse operating expenses in the statement of profit or loss by nature or function is effectively over-ridden by the requirement to present the line items identified in paragraph 65. We also note that while paragraph B44 explains that to comply with paragraph 65, an entity may need to include an extra line item within the operating, investing, or financing category headings, it is unclear how such a line item would fit within analysis of operating expenses either by nature or by function, and we would welcome clarity on this point. Our view is that the proposals in the Exposure Draft will not be effective in improving consistency and usefulness of financial information for forecasting future cash flows if there are many single-line item exceptions to the proposal to present operating expenses in the statement of profit or loss either by nature or by function.

A46 We agree with the proposal to require entities which analyse operating expenses by function in the statement of profit or loss to disclose an analysis of operating expenses by nature in a single note. We believe that this disclosure will be useful in forecasting future cash flows of the entity. However, we also note that feedback from preparers has been that providing an analysis of expenses by nature will be costly and complex, since accounting systems are not set up to capture data to meet this requirement, and so would need to be adapted or changed. We recommend that more field testing is undertaken to assess the cost to preparers of implementing the proposals. According to the conceptual framework, cost is a pervasive constraint on the information provided by financial reporting, and the cost of producing information must be justified by the benefits it provides.

A47 In addition, we ask whether the Exposure Draft requires more detail on the level of disaggregation in the proposed analysis of operating expenses by nature in order to ensure that such an analysis provides useful information.

A48 We also ask whether the requirement to present an analysis of operating expenses by nature, whether in the statement of profit or loss or in the notes, has the unintended consequence of encouraging entities to analyse operating expenses by nature on the face of the statement of profit or loss. In our view, the accounting policy choice to analyse operating expenses either by nature or by function in the statement of profit or

[17] Paragraph B 15 identifies the following items: write-downs, restructuring costs, disposals of items of property plant and equipment, disposals of investments, litigation settlements and reversals of provisions.

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loss provides relevant information because it gives insight into management's view of which method provides the most useful information for users. We would not support an outcome where cost burden drove companies to analyse operating expenses by nature on the face of the statement of profit or loss, thereby potentially reducing the relevance of the information provided.

A49 We recommend clarifying within paragraph 65 that entities choosing the nature of expense method are not required to present cost of sales as a line item in their statement of profit or loss. This is currently implied by paragraph 71 but not explicitly stated.

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) to 101(d) of the Exposure Draft propose what information should be disclosed relating to unusual income and expenses.

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

A50 We agree with the core of the proposed definition, stated in paragraph 100 of the Exposure Draft, that unusual items are income and expenses with limited predictive value. However, as discussed below, we do not agree with the second part of the definition, which states that income and expenses have limited predictive value when it is reasonable to expect that income and expenses that are similar in type or amount will not arise for several future reporting periods.

A51 We understand that the intention in defining unusual items and in prescribing their presentation and related disclosures is to improve the relevance of financial information and specifically its predictive value. As paragraph BC123 (a) explains, the separate presentation or disclosure of unusual or infrequent income and expenses provides information that is useful in making forecasts about future cash flows. Whilst IAS 1 requires disclosure of material items it does not require an assessment of whether such material items can be reasonably expected to arise in future reporting periods.[18] Thus, the current requirements of IAS 1 do not necessarily lead to information with a high predictive value. For example, some entities report the same items as material over significant numbers of consecutive reporting periods without sufficient disclosure to provide insight into whether the items are likely to recur. We

[18] IAS 1 paragraph 97 requires the disclosure of material items.

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therefore support the intention to provide financial information which has a consistently high predictive value.

A52 Whilst we support the proposed disclosure of items with limited predictive value, we believe that the proposed definition of unusual items is too narrow and is likely to reduce the predictive value of the financial information presented. For example, an entity undertaking one-off six-month restructuring during the current reporting period would report restructuring costs as an unusual item in the current reporting period, whereas an entity conducting one-off six-month restructuring straddling two reporting periods would not report those restructuring expenses as an unusual item in the current year. The information on restructuring costs has equal predictive value in both cases, and yet would be treated differently under the proposals.

A53 Therefore, the requirement to treat as unusual only those items which will not arise in several future reporting periods, appears to reduce the predictive value of financial information. In the example discussed above, it would also reduce the comparability of the financial information presented.

A54 We also note that the Exposure Draft's proposed requirement to assess whether it is reasonable to expect that income or expenses that are similar in type and amount will or will not arise for several future reporting periods would require the exercise of significant judgement. It is possible that the proposal would not result in consistency of items identified as unusual from one period to the next, as future expectations may differ at each reporting date. In addition, we recommend that more guidance is provided on the application of 'similar in type,' since, for example, an impairment of goodwill may or may not be seen as similar in type to a PPE impairment arising from a different cause.

A55 We therefore recommend that the definition of unusual items is amended to '*items of income and expenses which have limited predictive value because they are triggered by events or conditions which it is reasonable to expect will not recur within the next reporting period or on any frequent or regular basis in the future'*. In our view, when combined with the narrative disclosures proposed in paragraph 101 (b) of the Exposure Draft, this definition will better meet the objective of improved predictive value.

A56 We recognise that our proposed definition of unusual items would still require the exercise of significant judgement to assess whether it is reasonable to expect that events or conditions triggering income and expenses will or will not recur: (i) within the next reporting period; or (ii) on any frequent or regular basis in the future. However, our proposed definition creates a high bar for the recognition of unusual items, thus reducing the amount of judgement required. Nevertheless, recognising that judgement would be required, we recommend an additional disclosure. The additional disclosure would list unusual items disclosed in the previous five reporting periods alongside a statement of whether the event or condition triggering the unusual item recurred in subsequent reporting periods and triggered similar items of income or expense. We anticipate that such disclosure would encourage the disciplined use of judgement in identifying items as unusual and, since the volume of unusual items is likely to be low given the high bar provided by the definition, would not lead to excessive clutter in the financial statements.

A57 We note that the materiality threshold described in paragraph 24 of the Exposure Draft would apply to unusual items, as to all other items in the financial statements. We note that from a practical application perspective, it is particularly important to confirm that

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the materiality threshold applies to the identification of unusual items, since otherwise there is a risk that a disproportionate amount of management and auditor time will be spent in identifying and auditing unusual items and that the cost of this exercise may outweigh the benefit for users. Given the IASB's proposals for unusual items do not remove the requirement to disclose material items, as identified in paragraph B15, sufficient disclosure of material recurring items would be required and can be further enhanced by our suggested amendments.

A58 We recommend that the proposals clarify that the proposed treatment of unusual items is not a reinstatement of extraordinary items, and that extraordinary items are still prohibited.

A59 We agree with the disclosure proposals on unusual items in paragraph 101 of the Exposure Draft. We anticipate that requiring these disclosures will contribute to the predictive value and the completeness of the information presented. We also note that the proposed disclosures are consistent with the proposed role of the notes to the financial statements discussed in Question 8 above.

A60 However, we would also welcome clarity on whether unusual items can be disclosed on the face of the statement of profit or loss within the categories and sub-totals proposed by the Exposure Draft, as well as in a single note. It is unclear whether the items listed in paragraph B15 should be presented separately in the statement of financial performance within the relevant category and sub-total proposed by the Exposure Draft and we would welcome clarity on this point. If the items listed in paragraph B15 are to be presented separately in the statement of profit or loss, more guidance is needed on how this requirement interacts with the proposal to require an analysis of operating expenses by nature or by function, as discussed in our response to Question 9 above. Our recommendation is that within the proposed operating, investing and financing categories in the statement of profit or loss a single line item would be included for unusual items, cross-referenced to a note containing relevant disclosures. This would support the relevance of financial statements by making unusual items visible at a glance, as well as maintaining comparability by requiring unusual items to be included within the relevant statement of profit or loss category.

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) to 106 (d) of the Exposure Draft propose what information an entity would be required to disclose about its management performance measures.

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?

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A61 We broadly welcome IASB's efforts to improve the completeness and understandability of financial information in its proposals on management performance measures (MPMs). However, in our view the proposed definition of MPMs creates potential for confusion because it does not align with existing regulatory requirements and guidelines, as discussed below. In addition, the proposed definition is broad in terms of the scope of published information it seeks to encompass yet narrow in terms of its restriction to subtotals of income and expenses. Therefore, we do not agree that information about management performance measures as defined by the Board should be included in the financial statements.

A62 Currently, entities report MPMs both within and without the financial statements and there are no requirements under IFRS to reconcile MPMs to financial information presented under IFRS. This creates potential for a lack of transparency about how MPMs are calculated.

A63 The IASB proposes that all sub-totals of income and expenses used in public communications outside the financial statements which complement IFRS totals or subtotals and which communicate management's view of an aspect of financial performance should be disclosed in a single note to the financial statements and reconciled to IFRS subtotals or totals.

A64 In our view, the scope of the proposed definition of MPMs to include all sub-totals of income and expenditure included in all public communications outside of the financial statements is extremely ambitious and may not be practical as some public communications may post-date the publication of the financial statements. It is also hard to envisage how auditors would gain sufficient comfort around the completeness assertion given the proposed definition extends to MPMs in all public communications.

A65 Therefore, we recommend that the scope of the proposals is reduced to make their application more likely to be successful in practice. We recommend that the scope of the proposals is limited in two ways. First, we recommend that the scope is limited to those MPMs included in the annual and interim reporting packages[19] . This restriction would be consistent with ESMA's Guidelines on Alternative Performance Measures[20] (the ESMA guidelines). Second, we recommend that the scope is limited to those MPMs which include figures derived from IFRS figures. This restriction would be

[19] Definitions would need to be developed for annual reporting package and interim reporting package. For example, annual reporting package is defined in paragraphs 19B of ED Improvements to IFRS 8 Operating Segments, 2017: An entity's annual reporting package is a set of one or more documents that (a) is published at approximately the same time as the entity's annual financial statements; (b) communicates the entity's annual results to users of its financial statements; and (c) is publicly available, for example, on the entity's website or in its regulatory filings. In addition to the annual financial statements, the annual reporting package may include a management commentary, press releases, preliminary announcements, investor presentations and information for regulatory filing purposes.

[20] ESMA Guidelines on Alternative Performance Measures, European Securities and Markets Authority, 2015

consistent with the approach taken in the ESMA guidelines, and US SEC Conditions for Use of Non-GAAP Financial Measures[21] (US SEC conditions).

A66 Consequently, we recommend that IASB's proposed definition of MPMs is changed from '*complement totals or subtotals specified by IFRS standards*,'[22] to '*include items derived from totals or subtotals specified by IFRS standards'* since we pose that *'include items derived from*' provides a tighter definition than '*complement*.' This definition would exclude non-financial performance measures and regulatory measures derived from financial information other than IFRS from scope. We also recommend that for the avoidance of doubt, examples of categories of performance measure which fall outside the scope of the MPM definition are listed in the proposals. We would recommend that this list includes: (i) Operating and statistical measures; (ii) measures of profit or loss or assets, liabilities and equity that meet the segment disclosure requirements of IFRS 8; and (iii) regulatory measures relevant to the reporting entity. Providing such a list of performance measures which are excluded from the scope of the MPM definition would be consistent with the ESMA guidelines and US SEC conditions.

A67 We recognise that the effect of the IASB's proposals, as amended by our recommendations in the paragraphs above, would be to bring MPMs meeting the definition within the scope of audit. We support this outcome and note that it would encourage discipline in the use of MPMs. We also note that this is consistent with the recommendations in the Brydon report in the UK that any APMs or KPIs included in the annual report should be subject to audit.

A68 We also recommend that the definition of a management performance measure is broadened 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 includes items derived from IFRS figures. This definition would include, for example:

i. Sub-totals of income, for example adjusted revenue figures

ii. Sub-totals of expenses

iii. Statement of financial position sub-totals, for example net debt

iv. Statement of cash flows sub-totals, for example free cash flow

v. Financial ratios where component figures in the ratio calculation are derived from IFRS figures

A69 Whilst we acknowledge that as noted in BC154, the Board's focus based on user feedback is on the statement of financial performance and the related notes, we recommend this broader definition of MPMs because we anticipate it would reduce confusion about which MPMs would fall within its scope and would be workable in practice.

21 US SEC Conditions for Use of Non GAAP Financial Measures, 17 CFR PARTS 228, 229, 244 and 249

22 General Presentation and Disclosures Exposure Draft, paragraph 103b.

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A70 We agree with the proposed disclosure requirements for management performance measures. We anticipate that disclosing all management performance measures in a single note will improve the completeness and understandability of the financial statements. In addition, we expect that the narrative disclosures on how the management performance measure is calculated, and how the measure provides useful information about the entity's performance, will provide investors with insight on the stewardship of the entity's resources. We recommend that for clarity, paragraph 108 is redrafted from '*if an entity changes the calculation of its management performance measures*' to '*if an entity changes the basis of the calculation of its management performance measures*.' In addition, we recommend the following additional disclosures are added to paragraph 106: (i). an explanation of the reconciling items. (ii). A calculation of the reconciling items if the reconciling items are not drawn directly from the financial statements. We note that including these additional disclosures requirements for MPMs would be consistent with the ESMA guidelines and IOSCO's Statement on Non-GAAP Financial Measures[23] (IOSCO's statement).

A71 We recommend that a cross reference in the notes to the financial statements to another single place in the annual report where all MPM disclosure requirements have been met and audited should be acceptable where regulatory constraints prevent the inclusion of non-IFRS measures within the financial statements or notes, and as a practical expedient. We note that the use of such cross references is consistent with the ESMA guidelines and IOSCO's statement. We recommend that such a reference should be sufficiently specific for the specific page and section where the audited MPMs are contained to be identified. We also intend that the scope of audit work on MPMs would be the same, whether the MPMs are disclosed in a single note to the financial statements, or whether the disclosure requirements are met by reference to a single place elsewhere in the annual report where all disclosures are met.

A72 We agree with the proposal to allow MPMs to be presented in the statement of financial performance, despite concerns from some stakeholders that this could give such MPMs extra prominence. We agree with the criteria set out in BC165 for presenting management performance measures in the statement of financial performance:

i. it would need to fit into the structure of the proposed categories for the statement of profit or loss;

ii. it must not disrupt the presentation of an analysis of expenses in the operating category using either the function of expense or nature of expense method and;

iii. it must comprise amounts recognised and measured applying IFRS standards.

We recommend that these criteria are brought into the Exposure Draft to provide additional clarity

A73 We note that paragraph 110 of the Exposure Draft prohibits entities from using columns to present management performance measures in the statement of financial performance. We assume that this means multi-column format rather than single column format is proposed to be prohibited and would welcome clarity on this point. The prohibition of multi-column format for management performance measures in the statement of profit or loss, but not for expenses for example, seems arbitrary. We

[23] Statement on Non-GAAP Financial Measures, IOSCO, 2016

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believe such a prohibition could have the unintended consequence of reducing the usefulness of the financial information presented. We recommend that multi-column format is allowed as a means of presenting management performance measures in the statement of profit or loss.

A74 We note that paragraph 104 lists a number of commonly used MPMs and exempts them from the MPM disclosure requirements. The ED states that these performance measures are exempted from management performance measures as defined in the ED, because they are commonly used and widely understood. We recommend that this rationale is explored more fully, as we believe that there is diversity in the calculation and interpretation of these measures. [24]

A75 We also request clarity on whether a segment result reported under IFRS 8 constitutes an IFRS subtotal and is therefore not subject to the MPM requirements proposed by the exposure draft, or whether it meets the definition of an MPM under the proposals of the Exposure Draft.

Question 12—EBITDA
Paragraphs BC172 – BC 173 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? measures? Why or why not? If not, what alternative disclosures would you suggest and why?

A76 We do not agree with the board's decision not to define EBITDA in this project. Our view is that EBITDA is an important measure for users of financial statements, and we propose that it should be defined.

A77 In paragraph BC 172 the Board explains it has decided not to define EBITDA because EBITDA is not used across all sectors, and because there is diversity in its definition

[24] The performance measures in paragraph 104 and exempted from the proposed MPM definition and disclosures in the Exposure Draft are:

a. Totals or sub-totals proposed in the Exposure Draft

b. Gross profit or loss and similar sub-totals

c. Operating profit or loss before depreciation and amortisation;

d. Profit or loss from continuing operations;

e. Profit or loss before income tax.

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and calculation. We would welcome more clarity on how this makes EBITDA different from operating profit, which the ED proposes to define. We note that the Board explains that there is no conceptual basis for EBITDA, and again we would welcome clarity on how this differs from defining the operating category as a residual category.

A78 Since EBITDA is not included in the list of measures exempt from MPM requirements, under the current proposals EBITDA will fall within the proposed MPM requirements. We recommend that consideration is given to defining EBITDA and including it in the list of exempted performance measures in paragraph 104.

Question 13— Cash flow statement changes
(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 IAS7 would specify the classification of interest and dividend cash flows. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

A79 We agree with the proposal to require operating profit or loss to be the starting point for the indirect method of reporting cash flows from operating activities, as it would remove optionality. Currently some entities using the indirect method use operating profit as the starting point for calculating operating cash flows, whereas others use profit before tax or profit after tax. We therefore anticipate there would be more comparable information between entities in the calculation of operating cash flows using the indirect method.

A80 We agree with the proposals to specify the classification of interest and dividend cash flows, as they would reduce optionality. Currently entities can present interest paid and received, and dividends paid and received, in either the operating section or the financing section of the statement of cash flows. Under the proposals, all companies would present dividends paid in the financing section. Under the proposals, the default option for entities would be to present interest paid in the financing section of the statement of cash flows and interest received and dividends received in the investing section of the statement of cash flows. However, if a company provides financing to customers as a main business activity and elects under paragraph 51 of the Exposure Draft to include finance income and expense in the operating category of the statement of profit or loss, it would record the associated cash flows in the operating category of the statement of cash flows for consistency. We support the reduction in optionality and the greater consistency with statement of profit or loss categories that these proposals bring.

A81 While the proposals in the Exposure Draft provide a starting point for reform of the primary financial statements, they should be complemented by further work on the statement of financial position and the cash flow statement. The work on the cash flow

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statement should include a consideration of the issues discussed in the FRC's Discussion Paper 'Improving the Statement of Cash Flows'.[25] These include the following:

i. Whether and, if so, in what circumstances the cash flow statement should include notional cash flows.

ii. The definition of 'cash and cash equivalents.'

iii. The classification of cash flows relating to the purchase of property, plant and equipment.

iv. Whether tax cash flows should be reported in a separate section of the statement of cash flows.

v. Whether a reconciliation of operating profit and operating cash flows should be required where the cash flow statement is prepared under the direct method.

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?

A82 The Exposure Draft is titled 'General Presentation and Disclosure,' yet focuses heavily on the statement of financial performance and notes. We recommend projects are commenced to provide a more comprehensive review of the other primary financial statements and a holistic review of all primary financial statements and disclosures.

A83 In our view, the proposed changes to the statement of other comprehensive income in paragraph 74 are minor changes in wording and are unlikely to significantly improve understandability. We recommend that the proposed wording and its extent are reviewed more fully as part of a separate project.

A84 The descriptions permitted in the statement of financial position retain a large degree of flexibility, as explained in paragraph para 83 b: '*Descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position*.' We recommend that a separate project to review presentation with a view to improving consistency and comparability in the statement of financial position is undertaken.

A85 We would welcome more comprehensive illustrative examples to:

i. demonstrate the application of the proposals to insurance and banking entities; and

[25] FRC Discussion Paper, 'Improving the Statement of Cash Flows', October 2016.

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ii. demonstrate the interaction of the proposals with IFRS 17 for an insurance entity with different lines of business.

A86 We note that IAS 1 paragraph 4 states that IAS 1 paragraphs 15 – 25 apply to interim financial statements. IAS 1 paragraph 25 requires management to undertake a going concern review. Therefore, there is currently a requirement for management to undertake a going concern review when preparing interim financial statements. IAS 1 paragraph 4 forms the basis of ED paragraph 5. However, the paragraphs referenced in ED paragraph 5 as applying to interim financial statements no longer include a requirement to undertake a going concern review. Rather, IAS 1 paragraph 25 is proposed to be moved to IAS 8 paragraph 6K but there is no reference to this applying to interim financial statements. We recommend that the requirement to undertake a going concern review, when preparing interim financial statements, is maintained and that the paragraph referencing is amended to reflect this.

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