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By email to: GPD@frc.org.uk
For the attention of Alison Stiles

4th September 2020

Draft FRC response: Exposure Draft ED/2019/7 General Presentation and Disclosures

We welcome the FRC's intention to comment on the above-named Exposure Draft ("the ED"), and the opportunity to provide input on the Draft Response. Early engagement to influence IASB proposals will be an important part of the UK's endorsement processes. We support the approach that the FRC is taking, in advance of the establishment of the UK Endorsement Board, to engage with UK stakeholders and with the IASB on this important project.

The ED seeks to improve the communication of financial performance in response to feedback from users of financial statements. The views of investors are vital to judging the effectiveness of the proposals and we urge the FRC to prioritise such input. We have not commented directly on all the questions posed in the Draft Response, many of which are more appropriately answered by other stakeholders.

KPMG LLP is part of a global network of firms. Views on IFRSs are determined globally by KPMG International Standards Group. The KPMG network of firms' response to the ED has not yet been finalised but will be provided publicly to the IASB in due course. In advance of the finalisation of global views the comments in this letter are the preliminary views of KPMG LLP only.

Overall, we believe that the proposals in the ED are positive and we agree with the aims of the project. The direction taken by the ED will, in our view, improve the reporting of performance. At the same time as supporting the ED we agree with the FRC's Draft Response that there are aspects of the specific proposals that should be re-visited to ensure that the proposals most effectively meet their aims.

The appendix to this letter includes more detailed comments.

Please contact Pamela Taylor on 0207 694 1819 should you wish to discuss any of our comments,

Yours faithfully

KPMG LLP

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Appendix 1: Additional comments in respect of the Draft Response

Material items of income or expense necessary to understand performance

As noted in the Draft Response (A4), the ED retains the current requirement to present additional line items and subtotals when relevant to understanding financial performance. The ED also prohibits presentation of that information if it does not fit the structure of the statement of financial performance. The prohibition on mixing the analysis of expenses by nature and function (ED B46) appears to prevent the disaggregation of material items on the face of the statement of profit or loss because, as noted in the Draft Response (A42), such items do not always fit that structure. In addition, the ED removes the requirement to consider materiality when considering what goes into the primary statements and what goes into the notes (IAS 1.30). We are concerned that prohibiting the separate disclosure of material items of income and expense would reduce the usefulness of statements of profit or loss and reduce comparability between companies as relevant information may be excluded from those statements. It seems that the Draft Response proposal to include unusual items on the face of the statement of profit or loss (A57) would not fit the by nature or function analysis.

Definition of unusual items

We think that a requirement to disclose "unusual" items based on a specified definition of unusual items is a positive step. With an appropriate definition, this should improve the information available to users. However, we agree with the Draft Response that the definition in the ED does not seem likely to consistently give the information that users want. In this respect feedback from users on the definition is key. Possible issues with the definition in the ED include that

- it excludes matters that span the end of a reporting period, but would include the same matter if it all occurred in one period
- it would not result in consistency of items separated out between one period and another as future expectations may differ at each reporting date
- the application of "similar in type" is not clear. For example, would a goodwill impairment be similar in type to a PPE impairment that arises from a different cause
- reversals of charges that were classified as "unusual" in a previous period may not themselves be classified as unusual.

The Draft Response (A52) proposes an alternative definition '*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'*. This proposal looks at events that may or may not recur rather than items of income and expense similar in type and amount. It is not immediately clear to us how this definition would be applied, nor that it would resolve the issues listed above. For example, litigation costs may be incurred regularly, but in one period they may be significantly higher and necessary information to understand the performance in the period. The condition of litigation is ongoing, but the charge may not be expected to recur in that amount. We would recommend a re-assessment of the definition based on examples of outcomes of applying the definition and input on whether that provides the information users require.

Scope of management performance measures (MPM)

We agree that the reference to "all public communications" is likely to be impractical and support the FRC's proposal to narrow this. We also agree that more financial measures, such as free cash flow information, should be subject to the same disclosure requirements.

Terminology in the proposed statement of profit or loss subtotals compared to the cash flow statement

As noted in the Draft Response (A9) the definitions of operating profit and investing activities in the statement of profit or loss do not correspond to categories with similar names in the cash flow statement. The Draft Response suggests that the IASB consider consistency of classification across the financial statements to resolve this. In our view, the issue is that the use of similar terms in both statements could be confusing. We don’t think that consistency across primary financial statements is the appropriate aim. Each statement should meet the information needs of users. The information needs of users when considering categorisation of cash flows may well differ from the needs met by income statement information. Any cash flow statement project should be done with the aim of providing users with the cash flow information they need, rather than to achieve perceived consistency.

Further guidance

We agree that in several areas the ED would benefit from more detailed guidance to help achieve consistency of application.