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Exposure Draft ED/2019/7 General Presentation and Disclosures

FAR, the Institute for the Accountancy Profession in Sweden, is responding to your invitation to comment on the above Exposure Draft.

FAR supports the IASB's work on the Primary Financial Statements project and the wider work on Better Communication in Financial Reporting and welcomes this Exposure Draft on General Presentation and Disclosures.

In general, FAR agrees with many of the proposals. However, FAR does not agree with some of the proposals. Please refer to appendix 1 of this comment letter for detailed comments to your questions raised in the Exposure Draft.

Yours sincerely,

Pernilla Lundqvist
Chairman Accounting Practices Committee

Appendix 1

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. Paragraph BC53 of the Basis for Conclusions describes the Board's reasons for this proposal. Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

FAR's response

FAR agrees with the proposal that all entities should present a subtotal for operating profit or loss in the statement of profit or loss. FAR believes that this subtotal will improve the ability to evaluate the financial performance of an entity. Even if a majority of entities already present this subtotal FAR believes that it is a great advantage if all entities present this subtotal which enable users to evaluate all entities main business activities. It is also of great importance that this subtotal will be consistently applied among entities, thus that the content of the subtotal is well defined, which enables faithfully comparisons between companies.

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. Paragraphs BC54–BC57 of the Basis for Conclusions describe the Board's reasons for this proposal. Do you agree with this proposal? Why or why not? If not, what alternative approach would you suggest and why?

FAR's response

FAR agrees with the proposal that entities classify in the operating category all income and expenses not classified in the other categories. FAR believes that it is very difficult to foresee all transactions and it is therefore appropriate to have a default category and that the operating category are the most appropriate one for this. This will also minimize the risk that a transaction will be classified in two categories at the same time.

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. Paragraphs BC58–BC61 of the Basis for Conclusions describe the Board's reasons for this proposal. Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

FAR's response

FAR agrees with the proposal that an entity classifies in the operating category income and expenses from investments made in the course of the entity´s main business activities. FAR believes that this will enhance the comparability between entities and provide relevant information to users. FAR also agrees with the rationale in paragraph 48 and BC58-BC61 e.g. as described in BC59 that when an entity, in the course of its main business activities, invests in assets that generate a return individually and largely independently of its other resources that these investment returns are an important indicator of operating performance.

Question 4 – The operating category: an entity that provides financing 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.

Paragraphs BC62–BC69 of the Basis for Conclusions describe the Board's reasons for the proposals. Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

FAR's response

FAR does not agree that there should be an accounting policy choice as described in paragraph 51. FAR believes that this will distort the ability to compare the financial performance between entities when the entities have made different accounting policy choices. When the activity to provide financing to customers is not the dominating business activity FAR believes that it can be discussed if the accounting policy described in paragraph 51 (b) will give a faithful presentation of the operating profit or loss. In those cases, it is probable that a large proportion of the income and expenses from financing activities clearly could be attributable to the financing category and to attribute those income and expenses to the operating category would distort the presentation.

However, when providing financing to customers is the dominating business activity FAR believes that it is acceptable to provide an accounting policy choice in accordance with paragraph 51.

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 business activities. Paragraphs BC48-BC52 of the Basis for Conclusions describe the Board's reasons for the proposal. Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

FAR's response

FAR supports the IASB's proposal to require the presentation of an investing category in the statement of profit or loss. Paragraph 32(b) in the Exposure Draft proposes that income and expenses from investments would typically include income and expenses from "other investments" and the guidance give examples of other investments such as investment property and speculative investments such as investments in art work held for capital appreciation. FAR would like the Board to clarify in more detail what "other investments" means.

Question 6 – profit or loss before financing and income tax and the financing category

Paragraphs 60(c) and 64 of the Exposure Draft propose that all entities, except for some specified entities (see paragraph 64 of the Exposure Draft), present a profit or loss before financing and income tax subtotal in the statement of profit or loss.

Paragraph 49 of the Exposure Draft proposes which income and expenses an entity classifies in the financing category.

Paragraphs BC33-BC45 of the Basis for Conclusions describe the Board's reasons for the proposals. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

FAR's response

FAR supports the IASB's proposal to require and define "Profit or loss before financing and income tax" and the "financing category".

FAR questions the proposal to present income and expenses from cash and cash equivalents in the financing category. It is common that entities present non-gaap measures such as net debt that takes into account all interest-bearing assets of the entity, including cash and cash equivalents. It is also common that entities provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities in combination with interest bearing assets that form part of the net debt of the entity, as explained in paragraph 44E in IAS 7. In these circumstances, there is no distinction made between cash and cash equivalents and other interest-bearing assets. FAR believes an approach that links the financing category to the management of an entity's liabilities that arise from financing activities (as described in IAS 7) and the investing category to the management of investments in assets would be a more relevant approach. Following this approach, income and expenses arising from holdings of cash and cash equivalents would be in the investment category. Under the IASB's proposal, income and expenses from excess cash invested in cash and cash equivalents would be presented in the financing category while excess cash invested in interest-bearing assets that does not meet the definition of cash and cash equivalents would be presented in the investment category, which could be deemed as an arbitrary allocation method.

FAR notes that it would be useful to consider whether incremental expenses related to financing activities should also be in the financing activities in symmetry with the treatment of expenses relating to investing activities.

Question 7 – integral and non-integral associates and joint ventures

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.

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.

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.

Paragraphs BC77-BC89 and BC205-BC213 of the Basis for Conclusions describe the Board's reasons for their proposals and discuss approaches that were considered but rejected by the Board. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

FAR's response

FAR does not rule out that providing a distinction between integral and non-integral associates and joint ventures might help users of financial statements to distinguish between associates and joint ventures that are closely related to the entity's main business activities and those that are not. However, FAR highlights that such changes to the presentation requirements would involve significant judgement and need to be tested in practice.

Under current practice in Sweden it might be appropriate to include the share of profits from associates and joint ventures in arriving at operating profit where associates and joint ventures are an integral vehicle for the conduct of the group's operations and its strategy. Otherwise, the share of profit of associates and joint ventures is presented below operating profit. It does not appear to be common in practice to present income and expenses from some associates and joint ventures within operating profit and to present income and expenses from other associates and joint ventures below operating profit. This could put into question whether such a distinction is really demanded by users or not. By introducing this new distinction between integral and non-integral associates and joint ventures, it will give rise to an extra subtotal in the statement of profit or loss that perhaps makes the overview of the performance statement more difficult for a reader of the financial statements. Such a distinction would also inevitably involve significant judgements. An alternative approach that would achieve a less cluttered profit and loss statement and reduce the element of significant judgement could be to include all associates and joint ventures into the same category, the investment category, thus reducing the number of required subtotals to three subtotals instead of four subtotals.

Question 8 – Roles of the primary financial statements and the 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.

Paragraphs BC19–BC27 of the Basis for Conclusions describe the Board's reasons for these proposals. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

FAR's response

Based on the arguments set out int BC, FAR agrees with the proposed description of the roles of the primary financial statements and the notes as well as the general requirements on the aggregation and disaggregation of information.

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.

Paragraphs BC109–BC114 of the Basis for Conclusions describe the Board's reasons for the proposals. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

FAR's response

Generally, FAR supports the proposals and appreciate the paragraphs set out to guide and help a preparer to assess whether presentation using expenses or by function is more appropriate.

FAR has however identified a few items that the IASB may wish to consider when preparing a final standard.

It is not sufficiently clear in the standard on whether a mixed presentation format is allowed or if it sometimes is required. Paragraph B47 requires certain minimum line items to be presented on the face of the income statement, while paragraph B46 can be understood that it is not allowed to present an analysis by using a mixed approach. For example, cost of sales is required to be presented in the income statement under paragraph 65 a7 which in FAR's view could contradict with the requirement to only present a presentation based on type of expense. FAR suggest the IASB to clarify how an entity shall understand the contradiction between B46 and B47.

Further, in paragraph B15 an entity shall present certain information about for example restructurings, impairments and write down of inventories either in the income statement or in the notes. Presenting such items directly in the income statement may be contradicting with the requirement to present an analysis by function, i.e. it is FAR's view that it may only be possible to do so by using a presentation format based on by nature. FAR recommends the IASB to clarify the treatment in the final standard.

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)–101(d) of the Exposure Draft propose what information should

be disclosed relating to unusual income and expenses.

Paragraphs BC122–BC144 of the Basis for Conclusions describe the Board's reasons for the proposals and discuss approaches that were considered but rejected by the Board. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

FAR's response

FAR agrees with the proposal to define unusual income and expenses. FAR believes it will result in entities disclosing both unusual income and expenses, and not only unusual expenses, which tends to happen in current practice. An alternative would be to prohibit the presentation and disclosure of unusual items, and to leave presentation and disclosure of such an APM for management reporting elsewhere than the financial statements. FAR supports the Board's proposal as users often find information about non-recurring items helpful in their efforts to predict future performance, which is aligned with the objective of financial reporting. Regarding comments on the proposed definition, see below.

FAR also supports the proposal to require disclosure of unusual items.

Furthermore, FAR encourage the Board to consider embedding the guidance on unusual items in the MPM guidance. In that case, operating profit before unusual items would represent the relevant subtotal. This will also avoid the potential concerns regarding "adjusted unusual items", as explained below. It is not clear to FAR whether entities will be allowed to disclose adjusted unusual items, that is an entity-defined version of unusual items, on a voluntary basis, as an APM, within the financial statements.

Regarding the definition of unusual items, FAR believe that more examples of transactions or events that would be considered to be unusual income and expenses should be provided to increase consistency in application of the concept. In general, the suggested definition of unusual items seems to be rather narrow, as it only focuses on whether expenses/income will occur in the future.

FAR generally agrees with the proposal as to what information should be disclosed relating to unusual income and expenses. However, we are concerned that the wording in paragraph 101 in effect represents an onerous requirement. Identification of all unusual income and expenses will require preparers to assess each and every item to determine if they are unusual, as per the definition. Furthermore, providing assurance on such a judgement will represent a challenge, both with respect to the pervasiveness of the requirement, but also because of the judgmental nature of the concept. FAR believe it would be more appropriate to require that only significant unusual income and expenses be separately disclosed.

FAR agrees that requiring the disclosure of unusual items to be located a single note may represent an enhancement of the usefulness of the financial statements, as the information will be easier to access and the navigation within the financial statements may be improved.

FAR note that the proposal does seem to not preclude unusual income and expenses from being presented in the primary financial statements (paragraph BC126). However, in our interpretation of the prohibition against a mixed analysis of operating expenses, the proposal may preclude presentation in the primary financial statements if the by-nature analysis is used. This is because combining part of a by nature item with parts of other by nature items in effect would represent a mixed presentation.

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

Paragraphs BC145–BC180 of the Basis for Conclusions describe the Board's reasons for the proposals and discuss approaches that were considered but rejected by the Board.

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?

FAR's response

FAR is positive to introducing MPMs but has however some concerns with respect to the proposal. FAR's main concern is that the scope limits the use to subtotals of income and expenses and therefore does not include other commonly used management performance measures. As a consequence, FAR does not believe the current proposal appropriately addresses the importance of bringing clarity and guidance on reporting of MPMs.

FAR also consider the exclusion of EBITA and/or EBITDA from the scope of MPMs is not desirable and would strongly recommend the IASB to reconsider its current decision to exclude them. EBITA and/or EBITDA is very commonly used, and it is FAR's understanding that it is a key measure used by investors for benchmark, compare and value entities.

In addition, FAR is concerned that users of financial statements may not properly understand the difference between an APM disclosed based on the guidance provided by ESMA (and not audited) and a measure disclosed based on the IASB-guidance for MPMs (and audited). FAR acknowledges that this is an EU-issue only but being part of the EU, it may add unnecessary complexity and uncertainty for users. If that can be avoided by increasing the scope for MPMs that would be beneficial.

Finally, FAR believes that the IASB should further explain what is meant by "public communications".

Question 12 – EBITDA

Paragraphs BC172–BC173 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?

FAR's response

Please see our answer on question 11 above.

Question 13—statement of cash flows

(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 IAS 7 would specify the

classification of interest and dividend cash flows.

Paragraphs BC185–BC208 of the Basis for Conclusions describe the Board's reasons for the proposals and discusses approaches that were considered but rejected by the Board. Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

FAR's response

FAR agrees with the proposal that requires operating profit or loss to be the starting point for the indirect method of reporting cash flows from operating activities, as this will improve comparability between entities and it seems reasonable to derive operating cash flows from an operating profit measure.

However, FAR would suggest to reconsider the title used for the operating category in the income statement and, instead, to use a title that discourages the expectation that there is alignment between the operating categories in the two statements.

Question 14— other comments

IAS 34

Paragraph 118 of the Exposure Draft proposes that in the first year an entity shall present each of the headings and subtotals required by paragraph 60-64 in condensed financial statements provided in interim financial reports, despite the requirements in paragraph 10 of IAS 34. FAR believes that this should be added also in IAS 34, thus FAR believes that IAS 34 should contain all the requirements regarding interim financial reports.