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ED/2019/7 General Presentation and Disclosures

Grant Thornton International Ltd is pleased to comment on the International Accounting Standards Board's (the Board) Exposure Draft ED/2019/7 'General Presentation and Disclosures' (the ED). We considered the ED, as well as the accompanying draft Basis for Conclusions and set out our main comments below. Our responses to the questions in the ED's Invitation to Comment are set out in the Appendix.

We support the reasons for the Board developing this ED, in order to improve the way information is communicated in the financial statements, particularly in the statement of profit or loss. We believe the proposals will add further consistency and clarity to the financial statements which will enhance comparability for users of financial statements.

We recognise the strategic importance of this project and see these improvements as being extremely useful in the current COVID-19 environment.

Categories in the statement of the profit or loss

Overall, we support the Board's suggestions to improve the structure and content including adding new subtotals, because there is an unacceptable amount of diversity in current practice. We agree 'operating profit or loss' which not required by IAS 1, is now commonly used by entities, and it needs to be defined. In addition, adding finance and investing categories will bring consistency to other areas of the financial statements (eg cash flow statements), which should further assist the readers of the financial statements, particularly investors.

However, we consider:

- the language used in paragraph 48 has the potential to create some confusion as the sentence is constructed as a double negative. We would suggest more articulation of when investing activities should be classified as the main business activity because this will further narrow interpretation and in our view, improve consistency.
- allowing a 'free' accounting policy choice to classify <u>all</u> income and expenses from financing activities and from cash and cash equivalents in the operating category. Our view is presenting all these amounts in the operating category could significantly detract from the usefulness of the operating and financing categories. The policy

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choice could also be used, inappropriately in our view, by entities that face no significant difficulties in making the necessary allocations.

- paragraph 49(c) should be reworded to avoid any risk of misinterpreting in how the financing category should be defined. In this area comparability is essential and this will be achieved only if the notion/concept is appropriately applied by the preparers.

Management performance measures

We concur that management performance measures (MPMs) are now commonly used in practice. Given this, we support including additional guidance on them because it will add more consistency in their use and application.

However, within the ED, we would encourage the Board to:

- limit the scope of the MPMs to just those included in the annual report of the reporting entity.
- supplement the disclosure requirements on MPMs by clarifying the relationship between MPMs and the non-GAAP measures currently required for operating segments under IFRS 8. We suggest aligning the disclosure requirements for MPMs and non-GAAP measures in the segment note so there are coherent disclosures on MPMs throughout the financial statements.

Unusual income and expenses

We agree with the proposals to introduce the definition of 'unusual income and expense' and the requirement for entities to disclose such income and expenses in a single note as this information is frequently requested by investors and other users of financial statements. In order to promote consistent application of the requirements we recommend additional guidance regarding the definition of "several future annual reporting periods" be provided making sure any changes made to the proposed Standard end up being consistent with other IFRS where a similar concept is used.

Integral and non-integral associates and joint ventures

We generally support the Board's proposal to make the distinction between integral and non-integral associates and joint ventures. This distinction is expected to be particularly relevant in industries such as oil and gas and real estate because they are significantly affected by the equity method of accounting. However, we believe for a number of preparers in other industries, this distinction might not be so relevant, and so introducing the integral/non-integral distinction introduces additional complexity and judgment into the preparation of the financial statements, for potentially little additional benefit to the users of the financial statements.

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If you have any questions on our response, or wish us to amplify our comments, please contact me by email (mark.hucklesby@gti.gt.com).

Yours sincerely,

Mark Hucklesby
Director - Financial Reporting
Grant Thornton International Ltd

Responses to Invitation to Comment questions

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?

We agree on the proposal of presenting a subtotal for operating profit or loss. This will bring additional consistency to the presentation of the financial performance of an entity. While this subtotal is not currently required as part of IAS 1, its inclusion in the statement of financial performance is common practice among many different types of reporting entities in many different countries. Because this is the case, requiring this disclosure is a positive enhancement to current reporting requirements.

However, we would like the Board to consider introducing a second subtotal, which is an operating profit before unusual items subtotal. Within our network there was no unanimous support for this proposal because of subjectivity surrounding the determination of what is unusual and what is not. On balance, our primary reason for suggesting this is that we believe it will, in many jurisdictions around the world, provide a very useful anchor that alternative (ie non-GAAP) and management performance measures can be reconciled back to. We appreciate the Exposure Draft as currently drafted, does not prevent this subtotal from being included. However, we believe more consistency in disclosing this aspect of financial performance (ie operating profit before unusual items, as they are currently defined in the Exposure Draft) would be useful to the users of financial statements, as they look to assess the underlying trend of financial performance without "the noise" that the inclusion of unusual items brings with it.

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?

We agree with the proposal of including any category of income and expenses not classified elsewhere in the operating category. It somewhat aligns with IAS 7 'Statement of Cash Flows' as it also uses a residual approach. It will make it easier to understand for the financial statement users.

By using the residual approach, the other categories (investing and financing) are written in such a way that the residual activities are the main revenue generating activities save exceptional items. If unusual items actually have an impact on the main revenue generating

activities, we hold the view it is still part of the day-to-day operating activity of the reporting entity since there is a specific definition for unusual items in paragraph 100 and additional required disclosure for unusual items.

We also agree that having a specific definition for operating category would make it more complicated than what is necessary as definitions may overlap. For example, prior to the adoption of IFRS, UK GAAP had a very specific definition of operating profit. FRS 3 'Reporting Financial Performance' defined 'operating profit' as profits that arose from ordinary activities. Based on the definition, the standard defined what the "ordinary activities" are. It defined ordinary activities as "any activities undertaken by the reporting entity as part of its business and such related activities in which the reporting entity engages in furtherance of, incidental to, or arising from, these activities."

However, it did not prevent public companies from presenting alternative measures (i.e operating profit/loss before exceptional items or depreciation). Hence, defining the operating income as the residual is a pragmatic approach which lessen the risk of misinterpretation. It also perhaps avoids the need for a further definition of a concept akin to 'ordinary activities'.

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?

We support this proposal. It provides guidance on classifying the returns from investments made in the course of an entity's main business activities as operating profit. However, it also recognises that entities with such investments may also have investments that are not made in the course of their main business activities in which case, it should be classified in the investing category.

We do however believe the language used in paragraph 48 has the potential to create some confusion as the sentence is constructed as a double negative. We would suggest a clearer articulation of when investing activities should be classified as the main business activity, would result in a narrower interpretation and therefore, greater consistency.

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?

We agree that entities providing financing to customers as a main business activity should present income and expenses from financing activities related to this activity within the operating category.

We acknowledge the Board's reasons for proposing an accounting policy choice to instead classify all income and expenses from financing activities and from cash and cash equivalents in the operating category. These reasons relate to the difficulty of allocating financing expenses in a non-arbitrary manner for entities with one or more other main business activity(ies) in addition to providing financing to customers ('mixed main activity entities').

We have some concerns about allowing a 'free' accounting policy choice in this regard. In our view, presenting all these amounts in the operating category could significantly detract from the usefulness of the operating and financing categories. The policy choice could also be used, inappropriately in our view, by entities that face no significant difficulties in making the necessary allocations.

In our experience many conglomerates with banking activities along with significant non-banking corporate activities operate and finance these two types of activity with a high degree of separation. Many such conglomerates, and also mixed main activity entities with customer financing operations, conduct their banking/customer financing activity in separate subsidiaries. These finance subsidiaries are very often subject to specific regulation. In such cases the practical difficulties referred to above should either be irrelevant or much reduced. Further, many such entities have developed approaches to make any allocations that are necessary after taking their group structure into account (although we acknowledge these approaches may not be consistent between entities).

For these reasons we suggest the Board considers alternative approaches for mixed main activity entities. Possible alternative approaches include:

- limiting the accounting policy choice to entities that actually face significant difficulties in making the necessary allocations, which could be framed as a 'excessive cost' test or similar, or
- requiring all such mixed main activity entities to make an allocation on a reasonable and consistent basis, supported by disclosure. Such allocation could be based on a principle of consistency with how the group allocate the resources between the divisions, monitors performance and communicates externally.

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?

We agree with the classification of these types of income and expense in a separate category.

We also agree with the Board's explanation in BC51 of the Basis for Conclusions concerning the differences in scope and objective between this category and the investing category in IAS 7. However, given these differences we suggest the Board consider using a different title for this category in the final Standard.

We agree with the description of the asset comprising 'investments' for this purpose as those "that generate a return individually and largely independently of other resources… unless they are investments made in the course of the entity's main business activities". In our view this approach is preferable to trying to define investments based on specific investment types. Nonetheless, we think there could be difficulties in determining the appropriate classification in some circumstances. One example is an entity that holds a portfolio of IP that is not used in the production process of other goods or services but are licensed to third parties via royalty agreements. We would like the Board to reassess the need for providing some additional guidance in this area.

We also agree with the proposal to include in the investing category only incremental expenses for the reasons set out in BC 50 of the Basis for Conclusions. Our view is it is important to clarify whether the concept of 'incremental' applies at the level of each individual investment, a portfolio of similar investments (say) or some other level. To illustrate, when entity (for which investing is not a main business activity pays fixed service fees to a third party to manage a portfolio of investments on its behalf) it seems appropriate to classify the fees in the investing category. However, fixed fees would or might not be incremental at the level of individual investments within the portfolio.

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 (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.**
b) **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?

We support the proposal to insert a subtotal 'profit or loss before financing and income tax' for the reasons stated in the Basis for Conclusions (ie to measure entity's performance independently of how the entity is financed). We believe this will provide more comparability between entities.

The Board's explanation that to meet the objective of providing a useful basis for comparing an entity's performance independently of how that entity is financed, the financing category should include (a) income and expenses from financing activities (eg interest expenses on debt issued by the entity and lease liabilities) and (b) income and expenses on cash and cash equivalents (eg gains or losses on disposal of cash equivalents). Paragraph 50 clearly states that 'Financing activities are those involving the receipt or use of a resource from a provider of finance*'*.

Consistent with that objective and the guidance set out in paragraph 50, our understanding is the scope of this requirement is aimed at limiting to expenses and income from transactions

with entities that provide financing to customers as their main business activities. Therefore, extending the scope to income and expenses from liabilities that do not arise from financing activities according to paragraph 49(c), B37 could be seen as providing an exemption to the general definition of paragraph 50. We note BC43 states this change is to capture income and expenses that reflect the effect of the time value of money on liabilities that do not arise from financing activities. These include, for example, net defined benefit liabilities (or assets) and decommissioning liabilities.

While the boundaries of (a) and (b) of paragraph 49 can clearly be addressed with no particular difficulties identified at this stage, the impact of (c) is less clear cut. For instance, whereas we would initially conclude that written put options over NCI as well as deferred or contingent consideration on selling shareholders would not be scoped-in by 49(b) since the transaction from the perspective of the selling shareholders is not aimed at providing financing to customers, such transactions could be nevertheless be scoped in by 49(c).

Another example is a forgivable loan where the finance costs would be in the financing category (on the basis of 49(b) or 49(c)) but the income that would result from the forgiveness of the loan (for instance where the event that triggers the forgiveness occurs) might be presented within the operating category or financing category depending on how the transaction is analysed. A similar issue could be raised for below-market loans granted by a government.

We believe paragraph 49(c) should be reworded to avoid any risk of misinterpreting in how the financing category should be defined. In this area comparability is essential and this will be achieved only if the notion/concept is appropriately applied by the preparers.

For that reason, it might be interesting for the IASB to field test the boundaries it has set out in paragraph 49(c) 'category' before finalising the proposed Standard to confirm no unintended consequences from applying this paragraph emerge.

Cash and cash equivalent comments
Paragraph 49 proposes the financing category includes income and expenses from cash and cash equivalent and paragraph B34 states:

> '*Income and expenses from cash and cash equivalents include:*
> *(a) interest revenue; and*
> *(b) gains or losses on disposal of cash equivalents*.'

We question the relevance of item (b) since the definition of cash and cash equivalent would not normally expose the entity to a material risk of change in value and therefore would not be a source of material gains or losses. We believe if an entity expects an investment made in cash and cash equivalent will generate gains or losses, then the transaction the entity invested in would probably meet the criteria of the investing category and would not be eligible to a cash equivalent classification[1].

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.

[1] 'Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.'

(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.

Paragraphs BC77–BC89 and BC205–BC213 of the Basis for Conclusions describe the Board's reasons for these 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?

We generally support the Board's proposal to make the distinction between integral and non-integral associates and joint ventures. Industries such as oil and gas and real estate and construction will greatly benefit from this enhancement to financial reporting because they are significantly affected by the equity method of accounting. However, for preparers in other industries, this distinction might not be so relevant.

Introducing the integral/non-integral distinction will introduce additional complexity for industries where the distinction might not be so relevant. We are mindful the Board is aware of this [see BC 211[2]]. We agree requiring additional disclosure on the judgments made will compensate for the risk of this requirement being inconsistently applied. That said, every disclosure requirement related to this integrated/non-integrated split should be extensively field tested before the proposed standard comes into effect to ensure they meet user needs.

Given this, our recommendation to the Board is to consider an alternative approach which is to make the disclosure of integral and non-integral associates and joint ventures an accounting policy choice.

As noted above, if the Board confirms its intention to require the split, we would then suggest that the proposal be extensively field tested in advance in order to make sure of the efficiency of the provisions and the relevance of the indicators provided. This work would permit the Board to identify whether, based on the outcome obtained, there are also other areas that might need to be re-assessed or re-addressed.

For instance, IFRS 12.20D states that the distinction between integral and non-integral should be based on the existence of a significant interdependency between the entity and the associate or the joint venture. ('*A significant interdependency between an entity and an associate or joint venture would indicate that the associate or joint venture is integral to the main business activities of the entity*.')

If the 'interdependency' indicator ends up being based on business/operational related considerations only as indirectly suggested by the definition[3] of 'integral' that refers to the main business activities and BC 78 we would like to see it more clearly stated, if this is the intention of the Board, for instance by stating that:

[2] 'During Board deliberations concerns were expressed whether, given the importance of the consistent classification of income and expenses, the proposed definitions and indicators would be sufficient to enable an entity to distinguish between integral and non-integral associates and joint ventures on a consistent basis'.

[3] Associates and joint ventures accounted for using the equity method that are integral to the main business activities of an entity and hence do not generate a return individually and largely independently of the other assets of the entity

- the reporting entity and the associates/joint venture should have significant business relationships that only relate to the operating activities which are key for the production process of either the associate/joint venture or the reporting entity; and
- the nature and size of those operations significantly affect the level of the operating result of either the associates/ joint venture or the reporting entity.

It would also be helpful to clarify in the final standard that financial interdependency (ie an interdependency that results mainly from interrelated financing activities) should not be considered a situation that is covered by paragraph 20D except where financing activities constitutes the main business activities of the reporting entity.

We also encourage the Board to provide:

- some illustrative examples to show how the distinction works with some practical situations encountered in the real life such as upstream or downstream activities in the oil and gas industry, or the investments in franchisees in the retail industry where the reporting entity has an exclusive supply and licensing agreement with the franchisees; and
- more guidance on how to apply the requirements set out in B38 when applying IAS 28, and recent amendments to that standard that have been clarifying its relationship to IFRS 9[4], an entity may be required to recognise besides the share of profit or loss accounted for using the equity method, other types of income or expenses related to other long term interests that form part of the net investment.

In addition and to avoid any conflict between IFRS 5 and this proposed Standard project we would suggest the Board adds after 'gains or losses on disposal of integral associates and joint ventures" in paragraph B38 (c) the following statement 'unless the investment is part of the coordinated plan to dispose of a major line of business presented as a discontinued operation'.

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.

4 More specifically, dealing with how long term interests that form part of the net investment should be classified as part of the investing activities or should be included within the 'income and expenses from integral associates and joint ventures' because some argue that such income and expenses are by nature investing income and expenses and therefore should fall in the investing category in the income statement no matter that they are generated by an interest in an associate or a joint venture that form part of the net investment. However, other believe the classification should be a matter of facts and circumstances and that if the remuneration of the interest depends on the performance of the associate or joint venture, there would be some ground for it to be presented within the income and expenses from the 'integral' category because the remuneration could be viewed as not being largely independent from income and expenses classified in the operating category.

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

We agree with the proposed description of the roles of the primary financial statements and the notes however, we recommend the section outlining the objective of the financial statements and roles of the primary financial statements and the notes (paragraphs 19 – 24) be moved to the beginning of the proposed Standard after the scope section as it is important for readers to understand the objective of financial statements before understanding the components of financial statements as well as how financial statements should be identified.

We support the proposals for principles and general requirements on the aggregation and disaggregation of information contained within financial statements. We agree that guidance in this area is necessary for entities to provide greater prominence to material items and less prominence to immaterial items in order to avoid obscuring relevant information. However, we have concerns with the requirement to aggregate immaterial items as this may lead to a material component in the financial statements which may not be adequately or appropriately disclosed. We therefore recommend further direction from the Board is provided on this.

We also recommend the following changes for consideration:

- Providing clarification as to how the guidance in paragraphs 25-28 regarding aggregation interacts with minimum line item requirements in paragraph 65; and
- Moving the application guidance in paragraphs B5-B15 to the main body of the standard to assist users with understand the requirements in this section of the Exposure Draft.

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?

We agree with the proposals to require entities to present operating expenses using the nature of expense method or the function of expense method of analysis based on the application guidance provided as this should aid in consistent application of this requirement which is not presently applied consistently with many entities currently adopting a mixed approach under IAS 1. In order to ensure consistency in application of the requirements we recommend providing clarity on the types of expenses that would be included in each category. For instance, in the case of goodwill impairment, it is not clear whether an entity that applies the function of expenses method would be required to allocate a goodwill impairment loss to each function presented in the income statement and if so, how this allocation would be performed.

Another area we believe requires clarification is related to the requirement to present cost of sales as outlined in paragraph 65(vii) when entities present expenses using a nature of expense method and also for entities which do not have cost of sales.

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?

We agree with the proposals to introduce the definition of 'unusual income and expense' and the requirement for entities to disclose such income and expenses in a single note as this information is frequently requested by investors and other users of financial statements. In order to promote consistent application of the requirements we recommend additional guidance regarding the definition of "several future annual reporting periods" be provided. We believe the definition of "several future annual reporting periods" should be consistent with similar wording used in other IFRS.

Additionally, we recommend providing additional guidance regarding "limited predictive value" including whether or not this term is meant to refer to only discrete events and transactions. Furthermore, it is not clear how development stage entities will apply this concept as their income and expenses are largely unpredictable and therefore, we recommend including an example to provide specific guidance for these types of entities.

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?

We support the requirement of disclosures relating to "management performance measures" (MPMs) in general. However, we encourage the Board to revisit the guidance in paragraph B79 of the Exposure Draft on what constitutes "public communications" as we consider it currently is too broad to ensure completeness and comparability. In particular, we consider MPMs from outside the financial statements to be critical. For some of these MPMs (eg in the management report) there are different requirements in individual jurisdictions. For other MPMs, such requirements are missing altogether. In our opinion, this frequently leads to amount being reported that are no longer comparable. Therefore, we suggest reconsidering the scope of the proposed MPMs and to limit it to the MPMs that are presented within the annual report.

While on the one hand we regard definition of MPMs as being too broad by including measures from outside the financial statements, on the other hand it neglects some performance indicators which are commonly used by reporting entities but do not (or not exclusively) relate to the statement of profit or loss, although being derived from the primary financial statements (eg free cash flows or return on capital employed). In this regard, we suggest revising paragraph 106 of the Exposure Draft on what does not consist in an MPM. As a result, we suggest the Board reconsiders the balance between the decision usefulness of disclosures on MPMs versus structuring the statement of profit or loss in order to improve comparability.

We would like to see the Board supplement the disclosure requirements on MPMs by clarifying the relationship between MPMs and the non-GAAP measures currently required for operating segments under IFRS 8. It would be helpful to align the disclosure requirements for MPMs and non-GAAP measures in the segment note to what is being proposed in this Exposure Draft in order to achieve coherent disclosures on MPMs throughout the financial statements.

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?

EBIT and EBITDA are widely used performance indicators for companies outside the financial sector. In principle, it would therefore be advantageous if the derivation of these key figures were uniform and thus comparable between companies. Nevertheless, we can understand the reasons why the Board did not include an explicit derivation of these figures in the proposed standard.

At the same time, we note the Board proposes to exempt EBITDA from the disclosure requirements for MPMs if it is calculated as operating profit or loss before depreciation and amortisation. As a result, if an entity discloses in the notes a measure calculated as operating profit or loss before depreciation and amortisation, that measure would not be considered a MPM and the respective disclosures would not be required.

We do not regard the exclusion in principle of operating profit or loss before depreciation and amortisation from the scope of application of the regulations for MPMs as favourable. To meet the need for comparability while at the same time dispensing with an explicit definition of EBITDA as a performance indicator, we would like to see this measure being included in the scope of the Board's proposals regarding MPM disclosures, when presented within the financial statements.

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 or 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?

We support the proposed amendment to paragraph 18 (b) of IAS 7. We believe it would be advantageous to have the same starting point for the cash flow statement, simply because it makes it easier to reconcile amounts back to the statement of profit or loss. We accept this may require an update to some IT-based support systems that calculate the cash flow amounts, however, the benefits to the users of financial statements will outweigh this cost as the cash flow statement.

Our experience to date with dealing with the presentation of interest and dividends is the freedom of choice that currently exists within the current Standard has led to debate and confusion. This is easier for analysts to compare results. However, there may be some unintended consequences of this change and one we considered was the process of reconciling the interest amount in the cash flow statement to the property, plant and equipment note in light of recognising the capitalisation of interest as set out in IAS 23 and feedback provided from IFRIC in this same area. Leading on from this we noted paragraph 16 in IAS 7 does not address investment property, where investing in property is not the reporting entities main line of business, so additional direction in this area would, in our opinion, be helpful if the Board wants to the greatest extent possible, comparability and consistency between reporting entities in similar circumstances.

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?

In paragraph BC280 the Board sets out in series of tables, results from research it commissioned on 100 annual reports that were issued for 2017-18. We found the summary of the likely effects on how financial information would change as a result of adopting this proposed standard was particularly helpful in highlighting the extent of change that would result. When the proposed Standard is approved, we would strongly encourage the Board to draw this material to readers attention as it certainly helped guide our internal deliberations on assessing the likely impact of what is being proposed.

We were also pleased to see recognition in the Basis of Conclusions that financial statements are increasingly being delivered in a digital format these days and going forward the content included within them will be consumed in a different way by analysts and interested stakeholders. We agree with the Board that as a result of the proposals in this Exposure Draft, further improvements in the quality, and comparability of electronic data being made available to decisions makers should result.

We note the IFRS Interpretations Committee has been discussing reverse factoring arrangements and has published a tentative agenda decision that makes various references to

IAS 1. We encourage the Board to consider whether any further amendments should be made to IAS 1 as part of this wider project in order to clarify the circumstances in which payables subject to reverse factoring arrangements should be presented separately from other trade payables.

Finally, the linkage between historical information, which is the basis of this proposed Standard, and the presentation of prospective financial information that will included in future offer documents will be interesting to observe. It is to be hoped market participants will reflect a great deal of the thinking and logic that has been set out by the Board in this Exposure Draft into the way they go about presenting any prospective financial information they might produce.