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30 September 2020

International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom
Email: commentletters@ifrs.org

Dear Sir/ Madam

**SAICA SUBMISSION ON ED/2019/7 – *GENERAL PRESENTATION AND DISCLOSURES***

In response to your request for comments on ED/2019/7 – *General Presentation and Disclosures*, attached is the comment letter prepared by the South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of SAICA's Accounting Practices Committee (APC), which comprises members from reporting organisations, auditors, IFRS specialists, investment analysts and academics. Whilst the securities exchange regulator participated in the deliberations, at their request, their views are not captured in this letter. We understand that they are submitting a separate comment letter on this exposure draft.

We thank you for the opportunity to provide comments on this exposure draft.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

**Prof Ahmed Mohammadali-Haji**
**Chairperson: APC**

**Bongeka Nodada**
**Project Director: Financial Reporting Standards**

## GENERAL COMMENTS

The respondents are in favour of the International Accounting Standards Board's (IASB or Board) efforts to reduce diversity in practice and improving comparability of financial statements through the General Presentation and Disclosures (Primary Financial Statements) project. More specifically, the respondents welcome the proposal to have more defined subtotals and line items in the statement of profit or loss. However, two strong views were noted from the respondents.

*View 1: Agree with the proposed categories, but IASB to consider aligning these categories to the existing financial reporting standards*

Supporters of this view, acknowledged the IASB's emphasis that it developed its proposals for the categories in the statement of profit or loss without trying to align classifications across the primary financial statements. However, the respondents were concerned about the potential confusion that might arise if the proposed categories in the statement of profit or loss are not aligned to those in IAS 7 - *Statement of Cash Flows*. For example, the respondents noted the following:

- In the operating category, the IASB used different terminology, "entity's main business activity" compared to the terminology in the existing standard (IAS 7), "principal revenue-producing activities", yet the definition of operating category (Exposure Draft (ED)) and the definition of operating activity (IAS 7) are more or less the same.
- The IASB's proposal identifies the classifications in the statement of profit or loss as 'operating', investing and financing categories', whereas IAS 7 identifies them as 'operating, investing and financing activities'. Another change of names yet the definitions in the ED and the definitions in IAS 7 are more or less the same.
- Interest revenue from cash and cash equivalents is classified in the financing category in the proposed categories of the statement of profit or loss. The proposed amendment in paragraph 34A of IAS 7 states that interest received should be classified as cash flows from investing activities in the statement of cash flows.

These respondents proposed that the IASB should reconsider the use of terminology and/or naming conventions in the ED. Where there is no intention to align categories in the statement of profit or loss to those in IAS 7, use different terminology and definitions; and use the same terminology where there is alignment.

*View 2: Completely remove the investing category*

Supporters of this view proposed that the investing category in the IASB's proposal be completely removed and be combined within the operating category. The main reason cited by these respondents was that the proposed investing category may pose practical application challenges and becomes a judgemental exercise when classifying items to specific categories.

For example, interest income from cash and cash equivalents is a cash flow from investing activities under IAS 7 paragraph 34A as amended in the ED, but the IASB proposes to include such interest under the financing category in the statement of financial performance. The proposed investing category also does not provide an actual measure of profit for investing activities, because only incremental expenses are allocated to the investing category per paragraph 47(b). The investing category definition of "returns from investments that are generated individually and largely independently of other resources held by the entity" may be difficult to apply when it comes to companies which do not have a main business activity of leasing, but which act as the lessor in an arrangement, or operating businesses that incur expenses in 'start-up' businesses. Another example was the classification of acquisitions or disposals of property, plant and equipment that is part of an entity's operation between investing and operating is not always clear and requires judgement. As alternative approaches, these respondents suggested that the:

- IASB considers if there are any merits of collapsing the investing category into the operating category; or
- investing category be retained; however, the IASB to consider refining the definition of the investing and financing category in the ED.

## SPECIFIC COMMENTS

**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?*

Most of the respondents agree with the proposal for the subtotal for operating profit or loss as it improves consistency on its use and it is used by most entities already. Paragraph 60 of the ED refers to "*operating profit or loss*" as a subtotal presented in the statement of profit or loss; however in paragraph BC55 of the Basis for Conclusions of the ED, it is stated that "*operating profit or loss is such an important measure of performance that it should be defined directly. However the Board concluded that defining operating profit or loss as a* ***default category*** *would result in a faithful representation of an entity's activities"*. The respondents request that the Board should avoid any confusion that may be created by referring to subtotals as categories in certain instances.

**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?*

Most respondents agree with the IASB's proposal for entities to classify in the operating category all income and expenses not classified in the other categories, such as the investing category or the financing category since the proposal is closely aligned to the IAS 7 definition of operating activities.

> "*Operating activities are the principal revenue-producing activities of the entity* ***and other activities that are not investing or financing activities***."

The respondents note a contradiction in that the ED does not directly include a definition of the operating category, but paragraph 46 of the ED provides an indication of a definition stating that "*the operating category includes information about income and expenses from an entity's main business activities."* When reading this in conjunction with paragraph BC54 of the ED, the Board explained that "*the operating category comprises all income and expenses included in profit or loss that are not classified as income and expenses from integral associates and joint ventures, investing or financing… that is, operating profit or loss is defined as a default or residual category."* The respondents request the Board to consider and eliminate contradictions within the ED.

However, some respondents recommended to only have two categories, namely operating and financing since distinguishing between investing and operating is not always clear. These respondents cited examples like buying or selling property, plant and equipment that is part of an entity's operation. They re-emphasised that the IASB should either align the definitions per the ED with the definition in IAS 7 to provide clarity and consistency or only have two categories, operating and financing in the statement of financial performance.

Representatives from insurers noted that paragraph 68 of the ED requires an entity to present expenses in the operating category of the statement of profit or loss, based on the nature of expense method or the function of expense method. IFRS 17 - *Insurance Contracts* requires entities to disclose 'insurance service expenses' on the statement of comprehensive income regardless of whether the function or nature of expenses method is applied. The line item includes expenses associated with functions necessary to fulfil the obligations to policyholders, such as policy maintenance and administration as well as expenses that could be disclosed separately under the nature of expenses method, such as claims incurred. The

ED is not clear on how line items, such as insurance service expenses, should be treated under paragraph 68 of the ED.

**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?*

The respondents agree with the IASB's 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 as it will improve comparability between entities. However, the IASB should consider providing clarity or guidance on "entity's main business activity" or align the terminology to "principal revenue‐producing activities" as used in the definition of 'operating activities' under IAS 7.

We propose that guidance be provided on how to determine the main business activity and also what to do when the main business activity changes. Further to this, the respondents would like to see how the IASB would recommend entities which have more than one main business activity, or principal revenue - producing activity would be expected to present those activities. We are of the view that the entities should be able to present multiple main business activities within the operating activities because it would not be appropriate to present those and aggregate them, or alternatively, the assessment should be performed at the consolidated financial statement level rather than an aggregation of all the underlying businesses.

The respondents representing **insurers** are of the view that the entity should include income and expenses from investments made in the course of its main business activities in the operating category, on the face of the statement of profit or loss. The application of this principle by entities holding investments in fiduciary capacity and for the benefit of its shareholders should be considered. For example, insurers hold significant investments to back policyholder liabilities, generate investment income for shareholders and maintain capital ratios set by regulators. Income and expenses from investments backing policyholder liabilities should be included in the operating category. The question is whether the income and expenses from other investments (as discussed) should be included the operating category or the investment category? We note that judgment is required to appropriately allocate income and expenses between the categories, but further guidance should be provided to reduce possible divergence in practice.

**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?*

Respondents agree with the IASB's proposal for an entity that provides financing to customers as a main business activity to include income and expenses from financing activities in the operating category since such entities are already including income and expenses from financing activities in operating profit. However, respondents are concerned that the IASB's proposal includes accounting policy choices. For example, within the financial services sector, one institution, may have a centralised treasury function that raises general borrowings and then pools them together before using the funds such that specific borrowings cannot be identified with specific activities, while another peer might not have such centralised treasury function and the borrowings can be linked to specific activities.

In addition, if the entity without the centralised treasury function chooses option 1 (paragraph 51(a) of ED) above in the statement of profit or loss, for purposes of the statement of cash flows, the entity will have to choose to classify interest on all borrowings as either financing activities or as operating activities because the amendment to IAS 7 does not allow a split between operating and financing activities in the statement of cash flows for interest paid (IAS 7.34C -34D). This will create a mismatch between the income statement and the statement of cash flows of the entity. In addition, the income statement and statement of cash flows of the entity will not be comparable to the income statement and statement of cash flows of the bank without the centralised treasury function. This is because the bank with the centralised treasury function will have to present all expenses related to borrowings in the operating category in the statement of financial performance and within operating activities in the statement of cash flows. Although the respondents understand the IASB's rationale for including the option, the respondents strongly believe that accounting policy choices may result in the undermining of comparability between peers. Therefore, the respondents are proposing that the IASB eliminate accounting policy choices by retaining option 2 (paragraph 51(b) of ED) only unless it is impracticable to eliminate the choices.

**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?*

Although the respondents agree with the IASB's proposal, there were concerns on the practical application of the proposal. Respondents noted that the proposed investing category may pose practical application challenges and becomes a judgemental exercise when classifying items to specific categories. For example, interest income from cash and cash equivalents is a cash flow from investing activities under IAS 7 paragraph 34A as amended in the ED, but the IASB proposes to include such interest under the financing category in the statement of profit or loss. The investing category is arbitrary and may not at all reflect what management considers to be "investing" i.e., if management of a mine is investing in a new greenfields project, this would not meet the definition of an investing activity, and therefore would form part of operating activities, even if this is not yet operational.

There is also a tension between what is considered to be a "main business activity" and a revenue generating activity in terms of IFRS 9 – *Financial Instruments*/IFRS 15 – *Revenue from Contracts with Customers*/IAS 1 – *Presentation of Financial Statements*. It seems that "main business activities" is wider than revenue generating activities. In other words, a lessor could have a lease, but it is not part of the revenue generating activities of the entity. Is the lease income and expense operating or investing?

As alternative approaches, these respondents suggested that the:

- IASB considers if there are any merits of collapsing the investing category into the operating category; or
- investing category be retained; however, the IASB to consider refining the definition of investing category and financing category in the ED.

**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?*

Most respondents agreed with the IASB's proposal that entities are required to classify specified income and expenses into a financing category and to present a profit or loss before financing and income tax subtotal in its statement of profit or loss.

However, some respondents were concerned about the inclusion of income and expenses from cash and cash equivalents in financing activities as described in paragraph 49(a) of the ED. Respondents argued that cash and cash equivalents are in most cases an asset for the entity and is a resource that will not be returned to the provider of finance. Hence this proposed classification does not align to the understanding of the nature of financing as typically applied when preparing the statement of cash flows. In addition, the proposed amendment in paragraph 34A of IAS 7 states that interest received should be classified as cash flows from investing activities in the statement of cash flows, which is a totally different classification to the one proposed in the statement of financial performance by the IASB's proposal.

Other respondents viewed cash and cash equivalents as integral to the entity's operations and for this reason expected income and expenses on cash and cash equivalents be classified as an operating activity in the statement of profit or loss instead of financing activities.

**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.*

*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?*

Respondents had differing views on the proposed presentation of a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures in the statement of profit or loss.

Some respondents viewed the proposed presentation by the Board to be appropriate since the measurement of the share in the profit or loss from associates and joint ventures i.e. the equity method application, is different to the measurement applied in general to items presented as operating activities. These respondents argued that due to the distinction in measurement, it is important for analysis purposes that results of investments in associates and joint ventures accounted for using the equity method are separately presented from the results of an entity's operating activities.

There was also a strong view that the distinction should not be made as all entities invest in the joint operations to make money in the course of their main business activities and these should all be classified as part of the operating category. Any distinction between the integral and non-integral associates and joint ventures is only artificial and theoretical for the entities to make. All joint ventures contribute to the performance of the entities.

If the separation between the integral and non-integral associates and joint ventures is retained, there was a view that separate presentation in the statement of profit or loss was unnecessary since IFRS 12 – *Disclosure of Interests in Other Entities* already requires comprehensive disclosures. These respondents proposed that the distinction between integral and non-integral associates and joint ventures can alternatively be made in the notes to the statement of profit or loss.

Most respondents also commented on the need to have further guidance from the IASB on the following:

- Clarifying the distinction between integral and non-integral. Respondents stated that there is a need for more clarity when assessing whether an associate or joint venture is integral or non-integral in terms of IFRS 12.20D. The specific wording that may be enhanced is the reference to "interdependency" and "integrated lines of business". Furthermore, some respondents noted that it was not clear if all the factors or only some factors have to be met in IFRS 12.20D in order for an associate or joint venture to be classified as integral to the entity's main business activities.
- The accounting treatment of a reclassification of an associate or joint venture as integral or non-integral in the statement of profit or loss as mentioned in IFRS 12.20C. Respondents requested that guidance be provide on the proposed accounting, timing and presentation of such a reclassification.
- IFRS 12.20A states that an entity shall classify its associates and joint ventures accounted for using the equity method as either integral associates and joint ventures or as non-integral associates and joint ventures on 'initial recognition'. Respondents felt that,

"initial recognition", appears to exclude existing associates or joint ventures which were accounted for in a different way. Therefore, they recommended that the IASB should consider rephrasing "initial recognition".

**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?*

There were differing views on the proposed description of primary financial statements.

Some respondents noted their concern on the inclusion of the definition of 'primary financial statements' and the specific exclusions noted in paragraph 11 of the ED. These respondents noted that paragraph 11 may be construed to imply that certain aspects of the financial statements, such as comparative information and notes, do not have the same prominence as the primary financial statements. Respondents also noted that it is unclear what the purpose was of including "primary financial statements" and wish the IASB to clarify its aim in this regard.

Other respondents argued that paragraph B3 of the ED clearly indicate that the notes are not less prominent since they support or supplement the amounts presented in the primary financial statements. In terms of the comparative amounts, respondents also noted that paragraph 20(b) of the ED indicates the importance of comparative information as they assist the user in comparing reporting periods of the same entity. These respondents understood the primary financial statements clearly to be a presentation of the current reporting period's result and financial position and therefore deemed the new naming convention of "primary financial statements" as appropriate.

In terms of general requirements on the aggregation and disaggregation of information, respondents noted that it was not clear if the requirements of paragraph 27 and 28 of the ED only relates to a material "other item" that comprises of various immaterial items or to any line-item named "other item" irrespective of the materiality thereof.

The respondents also noted that the current ED does not deal with a situation where the entity has multiple business activities which are managed the same but are accounted for in the separate accounting standards. The respondents are requesting guidance whether aggregation would be considered appropriate on the face and the disaggregation in the notes. For example, some banks manage finance leases within the scope of IFRS 16 as advances and aggregate them with advances which are within the scope of IFRS 9.

The respondents noted that there was inconsistency within the current requirements of paragraph 65 and paragraph B15 of this ED. Paragraph 65 specifically details the line items that must be **presented in the statement of profit or loss** which includes items based on their nature mostly and paragraph B15 requires separate presentation in the **statement of financial performance or disclosure in the notes** of items of income and expenses based specifically on the nature. Paragraph 65 presents a conflict when an entity has selected the function of expense method in the statement of financial performance as their policy choice as it specifically requires line items that are by nature to be presented on the face of the statement of profit or loss. The respondents are questioning how do you align the requirements of paragraph B15 and paragraph 65 of the ED to the current requirements of paragraph 68, the policy choice to present the statement of performance using function or nature?

**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?*

Most respondents viewed the added clarification on the requirements and application of presenting operating expenses using the nature of expense method or the function of expense method of analysis as useful.

However, some respondents noted their concern on the required line item "cost of sales" mentioned in paragraph 65(vi) of the ED. From their understanding of paragraph B47 of the ED, all entities will have to present a cost of sales line item irrespective of the expense method applied: "*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*". Respondents noted that this is in contradiction to the paragraph 71 of the ED that only requires presentation of cost of sales when applying the function of expense method.

Furthermore, respondents requested that if cost of sales is now a mandated separate presentation line item requirement in the statement of profit or loss as per paragraph 65, the IASB should provide guidance around what is considered to be cost of sales by defining this term.

**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?*

The respondents support the proposals for the disclosure of unusual income and expenses. The respondents are of the view that the introduction of the definition of 'unusual income and expenses' as well as the disclosure requirements would provide useful information and will lead to more consistency across entities in recognising and describing unusual items.

However, paragraph 101 of the ED which requires that an "entity shall present in a single note that includes **all** unusual income and expenses" is of great concern to the respondents. This requirement was considered to present a burden of implementation, and a burden on the verification process for predictive value, also taking into account that whether it will reoccur or not requires judgement.

The respondents are proposing that instead of the IASB requiring **all** unusual income and expenses to be disclosed, the requirements be amended to require management judgement on their own facts and circumstances and to make a decision on what to disclose. Management's decision may be guided by what they consider to be important to bring to the attention of users of the financial statements as unusual items. For example with covid-19, if an entity continues to pay salaries during the lockdown, whether it qualifies to be an unusual item or not requires judgement and may or may not be an unusual item.

Respondents also noted that significant judgement will be involved in determining whether income and expenses are unusual. For example, what happens if the unusual amount is made up of various inputs and only one input was unusual – e.g. impairment unusual because only PD, EAD or LGD is unusual?

Respondents also noted that this may be an evolving category as certain items may currently be unusual but due to changes in the environment or the economy, these items may no longer be unusual in the future.

The respondents were also concerned about the implications and the judgements that will be involved in the application of the requirements. They highlighted the following as the areas requiring clarification:

- There could be interpretation differences between entities and industries on what constitutes unusual income or expenses and therefore consistency between entities may not be achievable.
- Possibilities of normal line items being impacted by an uncommon event or circumstance becoming unusual, for example, normal line items like impairments, hyperinflation and fair values impacted by the uncertainty of covid-19. Will this result in these line items being split to isolate the unusual component of the line item?
- How to apply the principle in a group situation where the unusual income or expense occurs in different subsidiaries operating in different countries which are recurring at Group level which reflect consolidated results but are not recurring in those individual entities' financial results. For example, the impairments happening due to fire destroying assets at a subsidiary in one country and the same happens the following year at another subsidiary in a different country. Respondents are of the view that the identification of unusual income and expenses should therefore be entity level. Management would still apply their judgement on which of those are disclosed as unusual income or expenses in the group financial statements.
- Paragraph 100 describes unusual items as having limited predictive value. It may be a challenge for preparers to determine predictive value as the future is unpredictable, particularly whether the item is recurring or non-recurring. Auditors would also experience challenges relating to obtaining audit evidence substantiating whether an item is unusual or not, including the completeness thereof if the requirements to disclose *all* unusual income or expenses is retained.
- There is a lack of clarity as to whether the requirement is intended for cash items only or both cash and non-cash items. The respondents felt that there is confusion between the ED and the Basis for Conclusions, as the Basis for Conclusions speaks to the intention being identifying unusual items that will have an impact on cash flows. However, paragraph 68 of the ED talks to non-cash flow items.
- Does it matter when the event occurred for it to be identified as unusual income and expenses at the reporting date? The mining industry raised a point relating to legacy costs and income, where these relate to the mining sites that are in the closure-mode where they still incur costs, but no longer form part of their normal business activities as proposed by paragraph 46 of the ED. For example, a mine receives a refund or incurs costs relating to those sites that have been disposed of in the past for penalties relating to events that occurred in as far back as the 1970s.

**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?*

The majority of respondents strongly opposed this proposal, whilst the regulators were in support of the proposals on the basis that as it aligns with what users have been requesting. The reasons for the disagreement were as follows:

- The respondents did not agree with the current definition of the management performance measures as proposed by the IASB:

    - The definition of the management performance measures was considered to be confusing, narrowly defined to focus on the statement of financial performance but also at the same time widening its reach to broad information that is published by management outside the financial statements.
    - The respondents did not agree with limiting the definition of the management performance measures to only the sub-totals and not the line items. There are entities which publish management performance measures based on line items like the adjusted revenue.
    - The respondents did not understand the Board's decision to exclude certain information like the financial ratios reported by management from being management performance measures.

- There were strong concerns regarding the responsibility of the IASB as the standard-setter and that of the regulators. The respondents indicated that the Board should not include management performance measures in IFRSs. They strongly felt management performance measures should be the responsibility of jurisdictional regulators and the IASB was seen as overreaching its mandate and trying to fix regulatory failures though these requirements. The respondents highlighted that certain regulators have put processes in place to regulate the information and may need to be strengthened. Examples of regulators outside of our South African jurisdiction that were cited by respondents to support this view were:

- The European Public Real Estate Association ("EPRA") requires real estate reporters to report EPRA Net Asset Value, EPRA Earnings per share etc and these are then reconciled to IFRS.
- A respondent who is regulated by the Securities Exchange Commission ("SEC") noted some of the examples in their entity. The entity reports all-in costs and all-in sustaining costs measures which are reconciled to the cost of sales numbers in the IFRS information. Also free cash flow measures are reconciling items from operating cash flows in the cash flow statement.

- The measures are a tool for management to communicate what drives the entity's financial performance and management apply their judgement in what and how they want to communicate. Further, certain information is broad, subjective and may not be auditable.

- The requirement to include all the information that is publicly communicated within the scope of performance measures to be disclosed was considered to be far reaching as other measures are seen as being outside of the financial statements. They are some form of management commentary and therefore forming part of other information.

*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?*

Despite the respondents' disagreement with the IASB requirements on this matter noted above, the respondents are in agreement that if this information is disclosed, it needs to be reconciled to IFRS sub-totals as per the Board's proposals.

As the alternative, the respondents acknowledge the need for this information, and were therefore suggesting that the IASB rather consider including these requirements in the other project on Management Commentary.

The respondents were also concerned that when the disclosures are prescribed within IFRS, there is an expectation for consistency on what is reported. Management will be constrained from providing management performance information that may be relevant because of the requirement of paragraph 108 which requires an entity to provide explanations and restatement of comparatives when there are changes on reported management performance measures. The respondents highlighted that the management performance information as currently provided aims to disclose information or events significant in particular periods because they provide an explanation about what affected the performance in that year but are not significant in another period because something else has become relevant.

**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?*

Respondents agree with the IASB's proposal.

**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?*

Respondents agreed with the proposal, but they cited discomfort as noted in Question 4 above. They also indicated that the IASB appears to be elevating consistency over business models (funding models for banks for instance). They suggested that, in an effort to drive consistency, the requirements of the reporting standards should not override the business models.

The banking representatives highlighted their concern in this regard. Their concern is that the proposed requirements will result in distributions on equity instruments, being included in financing activities based on the new guidance of IAS 7, whereas the banks are of the view that if the instrument funds the main business activity of providing financing to customers they should be included as part of operating activities.

**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?***

Respondents requested that the Board should ensure that all IFRS literatures with contradicting authority is aligned. For example, IFRS 7 – *Financial Instruments* paragraph 20(b) states that an entity shall disclose total interest revenue and total interest expense for financial assets that are measured at amortised cost **either in the statement of comprehensive income or in the notes**, whereas, IAS 1 paragraph 82 appears to require interest revenue and total interest expense for financial assets that are measured at amortised cost to be presented in the statement of comprehensive income. Thus, IAS 1 does not have an option (statement of comprehensive income) but IFRS 7 appears to give a choice of statement of comprehensive income or in the notes. Therefore, as part of this project, respondents requested that the IASB look into scenarios like these and ensure the requirements of the literatures are aligned.

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