

Board Meeting Agenda

Thursday 13 and Friday 14 February 2020

Thursday 13 February

Chancellor 6, Level 17, James Cook Grand Chancellor Hotel, 147 The Terrace, Wellington

Est Time	Item	Topic	Objective		Page
A: NON-PUBLIC SESSION					
B: PUBLIC SESSION					
For-profit Item for Consideration					
3.15 pm	3	General Presentation and Disclosures	(DB/LK/VSF)		
	3.1	Cover memo	Consider	Paper	
	3.2	IASB ED/2019/7 <i>General Presentation and Disclosures</i>	Note	Paper	
	3.3	IASB ED/2019/7 <i>General Presentation and Disclosures – Basis for Conclusions</i>	Note	Paper	
	3.4	IASB ED/2019/7 <i>General Presentation and Disclosures – Illustrative Examples</i>	Note	Paper	
	3.5	IASB ED/2019/7 <i>General Presentation and Disclosures – Snapshot</i>	Note	Paper	
Standards for Approval					
4.15 pm	4	Withdrawal of PBE FRS 46 (Amendments to PBE FRS 47)	(JS)		
	4.1	Cover memo	Note	Paper	
	4.2	Withdrawal of PBE FRS 46 (Amendments to PBE FRS 47)	Approve	Paper	
	4.3	Revocation of PBE FRS 46	Approve	Paper	
	4.4	Draft signing memorandum	Approve	Paper	
	4.5	Submissions received:			
	4.5.1	BDO	Note	Paper	
	4.5.2	OAG	Note	Paper	
4.35 pm	5	PBE Interest Rate Benchmark Reform	(JS)		
	5.1	Cover memo	Note	Paper	
	5.2	PBE Interest Rate Benchmark Reform	Approve	Paper	
	5.3	Draft signing memorandum	Approve	Paper	
IASB Editorial Corrections					
4.50 pm	6	IASB Editorial Corrections December 2019	(VSF)		
	6.1	Cover memo	Approve	Paper	
4.55 pm		<i>Finish</i>			

NOTE: Wi-Fi Access Code:
 Network name: XRB_GUEST
 Access code: kq4mnlxd
 (lower case 'L' not figure 1)

Friday 14 February 2020

External Reporting Board, Level 7, 50 Manners Street, Wellington

Est Time	Item	Topic	Objective		Page
C: NON-PUBLIC SESSION					
D: PUBLIC SESSION					
Accounting Standards Framework					
10.45 am	9	Targeted Review of the ASF	(AH/GS)		
	9.1	Cover memo	Note	Paper	
	9.2	Analysis of submissions	Note	Paper	
	9.3	[not used]			
	9.4	ASF Targeted Review Summary document	Note	Supp paper	
	9.5	Submissions received:			
	9.5.1	Auckland Council	Note	Supp paper	
	9.5.2	BDO	Note	Supp paper	
	9.5.3	CA ANZ	Note	Supp paper	
	9.5.4	Professor Carolyn Cordery	Note	Supp paper	
	9.5.5	Charities Services	Note	Supp paper	
	9.5.6	CPA Australia	Note	Supp paper	
	9.5.7	[not used]			
	9.5.8	Grant Thornton	Note	Supp paper	
	9.5.9	KPMG	Note	Supp paper	
	9.5.10	OAG	Note	Supp paper	
	9.5.11	PwC	Note	Supp paper	
	9.5.12	The Treasury	Note	Supp paper	
	9.5.13	Combined online feedback forms	Note	Supp paper	
11.35 am	10	Tier 3 and Tier 4 PIR	(LK/JS)		
	10.1	Cover memo	Note	Paper	
E: NON-PUBLIC SESSION					
12.30 pm		<i>Finish</i>			

Next NZASB meeting: Wednesday 25 March 2020 in Wellington



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 31 January 2020

To: NZASB Members

From: Lisa Kelsey and Vanessa Sealy-Fisher

Subject: *General Presentation and Disclosures*

Recommendations¹

1. We recommend that the Board:
 - (a) CONSIDERS the proposals outlined in this memo; and
 - (b) PROVIDES FEEDBACK on the questions contained in this memo.

This cover memo provides the necessary information for Board members to be able to provide feedback on the proposals for consideration at the February meeting. Therefore, it is **not** expected that Board members have read the ED for the February meeting. For those Board members interested, a copy of the ED, Basis for Conclusions, proposed Illustrative Examples and Snapshot are included in the Board papers (see agenda items 3.2 – 3.5).

Introduction

2. In December 2019, the International Accounting Standards Board (IASB) issued Exposure Draft ED/2019/7 *General Presentation and Disclosures* (the ED) which proposes targeted improvements to the structure and content of the primary financial statements. This ED has been issued as part of the IASB's *Primary Financial Statements* (PFS) project.
3. The ED sets out a proposed new IFRS Standard that will replace IAS 1 *Presentation of Financial Statements*. The new standard will comprise new requirements for the structure and content of financial statements plus related requirements brought forward from IAS 1 with limited wording changes.
4. The ED also proposes:
 - (a) that the remaining requirements in IAS 1 are relocated to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (e.g. requirements relating to materiality, fair presentation and compliance with IFRSs and going concern) and IFRS 7 *Financial Instruments: Disclosures* (e.g. disclosures relating to puttable financial instruments classified as equity); and

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

- (b) amendments to IAS 7 *Statement of Cash Flows*, IAS 33 *Earnings per Share*, IAS 34 *Interim Financial Reporting* and IFRS 12 *Disclosure of Interests in Other Entities*.

5. The table below identifies key proposals in the ED and expected benefits.

Key proposals in the ED & expected benefits

Key proposals	User concerns	Expected benefits of proposals
1 Introduce defined subtotals and categories in the statement of profit or loss	Structure and content of statements of profit or loss varies between different entities, making it difficult to compare entities' performance	Additional relevant information and a P&L structure that is more comparable between entities
2 Introduce requirements to improve aggregation and disaggregation	Level of disaggregation does not always provide the information they need	Additional relevant information and material information not being obscured
3 Introduce Management Performance Measures (MPMs) and accompanying disclosures in financial statements	Non-GAAP measures can provide useful information, but transparency and discipline need to be improved	Transparency & discipline in use of such measures Disclosures in a single location
4 Introduce targeted improvements to the statement of cash flows	Classification and presentation options make it more difficult to compare entities	Improved comparability between entities

6. Comments on the ED are due by 30 June 2020.
7. In September 2019 the Board and invited guests (institutional investors) received an education session on the IASB's *Primary Financial Statements* project. Relevant feedback received from this session has been summarised in this memo.
8. We also sought feedback from the Accident Compensation Corporation (ACC) investments team and TRG members. Feedback received has been summarised in this memo. Feedback from the TRG was sought via email. At the time of finalising this memo feedback had been received from two TRG members.
9. At its October 2019 meeting the Board tentatively agreed to comment on the ED and approved a project plan. As detailed in the project plan, staff have split the ED into topics for discussion at the Board's meetings. Indicative groupings of topics are shown in Table A below.

Topic	NZASB Meeting
1. Objective and roles of the primary financial statements and the notes 2. Structure of the statement of profit or loss <ul style="list-style-type: none"> • categories in statement of profit or loss – operating, investing, financing • new subtotals: <ul style="list-style-type: none"> ○ operating profit or loss; ○ operating profit or loss and income and expenses from integral associates and joint ventures; and ○ profit and loss before financing and income tax. • classification of income and expenses from integral and non-integral associates and joint ventures • classification of income/expenses for financial entities 	14 February 2020

Table A - Indicative grouping of topics	
Topic	NZASB Meeting
3. Statement of financial position <ul style="list-style-type: none"> line items to be presented 	
4. Non-mandatory illustrative examples	
5. Management Performance Measures (MPMs) <ul style="list-style-type: none"> definitions and restrictions location disclosures 	25 March 2020
6. Aggregation and disaggregation <ul style="list-style-type: none"> principles, definitions and guidance on aggregation and disaggregation analysis of operating expenses by nature or function disclosure of unusual items minimum line items 	
7. Non-mandatory illustrative examples	
8. Amendments to other IFRS Standards <ul style="list-style-type: none"> IAS 7 <i>Statement of Cash Flows</i> IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> IAS 33 <i>Earnings per Share</i> IAS 34 <i>Interim Financial Reporting</i> IFRS 12 <i>Disclosure of Interests in Other Entities</i> 	
First draft of comment letter for Board's feedback	7 May 2020
Comment letter for approval by Board	17 June 2020

10. The project plan initially proposed that the non-mandatory illustrative examples would be considered at the February and March Board meetings. However, we now plan to consider the illustrative examples at a future meeting.

Background

11. The PFS project was added to the IASB's research work plan in December 2016 in response to the identification of the project as a priority by respondents to the 2015 IASB Agenda Consultation. The project was moved to the IASB's standard-setting work plan in September 2018.

12. The PFS project is part of the IASB’s broader theme of Better Communication in Financial Reporting. This theme is comprised of three projects as follows.



13. The PFS project proposes targeted improvements to the structure and content of the primary financial statements. The main focus of the improvements is the statement of profit or loss.
14. The following topics are outside the scope of the project:
- a fundamental revision of the statements of financial position, cash flows and changes in equity;
 - guidance on the content of other comprehensive income (OCI) and the timing of recycling of items;
 - segment reporting; and
 - presentation of discontinued operations.

Structure of this memo

15. The remaining sections in this memo are:
- Objective and roles of the primary financial statements and the notes;
 - Structure of the statement of profit or loss:
 - Subtotals and categories;
 - Operating category and operating profit or loss;
 - Integral associates and joint ventures category and operating profit or loss and income and expenses from integral associates and joint ventures;
 - Investing category;
 - Financing category and profit or loss before financing and income tax; and
 - Classification of foreign exchange differences and fair value gains and losses on derivatives and non-derivative financial instruments;
 - Statement of financial position:
 - Integral and non-integral associates and joint ventures; and
 - Goodwill; and
 - Next steps.

Objective and roles of the primary financial statements and the notes

16. In 2017 the IASB issued a Discussion Paper *Disclosure Initiative—Principles of Disclosure* (the POD DP). The POD DP outlined the IASB’s preliminary views on the roles of the primary financial statements and the notes. The IASB suggested that clarifying the role of the notes would:
 - (a) assist the IASB in deciding what information to permit and what information to require to be disclosed in the notes when setting disclosure requirements; and
 - (b) help entities decide what information to disclose in the notes to explain and supplement the primary financial statements.
17. In March 2019 the IASB issued a Project Summary on the POD DP.² This summary explained that the IASB would consider the roles of the primary financial statements and the notes in its PFS project because many respondents had expressed concerns that this topic was more relevant to the PFS project.
18. The feedback received by the IASB on the POD DP relating to the roles of the primary financial statements and the notes was broadly supportive. Respondents commented that the descriptions would help preparers of financial statements decide whether information should be provided in an entity’s primary financial statements or in the notes. Such descriptions would also help the IASB when developing new or revised IFRS Standards.
19. The ED proposes a description of the roles of the primary financial statements and the notes. The proposed descriptions are based on those in the 2017 POD DP.
20. The table below contains the relevant paragraphs from the ED dealing with the objective of the financial statements and the roles of the primary financial statements and the notes. Paragraph 19 below is identical to paragraph 3.2 of the IASB’s *Conceptual Framework for Financial Reporting*.

General presentation and disclosure requirements

Objective of the financial statements and roles of the primary financial statements and the notes (see paragraphs B3–B4)

- 19 [IAS 1.9] The objective of financial statements is to provide financial information about the reporting entity’s assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management’s stewardship of the entity’s economic resources.
- 20 The role of the primary financial statements is to provide a structured and comparable summary of a reporting entity’s recognised assets, liabilities, equity, income, expenses and cash flows, which is useful for:
 - (a) obtaining an overview of the entity’s assets, liabilities, equity, income, expenses and cash flows;
 - (b) making comparisons between entities, and between reporting periods for the same entity; and
 - (c) identifying items or areas about which users of financial statements may wish to seek additional information in the notes.

² The project summary is available at <https://www.ifrs.org/-/media/project/disclosure-initiative/disclosure-initiative-principles-of-disclosure/project-summary/di-principles-of-disclosure-project-summary.pdf>

- 21 The role of the notes is to:
- (a) provide further information necessary for users of financial statements to understand the items included in the primary financial statements; and
 - (b) supplement the primary financial statements with other information that is necessary to meet the objective of financial statements.
- 22 An entity shall use the description of the roles of the primary financial statements and the notes in paragraphs 20–21 to determine whether financial information should be included in the primary financial statements or in the notes. However, in determining the location of financial information, descriptions of the roles do not override specific requirements in IFRS Standards on the presentation and disclosure of financial information, for example, the requirements for the presentation of subtotals and line items in paragraphs 60 and 65 of this [draft] Standard.
- 23 An implication of the roles of the primary financial statements and the notes is that the amount of information required in the notes may be different from that in the primary financial statements, namely:
- (a) to provide the summary of information about the entity’s assets, liabilities, equity, income, expenses and cash flows described in paragraph 20, information provided in the primary financial statements is more aggregated than information provided in the notes; and
 - (b) to meet the objective of financial statements, more detailed information about the entity’s assets, liabilities, equity, income, expenses and cash flows, including *disaggregation* of information presented in the primary financial statements, may be required in the notes.
- 24 [IAS 1.31] Some IFRS Standards specify information that is required to be presented in the primary financial statements or disclosed in the notes. An entity need not provide a specific presentation or disclosure required by an IFRS Standard if the information resulting from that presentation or disclosure is not material. This is the case even if the IFRS Standard contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Standards is insufficient to enable users of financial statements to understand the impact of transactions and other events and conditions on the entity’s financial position and financial performance.

General presentation and disclosure requirements

Objective and roles of the primary financial statements and the notes

- B3 Applying paragraph 21(a), an entity provides in the notes further information necessary for users of financial statements to understand the items included in the *primary financial statements*. Examples of such information include:
- (a) *disaggregation* of the line items presented in primary financial statements;
 - (b) descriptions of the nature of the items included in the primary financial statements; and
 - (c) information about the methods, assumptions and judgements used in recognising and measuring the items included in the primary financial statements.
- B4 Applying paragraph 21(b), an entity supplements the primary financial statements with other information that is necessary to meet the objective of financial statements. Examples of such supplementary information include:
- (a) information about the nature and extent of an entity’s unrecognised assets, liabilities, equity, income and expenses (the elements of the financial statements); and
 - (b) information about an entity’s exposure to various types of risks, such as market risk or credit risk, arising from both recognised and unrecognised elements of the financial statements.

Question for Board members

1. Roles of the primary financial statements and the notes (ED Question 8(a))

Do you agree with the proposed description of the roles of the primary financial statements and the notes? Why or why not? If not, what alternative approach would you suggest and why?

NZASB’s response to the IASB’s POD DP

The Board agreed with the IASB’s preliminary views in the POD DP that a general disclosure standard should:

- (a) specify that the primary financial statements are the statements of financial position, financial performance, changes in equity and cash flows;
- (b) describe the role of primary financial statements and the implications of that role;
- (c) describe the role of the notes as well as provide examples of further explanatory and supplementary information;
- (d) not prescribe the meaning of present as presented in the primary financial statements and the meaning of disclose as disclosed in the notes; and
- (e) if it uses the terms present and disclose when describing where to provide information in the financial statements when subsequently drafting IFRS Standards, it should also specify the intended location as either “in the primary financial statements” or “in the notes”.

The following table outlines the Board’s concerns with the proposals in the POD DP and how, if at all, those concerns have been addressed in the ED.

Board’s concern with proposals in POD DP	How concern has been addressed in the ED
<p>The proposed role of the primary financial statements is inconsistent with the objective of financial statements which refers to “assessing the prospects for future net cash inflows to the entity and in assessing management’s stewardship of the entity’s resources”. The IASB’s preliminary view is that the statement of cash flows is one of the primary financial statements, yet the proposed description of the role of the primary financial statements does not reflect this.</p>	<p>Paragraph 20 of the ED explains the role of the primary financial statements. This paragraph now includes providing a structured and comparable summary of a reporting entity’s cash flows.</p> <p>20 The role of the primary financial statements is to provide a structured and comparable summary of a reporting entity’s recognised assets, liabilities, equity, income, expenses and cash flows, which is useful for:</p> <p>(a) ...</p>
<p>We echo comments made in the EFRAG <i>Preliminary response to the questions in the IASB Discussion Paper DP/2017/1 Disclosure Initiative – Principles of Disclosure</i> that the statement of cash flows and the statement of changes in equity are also forms of reconciliation and therefore this cannot be seen as a discriminating factor when describing the role of the notes.</p> <p>We recommend that the IASB considers amending paragraph 3.28(a) as follows.</p> <p>The role of the notes is to:</p> <p>(a) provide further information necessary to disaggregate, reconcile and explain the items</p>	<p>Paragraph 21 of the ED is equivalent to paragraph 3.28 of the POD DP.</p> <p>Paragraph 21 of the ED is shown below.</p> <p>21 The role of the notes is to:</p> <p>(a) provide further information necessary for users of financial statements to understand the items included in the primary financial statements; and</p> <p>(b)</p>

<p>recognised in the primary financial statements; and</p> <p>...</p>	
<p>(b) [However,] we have concerns that more prescriptive wording of “present in the primary financial statements” could have the unintended consequence of being misinterpreted as a requirement that is not subject to materiality. This concern could be addressed by giving greater emphasis to materiality when drafting disclosure requirements, e.g. by including a paragraph in each standard reminding entities to apply materiality.</p>	<p>Paragraph 24 (which is identical to paragraphs 31 of IAS 1) includes</p> <p>“...An entity need not provide a specific presentation or disclosure required by an IFRS Standard if the information resulting from that presentation or disclosure is not material. This is the case even if the IFRS Standard contains a list of specific requirements or describes them as minimum requirements. ...”</p>

Preliminary staff view

- *Agree that clarifying the role of the primary financial statements and the notes would:*
 - *help entities decide what information to disclose in the notes to explain and supplement the primary financial statements; and*
 - *assist the IASB in deciding what information to permit and what information to require to be disclosed in the notes when setting disclosure requirements.*
- *Agree with the proposed description of the roles of the primary financial statements and the notes – the Board supported the proposals in the POD DP and the Board’s concerns raised in respect of this topic have been addressed in the ED.*

Structure of the statement of profit or loss

Subtotals and categories

21. The ED proposes to define a number of subtotals and require that they be presented in the statement of profit or loss. The proposed new subtotals are:
 - (a) Operating profit or loss;
 - (b) Operating profit or loss and income and expenses from integral associates and joint ventures; and
 - (c) Profit or loss before financing and income tax.

22. The IASB’s reasons for proposing the presentation of new subtotals are as follows.
 - (a) Research and feedback received indicate that the structure and content of the statement(s) of financial performance varies, even among entities in the same industry. This reduces the ability of users of financial statements to compare the financial performance of entities.
 - (b) Many users said that they would welcome more defined subtotals and line items in the statements(s) of financial performance.

- (c) The proposed subtotals would provide relevant information and create a more consistent structure to the statement(s) of financial performance, thereby improving comparability.
- 23. As a result of the introduction of these proposed new subtotals, entities will classify income and expenses into the following categories: operating, integral associates and joint ventures, investing, financing, income tax and discontinued operations.
- 24. The new subtotals and categories of income and expenses for a general corporate are illustrated in the example below.

Introducing required and defined subtotals*

Revenue	16,500	Operating	
Changes in inventories of finished goods and work in progress	(1,000)		
Raw material and consumables used	(6,000)		
Employee benefits expense	(4,000)		
Amortisation expense	(800)		
Depreciation expense	(1,200)		
Impairment of property, plant and equipment	(500)		
Operating profit or loss	3,000		
Share of profit or loss of integral associates and joint ventures	500		Integral associates and JVs
Operating profit or loss and income and expenses of integral associates and joint ventures	3,500		
Changes in the fair value of financial assets	250	Investing	
Dividend income	50		
Share of profit or loss of non-integral associates and joint ventures	100	Financing	
Profit or loss before financing and income tax	3,900		
Interest income from cash and cash equivalents	100		
Expenses from financing activities	(1000)		
Unwinding of discount on pension liabilities and provisions	(100)		
Profit or loss before tax	2,900		

*Proposal for general corporates

- 25. If an entity has no integral associates and joint ventures the ED makes it clear that the entity would not be required to present a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures.
- 26. If the entity provides financing to customers as a main business activity (e.g. a bank or finance company) and it classifies all its income and expenses from financing activities and all income and expenses from cash and cash equivalents in the operating category (discussed in more detail later in this memo) the entity shall not present the profit or loss before financing and income tax subtotal.
- 27. The [appendix](#) to this memo includes examples of the statement of profit or loss for a bank, an investment property company, an insurer and an entity with a captive finance subsidiary.
- 28. The ED is accompanied by non-integral illustrative examples for different types of entities. These examples illustrate ways in which an entity can meet the proposed presentation and disclosure requirements in the ED (see agenda item 3.4). As mentioned earlier, we will not be seeking feedback from Board members on the non-mandatory illustrative examples at the February meeting.

29. The existing requirement in IAS 1 for an entity to present additional subtotals in the statement(s) of financial performance when such presentation is relevant to an understanding of the entity’s financial performance has been retained.

Operating category and operating profit or loss³

30. The IASB has observed that many users use an operating profit or loss subtotal in their analysis for assessing margins and for forecasting future cash flows. However, as shown below, companies do not calculate this in a consistent manner.

Operating profit—current practice

Many users use operating profit in their analysis; for assessing margins and for forecasting future cash flows	Company X		Company Y	
	Revenue		Revenue	
Many companies present operating profit (and variants) as a subtotal, however it is calculated inconsistently across companies.	Net interest on defined benefit liabilities		Share of profit of associates and JVs	
	Income from investments in financial assets			
	Operating profit		Operating profit	
	Share of profit of associates and JVs		Income from investments in financial assets	
		Net interest on defined benefit liabilities		
Profit		Profit		

31. A staff desktop review of the most recently published financial statements of NZX 50 entities shows that 24% (12/49) of entities show an operating profit on the face of the statement of profit or loss. However, the calculation of this subtotal is not consistent across entities or across industries.
32. The ED proposes an operating profit or loss subtotal which includes all income and expenses classified in the proposed operating category.
33. The operating category comprises all income and expenses included in profit or loss that are not classified as income or expenses from integral associates and joint ventures, investing or financing, and those that are not classified in income taxes or discontinued operations – that is, operating profit or loss is a default or a residual category.
34. Even though the operating category is a residual or default category, the IASB considers that, because of the way in which amounts excluded from operating profit or loss are defined, the operating category would include income and expenses from an entity’s main business activities.
35. The IASB explored developing a positive definition for operating profit or loss. However outreach with stakeholders proved that it would be challenging to reach agreement on a suitable definition. The IASB notes the following in the Basis for Conclusions that accompanies the ED.

³ This section of the memo draws on paragraphs BC53 to BC76 of the ED’s Basis for Conclusions.

Operating category and the operating profit or loss subtotal (paragraphs 46, 48, 51–52 and B25–B31)

...

- BC55 Some stakeholders have told the Board 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, because:
- (a) the Board's view is that all income and expenses included in profit or loss, other than those related to financing, tax, some investments or discontinued operations, arise from an entity's operations. The definitions of financing and investing include exceptions for entities for which investing and financing are main business activities, resulting in an operating profit category that includes all income and expenses that relate to an entity's main business activities (see paragraphs BC58–BC76).
 - (b) defining operating profit or loss as a default category is simpler than using a direct definition. This is because entities have various business activities making it difficult to arrive at a direct definition that could be applied consistently, even between entities in the same industry. Furthermore, the Board noted that previous attempts at developing a direct definition were not successful.
 - (c) defining operating profit or loss as a default category is also simpler for entities to apply because determining which income and expenses are classified in the investing or financing categories is expected to require less judgement than applying a direct definition of operating. There is also likely to be more agreement on proposed classification in investing and financing categories than any direct definition of operating. Therefore, the proposed definition is more likely to be consistently applied, resulting in more comparable information to users of financial statements.

...

36. The operating category is designed to include all income and expenses from an entity's main business activities, even if such income or expenses meet the definitions of income or expenses from investing or financing activities. The ED sets out specific circumstances in which an entity would not classify income or expenses in the financing or investing categories and instead classify them as operating. These circumstances are as follows:
- (a) An entity shall not classify in the investing category income and expenses from investments generated in the course of an entity's main business activities. Such income and expenses are instead classified in the operating category.
 - (b) If an entity provides financing to customers as a main business activity, it shall make an accounting policy choice to not classify in the financing category either:
 - (i) income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or
 - (ii) all income and expenses from financing activities and all income and expenses from cash and cash equivalents.
 Such income and expenses are instead classified in the operating category.
 - (c) An entity excludes the following income and expenses from the financing category and classifies them in the operating category:
 - (i) income and expenses from cash and cash equivalents if the entity, in the course of its main business activities, invests in financial assets that generate a return individually and largely independently of other resources held by the entity;

- (ii) income and expenses on liabilities arising from issued investment contracts with participation features recognised applying IFRS 9 *Financial Instruments*; and
 - (iii) insurance finance income and expenses included in profit or loss applying IFRS 17 *Insurance Contracts*.
37. Income and expenses from associates and joint ventures accounted for using the equity method are also not classified in the operating category. The classification of these income and expenses, including an entity's share of profit or loss of associates and joint ventures, are discussed in paragraphs 43 – 54 below.
38. The ED acknowledges that an entity may have more than one main business activity. For example, an entity that manufactures cars and also provides financing to customers may determine that it has two main business activities – manufacturing and customer-finance.
39. The ED notes that whether income and expenses arise in the course of an entity's main business activities is a matter of judgement. The ED does not provide a definition of 'main business activity'. However, the ED contains the following limited guidance.
- (a) In general, investments are likely to have been made in the course of an entity's main business when investment returns are an important indicator of operating performance.
 - (b) In general, providing financing to customers is likely to be a main business activity when the difference between interest income and the related interest expense is an important indicator of operating performance.
 - (c) If, applying IFRS 8 *Operating Segments*, an entity reports a segment that constitutes a single business activity, that may indicate that that business activity is a main business activity.

Accounting policy choice for entities that provide financing to customers as a main business activity

40. As discussed in paragraph 36(b) above, the ED requires that entities that provide financing to customers as a main business activity make an accounting policy choice about the classification of certain items as financing or operating. The IASB recognises that permitting an accounting policy choice may result in some loss of comparability between entities and that classifying in the operating category only the income and expenses arising from financing activities related to providing financing to customers would provide more useful information. However, because of the difficulty in some cases in allocating income or expenses between the categories, the IASB concluded that allocation should be permitted rather than required.
41. The IASB notes in the Basis for Conclusions that when an entity that provides financing to customers has more than one main business activity, it may have financing activities that are unrelated to the provision of financing to customers. In some such situations, the entity may be unable to identify which income and expenses from financing activities and income and expenses from cash and cash equivalents relate to the provision of financing to customers and which do not, without undue cost or effort.

Unusual income and expenses

42. Whether an item is 'unusual' does not affect whether it is included in the operating category (i.e. the ED is not proposing that unusual income and expenses are excluded from the operating category). The ED introduces separate requirements for entities to disclose, in the notes to the financial statements, information about unusual income and expenses. These proposals will be discussed at the March 2020 Board meeting.

Questions for Board members**2. Operating profit or loss (ED Question 1)**

Do you agree with the proposal that all entities present in the statement of profit or loss a subtotal for operating profit or loss? Why or why not? If not, what alternative approach would you suggest and why?

3. The operating category (ED Question 2)

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

4. The operating category: income and expenses from investment made in the course of an entity's main business activities (ED Question 3)

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

5. The operating category: an entity that provides financing to customer as a main business activity (ED Question 4)

Do you agree with the proposal 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 for cash and cash equivalents?

Why or why not? If not, what alternative approach would you suggest and why?

Feedback from outreach to date

Would you find having more structure to the P&L with defined subtotals helpful? Why or why not?

Investors

- Having more structure is great. Standardisation would help with comparing different companies across different industries – fantastic.
- Comparability is important and increased comparability is good.
- Yes, more structure would be useful – greater comparability, remove some of the subjectivity.
- No concerns with the proposals. In general, the information is there now. It is not too dissimilar to how we mostly recategorise things ourselves. So, it is not a massive change.

Preparer

- Like the concept of defined and required subtotals but worries that this permeates through to MPMs. The more subtotals are mandated, the more risk there is for a third set of numbers i.e. current GAAP subtotals, the new subtotals, then how management wants to present again. One of the benefits we have at the moment is flexibility so management can present their view.

TRG

- In principle believe that the proposed changes to statement of profit or loss are a good idea. However, a little concerned that there is insufficient guidance contained in the ED around how this should be done, which will lead the proposals to be open to manipulation, which means (expected) comparability will not be achieved.
- If they are going to change layout to show investing, financing, etc., why do they not want alignment between the primary statements – i.e. why not have similar “rules” for the various sections of P&L and statement of cash flows – wouldn’t it actually make more sense and provide more useful information to users to have alignment of definitions?
- They need to provide some guidance re biological assets too – i.e. are movements operating or investing in nature? There is currently diversity in practice, so clarity would be welcome.
- Re definition of financing activities – I am not convinced the ED goes far enough re definition/explanations. This is an area where there is currently diversity in practice and I can foresee manipulation re this happening in future.

Do you agree with adding more structure to the P&L through defined subtotals? Why or why not?

Do you believe the IASB has chosen the right subtotals to define and require presentation of?

XRAP

- Is there anything that the proposed subtotal provide that I could not work out for myself? Don’t see the point – just compliance.
- Increased comparability – but may hamper entities ability to tell its own story.
- Quite happy with proposals, structure is fine (fights against the use of non-GAAP measures in press releases).
- This is a nod to the less sophisticated users. No negative effect of the proposals.

- Concern is that it lessens usefulness, even though more comparability. People wanting to tell their story – will be more focus on MPMs and downplay the importance of PFS.
- Won't get absolute comparability anyway because you have the judgement around integral and non-integral associates and JVs. This would not stop me making my own analysis.
- But more comparability because all making same shifts/adjustments.
- Looking at Xero – economic value versus accounting (share price versus P&L). The story has to be told elsewhere anyway.
- Depends on the degree of disclosure – i.e. If two set of subtotals, as long as enough disclosure the informed reader could recast from one subtotal to another so makes no difference to them. The uninformed reader could focus on the wrong thing.
- The uninformed reader will look at press releases not financial statements.

Do you believe the IASB has chosen the right subtotals to define and require presentation of?

Investors

- Believe there could be a grey area for some items as to whether they are related to the main business activities or not. Certain companies will say that a particular item is part of their main business activity, however others with similar items won't. For example – I would say that part of the Port's main business activity is investment properties [in contrast some Ports may take a different view].
- Support for keeping the proposal applicable to as many company types as possible. It is good to see some modifications made for banks given the complexity, however, consistency across every type of business would be better. Would not support making other exceptions or modifications for other types of businesses.
- At the end of the day, investors are just trying to get as much clarity about what entities are doing and how they're doing with their performance – how obvious it is, how transparent, that is the key.
- Agreed that even if the actual structure is not quite how we might view it, it can still be changed around – as we tend to do anyway.
- It is more about the disclosure levels in total. Things that are not disclosed now that we would like, companies generally err on the less disclosures side, not always but most of the time.

Preliminary staff views

- *Support the introduction of defined and required subtotals. Agree these will provide more structure to the P&L and enhance comparability between entities.*
- *Support the introduction of a required operating profit or loss subtotal. Agree that there is diversity in practice, in terms of (a) entities that present an operating profit subtotal and others that don't; and (b) for those entities that do present an operating profit subtotal what the subtotal comprises of. Therefore, an operating profit or loss subtotal would help improve comparability.*
- *Acknowledge the challenges the IASB faced trying to define directly operating profit. Therefore, for practical reasons support the operating category being a residual category.*

- *Agree the operating profit or loss subtotal should capture all income and expenses from an entity's main business activity. However, question whether further guidance is needed to clarify the meaning of an entity's 'main business activity' – for some entities, e.g. global conglomerates with multiple business activities, significant judgement may be involved in determining the entity's main business activities.*
- *Support 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.*
- *We have not yet formed a preliminary view on the proposal 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 for cash and cash equivalents.*
- *We acknowledge the challenges identified by the IASB for some entities that provide financing to customers to allocate income and expense between financing and operating categories. However, we will seek feedback from NZ constituents regarding the costs and effort required to make such an allocation.*

Integral associates and joint ventures category and operating profit or loss and income and expenses from integral associates and joint ventures⁴

43. The IASB has observed significant diversity in practice in the presentation of an entity's share of the profit or loss of associates and joint ventures accounted for using the equity method. Therefore, the IASB considered specifying where in the statement of profit or loss an entity should present its share of the profit or loss of associates and joint ventures accounted for using the equity method.
44. The IASB considered requiring entities to present their share of the profit or loss of associates and joint ventures in a single location in the statement of profit or loss – the investing category. However, stakeholder feedback suggested some associates and joint ventures may have important differences in characteristics in that:
- (a) the activities of some associates and joint ventures are integral to the reporting entity's main business activities. Feedback suggests this characteristic is common in joint ventures; and
 - (b) the activities of some associates and joint ventures are not integral to the reporting entity's main business activities (that is, they have little or no effect on those activities).
45. Therefore, the ED proposes to require entities to classify their associates and joint ventures as either integral or non-integral associates and joint ventures and present separately the share of profit or loss of these different types of associates and joint ventures.

⁴ This section of the memo draws on paragraphs BC77 to BC89 of the ED's Basis for Conclusions.

46. The ED proposes that ‘integral associates and joint ventures’ and ‘non-integral associates and joint ventures’ be defined in IFRS 12 *Disclosure of Interests in Other Entities* as follows.

**Appendix A
Defined terms**

...

integral associates and joint ventures 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.

...

non-integral associates and joint ventures Associates and joint ventures accounted for using the equity method that are not integral to the main business activities of an entity and hence generate a return individually and largely independently of the other assets of the entity.

...

47. The ED also proposes including the following guidance in IFRS 12 to help assess whether an associate or joint venture is integral or non-integral.

20D When assessing whether an associate or joint venture accounted for using the equity method is integral or non-integral to an entity’s main business activities, the entity shall consider all facts and circumstances. 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. Examples of a significant interdependency between an entity and an associate or joint venture include:

- (a) having integrated lines of business with the associate or joint venture;
- (b) sharing a name or brand with the associate or joint venture so that externally it may appear as one business in relation to the activities of the associate or joint venture (although the reporting entity may have other, separate businesses); and
- (c) having a supplier or customer relationship with the associate or joint venture that the entity would have difficulty replacing without significant business disruption.

48. The IASB concluded that the share of profit or loss of non-integral associates and joint ventures meets the definition of income and expenses from investments and therefore proposes to classify it in the investing category.
49. In contrast, the IASB concluded that an entity should not classify the share of profit or loss of integral associates and joint ventures in the investing category because such income and expenses are not largely independent from income and expenses classified in the operating category. In other words, they do not meet the definition of income or expenses from investments.
50. The IASB considered whether to require entities to classify the share of profit or loss of integral associates and joint ventures in the operating category. However, it rejected this approach because many users of financial statements analyse the results of investments in associates and joint ventures accounted for using the equity method separately from the results of an entity’s operating activities. Users explain this as follows.
- (a) The equity method of accounting combines income and expenses that users would normally analyse separately, including financing expenses and income taxes.

- (b) Classifying the share of profit or loss of associates and joint ventures in the operating category would significantly disrupt users' analyses of operating margins. For example, the revenue line does not include revenue from associates and joint ventures.
 - (c) The entity does not control the activities of associates and joint ventures as it controls the other activities giving rise to income and expenses classified in the operating category and only exercises joint control over the activities of joint ventures.
51. Instead of classifying the share of profit or loss of integral associates and joint ventures in the operating category, the ED proposes to create a separate category for income and expenses from integral associates and joint ventures and to require entities to:
- (a) classify income and expenses from integral associates and joint ventures in this proposed category; and
 - (b) present an operating profit or loss and income and expenses from integral associates and joint ventures subtotal.
52. The IASB discussed whether, in addition to the share of profit or loss of integral associates and joint ventures, the integral associates and joint ventures category should include:
- (a) impairment losses and reversals of impairment losses on integral associates and joint ventures; and
 - (b) gains or losses on disposals of integral associates and joint ventures.
53. The ED proposes to classify income and expenses from integral associates and joint ventures listed in paragraph 52 above in the integral associates and joint ventures category for the following reasons.
- (a) This is consistent with the IASB's general approach to classifying related income and expenses in the statement of profit or loss. Including such income and expenses in separate categories could lead to accounting mismatches.
 - (b) This would respond to the views of users of financial statements who do not want to include any income and expenses relating to associates and joint ventures in the operating category because they would analyse returns on these investments separately from operating profit or loss.
 - (c) Although investments in integral associates and joint ventures may give rise to economic benefits arising from synergies with an entity's main business activities, classifying income and expenses from these investments in the operating category would nevertheless disrupt users' analyses of operating margins. This is because the revenue line, for example, does not include revenue from associates and joint ventures.

54. The IASB noted that some users of financial statements have said that they would not use the proposed subtotal of operating profit or loss and income and expenses from integral associates and joint ventures. The IASB however concluded that the proposed presentation and the subtotal requirement balance the needs for:
- (a) an operating profit or loss that excludes any income or expenses from financing, investing and income taxes, and provides a comparable basis for calculating operating margins; and
 - (b) separate presentation of income and expenses from associates and joint ventures that are integral to the entity's main business activities.

Question for Board members

6. Integral and non-integral associates and joint ventures (ED Question 7(a) and (b))

Do you agree with the proposals to:

- (a) define 'integral associates and joint ventures' and 'non-integral associates and joint ventures' and require an entity to identify them; and
- (b) 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?

Why or why not? If not, what alternative approach would you suggest and why?

Feedback from outreach to date

Would you find it useful if entities were required to distinguish between investments in associates and joint ventures that are integral to their main business activities from those that are non-integral?

Investors

- As long as there's sufficient disclosure to know what sits behind each category then we can still make our own decisions because companies tend to favour an outcome that will present a better result for them.
- Like the fact that you will be forced to split out the post-tax item – good reminder this line item is of a different nature. There may be a small gain having the split between integral and non-integral associates and JV – but would prefer the P&L to be simplistic and not get longer and longer. Actually, if you classify an associate or JV as non-integral what does this mean? Why do you have it? Does this signal that it is held for sale?
- When it comes to associates and joint ventures, what we want to know about is (a) that they are there and (b) that you can clearly identify the post-tax amount. Not sure there is much informational value in splitting between integral and non-integral. Maybe could be some informational value in the fact that management deem the JV to be non-integral?

XRAP

- The uninformed reader will have no idea, the informed reader will figure it out anyway. If enough disclosure, why needed on the face?
- This is easily supplied useful information – what is the downside?

- The constant creep – I’m an advocate for a simple P&L – can then cut and paste whichever way I want.
- Don’t think there is a huge downside, but can get information anyway.

Board members

- Cautioned that some companies may classify an associate or JV as integral in a good year and as non-integral in a not-so-good year.
- Was consideration given as to whether an entity should distinguish between integral and non-integral subsidiaries?

TRG

- Appreciate the rationale for splitting info between integral and non-integral associates and JVs, but concerned that this may lead to manipulation. What is the cut-off for being “integral”? This could also become tricky to audit. (I am not convinced that the guidance in (proposed) IFRS 12.20D and the defined terms is sufficient guidance re this issue)
- Introducing a distinction between integral and non-integral JVs and associates could lead to confusion for users. It introduces more judgement in relation to what JVs and associates are considered ‘integral’. While the proposed indicators seem sensible, introducing different categories of JVs and associates could just lead to more work and confusion.

Preliminary staff views

- *Support that an entity’s share of profit or loss of associates and joint ventures (JVs) should be presented separate from operating profit or loss to avoid mixing post-tax and pre-tax amounts.*
- *Acknowledge that in some industries, particularly the mining industry, JVs may be part of an entity’s main business activities therefore not appropriate to classify all income and expenses from associates and JVs in the investing category.*
- *Do not support proposals to classify associates and joint ventures as integral or non-integral. Concerns that this would be an arbitrary distinction that could unnecessarily confuse some users. No strong demand for split by investors.*
- *Support grouping income and expenses from associates and joint ventures in one category. Therefore, recommend that the IASB revise the proposals to require income and expenses from all associates and JVs to be included in a separate ‘associates and JVs category’ and ‘operating profit and income and expenses from associates and JVs’ subtotal.*

Investing category⁵

55. The ED proposes to require entities to present an investing category in the statement of profit or loss. This category would include income and expenses from investments and incremental expenses related to those investments. Income and expenses from investments comprise income and expenses from assets that generate a return individually and largely independently of other resources held by the entity.
56. The objective of the investing category is to identify returns from investments that are not part of the entity’s main business activities. For example, equity or debt investments typically

⁵ This section of the memo draws on paragraphs BC48 to BC51 of the ED’s Basis for Conclusions.

generate dividend or interest returns individually and largely independently of the other assets of the entity. Users often analyse returns from such 'stand-alone' investments separately from an entity's operations. The investing category aims to capture income and expenses from such investments to facilitate users' analysis.

57. Examples of income and expenses from investing activities for entities that do not invest in the course of their main business activities include:
- (a) income and expenses from financial assets, except for income and expenses from cash and cash equivalents, such as:
 - (i) interest revenue;
 - (ii) impairment losses and reversals of impairment losses;
 - (iii) gains and losses on disposal;
 - (iv) fair value gains and losses;
 - (v) dividends from equity investments;
 - (vi) the share of profit or loss of non-integral associates and joint ventures; and
 - (vii) income and expenses from associates and joint ventures not accounted for using the equity method; and
 - (b) income and expenses from other investments such as:
 - (i) income and expenses on investment property (this would be included in the operating category for an investment property entity);
 - (ii) impairment losses and reversals of impairment losses; and
 - (iii) gains and losses on disposal.
58. Income and expenses from investments do not include income and expenses from assets used by an entity in the production of goods and the delivery of services. Income and expenses derived from such assets result from the combination of those assets with other resources of the entity, such as employees, raw materials or intangible assets, and not from the individual assets on their own. Examples of such income and expenses not from investments include:
- (a) interest revenue from trade receivables, which would be classified in the operating category;
 - (b) income and expenses from property, plant and equipment and intangible assets, including depreciation, amortisation, impairment and disposal gains and losses, which would be classified in the operating category; and
 - (c) gains or losses on disposal of a discontinued operation, which would be classified in the discontinued operations category.
59. The investing category in the statement of profit or loss is different from investing activities as defined in IAS 7. The objective of the IAS 7 classification is to identify investments made in long-term assets that will generate future returns. It could include investments in operating assets, such as property, plant and equipment. Income and expenses related to such assets would be included in the operating category of the statement of profit or loss.

60. The proposals in the ED focus on the objective of meeting the needs of users with respect to the statement of profit or loss, and not on aligning classifications across the primary financial statements.

Question for Board members

7. The investing category (ED Question 5)

The ED proposes 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.

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

Feedback from outreach to date

TRG

- *Having different definitions of an investing category between the P&L and the cash flow statement will confuse users.*
- *Wouldn't it make more sense and provide more useful information to users to have alignment of categories between the P&L and cash flow statement?*

Preliminary staff view

- *Agree that an investing category would provide users with useful information about the returns from investments that are not part of the entity's main business activities, particularly for non-financial institutions.*
- *Acknowledge concerns about the difference in definition of the proposed investing category in the P&L and existing 'investing activities' in the cash flow statement.*
- *In its draft comment letter, for the January 2020 Technical Expert Group, the European Financial Reporting Advisory Group (EFRAG) suggests that it would be clearer and less complex to link the investing category to investments in financial assets (e.g. equity investments, debt instruments and cash and cash equivalents) and non-financial assets of the entity (e.g. investment property). Thus, cash and cash equivalents would be classified in the investing category (and not in the financing category as proposed by the ED) except when an entity invests in financial assets in the course of its main business activities.*
- *Note that the IASB did consider trying to align the 'sections' in the P&L and cash flow statement but decided not to seek alignment, recognising the separate and distinct purposes of the two statements.*
- *At this stage, we have yet to form a view on whether the investing 'sections' of the P&L and cash flow statement should be aligned.*

Financing category and profit or loss before financing and income tax⁶

61. Many users of financial statements seek to analyse an entity's performance independently of how that entity is financed. To facilitate such analysis, the ED proposes to require an entity 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.
62. The objective of the financing category is to communicate income and expenses from assets and liabilities related to an entity's financing.
63. The financing category includes:
- (a) income and expenses on liabilities arising from financing activities;
 - (b) income and expenses from cash and cash equivalents; and
 - (c) interest income and expenses on liabilities that do not arise from financing activities.

Income and expenses on liabilities arising from financing activities

64. Financing activities have been defined in the ED as follows.

50	<p>Financing activities are those involving the receipt or use of a resource from a provider of finance with the expectation that:</p> <ul style="list-style-type: none"> (a) the resource will be returned to the provider of finance; and (b) the provider of finance will be compensated through the payment of a finance charge that is dependent on both the amount of the credit and its duration.
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65. As noted in the operating category and operating profit or loss section of this memo, some specific entities, depending on their main business activities, are required (or can make an accounting policy choice) to classify some or all income and expenses that meet the definition of income and expenses from financing activities in the operating category – instead of the financing category in the statement of profit or loss.
66. Examples of income and expenses from financing activities for entities that do not provide financing for customers in the course of their main business activities include:
- (a) interest expenses (for example on debt issued and lease liabilities);
 - (b) fair value gains and losses (for example on a liability designated at fair value through profit or loss); and
 - (c) dividends on issued shares classified as liabilities.

Income and expenses from cash and cash equivalents

67. The ED proposes that income and expenses from cash and cash equivalents should be classified in the financing category (except in some cases) depending on an entity's main business activities. This proposal was discussed in the operating category and operating profit or loss section above.

⁶ This section of the memo draws on paragraphs BC33 to BC47 of the ED's Basis for Conclusions.

68. The IASB is of the view that users of financial statements typically treat excess cash and temporary investment of excess cash as part of the financing of the entity. How an entity manages excess cash is interrelated with its decisions about debt and equity financing.
69. The ED proposes that income and expenses from cash and cash equivalents be included in the financing category for the following reasons.
- (a) Cash and cash equivalents represent a reasonable proxy for excess cash and the temporary investment of excess cash for many entities.
 - (b) Cash and cash equivalents are defined in IAS 7. Using existing definitions that are well understood helps to ensure that the requirement is applied consistently and that the amounts included in the financing category are comparable.
 - (c) While most entities require some cash for operational purposes (for example, as a part of working capital) requiring entities to split cash and cash equivalents between amounts used for operational purposes and excess cash would impose undue cost or effort.
70. The IASB acknowledges that some users of financial statements view investments other than cash and cash equivalents as part of an entity's financing – for example, some liquid financial assets. However, the IASB is of the view that the proposals in the ED would require an entity to provide information about income and expenses from investments in the investing category which should enable users to make adjustments in their analysis if they regard a particular investment as part of the entity's financing. For example, a user could reclassify items of income from the investing category and include them in the financing category.

Interest income and expenses on liabilities that do not arise from financing activities

71. The ED proposes that an entity classifies interest income and expenses on liabilities not arising from financing activities in the financing category. Such income and expenses include:
- (a) net interest expense (income) on a net defined benefit liability (asset) applying IAS 19 *Employee Benefits*;
 - (b) unwinding of the discount on a decommissioning, restoration or similar liability;
 - (c) unwinding of the discount on other long-term provisions, for example warranty provisions and deferred consideration for a business combination; and
 - (d) increases in the present value of the costs to sell a non-current asset (or disposal group) held for sale that arise from the passage of time.
72. Many, but not all, users of financial statements consider such income and expenses to be similar to income and expenses from financing activities. The IASB is of the view that the proposals would provide a consistent location for the presentation of information related to financing and should enable users to adjust the profit or loss before financing and income tax subtotal if they wish to do so.

EBIT

73. When tentatively deciding on the profit before financing and income tax subtotal, the IASB considered whether to use ‘earnings before interest and tax’ (EBIT) as a defined subtotal.
74. Although EBIT is commonly used to compare the financial performance of entities that are financed differently, this term and similar subtotals are not comparable because of diversity in the classification of items between finance income and expenses and other income and expenses. Furthermore, many calculations of EBIT also include some items of interest income or expense, which is incompatible with describing EBIT as a subtotal *before* interest.
75. The profit or loss before financing and income tax subtotal serves a similar purpose to an EBIT subtotal because it allows users of financial statements to compare entities independently of how they are financed. However, it is not described as EBIT because such a description would imply that all interest is excluded from the subtotal, and that the subtotal excludes only interest and tax and nothing else. But (i) most interest income will be included in the investing section, and (ii) profit or loss before financing also excludes expenses from financing activities other than interest (for example, exchange rate differences or transaction costs).

Question for Board members

8. Profit or loss before financing and income tax and the financing category (ED Question 6)

- (a) The ED propose that all entities, except for some specified entities, present a profit or loss before financing and income tax subtotal in the statement of profit or loss.
- (b) The ED proposes which income and expenses an entity classifies in the financing category.

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

Feedback from outreach to date

Investors

- *Tend to adjust for interest cashflows from cash and cash equivalents.*
- *Depending on the company, we would have a discussion with the company to determine how much of the excess cash is needed for operational purposes and how much for investing purposes.*

Preliminary staff view

- *Support the proposals for all entities, except for some specific entities (i.e. entities that provide financing to customers as a main business activity (e.g. banks) and classify all income and expenses from financing activities and all income and expenses from cash and cash equivalents in the operating category), to present a profit or loss before financing and income tax subtotal in the statement of profit or loss.*
- *Support the proposals for entities to classify in the financing category:*
 - (a) *income and expenses on liabilities arising from financing activities;*

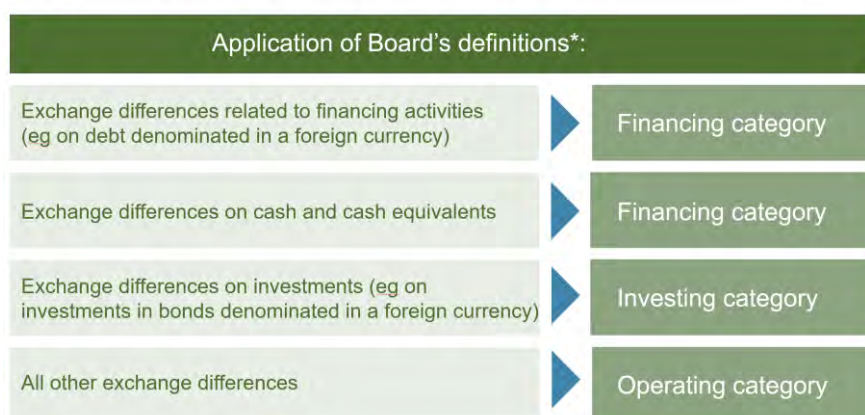
- (b) *income and expenses from cash and cash equivalents; and*
- (c) *interest income and expenses on liabilities that do not arise from financing activities.*
- *Acknowledge that some users have different views on the appropriate classification of income and expenses from cash and cash equivalents (e.g. as investing, financing or operating). However, support including in the financing category (with the proposed exceptions for some specific entities) for reasons similar to including interest income and expenses on liabilities that do not arise from financing activities in the financing category (i.e. a consistent location for the presentation of information). The proposals should enable users to reclassify income and expenses from cash and cash equivalents to other categories if they wish to do so.*
- *The ED stipulates that entities would classify in the investing category incremental expenses incurred to generate income and income from investments. However, the ED is silent on incremental expenses related to the financing category. We recommend that it would be useful to have guidance on whether incremental expenses related to financing activities should also be in the financing category.*

Classification of foreign exchange differences and fair value gains and losses on derivatives and non-derivative financial instruments

Foreign exchange differences

- 76. During outreach activities, IASB staff received feedback from stakeholders that the classification into sections of the statement(s) of financial performance is potentially unclear for foreign exchange differences arising from translating foreign currency items into an entity’s functional currency.⁷
- 77. The ED proposes that entities classify foreign exchange differences included in profit or loss applying IAS 21 *The Effects of Changes in Foreign Exchange Rates* in the same category of the statement of profit or loss as the income and expenses arising from the items that gave rise to the foreign exchange differences. Applying the proposed definitions for the categories in the statement of profit or loss, foreign exchange differences would be classified in the statement of profit or loss for a general corporate (i.e. not a financial entity) as follows:

FX gains or losses—P&L classification



⁷ The IASB agenda paper specified that it was those exchange differences included in profit or loss in accordance with paragraphs 28 and 30 of IAS 21 *The Effects of Changes in Foreign Exchange Rates*. For example, this includes exchange differences on trade payables, trade receivables and borrowings denominated in a foreign currency.

78. The IASB is of the view that classifying exchange differences in the same category of the statement of profit or loss as the income and expenses that give rise to them contributes to a faithful representation of an entity's business activities.

Question for Board members

9. Foreign exchange differences (no specific question in the ED)

Do you have any concerns with the proposals to classify exchange differences in the same category of the statement of profit or loss as the income and expenses that give rise to them?

Feedback from outreach to date

Do you agree with the proposals developed for the classification of foreign exchange differences?

TRG

- Foreign exchange proposals seem sensible (i.e. present where the underlying transaction is disclosed).

Preliminary staff view

- *We have not identified any significant concerns with the proposals. As there is no specific question in the ED on this matter we are not proposing to comment on this proposal.*

Fair value gains and losses on derivatives and non-derivative financial instruments

79. During outreach activities, IASB staff received feedback from stakeholders that the classification into sections of the statement of profit or loss is also potentially unclear for:
- (a) fair value gains and losses included in profit or loss on derivatives:
 - (i) in a designated hedging relationship to which hedge accounting is applied ('designated derivatives') in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*; and
 - (ii) not in a designated hedging relationship ('non-designated derivatives') – this includes derivatives held for risk management purposes to which hedge accounting is not applied (either because the entity has chosen not to, or the qualifying criteria are not met) and derivatives held for other purposes; and
 - (b) gains and losses on non-derivative financial instruments (designated and non-designated) used for risk management.

80. The following diagram summarises the proposed classification of fair value gains and losses on derivatives and hedging instruments in an entity’s statement of profit or loss (paragraph B40 of the ED).

		Gains and losses on:	
		Derivatives	Non-derivative financial instruments
Used for risk management	Designated as a hedging instrument	Classify in the category affected by the risk the entity manages, except when it would involve grossing up gains and losses—then classify in the investing category.	
	Not designated as a hedging instrument	Apply the presentation requirements for derivatives designated as hedging instruments except if such classification would involve undue cost or effort—then classify in the investing category.	Apply requirements for classification in paragraphs 45–55.
Not used for risk management		Classify in the investing category, except when used in the course of a main business activity—then classify in the operating category.	

81. The ED proposes that an entity would classify gains and losses on financial instruments designated as hedging instruments in accordance with IFRS 9 in the:
- (a) operating category, if the instrument is used to manage risks affecting income and expenses classified in the operating category – except when doing so would require the grossing up of gains and losses;⁸
 - (b) financing category, if the instrument is used to manage risks affecting income and expenses classified in the financing category – except when doing so would require the grossing up of gains and losses; or
 - (c) investing category if the instrument is used to manage risks affecting income and expenses classified in the investing category or in all other cases – including in the circumstances set out in (a) and (b) involving the grossing up of gains and losses.
82. An entity would also adopt the classifications in the paragraph above to:
- (a) derivatives used to manage risks and not designated as hedging instruments applying IFRS 9, except when such a classification would involve undue cost or effort. If there would be undue cost or effort, the entity would classify all gains and losses on the derivative in the investing category; and

⁸ The grossing up of gains and losses on financial instruments designated as hedging instruments and derivatives not designated as hedging instrument could result when:

- (a) an entity uses such financial instruments for risk management of a group of items with offsetting risk positions (see paragraph 6.6.1 of IFRS 9 for designated hedging instruments); and
- (b) the risks managed affect line items in multiple categories in the statement of profit or loss.

- (b) fair value gains and losses on non-derivative financial instruments designated as hedging instruments applying IFRS 9.
83. Derivatives that are not used for risk management and that are not used in the course of an entity's main business activities would be classified in the investing category because derivatives most closely align with the definition of income and expenses from investments.
84. The IASB has concluded that classifying fair value gains or losses on derivatives in a manner that reflects an entity's risk management instead of classifying them in a single category would provide a more faithful representation of an entity's activities.

Question for Board members

10. Fair value gains and losses on derivatives and non-derivative financial instruments (no specific question in the ED)

Do you have any concerns with the proposals relating to the classification of fair value gains and losses on derivatives and hedging instruments?

Feedback from outreach to date

Do you agree with the proposals developed for the classification of fair value gains or losses on derivatives?

Investors

- At a high level splitting out what is actually used for risk management versus what is used for non-risk and therefore investing is great to see. A very useful distinction to make.
- Makes sense for risk management to be part of operating (where related to an operating item). For example, an airline hedging the price of oil.
- We back out most of the current information provided on FX and derivatives. For cashflow valuations we want to value the ongoing stream. We don't capture the asset or the liability. We do not pick up as part of the debt figure. For example, F&P healthcare – we want to know what currency has done, what hedging has delivered and what is the overseas balance sheet impact. We want them to tell us hedging gains and impact on results. Need to be careful with new disclosures that will just add clutter to the FS.
- Ignore mark to market revaluations on balance sheet, interested in hedge profits. Don't clutter the FS with separate FX lines in Balance Sheet and P&L – rather have in the notes, don't want blow out in the P&L.

Preliminary staff view

- *We have not identified any significant concerns with the proposals. As there is no specific question in the ED on this matter we are not proposing to comment on these proposals.*

Statement of financial position

Integral and non-integral associates and joint ventures

85. The ED proposes that investments in integral associates and joint ventures are presented separately from investments in non-integral associates and joint ventures in the statement of financial position and statement of cash flows.
86. This differentiation between integral and non-integral associates and joint ventures is proposed to be the same as for the statement of profit or loss (see Integral associates and joint ventures category and operating profit or loss and income and expenses from integral associates and joint ventures section above).
87. As a result of proposals for integral and non-integral associates and joint ventures, the ED proposes to remove the requirement to present a single line item representing investments accounted for using the equity method.
88. The ED also proposes to amend IFRS 12 to require that an entity:
- (a) disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining whether an associate or joint venture that is equity-accounted is integral or non-integral to the entity's main business activity; and
 - (b) disclose separately for integral associates and joint ventures and non-integral associates and joint ventures the information required by paragraph 20 of IFRS 12.
89. Paragraph 20 of IFRS 12 requires an entity to disclose information that enables users of its financial statements to evaluate:
- (a) the nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates; and
 - (b) the nature of, and changes in, the risks associated with its interests in joint ventures and associates.

Question for Board members

11. Integral and non-integral associates and joint ventures (ED Question 7(c))

The proposals would require an entity to provide information about integral associates and joint ventures separately from non-integral associates and joint ventures.

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

Preliminary staff view

- *Do not support the proposals. Consistent with concerns about separating integral and non-integral associates and joint ventures in the statement of profit or loss.*

Goodwill

90. The ED proposes to require an entity to present goodwill separately from intangible assets in its statement of financial position. The IASB considers that the characteristics of goodwill are sufficiently different from those of intangible assets to warrant separate presentation; goodwill is an asset that is not identifiable and is measured only as a residual – it cannot be measured directly.

Preliminary staff view

- *We have not identified any concerns with the proposal to present goodwill separately from intangible assets in the statement of financial position. We note that an entity need not present goodwill separately if the information resulting from that presentation is not material. As there is no specific question in the ED on this matter we are not proposing to comment on this proposal.*

Question for Board members

12. General Question

Do you have any other comments on the proposals outlined in this memo?

Next steps

91. We plan to seek feedback from the Board on other proposals in the ED at the March meeting.

Attachments

- Agenda item 3.2: IASB ED/2019/7 *General Presentation and Disclosures*
- Agenda item 3.3: IASB ED/2019/7 *General Presentation and Disclosures* – Basis for Conclusions
- Agenda item 3.4: IASB ED/2019/7 *General Presentation and Disclosures* – Illustrative Examples
- Agenda item 3.5: IASB ED/2019/7 *General Presentation and Disclosures* – Snapshot

Appendix A: Examples of the statement of financial performance for banks and other financial entities

[Return link to body of memo](#)

* The examples below have been extracted from an IASB slide deck used earlier in the PFS project. The “Operating profit and share of profit of integral associates and JVs” subtotal in the example should now be read as “Operating profit and income and expenses of integral associates and JVs”.

Example—Bank

For example for a bank whose main business activities include investing, providing financing to customers and other services:

Operating profit includes:

- Interest expense
- Income and expenses from investments made in the course of the entity’s main business activity

No profit before financing and tax subtotal is presented

Interest income*	X
Interest expense	(X)
Net interest income	X
Fee and commission income	X
Fee and commission expense	(X)
Net fee and commission income	X
Net trading income	X
Net investment income*	X
Credit impairment losses	(X)
Employee benefit expenses	(X)
Operating profit	X
Share of profit of integral associates and JVs	X
Operating profit and share of profit of integral associates and JVs	X
Share of profit of non-integral associates and joint ventures	X
Income from investments outside main business activities	X
Unwinding of discount on pension liabilities	(X)
Profit before tax	X

*Interest revenue calculated using the effective interest method would be presented separately.

Example—Investment property company

Extract from statement(s) of financial performance	
Gross rental income	X
Property operating expenses	(X)
Net rental income	X
Administrative expenses	(X)
Changes in fair value of investment properties	X
Gain on disposal of investment properties	X
Operating profit	X
Share of profit of integral associates and joint ventures	X
Operating profit and share of profit of integral associates and JVs	X
Share of profit of non-integral associates and joint ventures	X
Dividends from investments in equity instruments at FVOCI	X
Profit before financing and income tax	X
Interest income from cash and cash equivalents	X
Expenses from financing activities	(X)
Unwinding of discount	(X)
Profit before tax	X

Income (expenses) from **investments** that are made in the course of the entity’s **main business activity** are included in operating profit. Income (expenses) from other investments are presented below operating profit.

Expenses from financing activities are presented below operating profit

Example—Insurer

Extract from statement(s) of financial performance		
Insurance revenue		X
Insurance service expenses		(X)
Insurance service result		X
Investment income*		X
Impairment of investments		(X)
Insurance finance expenses		(X)
Net financial result		X
Operating profit		X
Share of profit of integral associates and joint ventures		X
Operating profit and share of profit of integral associates and JVs		X
Share of profit of non-integral associates and joint ventures		X
Profit before (non-customer) financing and income tax		X
Expenses from financing activities (interest on financial debt)		(X)
Profit before tax		X

Income (expenses) from **investments** that are made in the course of the entity's **main business activity** are included in operating profit

Income from cash and cash equivalents is included in operating profit as investment income.

Insurance finance expenses (income) is included in operating profit, whereas **interest on financial debt** is below operating profit.

*Includes income from cash and cash equivalents. Interest revenue calculated using the effective interest method would be presented as a separate line item (IAS 1.82(a)(i))

Example—Entity with captive finance subsidiary

Extract from statement(s) of financial performance		
Revenue from sale of goods		X
Cost of goods sold		(X)
Gross profit from manufacturing and sale of goods		X
Interest income from customer financing		X
Expenses from financing activities related to customer financing business		(X)
Gross profit from customer financing business		X
Selling, general and admin expenses (SG&A)		(X)
Operating profit		X
Share of profit of integral associates and joint ventures		X
Operating profit and share of profit or loss of integral associates and joint ventures		X
Share of profit of non-integral associates and joint ventures		X
Income from investments		X
Profit before financing of manufacturing business and income tax		X
Interest income from cash and cash equivalents related to manufacturing business		X
Expenses from financing activities related to manufacturing business		(X)
Unwinding of discount		(X)
Profit before tax		X

An entity that manufactures and sells goods and has a customer financing business (eg car manufacturers)

In this example, the entity has chosen to **split expenses from financing activities and income from cash and cash equivalents** between its different business activities, instead of presenting all in operating profit.

December 2019

IFRS[®] Standards
Exposure Draft ED/2019/7

General Presentation and Disclosures

Comments to be received by 30 June 2020

IASB[®]

 IFRS[®]

Exposure Draft

General Presentation and Disclosures

Comments to be received by 30 June 2020

Exposure Draft ED/2019/7 *General Presentation and Disclosures* is published by the International Accounting Standards Board (Board) for comment only. The proposals may be modified in the light of comments received before being issued in final form. Comments need to be received by 30 June 2020 and should be submitted in writing to the address below, by email to commentletters@ifrs.org or electronically using our 'Open for comment documents' page at: <https://www.ifrs.org/projects/open-for-comment/>.

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CONTENTS

from paragraph

INTRODUCTION	
INVITATION TO COMMENT	
[DRAFT] INTERNATIONAL FINANCIAL REPORTING STANDARD X GENERAL PRESENTATION AND DISCLOSURES	
OBJECTIVE	1
SCOPE	2
COMPLETE SET OF FINANCIAL STATEMENTS	10
IDENTIFICATION OF THE FINANCIAL STATEMENTS	16
GENERAL PRESENTATION AND DISCLOSURE REQUIREMENTS	19
Objective of the financial statements and roles of the primary financial statements and the notes	19
Aggregation and disaggregation	25
Offsetting	29
Frequency of reporting	31
Consistency of presentation, disclosure and classification	33
Comparative information	34
Line items and subtotals	42
STATEMENT(S) OF FINANCIAL PERFORMANCE	44
Statement of profit or loss	44
Statement presenting comprehensive income	73
STATEMENT OF FINANCIAL POSITION	82
Line items to be presented in the statement of financial position	82
Classification of assets and liabilities as current or non-current	84
STATEMENT OF CHANGES IN EQUITY	89
Information to be presented in the statement of changes in equity	89
Information to be presented in the statement of changes in equity or disclosed in the notes	91
STATEMENT OF CASH FLOWS	95
NOTES	96
Structure	96
Unusual income and expenses	100
Management performance measures	103
Capital	111
Other disclosures	114
EFFECTIVE DATE AND TRANSITION	117
WITHDRAWAL OF IAS 1	120

continued...

...continued

APPENDICES

A Defined terms

B Application guidance

[DRAFT] AMENDMENTS TO OTHER IFRS STANDARDS

TABLE OF CONCORDANCE WITH IAS 1 AND OTHER IFRS STANDARDS

**APPROVAL BY THE BOARD OF EXPOSURE DRAFT *GENERAL
PRESENTATION AND DISCLOSURES* PUBLISHED IN DECEMBER 2019**

BASIS FOR CONCLUSIONS (*see separate booklet*)

ILLUSTRATIVE EXAMPLES (*see separate booklet*)

Introduction

Why is the Board publishing this Exposure Draft?

The Exposure Draft includes the proposals of the International Accounting Standards Board (Board) to improve how information is communicated in the financial statements, with a focus on information about performance the statement of profit or loss.¹ The Board is proposing limited changes to the statement of cash flows and the statement of financial position.

The proposals in the Exposure Draft were developed by the Board as part of its Primary Financial Statements project, which is part of the Board's work on Better Communication in Financial Reporting. It responds to the strong demand from stakeholders, and in particular users of financial statements, to undertake a project on performance reporting.

Structure of the Exposure Draft

The Exposure Draft includes:

- (a) a proposal to replace IAS 1 *Presentation of Financial Statements* with a new Standard that would comprise:
 - (i) new requirements on presentation and disclosures in the financial statements.²
 - (ii) requirements brought forward from IAS 1 with only limited changes to the wording. (These changes are not intended to modify any requirements.)
- (b) proposed amendments to other Standards:
 - (i) IAS 7 *Statement of Cash Flows*;
 - (ii) IFRS 12 *Disclosure of Interests in Other Entities*;
 - (iii) IAS 33 *Earnings per Share*;
 - (iv) IAS 34 *Interim Financial Reporting*;
 - (v) IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to include some requirements from IAS 1;³ and
 - (vi) IFRS 7 *Financial Instruments: Disclosures* to include some requirements from IAS 1.

1 This invitation to comment and the Exposure Draft uses the term 'statement of profit or loss' to cover both the profit or loss section (when an entity presents its statement(s) of financial performance as a single statement of profit or loss and other comprehensive income) and the statement of profit or loss (when an entity presents its statement(s) of financial performance as a statement of profit or loss and a separate statement presenting comprehensive income).

2 The Board proposes to retain requirements in IAS 7 *Statement of Cash Flows* that are specific to presentation and disclosures in the statement of cash flows with some amendments.

3 The Exposure Draft also sets out a proposal to change the title of IAS 8 from '*Accounting Policies, Changes in Accounting Estimates and Errors*' to '*Basis of Preparation, Accounting Policies, Changes in Accounting Estimates and Errors*'.

Who would be affected by the proposals?

The Board expects the proposals in this Exposure Draft to affect all entities that apply IFRS Standards to prepare financial statements. The effect of these proposals will vary between entities. Paragraphs BC232–BC312 of the Basis for Conclusions describe the expected effects of the Board’s proposals in more detail.

Next step

The Board will consider comment letters and other feedback from its consultations on this Exposure Draft when finalising the project proposals.

Invitation to comment

The Board invites comments on the project proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) address the questions as stated;
- (b) indicate the specific paragraph(s) to which they relate;
- (c) contain a clear rationale;
- (d) identify any wording in the project proposals that is difficult to translate; and
- (e) include any alternative the Board should consider, if applicable.

Respondents need not comment on all the questions. The Board is interested in receiving input on how it has balanced costs and benefits when developing those proposed changes. The Board also welcomes views on whether the project proposals are drafted clearly and whether they reflect the Board’s decisions.

The Board is not seeking comments on the requirements that the Board proposes to bring forward from IAS 1 with only limited changes to their wording. However, the Board welcomes views on whether the proposed limited wording changes to these requirements could have unintended consequences. The requirements brought forward from IAS 1 are coloured in grey in the Exposure Draft. A document providing a mark-up of changes to those IAS 1 paragraphs is included in the Exposure Draft package.

Structure of the statement of profit or loss

Figure 1 is a summary of a statement of profit or loss prepared by an entity applying the project proposals. The entity does not make investments in the course of its main business activities, nor does it provide financing to customers as a main business activity.

Figure 1—Summary of a statement of profit or loss

Revenue	X	Operating
Operating expenses	(X)	
Operating profit or loss	X	
Share of profit or loss of integral associates and joint ventures	X	Integral associates and joint ventures
Operating profit or loss and income and expenses from integral associates and joint ventures	X	
Share of profit or loss of non-integral associates and joint ventures	X	Investing
Income from investments	X	
Profit or loss before financing and income tax	X	
Interest revenue from cash and cash equivalents	X	Financing
Expenses from financing activities	(X)	
Unwinding of discount on pension liabilities and provisions	(X)	
Profit or loss before tax	X	

The Exposure Draft proposes that an entity present the following new subtotals in the statement of profit or loss (shown as shaded in Figure 1):⁴

- (a) operating profit or loss;
- (b) operating profit or loss and income and expenses from integral associates and joint ventures; and
- (c) profit or loss before financing and income tax.

In applying these proposed new subtotals, an entity would present in the statement of profit or loss income and expenses classified in the following categories (these categories are shown in the boxes on the right in Figure 1):

- (a) operating;
- (b) integral associates and joint ventures;
- (c) investing; and
- (d) financing.

The operating category excludes income or expenses classified in the other categories such as the investing category or the financing category, and therefore includes all income and expenses from an entity's main business activities. Consequently, the operating category includes:

- (a) income and expenses from investments made in the course of an entity's main business activities (paragraph 48 of the Exposure Draft); and

⁴ The Exposure Draft also describes when subtotals (b) or (c) are required to be presented and when they may not be presented.

- (b) income and expenses from financing activities and income and expenses from cash and cash equivalents if the entity provides financing to customers as a main business activity (paragraph 51 of the Exposure Draft).

The investing category includes returns from investments, that is, income and expenses from assets that generate a return individually and largely independently of other resources held by the entity.⁵ The investing category also includes related incremental expenses.

The financing category includes:⁶

- (a) income and expenses from cash and cash equivalents;
- (b) income and expenses on liabilities arising from financing activities; and
- (c) interest income and expenses on other liabilities, for example, the unwinding of discounts on pension liabilities and provisions.

The Board developed its proposals for the categories in the statement of profit or loss without trying to align classifications across the primary financial statements. Consequently, income and expenses classified in the operating, investing and financing categories in the statement of profit or loss do not necessarily correspond with the cash flows from operating, investing and financing activities in the statement of cash flows.

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?

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?

⁵ Except for the case described in (a) in the preceding paragraph.

⁶ Except for the case described in (b) in the preceding paragraph.

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?

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?

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?

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?	

Integral and non-integral associates and joint ventures

The Board proposes to define ‘integral associates and joint ventures’ and ‘non-integral associates and joint ventures’, and to require an entity to classify its equity-accounted associates and joint ventures as either integral or non-integral to the entity’s main business activities. The Board also proposes to require an entity to provide information about integral associates and joint ventures separately from that for non-integral associates and joint ventures. The Board proposes that an entity would be required to:

- (a) classify, in the integral associates and joint ventures category of the statement of profit or loss, income and expenses from integral associates and joint ventures, and present a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures (paragraphs 53 and 60(b) of the Exposure Draft);
- (b) present, as cash flows from investing activities in the statement of cash flows, cash flows from investments in integral associates and joint ventures separately from the cash flows from investments in non-integral associates and joint ventures (proposed new paragraph 38A of IAS 7);
- (c) present, in the statement of financial position, investments in integral associates and joint ventures separately from investments in non-integral associates and joint ventures (paragraphs 82(g)–82(h) of the Exposure Draft); and
- (d) disclose, in the notes, information required by paragraph 20 of IFRS 12 for integral associates and joint ventures separately from non-integral associates and joint ventures (proposed new paragraph 20E of IFRS 12).

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?	

Roles of financial statements, aggregation and disaggregation

The Board proposes to describe the roles of the primary financial statements and the notes. The Board also proposes principles and general requirements on the aggregation and disaggregation of information; the principles would be applicable both to presentation in the primary financial statements and disclosures in the notes.

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?	

The Board proposes to continue to require entities to present in the statement of profit or loss an analysis of operating expenses using either the nature of expense method or the function of expense method. The Board proposes the method presented should be the one that provides the most useful information to users of financial statements. In addition, the Board proposes to describe the factors to consider when deciding which method of operating expense analysis should be used (paragraph B45 of the Exposure Draft). An entity that presents an analysis of operating expenses using the function of

expense method in the statement of profit or loss would also be required to disclose in a single note an analysis of its total operating expenses using the nature of expense method.

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?

The Board proposes introducing a definition of ‘unusual income and expenses’; and proposes requiring all entities to disclose unusual income and expenses in a single note. The Board also proposes application guidance to help an entity to identify its unusual income and expenses.

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?

Management performance measures

The Board proposes to introduce a definition of ‘management performance measures’ and require an entity to disclose them in a single note. Management performance measures are subtotals of income and expenses that:

- (a) are used in public communications outside financial statements;
- (b) complement totals or subtotals specified by IFRS Standards; and

GENERAL PRESENTATION AND DISCLOSURES

- (c) communicate to users of financial statements management's view of an aspect of an entity's financial performance.

An entity would comply with the general requirements in IFRS Standards for information included in financial statements when it provides these measures; for example, each performance measure must faithfully represent an aspect of the financial performance of the entity. However, the Board does not propose additional restrictions on management performance measures, such as only allowing an entity's management to provide measures based on amounts recognised and measured in accordance with IFRS Standards (paragraphs BC155 and BC158–BC162).

The Exposure Draft also proposes to specify the information an entity would be required to disclose about management performance measures, including a reconciliation to the most directly comparable total or subtotal specified by IFRS Standards.

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?

EBITDA

The Board does not propose to define earnings before interest, tax, depreciation and amortisation (EBITDA) in this project. The Board considered, but rejected, describing operating profit or loss before depreciation and amortisation as EBITDA. However, the Board proposes to exempt from the disclosure requirements for management performance measures a subtotal calculated as operating profit or loss before depreciation and amortisation (paragraph 104(c)).

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?

Statement of cash flows

The Board proposes to require an entity to use the operating profit or loss subtotal as the starting point for the indirect method of reporting cash flows from operating activities.

The Board also proposes to reduce the presentation alternatives currently permitted by IAS 7 and to require that, in the statement of cash flows, an entity classifies interest and dividend cash flows as shown in Figure 2.

Figure 2—Classification of interest and dividend cash flows

Cash flow item	Most entities	Specified entities ^(a)
Interest paid	Financing	Accounting policy choice, possible location depends on the classification of the related income and expenses in the statement of profit or loss
Interest received	Investing	
Dividends received	Investing	
Dividends paid	Financing	

(a) An entity that provides financing to customers as a main business activity or in the course of its main business activities invests in assets that generate a return individually and largely independently of the entity's other resources.

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?

Other

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?

Deadline

The Board will consider all written comments received by **30 June 2020**.

How to comment

We prefer to receive comments online. However, you may submit comments using any of the following methods.

Online	Visit the 'Open for comment documents' page at: https://www.ifrs.org/projects/open-for-comment/
By email	Send to: commentletters@ifrs.org
By post	IFRS Foundation Columbus Building 7 Westferry Circus Canary Wharf London E14 4HD United Kingdom

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data.

[Draft] International Financial Reporting Standard X ***General Presentation and Disclosures***

Objective

- 1 [IAS 1.1] This [draft] Standard sets out general and specific requirements for the presentation and disclosure of information in *general purpose financial statements* ('financial statements') to help ensure they provide relevant information that faithfully represents an entity's assets, liabilities, equity, income and expenses.

Scope

- 2 [IAS 1.2] An entity shall apply this [draft] Standard in presenting and disclosing information in financial statements prepared applying *IFRS Standards*.
- 3 [IAS 1.47] This [draft] Standard sets out general and specific requirements for the presentation of information in the statement(s) of financial performance, the statement of financial position and the statement of changes in equity. This [draft] Standard also requires the disclosure of other information in the *notes*. IAS 7 *Statement of Cash Flows* sets out requirements for the presentation and disclosure of cash flow information.
- 4 [IAS 1.3] Other IFRS Standards set out the recognition, measurement, presentation and disclosure requirements for specific transactions and other events.
- 5 [IAS 1.4 partial] This [draft] Standard does not apply to the presentation and disclosure of information in condensed interim financial statements prepared in accordance with IAS 34 *Interim Financial Reporting*. However, paragraphs 25–30, 100–110 and 118 apply to such financial statements.
- 6 [IAS 1.4 partial] This [draft] Standard applies equally to all entities, including those that present consolidated financial statements in accordance with IFRS 10 *Consolidated Financial Statements* and those that present separate financial statements in accordance with IAS 27 *Separate Financial Statements*.
- 7 [IAS 1.5] This [draft] Standard uses terminology that is suitable for profit-oriented entities, including public sector business entities. If entities with not-for-profit activities in the private sector or the public sector apply this [draft] Standard, they may need to amend the descriptions used for particular line items, categories, subtotals or totals in the financial statements and for the financial statements themselves.
- 8 [IAS 1.6] Similarly, entities that do not have equity as defined in IAS 32 *Financial Instruments: Presentation* (eg some mutual funds) and entities whose share capital is not equity (eg some co-operative entities) may need to adapt the financial statement presentation of members' or unitholders' interests.

- 9 [IAS 1.13, 14] Many entities provide a financial review by management, which is separate from the financial statements (see paragraph 10), that describes and explains the main features of the entity's financial performance and financial position, as well as the principal uncertainties it faces. Such reports and statements are outside the scope of IFRS Standards. IFRS Practice Statement 1 *Management Commentary* provides non-mandatory guidance on the presentation of management commentary relating to financial statements prepared applying IFRS Standards.⁷

Complete set of financial statements

- 10 [IAS 1.10] A complete set of financial statements comprises:
- (a) a statement(s) of financial performance for the reporting period (see paragraph 13);
 - (b) a statement of financial position as at the end of the reporting period;
 - (c) a statement of changes in equity for the reporting period;
 - (d) a statement of cash flows for the reporting period;
 - (e) notes (see paragraph 21);
 - (f) comparative information in respect of the preceding period as specified in paragraphs 34–35; and
 - (g) a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 36–39.

An entity may use titles for the statements other than those used in this [draft] Standard. For example, an entity may use the title 'balance sheet' instead of 'statement of financial position'.

- 11 The statements described in paragraphs 10(a)–10(d) are referred to as the *primary financial statements*.
- 12 [IAS 1.8] Although this [draft] Standard uses terms such as 'other comprehensive income', 'profit or loss' and 'total comprehensive income', an entity may use other terms to describe the totals, subtotals and line items required by this [draft] Standard as long as the meaning is clear. For example, an entity may use the term 'net income' to describe *profit or loss*.

⁷ The International Accounting Standards Board (Board) has a project on its agenda to revise and update IFRS Practice Statement 1 *Management Commentary*.

- 13 [IAS 1.10A] An entity may present its statement(s) of financial performance as either:
- (a) a single statement of profit or loss and *other comprehensive income*, with profit or loss and other comprehensive income presented in two sections; if this option is chosen, an entity shall present the profit or loss section first followed directly by the other comprehensive income section; or
 - (b) a statement of profit or loss and a separate statement presenting comprehensive income that shall begin with profit or loss; if this option is chosen, the statement of profit or loss shall immediately precede the statement presenting comprehensive income.
- 14 In this [draft] Standard:
- (a) the profit or loss section described in paragraph 13(a) and the statement of profit or loss described in paragraph 13(b) are referred to as the statement of profit or loss; and
 - (b) the other comprehensive income section described in paragraph 13(a) and the statement presenting comprehensive income described in paragraph 13(b) are referred to as the statement presenting comprehensive income.
- 15 [IAS 1.11] An entity shall present each of the primary financial statements with equal prominence in a complete set of financial statements.

Identification of the financial statements

- 16 [IAS 1.49] An entity shall clearly identify the financial statements and distinguish them from other information in the same published document (see paragraphs B1–B2).
- 17 [IAS 1.50] IFRS Standards apply only to financial statements, and not necessarily to other information provided in an annual report, a regulatory filing, or another document. Therefore, it is important that users of financial statements can distinguish information that is prepared using IFRS Standards from other information that may be useful to users but is not the subject of those requirements.
- 18 [IAS 1.51] An entity shall clearly identify each primary financial statement and the notes. In addition, an entity shall display the following information prominently, and repeat it when necessary for the information provided to be understandable:
- (a) the name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period;
 - (b) whether the financial statements are of an individual entity or a group of entities;

GENERAL PRESENTATION AND DISCLOSURES

- (c) the date of the end of the reporting period or the period covered by the financial statements;
- (d) the presentation currency, as defined in IAS 21 *The Effects of Changes in Foreign Exchange Rates*; and
- (e) the level of rounding used for the amounts in the financial statements.

General presentation and disclosure requirements

Objective of the financial statements and roles of the primary financial statements and the notes (see paragraphs B3–B4)

- 19 [IAS 1.9] The objective of financial statements is to provide financial information about the reporting entity's assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's economic resources.
- 20 The role of the primary financial statements is to provide a structured and comparable summary of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows, which is useful for:
- (a) obtaining an overview of the entity's assets, liabilities, equity, income, expenses and cash flows;
 - (b) making comparisons between entities, and between reporting periods for the same entity; and
 - (c) identifying items or areas about which users of financial statements may wish to seek additional information in the notes.
- 21 The role of the notes is to:
- (a) provide further information necessary for users of financial statements to understand the items included in the primary financial statements; and
 - (b) supplement the primary financial statements with other information that is necessary to meet the objective of financial statements.
- 22 An entity shall use the description of the roles of the primary financial statements and the notes in paragraphs 20–21 to determine whether financial information should be included in the primary financial statements or in the notes. However, in determining the location of financial information, descriptions of the roles do not override specific requirements in IFRS Standards on the presentation and disclosure of financial information, for example, the requirements for the presentation of subtotals and line items in paragraphs 60 and 65 of this [draft] Standard.

23 An implication of the roles of the primary financial statements and the notes is that the amount of information required in the notes may be different from that in the primary financial statements, namely:

- (a) to provide the summary of information about the entity's assets, liabilities, equity, income, expenses and cash flows described in paragraph 20, information provided in the primary financial statements is more aggregated than information provided in the notes; and
- (b) to meet the objective of financial statements, more detailed information about the entity's assets, liabilities, equity, income, expenses and cash flows, including *disaggregation* of information presented in the primary financial statements, may be required in the notes.

24 [IAS 1.31] Some IFRS Standards specify information that is required to be presented in the primary financial statements or disclosed in the notes. An entity need not provide a specific presentation or disclosure required by an IFRS Standard if the information resulting from that presentation or disclosure is not material. This is the case even if the IFRS Standard contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Standards is insufficient to enable users of financial statements to understand the impact of transactions and other events and conditions on the entity's financial position and financial performance.

Aggregation and disaggregation (see paragraphs B5–B15)

25 [IAS 1.29 and IAS 1.30A] An entity shall present in the primary financial statements or disclose in the notes the nature and amount of each material class of assets, liabilities, income or expense, equity or cash flow. To provide this information an entity shall aggregate transactions and other events into the information it discloses in the notes and the line items it presents in the primary financial statements. Unless doing so would override specific *aggregation* or *disaggregation* requirements in IFRS Standards, an entity shall apply the principles that (see paragraphs B5–B15):

- (a) items shall be classified and aggregated on the basis of shared characteristics;
- (b) items that do not share characteristics shall not be aggregated (see paragraph 27); and
- (c) aggregation and disaggregation in the financial statements shall not obscure relevant information or reduce the understandability of the information presented or disclosed.

26 When presenting information in the primary financial statements or disclosing information in the notes, the description of the items shall faithfully represent the characteristics of those items.

GENERAL PRESENTATION AND DISCLOSURES

- 27 An entity may aggregate immaterial items that do not share characteristics. However, using a non-descriptive label such as ‘other’ to describe a group of such items would not faithfully represent those items without additional information. Except as described in paragraph 28, to faithfully represent aggregated items, an entity shall either:
- (a) aggregate immaterial items with other items that share similar characteristics and can be described in a manner that faithfully represents the characteristics of the aggregated items; or
 - (b) aggregate immaterial items with other items that do not share similar characteristics but which may be described in a way that faithfully represents the dissimilar items.
- 28 If the steps set out in paragraphs 27(a)–27(b) do not lead to descriptions that result in a faithful representation, an entity shall disclose in the notes information about the composition of the aggregated items, for example, by indicating that an aggregated item consists of several unrelated immaterial amounts and by indicating the nature and amount of the largest item in the aggregation.

Offsetting

- 29 [IAS 1.32] An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an IFRS Standard (see paragraphs B16–B17).
- 30 [IAS 1.33] An entity reports separately both assets and liabilities, and income and expenses. Offsetting in the statement(s) of financial performance or the statement of financial position, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users of financial statements both to understand the transactions and other events and conditions that have occurred and to assess the entity’s future cash flows. Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and doubtful debts allowances on receivables—is not offsetting.

Frequency of reporting

- 31 [IAS 1.36] An entity shall provide a complete set of financial statements (including comparative information) at least annually. When an entity changes the end of its reporting period and provides financial statements for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:
- (a) the reason for using a longer or shorter period; and
 - (b) the fact that amounts included in the financial statements are not entirely comparable.

32 [IAS 1.37] Normally, an entity consistently prepares financial statements for a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This [draft] Standard does not preclude this practice.

Consistency of presentation, disclosure and classification

33 [IAS 1.45] An entity shall retain the presentation, disclosure and *classification* of items in the financial statements from one reporting period to the next unless (see paragraph B18):

- (a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation, disclosure or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IAS 8 *Basis of Preparation, Accounting Policies, Changes in Accounting Estimates and Errors*;⁸ or
- (b) an IFRS Standard requires a change in presentation, disclosure or classification.

Comparative information

Minimum comparative information (see paragraphs B19–B21)

34 [IAS 1.38] Except when IFRS Standards permit or require otherwise, an entity shall provide comparative information in respect of the preceding reporting period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information if it is relevant to an understanding of the current period's financial statements.

35 [IAS 1.38A] An entity shall present, as a minimum, a current reporting period and preceding period in each of its primary financial statements and in the notes.

Change in accounting policy, retrospective restatement or reclassification

36 [IAS 1.40A] An entity shall present a third statement of financial position as at the beginning of the preceding reporting period in addition to the minimum comparative information required in paragraph 35 if:

- (a) it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and

⁸ This Exposure Draft proposes amending the title of IAS 8 to reflect proposed amendments to the text of the Standard.

GENERAL PRESENTATION AND DISCLOSURES

- (b) the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period.
- 37 [IAS 1.40B] In the circumstances described in paragraph 36, an entity shall present three statements of financial position as at:
- (a) the end of the current reporting period;
 - (b) the end of the preceding period; and
 - (c) the beginning of the preceding period.
- 38 [IAS 1.40C] When an entity is required to present a third statement of financial position in accordance with paragraph 36, it must disclose the information required by paragraphs 40–41 and IAS 8. However, it need not provide the related notes to the opening statement of financial position as at the beginning of the preceding reporting period.
- 39 [IAS 1.40D] The date of that opening statement of financial position shall be as at the beginning of the preceding reporting period regardless of whether an entity's financial statements provide comparative information for earlier periods (as permitted in paragraph B20).
- 40 [IAS 1.41] If an entity changes the presentation, disclosure or classification of items in its financial statements, it shall reclassify comparative amounts unless reclassification is *impracticable*. When an entity reclassifies comparative amounts, it shall disclose (including as at the beginning of the preceding reporting period) (see paragraphs B22–B23):
- (a) the nature of the reclassification;
 - (b) the amount of each item or class of items that is reclassified; and
 - (c) the reason for the reclassification.
- 41 [IAS 1.42] When it is impracticable to reclassify comparative amounts, an entity shall disclose:
- (a) the reason for not reclassifying the amounts; and
 - (b) the nature of the adjustments that would have been made if the amounts had been reclassified.

Line items and subtotals

- 42 [IAS 1.85, 55] This [draft] Standard requires minimum line items and subtotals to be presented in the statement(s) of financial performance and the statement of financial position. An entity shall present additional line items (including by disaggregating required minimum line items), headings and subtotals in the statement(s) of financial performance and the statement of financial position when such presentations are relevant to an understanding of the entity's financial performance or financial position.

- 43 [IAS 1.85A, 55A] When an entity presents additional subtotals in accordance with paragraph 42, those subtotals shall:
- (a) comprise line items made up of amounts recognised and measured in accordance with IFRS Standards;
 - (b) be presented and labelled in a manner that faithfully represents the line items that constitute the subtotal, making the subtotal clear and understandable;
 - (c) be consistent from period to period, in accordance with paragraph 33; and
 - (d) not be displayed with more prominence than the subtotals and totals required by IFRS Standards.

Statement(s) of financial performance

Statement of profit or loss

- 44 [IAS 1.88] An entity shall recognise all items of income and expense in a reporting period in the statement of profit or loss unless an IFRS Standard requires or permits otherwise (see paragraphs 74–81).

Categories included in the statement of profit or loss

- 45 An entity shall classify income and expenses included in profit or loss into the following categories:
- (a) operating (see paragraph 46);
 - (b) investing (see paragraphs 47–48);
 - (c) financing (see paragraphs 49–52);
 - (d) *integral associates and joint ventures* (see paragraph 53);
 - (e) income tax (see paragraph 54); and
 - (f) discontinued operations (see paragraph 55).

Operating

- 46 The operating category includes information about income and expenses from an entity's main business activities. An entity shall classify in the operating category all income and expenses included in profit or loss that are not classified in:
- (a) investing;
 - (b) financing;
 - (c) integral associates and joint ventures;
 - (d) income tax; or
 - (e) discontinued operations.

Investing

47 The objective of the investing category is to communicate information about returns from investments that are generated individually and largely independently of other resources held by an entity. Except as required by paragraph 48, an entity shall classify in the investing category:

- (a) *income and expenses from investments, including from non-integral associates and joint ventures (see paragraphs B32–B33).*
- (b) *incremental expenses incurred generating income and expenses from investments. Incremental expenses are expenses that the entity would not have incurred had the investments giving rise to the income and expenses from investments not been made.*

48 An entity shall not classify in the investing category income and expenses specified in paragraphs 47(a)–47(b) generated in the course of its main business activities. Such income and expenses are instead classified in the operating category. An entity shall not classify income and expenses from non-integral associates and joint ventures in the operating category.

Financing

49 The objective of the financing category is to communicate information about income and expenses from assets and liabilities related to an entity's financing. Except as required by paragraphs 51–52, an entity shall classify in the financing category:

- (a) *income and expenses from cash and cash equivalents (see paragraph B34);*
- (b) *income and expenses on liabilities arising from financing activities (see paragraphs B35–B36); and*
- (c) *interest income and expenses on other liabilities (see paragraph B37).*

50 Financing activities are those involving the receipt or use of a resource from a provider of finance with the expectation that:

- (a) *the resource will be returned to the provider of finance; and*
- (b) *the provider of finance will be compensated through the payment of a finance charge that is dependent on both the amount of the credit and its duration.*

51 If an entity provides financing to customers as a main business activity, it shall make an accounting policy choice to not classify in the financing category either (see paragraphs B28–B29):

- (a) *income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or*
- (b) *all income and expenses from financing activities and all income and expenses from cash and cash equivalents.*

Such income and expenses are instead classified in the operating category.

52 An entity also excludes the following income and expenses from the financing category and classifies them in the operating category:

- (a) income and expenses from cash and cash equivalents if the entity, in the course of its main business activities, invests in financial assets that generate a return individually and largely independently of other resources held by the entity (see paragraph B30);
- (b) income and expenses on liabilities arising from issued investment contracts with participation features recognised applying IFRS 9 *Financial Instruments*; and
- (c) insurance finance income and expenses included in profit or loss applying IFRS 17 *Insurance Contracts*.

Other categories

53 An entity shall classify in the integral associates and joint ventures category income and expenses from integral associates and joint ventures (see paragraph B38).

54 An entity shall classify in the income tax category income tax expense or income included in profit or loss applying IAS 12 *Income Taxes*.

55 An entity shall classify in the discontinued operations category the single amount for the total of discontinued operations required by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Classification of foreign exchange differences and of fair value gains and losses on derivatives and hedging instruments

56 An entity shall classify foreign exchange differences included in profit or loss applying IAS 21 in the same category of the statement of profit or loss as the income and expenses from the items that gave rise to the foreign exchange differences (see paragraph B39).

57 An entity shall classify gains and losses on financial instruments designated as hedging instruments applying IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9:

- (a) in the operating category, if the instrument is used to manage risks affecting income or expenses classified in the operating category—except when doing so would require the grossing up of gains and losses (see paragraphs B41–B42);
- (b) in the financing category, if the instrument is used to manage risks affecting income or expenses classified in the financing category—except when doing so would require the grossing up of gains and losses; and
- (c) in the investing category:
 - (i) if the instrument is used to manage risks affecting income and expenses classified in the investing category; or

GENERAL PRESENTATION AND DISCLOSURES

- (ii) in all other cases—including in the circumstances set out in (a) and (b) involving the grossing up of gains and losses.

58 An entity also applies the requirements of paragraph 57 to derivatives used to manage risks if those derivatives are not designated as hedging instruments applying IAS 39 and IFRS 9 except when doing so would involve undue cost or effort. In which case an entity shall classify all gains and losses on the derivative in the investing category.

59 Gains and losses on derivatives that are not used to manage risks are classified in the investing category except when those derivatives are used in the course of the entity's main business activities applying paragraph 48. When derivatives that are not used to manage risks are used in the course of an entity's main business activities the gains and losses are classified in the operating category.

Totals and subtotals presented in the statement of profit or loss

60 [IAS 1.81A partial] Subject to paragraph 64, an entity shall present the following totals or subtotals in the statement of profit or loss:

- (a) operating profit or loss;
- (b) operating profit or loss and income and expenses from integral associates and joint ventures (see paragraph 53);
- (c) profit or loss before financing and income tax (see paragraphs 63–64); and
- (d) profit or loss.

61 An entity shall include in operating profit or loss all income and expenses classified in the operating category.

62 If an entity has no integral associates and joint ventures, it is not required to present the subtotal required by paragraph 60(b) for operating profit or loss and income and expenses from integral associates and joint ventures.

63 An entity shall include in profit or loss before financing and income tax:

- (a) operating profit or loss;
- (b) income and expenses from integral associates and joint ventures (see paragraphs 53 and B38); and
- (c) income and expenses classified in the investing category (see paragraphs 47 and B32–B33).

64 An entity shall not present the subtotal profit or loss before financing and income tax if, applying paragraph 51, it classifies all income and expenses from financing activities and all income and expenses from cash and cash equivalents in the operating category. This applies even when such an entity presents interest income or expense on other liabilities in the financing category applying paragraph 49(c).

Line items to be presented in the statement of profit or loss

65 [IAS 1.82] In addition to items required by other IFRS Standards, an entity shall present in the statement of profit or loss line items for (see paragraphs B15 and B44):

- (a) amounts required by this [draft] Standard, which are:
 - (i) revenue, presenting separately the line items described in paragraphs 65(b)(i) and 65(c)(i);
 - (ii) income or expenses from financing activities (see paragraph 49(b));
 - (iii) share of the profit or loss of integral associates and joint ventures classified in accordance with paragraph 20D of IFRS 12 *Disclosure of Interests in Other Entities*;
 - (iv) share of the profit or loss of non-integral associates and joint ventures classified in accordance with paragraph 20D of IFRS 12;
 - (v) income tax expense;
 - (vi) a single amount for the total of discontinued operations (see IFRS 5); and
 - (vii) cost of sales (see paragraph 71);
- (b) amounts related to the requirements of IFRS 9, which are:
 - (i) interest revenue calculated using the effective interest method;
 - (ii) impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with Section 5.5 of IFRS 9;
 - (iii) gains and losses arising from the derecognition of financial assets measured at amortised cost;
 - (iv) if a financial asset is reclassified out of the amortised cost measurement category so that it is measured at fair value through profit or loss, any gain or loss arising from a difference between the previous amortised cost of the financial asset and its fair value at the reclassification date (as defined in IFRS 9); and
 - (v) if a financial asset is reclassified out of the fair value through other comprehensive income measurement category so that it is measured at fair value through profit or loss, any cumulative gain or loss previously recognised in other comprehensive income that is reclassified to profit or loss; and

GENERAL PRESENTATION AND DISCLOSURES

- (c) amounts related to the requirements of IFRS 17, which are:
- (i) insurance revenue;
 - (ii) insurance service expenses from contracts issued within the scope of IFRS 17;
 - (iii) income or expenses from reinsurance contracts held;
 - (iv) insurance finance income or expenses from contracts issued within the scope of IFRS 17; and
 - (v) finance income or expenses from reinsurance contracts held.

66 [IAS 1.86] Paragraphs 60 and 73 require totals and subtotals and paragraphs 65 and 75 require minimum line items to be presented in the statement(s) of financial performance. To determine whether additional totals, subtotals, or line items are required to be presented in the statement(s) of financial performance applying paragraph 42, an entity shall consider factors including materiality and characteristics such as the nature and function of the items of income and expense. An entity shall not offset income and expense items unless the criteria in paragraph 29 are met.

67 [IAS 1.81B partial] An entity shall present an allocation of profit or loss for the reporting period attributable to:

- (a) non-controlling interests; and
- (b) holders of claims against the parent classified as equity.

Analysis of expenses classified in the operating category

68 [IAS 1.99] An entity shall present in the operating category of the statement of profit or loss an analysis of expenses using a classification based on either their nature—the nature of expense method—or their function within the entity—the function of expense method. The entity shall present the analysis using the method that provides the most useful information to users of their financial statements (see paragraphs B45–B47).

69 The nature of expense method provides information about operating expenses arising from the inputs that are consumed to accomplish an entity's activities—such as information about expenses related to materials (raw materials, employees (employee benefits), equipment (depreciation) or intangible assets (amortisation))—without reference to how expenses are allocated to functions within the business.

70 The function of expense method allocates and combines operating expenses according to the activity to which the item relates. For example, cost of sales is a functional line item that combines expenses that relate to an entity's production or other revenue generating activities such as: raw materials, employee benefit expense, depreciation or amortisation.

71 An entity applying the function of expense method shall present its cost of sales separately from other expenses.

- 72 [IAS 1.104] An entity presenting an analysis of expenses classified in the operating category using the function of expense method shall also disclose in a single note an analysis of its total operating expenses using the nature of expense method (see paragraph B48).

Statement presenting comprehensive income

- 73 [IAS 1.81A partial] An entity shall present in the statement presenting comprehensive income totals for:

- (a) profit or loss;
- (b) total other comprehensive income; and
- (c) comprehensive income, being the total of profit or loss and other comprehensive income.

Other comprehensive income (see paragraphs B49–B52)

- 74 [IAS 1.82A partial] An entity shall classify income and expenses included in the statement presenting comprehensive income in the following categories:

- (a) remeasurements permanently reported outside profit or loss; and
- (b) income and expenses to be included in profit or loss in the future when specific conditions are met.

- 75 [IAS 1.82A partial] An entity shall, in each of the categories of the statement presenting comprehensive income, present line items for:

- (a) the share of other comprehensive income of associates and joint ventures accounted for using the equity method, presenting separately:
 - (i) integral associates and joint ventures; and
 - (ii) non-integral associates and joint ventures; and
- (b) other items of other comprehensive income classified by their nature.

- 76 [IAS 1.81B partial] An entity shall present an allocation of comprehensive income for the reporting period attributable to:

- (a) non-controlling interests; and
- (b) holders of claims against the parent classified as equity.

- 77 [IAS 1.92] An entity shall present in the statement presenting comprehensive income or disclose in the notes *reclassification adjustments* relating to components of other comprehensive income (see paragraphs B51–B52).

GENERAL PRESENTATION AND DISCLOSURES

- 78 [IAS 1.93] Other IFRS Standards specify whether and when amounts previously included in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this [draft] Standard as reclassification adjustments. A reclassification adjustment is included with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss. These amounts may have been included in other comprehensive income as unrealised gains in the current or previous periods. Those unrealised gains must be deducted from other comprehensive income in the period in which the realised gains are reclassified to profit or loss to avoid including them in *total comprehensive income* twice.
- 79 [IAS 1.94] An entity disclosing reclassification adjustments in the notes shall present in the statement presenting comprehensive income the items of other comprehensive income after any related reclassification adjustments.
- 80 [IAS 1.90] An entity shall either disclose in the notes or present in the statement presenting comprehensive income the amount of income tax relating to each item of other comprehensive income, including reclassification adjustments.
- 81 [IAS 1.91] An entity may present items of other comprehensive income either:
- (a) net of related tax effects; or
 - (b) before related tax effects with one amount shown for the aggregate amount of income tax relating to those items.

If an entity elects alternative (b), it shall allocate the tax between remeasurements permanently reported outside profit or loss and income and expenses to be included in profit or loss in the future when specific conditions are met.

Statement of financial position

Line items to be presented in the statement of financial position

- 82 [IAS 1.54] In addition to items required by other IFRS Standards, an entity shall present in the statement of financial position line items for (see paragraphs B12–B14):
- (a) **property, plant and equipment;**
 - (b) **investment property;**
 - (c) **intangible assets;**
 - (d) **goodwill;**
 - (e) **financial assets (excluding amounts shown under (g), (h), (k) and (l));**

- (f) **groups⁹ of contracts within the scope of IFRS 17 that are assets, disaggregated as required by paragraph 78 of IFRS 17;**
- (g) **investments in integral associates and joint ventures;**
- (h) **investments in non-integral associates and joint ventures;**
- (i) **biological assets within the scope of IAS 41 *Agriculture*;**
- (j) **inventories;**
- (k) **trade and other receivables;**
- (l) **cash and cash equivalents;**
- (m) **the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with IFRS 5;**
- (n) **trade and other payables;**
- (o) **provisions;**
- (p) **financial liabilities (excluding amounts shown under (n) and (o));**
- (q) **groups¹⁰ of contracts within the scope of IFRS 17 that are liabilities, disaggregated as required by paragraph 78 of IFRS 17;**
- (r) **liabilities and assets for current tax, as defined in IAS 12;**
- (s) **deferred tax liabilities and deferred tax assets, as defined in IAS 12;**
- (t) **liabilities included in disposal groups classified as held for sale in accordance with IFRS 5;**
- (u) **non-controlling interests, presented within equity; and**
- (v) **issued capital and reserves attributable to holders of claims against the parent classified as equity.**

83 [IAS 1.57] This [draft] Standard does not prescribe the order or format in which an entity presents items in the statement of financial position. Paragraph 82 simply lists items that are sufficiently different in nature or function to warrant separate presentation in the statement of financial position. In addition:

- (a) applying paragraph 42, line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and
- (b) the descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position. For example, a

⁹ Exposure Draft ED/2019/4 *Amendments to IFRS 17* proposes amending this paragraph to change groups of contracts to portfolios of contracts.

¹⁰ Exposure Draft ED/2019/4 *Amendments to IFRS 17* proposes amending this paragraph to change groups of contracts to portfolios of contracts.

GENERAL PRESENTATION AND DISCLOSURES

financial institution may amend the descriptions in paragraph 82 to provide information that is relevant to the operations of a financial institution.

Classification of assets and liabilities as current or non-current

84 [IAS 1.60] An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 87–88 except when a presentation based on liquidity provides information that faithfully represents those assets and liabilities and is more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity (see paragraphs B53–B56).

85 [IAS 1.61] Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled:

- (a) no more than twelve months after the reporting period; and
- (b) more than twelve months after the period.

86 [IAS 1.56] When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).

Current assets

87 [IAS 1.66] An entity shall classify an asset as current when (see paragraphs B57–B58):

- (a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;
- (b) it holds the asset primarily for the purpose of trading;
- (c) it expects to realise the asset within twelve months after the reporting period; or
- (d) the asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the period.

An entity shall classify all other assets as non-current.

*Current liabilities*¹¹

88 [IAS 1.69] An entity shall classify a liability as current when (see paragraphs B59–B65):

- (a) it expects to settle the liability in its normal operating cycle;
- (b) it holds the liability primarily for the purpose of trading;
- (c) the liability is due to be settled within twelve months after the reporting period; or
- (d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the period (see paragraph B62). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

An entity shall classify all other liabilities as non-current.

Statement of changes in equity

Information to be presented in the statement of changes in equity

89 [IAS 1.106] An entity shall present a statement of changes in equity as required by paragraph 10. The statement of changes in equity includes the following information:

- (a) total comprehensive income for the reporting period, showing separately the total amounts attributable to holders of claims against the parent classified as equity and to non-controlling interests;
- (b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8; and
- (c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) presenting changes resulting from:
 - (i) profit or loss;
 - (ii) other comprehensive income; and
 - (iii) transactions with holders of claims classified as equity in their capacity as holders of claims classified as equity, showing separately contributions by and distributions to holders of claims classified as equity and changes in claims classified as equity against subsidiaries that do not result in a loss of control.

¹¹ In Quarter 1 of 2020, the Board expects to issue amendments to this section based on proposals published in Exposure Draft *Classification of Liabilities* ED/2015/1 to amend paragraphs 69–76 of IAS 1.

90 [IAS 1.110] IAS 8 requires retrospective adjustments to effect changes in accounting policies, to the extent practicable, except when the transition provisions in another IFRS Standard require otherwise. IAS 8 also requires restatements to correct errors to be made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are not changes in equity, but they are adjustments to the opening balance of retained earnings, except when an IFRS Standard requires retrospective adjustment of another component of equity. Paragraph 89(b) requires presentation in the statement of changes in equity of the total adjustment to each component of equity resulting from changes in accounting policies and, separately, from corrections of errors. These adjustments are presented for each prior reporting period and the beginning of the period.

Information to be presented in the statement of changes in equity or disclosed in the notes

91 [IAS 1.106A] For each component of equity an entity shall either present in the statement of changes in equity or disclose in the notes an analysis of other comprehensive income by item (see paragraph 89(c)(ii)).

92 [IAS 1.107] An entity shall either present in the statement of changes in equity or disclose in the notes the amount of dividends recognised as distributions to holders of claims classified as equity during the reporting period, and the related amount of dividends per share.

93 [IAS 1.108] In paragraph 89, the components of equity include, for example, each class of contributed equity, the accumulated balance of each class of other comprehensive income and retained earnings.

94 [IAS 1.109] Changes in an entity's equity between the beginning and the end of the reporting period reflect the increase or decrease in its net assets during the period. Except for changes resulting from transactions with holders of claims classified as equity in their capacity as holders of claims classified as equity (such as equity contributions, reacquisitions of the entity's own equity instruments and dividends) and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of income and expense, including gains and losses, generated by the entity's activities during that period.

Statement of cash flows

95 [IAS 1.111] Cash flow information provides users with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. IAS 7 sets out requirements for the presentation and disclosure of cash flow information.

Notes

Structure

- 96 [IAS 1.112] An entity shall disclose in the notes:
- (a) information about the basis of preparation of the financial statements (see paragraphs 6K–6N of IAS 8) and the specific accounting policies used (see paragraphs 27A–27G of IAS 8);
 - (b) information required by IFRS Standards that is not presented in the primary financial statements; and
 - (c) information that is not presented in the primary financial statements, but is relevant to an understanding of any of them.
- 97 [IAS 1.113] An entity shall, as far as practicable, present notes in a systematic manner. In determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its financial statements. An entity shall cross-reference each item in the primary financial statements to any related information in the notes (see paragraph B66).
- 98 [IAS 1.116] An entity may disclose notes providing information about the basis of preparation of the financial statements and specific accounting policies as a separate section of the financial statements.
- 99 [IAS 1.138] An entity shall disclose in the notes the following, if not disclosed elsewhere in information published with the financial statements:
- (a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office);
 - (b) a description of the nature of the entity's operations and its main business activities;
 - (c) the name of the parent and the ultimate parent of the group; and
 - (d) if it is a limited life entity, information regarding the length of its life.

Unusual income and expenses

- 100 *Unusual income and expenses* are income and expenses with limited predictive value. Income and expenses have limited predictive value when it is reasonable to expect that income or expenses that are similar in type and amount will not arise for several future annual reporting periods.
- 101 An entity shall, in a single note that includes all unusual income and expenses, disclose (see paragraphs B67–B75):
- (a) the amount of each item of unusual income or expense recognised in the reporting period;

- (b) a narrative description of the transactions or other events that gave rise to that item and why income or expenses that are similar in type and amount are not expected to arise for several future annual financial reporting periods;
 - (c) the line item(s) in the statement(s) of financial performance in which each item of unusual income or expense is included; and
 - (d) an analysis of the included expenses using the nature of expense method, when an entity presents an analysis of expenses in the statement of profit or loss using the function of expense method.
- 102 Income and expenses from the recurring remeasurement of items measured at a current value are expected to change from period to period. They would not normally be classified as unusual income and expenses (see paragraph B72).

Management performance measures

- 103 *Management performance measures* are subtotals of income and expenses that (see paragraphs B76–B81):
- (a) are used in public communications outside financial statements;
 - (b) complement totals or subtotals specified by IFRS Standards; and
 - (c) communicate to users of financial statements management’s view of an aspect of an entity’s financial performance.
- 104 Subtotals specified by IFRS Standards that are not management performance measures include:
- (a) a total or subtotal required by paragraphs 60 and 73;
 - (b) gross profit or loss (revenue less cost of sales) and similar subtotals (see paragraph B78);
 - (c) operating profit or loss before depreciation and amortisation;
 - (d) profit or loss from continuing operations; and
 - (e) profit or loss before income tax.
- 105 Management performance measures shall:
- (a) faithfully represent aspects of the financial performance of the entity to users of financial statements; and
 - (b) be described in a clear and understandable manner that does not mislead users.
- 106 An entity shall disclose information about any management performance measures in a single note to the financial statements. That note shall include a statement that the management performance measures provide management’s view of an aspect of the entity’s financial performance and are not necessarily comparable with measures sharing similar descriptions

provided by other entities. In addition, for each management performance measure an entity shall disclose in the notes (see paragraphs B82–B85):

- (a) a description of why the management performance measure communicates management’s view of performance, including an explanation of:
 - (i) how the management performance measure is calculated; and
 - (ii) how the measure provides useful information about the entity’s performance;
- (b) a reconciliation between the management performance measure and the most directly comparable subtotal or total included in paragraph 104;
- (c) the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation required by paragraph 106(b); and
- (d) how the entity determined the income tax effect required by paragraph 106(c).

107 An entity shall determine the income tax effect required by paragraph 106(c) on the basis of a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction(s) concerned or by another method that achieves a more appropriate allocation in the circumstances.

108 If an entity changes the calculation of its management performance measures, introduces a new management performance measure or removes a previously disclosed management performance measure from its financial statements, it shall:

- (a) disclose sufficient explanation for users of financial statements to understand the change, addition or removal and its effects;
- (b) disclose the reasons for the change, addition or removal; and
- (c) restate its comparative information, including in the required note disclosures, to reflect the change, addition or removal.

109 A subtotal included in the statement(s) of financial performance applying paragraph 42 may be a management performance measure (see paragraph B81).

110 An entity shall not use columns to present management performance measures in the statement(s) of financial performance.

Capital

111 [IAS 1.134] An entity shall disclose in the notes information that enables users of its financial statements to evaluate the entity’s objectives, policies and processes for managing capital.

GENERAL PRESENTATION AND DISCLOSURES

112 [IAS 1.135] To comply with paragraph 111, the entity discloses in the notes the following:

- (a) qualitative information about its objectives, policies and processes for managing capital, including:
 - (i) a description of what it manages as capital;
 - (ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and
 - (iii) how it is meeting its objectives for managing capital.
- (b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (eg some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (eg components arising from cash flow hedges).
- (c) any changes in (a) and (b) from the previous reporting period.
- (d) whether during the period it complied with any externally imposed capital requirements to which it is subject.
- (e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

The entity bases these note disclosures on the information provided internally to key management personnel.

113 [IAS 1.136] An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

Other disclosures

114 [IAS 1.79] An entity shall either disclose in the notes or present in the statement of financial position or the statement of changes in equity, the following:

- (a) for each class of share capital:
 - (i) the number of shares authorised;
 - (ii) the number of shares issued and fully paid, and issued but not fully paid;
 - (iii) par value per share, or that the shares have no par value;

- (iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period;
 - (v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;
 - (vi) shares in the entity held by the entity or by its subsidiaries or associates; and
 - (vii) shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and
- (b) a description of the nature and purpose of each reserve within equity.
- 115 [IAS 1.80] An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph 114(a), showing changes during the reporting period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest.
- 116 [IAS 1.137] An entity shall disclose in the notes:
- (a) the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to holders of claims classified as equity during the reporting period, and the related amount per share; and
 - (b) the amount of any cumulative preference dividends not recognised.

Effective date and transition

- 117 An entity shall apply this [draft] Standard for annual reporting periods beginning on or after [18–24 months from the date of publication]. Earlier application is permitted. If an entity applies this [draft] Standard for an earlier period, it shall disclose that fact in the notes.
- 118 In the first year of application of this [draft] Standard an entity shall present each of the headings and subtotals required by paragraphs 60–64 of this [draft] Standard in condensed financial statements provided in interim financial reports, despite the requirements in paragraph 10 of IAS 34. An entity shall apply the requirements in paragraph 10 of IAS 34 for condensed financial statements after its first set of annual financial statements prepared in accordance with this [draft] Standard has been issued.
- 119 This [draft] Standard shall be applied retrospectively in accordance with IAS 8.

Withdrawal of IAS 1

- 120 This [draft] Standard supersedes IAS 1 *Presentation of Financial Statements*.

Appendix A Defined terms

This appendix is an integral part of the [draft] IFRS Standard.

aggregation	The adding together of assets, liabilities, equity, income, expenses or cash flows that share characteristics and are included in the same classification.
classification	The sorting of assets, liabilities, equity, income, expenses and cash flows on the basis of shared characteristics.
disaggregation	The separation of an item or group of items into component parts.
financing activities	Activities involving the receipt or use of a resource from a provider of finance with the expectation that: <ul style="list-style-type: none"> (a) the resource will be returned to the provider of finance; and (b) the provider of finance will be compensated through the payment of a finance charge that is dependent on both the amount of the credit and its duration.
general purpose financial statements [IAS 1.7]	Financial reports that provide information about a reporting entity's assets, liabilities, equity, income and expenses.
income and expenses from investments	Income and expenses from assets except for income and expenses from cash and cash equivalents that generate a return individually and largely independently of other resources held by an entity.
IFRS Standards [IAS 1.7]	IFRS Standards are Standards and Interpretations issued by the International Accounting Standards Board (Board). They comprise: <ul style="list-style-type: none"> (a) International Financial Reporting Standards; (b) International Accounting Standards; (c) IFRIC Interpretations; and (d) SIC Interpretations.
impracticable [IAS 1.7]	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.
management performance measures	Subtotals of income and expenses that:

- (a) are used in public communications outside financial statements;
- (b) complement totals or subtotals specified by IFRS Standards; and
- (c) communicate to users of financial statements management's view of an aspect of an entity's financial performance.

notes [IAS 1.7]	Information in financial statements provided in addition to that presented in the primary financial statements.
other comprehensive income [IAS 1.7]	Items of income and expense (including reclassification adjustments) that are recognised outside profit or loss as required or permitted by other IFRS Standards.
primary financial statements	The statement(s) of financial performance, the statement of financial position, the statement of changes in equity and the statement of cash flows.
profit or loss [IAS 1.7]	The total of income less expenses included in the statement of profit or loss.
reclassification adjustments [IAS 1.7]	Amounts reclassified to profit or loss in the current reporting period that were included in other comprehensive income in the current or previous periods.
total comprehensive income [IAS 1.7]	The change in equity during a reporting period resulting from transactions and other events, other than those changes resulting from transactions with holders of claims classified as equity in their capacity as holders of claims classified as equity.
unusual income and expenses	Income and expenses with limited predictive value. Income and expenses have limited predictive value when it is reasonable to expect that income or expenses that are similar in type and amount will not arise for several future annual reporting periods.

Terms defined in other Standards and used in this [draft] Standard with the same meaning

cash [IAS 7 <i>Statement of Cash Flows</i>]	Cash on hand and demand deposits.
cash equivalents [IAS 7]	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.
derivative [IFRS 9 <i>Financial Instruments</i>]	A financial instrument or other contract within the scope of IFRS 9 with all three of the following characteristics:

GENERAL PRESENTATION AND DISCLOSURES

- (a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- (b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- (c) it is settled at a future date.

financial instrument
[IAS 32 *Financial Instruments: Presentation*]

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

financial asset
[IAS 32]

Any asset that is:

- (a) cash;
- (b) an equity instrument of another entity;
- (c) a contractual right:
 - (i) to receive cash or another financial asset from another entity; or
 - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- (d) a contract that will or may be settled in the entity’s own equity instruments and is:
 - (i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity’s own equity instruments; or
 - (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity’s own equity instruments. For this purpose the entity’s own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with paragraphs 16A–16B of IAS 32, instruments that impose on the entity an obligation to deliver

to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 16C–16D of IAS 32, or instruments that are contracts for the future receipt or delivery of the entity’s own equity instruments.

financial liability
[IAS 32]

Any liability that is:

- (a) a contractual obligation:
 - (i) to deliver cash or another financial asset to another entity; or
 - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- (b) a contract that will or may be settled in the entity’s own equity instruments and is:
 - (i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity’s own equity instruments.
 - (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity’s own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity’s own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also, for these purposes the entity’s own equity instruments do not include puttable financial instruments that are classified as equity instruments in accordance with paragraphs 16A–16B of IAS 32, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 16C–16D of IAS 32, or instruments that are contracts for the future receipt or delivery of the entity’s own equity instruments.

GENERAL PRESENTATION AND DISCLOSURES

integral associates and joint ventures [IFRS 12 <i>Disclosure of Interests in Other Entities</i>]	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 (see paragraphs 20A and 20D of IFRS 12).
material [IAS 1.7] [Proposed to move to IAS 8 <i>Basis of Preparation, Accounting Policies, Changes in Accounting Estimates and Errors</i>]	Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.
non-controlling interest [IFRS 10 <i>Consolidated Financial Statements</i>]	Equity in a subsidiary not attributable, directly or indirectly, to a parent.
non-integral associates and joint ventures [IFRS 12]	Associates and joint ventures accounted for using the equity method that are not integral to the main business activities of an entity and hence generate a return individually and largely independently of the other assets of the entity (see paragraphs 20A and 20D of IFRS 12).

Appendix B Application guidance

This appendix is an integral part of the [draft] IFRS Standard. It describes the application of paragraphs [1–120] and has the same authority as the other parts of the [draft] IFRS Standard.

Identification of the financial statements

- B1 [IAS 1.52] An entity meets the requirements in paragraph 16 by providing appropriate headings for pages, statements, notes, columns and the like. Judgement is required in determining the best way of providing such information. For example, when an entity provides the financial statements electronically, separate pages are not always used; an entity then provides the above items to ensure that the information included in the financial statements can be understood.
- B2 [IAS 1.53] An entity often makes financial statements more understandable by providing information in thousands or millions of units of the presentation currency. This is acceptable as long as the entity discloses the level of rounding and does not omit *material* information.

General presentation and disclosure requirements

Objective and roles of the primary financial statements and the notes

- B3 Applying paragraph 21(a), an entity provides in the notes further information necessary for users of financial statements to understand the items included in the *primary financial statements*. Examples of such information include:
- (a) *disaggregation* of the line items presented in primary financial statements;
 - (b) descriptions of the nature of the items included in the primary financial statements; and
 - (c) information about the methods, assumptions and judgements used in recognising and measuring the items included in the primary financial statements.
- B4 Applying paragraph 21(b), an entity supplements the primary financial statements with other information that is necessary to meet the objective of financial statements. Examples of such supplementary information include:
- (a) information about the nature and extent of an entity's unrecognised assets, liabilities, equity, income and expenses (the elements of the financial statements); and
 - (b) information about an entity's exposure to various types of risks, such as market risk or credit risk, arising from both recognised and unrecognised elements of the financial statements.

Aggregation and disaggregation

B5 Financial statements result from entities processing large numbers of transactions and other events. These transactions and other events give rise to assets, liabilities, equity, income and expenses. Information about an entity's total assets, total liabilities, total equity, total income and total expenses provides some information about the financial position and financial performance of an entity. However, that information is likely to be too summarised to be useful on its own because it combines items that may have different characteristics. Disaggregated information about the elements of the financial statements arising from individual transactions or other events provides more detailed information. However, if its volume and the amount of detail make it difficult to understand, then the information about individual transactions and other events may not provide useful information about the financial position or financial performance of an entity. Consequently, an entity applies judgement about the amount of detail required to provide useful information to users of financial statements.

B6 To determine the line items presented in the primary financial statements or the items disclosed in the notes, an entity shall apply the principles of *aggregation* and disaggregation described in paragraph 25 to identify items that share characteristics. In applying the principles of aggregation an entity shall:

- (a) identify the assets, liabilities, equity, income and expenses that arise from individual transactions or other events;
- (b) classify assets, liabilities, equity, income and expenses into groups based on their characteristics (for example, their nature, their function, their measurement basis or another characteristic) resulting in the presentation in the primary financial statements of line items that share at least one characteristic; and
- (c) separate the line items presented in the primary financial statements on the basis of further characteristics resulting in the disclosure of items in the notes, if those items are material.

Other *IFRS Standards* include additional requirements for disclosing different types of information in the notes including information about items that do not qualify for recognition in the financial statements.

B7 Applying the principles of aggregation does not necessarily mean following steps B6(a)–B6(c) sequentially. However, an entity shall consider all these steps in determining whether items that share characteristics have been classified and aggregated appropriately and ensuring that items that do not share characteristics have not been aggregated.

B8 Because the role of the primary financial statements is to provide a structured and comparable summary, the line items in the primary financial statements are likely to combine some material items that have some dissimilar characteristics. However, to be useful to users of financial statements, the items aggregated and presented as line items in the primary financial

statements must share at least one characteristic other than meeting the definition of a particular element of the financial statements.

- B9 In the notes, it is the concept of materiality that drives aggregation and disaggregation. To achieve the objective of financial statements, items that have dissimilar characteristics shall be disaggregated into component parts when the resulting information is material.
- B10 For example, an entity may hold material amounts of *financial assets* that are equity instruments and material amounts of financial assets that are debt instruments that share the characteristic of being measured at fair value through *profit or loss*. That being so, a single line item in the entity's statement of financial position for financial assets measured at fair value through profit or loss may provide users of financial statements with a useful summary of the entity's financial assets. However, financial assets that are equity instruments are dissimilar to financial assets that are debt instruments in that they each expose the entity to different risks. Therefore, in the notes to the financial statements, the entity may need to disclose its financial assets that are equity instruments separately from its financial assets that are debt instruments if the resulting information would be material. The entity should also consider whether aggregating all of its financial assets that are equity instruments and separately aggregating all that are debt instruments would result in the loss of material information about the characteristics of those assets. If this would be the case, the entity should further disaggregate those financial assets.
- B11 Aggregating items that result from individual transactions and other events into line items presented in the primary financial statements and items disclosed in the notes requires judgement about the information that will be useful. In making this judgement, an entity shall consider the balance of similar and dissimilar characteristics between aggregated items. The more characteristics items have in common the more likely it is that aggregating them will result in useful information and the more dissimilar characteristics items have the less likely it is that aggregating them will result in useful information.

Disaggregation in the statement of financial position

- B12 [IAS 1.58] Applying paragraph 83(a) an entity makes the judgement about whether to present additional items separately on the basis of an assessment of:
- (a) the nature and liquidity of assets;
 - (b) the function of assets within the entity; and
 - (c) the amounts, nature and timing of liabilities.
- B13 [IAS 1.59] The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that an entity presents them as separate line items. For example, different classes of property, plant and equipment can be carried at cost or at revalued amounts in accordance with IAS 16 *Property, Plant and Equipment*.

GENERAL PRESENTATION AND DISCLOSURES

- B14 [IAS 1.78] In addition to the disclosure requirements of other IFRS Standards, an entity uses the characteristics set out in paragraph B12 to disaggregate items presented in the statement of financial position or disclosed in the notes. The disclosures vary for each item, for example:
- (a) items of property, plant and equipment are disaggregated into classes in accordance with IAS 16;
 - (b) receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts;
 - (c) inventories are disaggregated, in accordance with IAS 2 *Inventories*, into items such as merchandise, production supplies, materials, work in progress and finished goods;
 - (d) provisions are disaggregated according to their nature, such as, provisions for employee benefits, decommissioning liabilities, or other items; and
 - (e) equity capital and reserves are disaggregated into various classes, such as paid-in capital, share premium and reserves.

Disaggregation in the statement(s) of financial performance

- B15 [IAS 1.98] Circumstances that would give rise to the separate presentation in the statement(s) of financial performance or disclosure in the notes of items of income and expense include:
- (a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
 - (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
 - (c) disposals of items of property, plant and equipment;
 - (d) disposals of investments;
 - (e) litigation settlements; and
 - (f) reversals of provisions.

Offsetting

- B16 [IAS 1.34] Paragraph 29 prohibits entities from offsetting unless required or permitted by an IFRS Standard. IFRS 15 *Revenue from Contracts with Customers* requires an entity to measure revenue from contracts with customers at the amount of consideration to which the entity expects to be entitled in exchange for transferring promised goods or services. For example, the amount of revenue recognised reflects any trade discounts and volume rebates the entity allows. An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. An entity presents in the primary financial statements or discloses in the notes the results of such transactions,

when this presentation or disclosure reflects the substance of the transaction or other event, by netting any income with related expenses arising on the same transaction. For example:

- (a) an entity presents in the financial statements or discloses in the notes gains and losses on the disposal of non-current assets, including investments and operating assets, by deducting from the amount of consideration on disposal the carrying amount of the asset and related selling expenses; and
- (b) an entity may net expenditure related to a provision that is recognised in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) against the related reimbursement.

- B17 [IAS 1.35] In addition, an entity presents or discloses on a net basis gains and losses arising from a group of similar transactions, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading that are included in the same category of the statement(s) of financial performance in accordance with paragraphs 56–59. However, an entity shall present or disclose such gains and losses separately if they are material.

Consistency of presentation

- B18 [IAS 1.46] Paragraph 33(a) permits an entity to change the presentation, disclosure or classification of items in the financial statements when it is apparent that another presentation, disclosure or classification would be more appropriate. For example, a significant acquisition or disposal, or a review of the financial statements, might suggest that the financial statements need to be changed. An entity changes the presentation, disclosure or classification of its financial statements only if the change provides information that is more useful to users of the financial statements and the revised presentation, disclosure or classification is likely to continue, so that comparability is not impaired. When making such changes, an entity reclassifies its comparative information in accordance with paragraphs 40–41.

Comparative information

Minimum comparative information

- B19 [IAS 1.38B] In some cases, narrative information provided in the financial statements for the preceding reporting period(s) continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute, the outcome of which was uncertain at the end of the preceding period and is yet to be resolved. Users of financial statements may benefit from the disclosure of information that the uncertainty existed at the end of the preceding period and from the disclosure of information about the steps that have been taken during the period to resolve the uncertainty.

Additional comparative information

- B20 [IAS 1.38C] An entity may provide comparative information in addition to the minimum comparative information required by IFRS Standards, as long as that information is prepared in accordance with IFRS Standards. This comparative information may consist of one or more of the primary financial statements referred to in paragraph 10, but need not comprise a complete set of financial statements. When this is the case, the entity shall disclose related note information for those additional primary financial statements.
- B21 [IAS 1.38D] For example, an entity may present a third statement(s) of financial performance (thereby presenting the current reporting period, the preceding period and one additional comparative period). However, the entity is not required to present a third statement of financial position, a third statement of cash flows or a third statement of changes in equity (ie an additional financial statement comparative). The entity is required to disclose, in the notes, the comparative information related to that additional statement(s) of financial performance.

Change in accounting policy, retrospective restatement or reclassification

- B22 [IAS 1.43] Paragraph 40 requires an entity to reclassify comparative amounts if the entity changes the presentation, disclosure or classification of items in its financial statements. Enhancing the inter-period comparability of information assists users of financial statements in making economic decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior reporting period to achieve consistency with the current period. For example, an entity may not have collected data in the prior period(s) in a way that allows reclassification, and it may be impracticable to recreate the information.
- B23 [IAS 1.44] IAS 8 *Basis of Preparation, Accounting Policies, Changes in Accounting Estimates and Errors* sets out the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

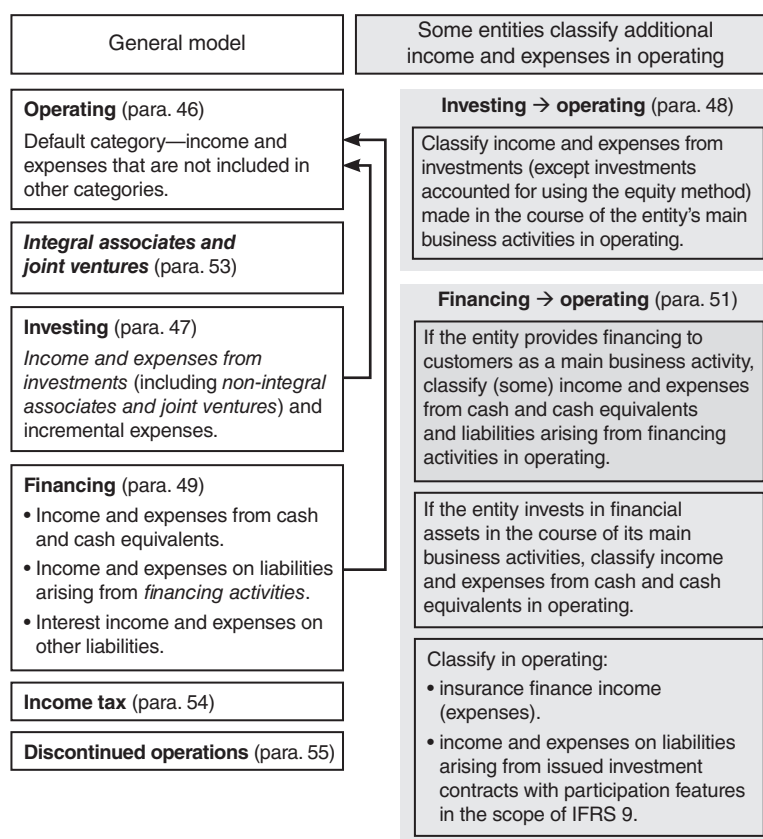
Statement(s) of financial performance

Statement of profit or loss

Categories included in the statement of profit or loss

B24 Figure 1 summarises the requirements for classification of income and expenses into categories in the statement of profit or loss.

Figure 1—Classification of income and expenses in the statement of profit or loss



Operating

B25 For an entity to include income and expenses from its main business activities in the operating category, paragraphs 48, 51 and 52 set out circumstances when income and expenses that would otherwise be classified as investing and financing would instead be classified as operating.

B26 An entity may have more than one main business activity. For example, an entity that manufactures cars and also provides financing to customers may determine that it has both a manufacturing main business activity and a customer-finance main business activity.

GENERAL PRESENTATION AND DISCLOSURES

- B27 Paragraph 48 requires an entity to classify in the operating category income and expenses from investments in the course of its main business activities. Whether income and expenses from investments arise in the course of an entity's main business activities is a matter of judgement. In general, investments are likely to have been made in the course of an entity's main business activity when investment returns are an important indicator of operating performance. Examples of entities that invest in the course of their main business activities may include:
- (a) investment entities as defined by IFRS 10 *Consolidated Financial Statements*;
 - (b) investment property companies; and
 - (c) insurers.
- B28 Applying paragraph 51, when an entity provides financing to customers as a main business activity it is required to make an accounting policy choice to classify in the operating category either income and expenses from financing activities, and from cash and cash equivalents relating 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.
- B29 Whether an entity provides financing to customers as a main business activity is a matter of judgement. In general, providing financing to customers is likely to be a main business activity when the difference between interest income and the related interest expense is an important indicator of operating performance. Examples of entities that provide financing to customers as a main business activity may include:
- (a) banks;
 - (b) entities that provide financing to customers to enable those customers to purchase the entity's products; and
 - (c) lessors that provide finance leases to customers.
- B30 The requirement in paragraph 52(a) for an entity to classify income and expenses from cash and cash equivalents in the operating category applies when any entity invests in financial assets in the course of its main business activities. It does not apply to an entity that invests only in non-financial assets in the course of its main business activities.
- B31 If, applying IFRS 8 *Operating Segments*, an entity reports a segment that constitutes a single business activity, that may indicate that that business activity is a main business activity.
- Investing*
- B32 Paragraph 47 requires an entity to classify income and expenses from investments in the investing category except when paragraph 48 requires the entity to classify them in the operating category. Income and expenses from investments would typically include:

- (a) income and expenses from financial assets, except for income and expenses from cash and cash equivalents, such as:
 - (i) interest revenue;
 - (ii) impairment losses and reversals of impairment losses;
 - (iii) gains and losses on disposal;
 - (iv) fair value gains and losses;
 - (v) dividends from equity investments;
 - (vi) the share of profit or loss of non-integral associates and joint ventures; and
 - (vii) income and expenses from associates and joint ventures not accounted for using the equity method; and
- (b) income and expenses from other investments such as:
 - (i) income and expenses on investment property;
 - (ii) impairment losses and reversals of impairment losses;
 - (iii) income or expenses from speculative investments, such as investments in artwork held for capital appreciation; and
 - (iv) gains and losses on disposal.

B33 Income and expenses from investments do not include income and expenses from assets used by an entity in the production of goods and delivery of services. Income and expenses derived from such assets result from the combination of those assets with other resources of the entity, such as employees, raw materials or intangible assets, and not from the individual assets on their own. Examples of such income and expenses not from investments include:

- (a) interest revenue from trade receivables, which would be classified in the operating category;
- (b) income and expenses from property, plant and equipment and intangible assets, including depreciation, amortisation, impairment and disposal gains and losses, which would be classified in the operating category; and
- (c) gains or losses on disposal of a discontinued operation, which would be classified in the discontinued operations category.

Financing

B34 Paragraph 49(a) requires an entity to classify income and expenses from cash and cash equivalents in the financing category, except when paragraphs 51 or 52(a) require them to be classified in the operating category. Income and expenses from cash and cash equivalents include:

- (a) interest revenue; and
- (b) gains or losses on disposal of cash equivalents.

GENERAL PRESENTATION AND DISCLOSURES

B35 Paragraph 49(b) requires an entity to classify income and expenses from financing activities in the financing category except when paragraphs 51 or 52(b) require them to be classified in the operating category. Income and expenses from financing activities include income and expenses on the following liabilities:

- (a) debentures, loans, notes, bonds and mortgages;
- (b) lease liabilities; and
- (c) trade payables (for example those negotiated on extended credit terms).

B36 Financing activities may give rise to income and expenses, including:

- (a) interest expenses (for example on debt issued and lease liabilities);
- (b) debt extinguishment and debt restructuring expenses;
- (c) fair value gains and losses (for example on a liability designated at fair value through profit or loss); and
- (d) dividends on issued shares classified as liabilities.

B37 Paragraph 49(c) requires an entity to classify interest income and expenses on liabilities not arising from financing activities in the financing category. Such income and expenses include:

- (a) net interest expense (income) on a net defined benefit liability (asset) applying IAS 19 *Employee Benefits*;
- (b) unwinding of the discount on a decommissioning, restoration or similar liability;
- (c) unwinding of the discount on other long-term provisions, for example warranty provisions and deferred consideration for a business combination; and
- (d) increases in the present value of the costs to sell a non-current asset (or disposal group) held for sale that arise from the passage of time as discussed in paragraph 17 of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Other categories

B38 Only associates and joint ventures accounted for using the equity method can meet the definition of integral associates and joint ventures, thus giving rise to the share of profit or loss accounted for using the equity method. Applying IAS 28 *Investments in Associates and Joint Ventures* an entity may be required to recognise income and expenses from integral associates and joint ventures in addition to the share of profit or loss accounted for using the equity method. Applying paragraph 53, income and expenses from integral associates and joint ventures include:

- (a) the share of profit or loss of integral associates and joint ventures;

- (b) impairment losses and reversals of impairment losses on integral associates and joint ventures; and
- (c) gains or losses on disposals of integral associates and joint ventures.

Classification of fair value gains and losses on derivatives and of exchange differences

B39 Paragraph 56 requires an entity to classify foreign exchange differences included in profit or loss in the same category of the statement of profit or loss as the income and expenses from the items that gave rise to the foreign exchange differences (applying IAS 21 *The Effects of Changes in Foreign Exchange Rates*). For example, an entity classifies exchange differences on:

- (a) a trade payable not negotiated on extended credit terms denominated in a foreign currency in the same category as the expenses for the purchase of the goods – that is, normally the operating category; and
- (b) a debt instrument, issued by the entity, that is denominated in a foreign currency in the same category as the interest expenses on that liability – that is, the financing category unless one of the entity’s main business activities is providing financing to customers in which case it would be included in the operating category (see paragraph 51).

B40 Table 1 summarises the requirements in paragraphs 57–59.

Table 1—Classification of fair value gains and losses on derivatives and hedging instruments

		Gains and losses on:	
		Derivatives	Non-derivative financial instruments
Used for risk management	Designated as a hedging instrument	Classify in the category affected by the risk the entity manages, except when it would involve grossing up gains and losses—then classify in the investing category.	
	Not designated as a hedging instrument	Apply the presentation requirements for derivatives designated as hedging instruments except if such classification would involve undue cost or effort—then classify in the investing category.	Apply requirements for classification in paragraphs 45–55.
Not used for risk management		Classify in the investing category, except when used in the course of a main business activity—then classify in the operating category.	

B41 Paragraphs 57–58 prohibit grossing up of gains and losses on financial instruments designated as hedging instruments and derivatives not designated as hedging instruments. The grossing up of gains and losses might result when:

- (a) an entity uses such financial instruments for risk management of a group of items with offsetting risk positions (see paragraph 6.6.1 of IFRS 9 *Financial Instruments* for designated hedging instruments); and
- (b) the risks managed affect line items in multiple categories of the statement of profit or loss.

B42 For example, an entity may use a single derivative to manage the net foreign currency risk on revenue (classified in the operating category) and interest expenses (classified in the financing category). In such cases, the foreign exchange differences on the revenue are offset by the foreign exchange differences on the interest expense and the gains or losses on the derivative. However, the foreign exchange differences on the revenue are classified in a different category of the statement of profit or loss to the foreign exchange differences on the interest expense. To present the net foreign exchange difference in each category, an entity would need to present in each category a larger gain or loss than occurred on the derivative. Applying the requirements in paragraphs 57–58, an entity shall not gross up the gains or losses in this manner and would instead classify any gain or loss on the derivative in the investing category.

B43 The requirements in paragraphs 56–59 only specify the classification of income and expenses into categories of the statement of profit or loss. They do not prescribe in which line item such income and expenses should be included nor do they override the requirements of other IFRS Standards.

Line items to be presented in the statement of profit or loss

B44 To comply with paragraph 65, an entity may need to present a required line item in more than one of the categories required by paragraph 45. For example, an entity that does not have investing or financing as a main business activity may need to present the required line item impairment losses determined in accordance with Section 5.5 of IFRS 9 in:

- (a) the operating category – if it relates to trade receivables arising from the entity’s main business activity;
- (b) the investing category – if it relates to financial assets that generate a return individually and largely independently of the other resources of the entity; and
- (c) the financing category – if it relates to cash equivalents.

Analysis of expenses classified in the operating category

- B45 Paragraph 68 requires an entity to present an analysis of expenses classified in the operating category using either the nature of expense method or the function of expense method, whichever provides the most useful information. An entity shall consider, in deciding which method of expense analysis provides the most useful information:
- (a) which method provides the most useful information to users of financial statements about the key components or drivers of the entity's profitability. For example, for a retail entity a key component or driver of profitability could be cost of sales. Presenting a cost of sales line item can provide relevant information about whether the revenue generated from the sale of goods covers what, for retailers, are mainly direct costs, and by what margin. However, cost of sales is unlikely to provide relevant information about the key components or drivers of profitability when the link between revenue and costs is less direct. For example, for a service entity, information about the expenses presented using a nature of expense analysis, such as employment costs, may be more relevant to users.
 - (b) which method most closely represents the way the business is managed and how management reports internally. For example, a manufacturing entity managed on the basis of major functions might use a function of expense method for internal reporting. However, an entity that has a single predominant function, such as a financing activity, may find a more detailed analysis of expenses using a nature of expense method provides more useful information.
 - (c) industry practice. The use of similar methods for an analysis of expenses would enable users to more easily compare expenses across entities in the same industry.
 - (d) whether the allocation of expenses to functions would be arbitrary and therefore would not provide a sufficiently faithful representation of the line items presented. In such cases, the nature of expense method shall be used.
- B46 An entity shall not provide an analysis of expenses classified in the operating category using a mixture of the nature of expense method and the function of expense method except when required to do so by paragraph B47.
- B47 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.
- B48 An entity applying paragraph 72 discloses in the notes an analysis of total operating expenses using the nature of expense method and is not required to disclose an analysis of each functional line item.

Statement presenting comprehensive income

Other comprehensive income

- B49 [IAS 1.89] Some IFRS Standards specify circumstances when an entity recognises particular items outside the statement of profit or loss in the current reporting period. IAS 8 specifies two such circumstances: the correction of errors and the effect of changes in accounting policies. Other IFRS Standards require or permit components of other comprehensive income that meet the *Conceptual Framework for Financial Reporting*'s definition of income or expense to be excluded from profit or loss (see paragraph B50).
- B50 [IAS 1.7 partial] Appendix A defines other comprehensive income. The components of other comprehensive income include:
- (a) changes in revaluation surplus (see IAS 16 and IAS 38 *Intangible Assets*);
 - (b) remeasurements of defined benefit plans (see IAS 19);
 - (c) gains and losses arising from translating the financial statements of a foreign operation (see IAS 21);
 - (d) gains and losses from investments in equity instruments designated as measured at fair value through other comprehensive income in accordance with paragraph 5.7.5 of IFRS 9;
 - (e) gains and losses on financial assets measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of IFRS 9;
 - (f) the effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through other comprehensive income in accordance with paragraph 5.7.5 of IFRS 9 (see Chapter 6 of IFRS 9);
 - (g) for particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see paragraph 5.7.7 of IFRS 9);
 - (h) changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value (see Chapter 6 of IFRS 9);
 - (i) changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument (see Chapter 6 of IFRS 9);

- (j) insurance finance income and expenses from contracts issued within the scope of IFRS 17 *Insurance Contracts* excluded from profit or loss when total insurance finance income or expense is disaggregated to include in profit or loss an amount determined by a systematic allocation applying paragraph 88(b) of IFRS 17, or by an amount that eliminates accounting mismatches with the finance income or expenses arising on the underlying items, applying paragraph 89(b) of IFRS 17; and
- (k) finance income and expenses from reinsurance contracts held excluded from profit or loss when total reinsurance finance income or expenses is disaggregated to include in profit or loss an amount determined by a systematic allocation, applying paragraph 88(b) of IFRS 17.
- B51 [IAS 1.95] Reclassification adjustments arise, for example, on disposal of a foreign operation (see IAS 21) and when some hedged forecast cash flows affect profit or loss (see paragraph 6.5.11(d) of IFRS 9 in relation to cash flow hedges).
- B52 [IAS 1.96] Paragraph 77 requires an entity to present in the statement presenting comprehensive income or disclose in the notes reclassification adjustments relating to the component of other comprehensive income, income and expenses to be included in profit or loss in the future. Reclassification adjustments do not arise on changes in revaluation surplus recognised in accordance with IAS 16 or IAS 38 or on remeasurements of defined benefit plans recognised in accordance with IAS 19. These components are recognised in other comprehensive income and are not reclassified to profit or loss in subsequent reporting periods. Changes in revaluation surplus may be transferred to retained earnings in subsequent periods as the asset is used or when it is derecognised (see IAS 16 and IAS 38). In accordance with IFRS 9, reclassification adjustments do not arise if a cash flow hedge or the accounting for the time value of an option (or the forward element of a forward contract or the foreign currency basis spread of a financial instrument) result in amounts that are removed from the cash flow hedge reserve or a separate component of equity, respectively, and included directly in the initial cost or other carrying amount of an asset or a liability. These amounts are directly transferred to assets or liabilities.

Statement of financial position

Classification of assets and liabilities as current or non-current

- B53 [IAS 1.62] Applying paragraph 84, when an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities in the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realised

GENERAL PRESENTATION AND DISCLOSURES

within the current operating cycle and liabilities that are due for settlement within the same reporting period.

- B54 [IAS 1.63] For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that faithfully represents those assets and liabilities and is more relevant than a current/non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.
- B55 [IAS 1.64] In applying paragraph 84, an entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that faithfully represents those assets and liabilities and is more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations.
- B56 [IAS 1.65] Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. IFRS 7 *Financial Instruments: Disclosures* requires disclosure of the maturity analysis of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery of non-monetary assets, such as inventories and expected date of settlement for liabilities, such as provisions, is also useful, whether assets and liabilities are classified as current or as non-current. For example, an entity discloses in the notes the amount of inventories that are expected to be recovered more than twelve months after the reporting period.

Current assets

- B57 [IAS 1.67] Paragraph 87 requires an entity to classify as non-current all assets not classified as current. This [draft] Standard uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.
- B58 [IAS 1.68] The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period. Current assets also include assets held primarily for the purpose of trading (examples include some financial assets that meet the definition of held for trading in IFRS 9) and the current portion of non-current financial assets.

Current liabilities

- B59 [IAS 1.70] Paragraph 88 specifies when an entity is required to classify a liability as current.¹² Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months.
- B60 [IAS 1.71] Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities that meet the definition of held for trading in IFRS 9, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the period are non-current liabilities, subject to paragraphs B63–B64.
- B61 [IAS 1.72] An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if:
- (a) the original term was for a period longer than twelve months; and
 - (b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorised for issue.
- B62 [IAS 1.73] If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.
- B63 [IAS 1.74] When an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the period and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date.

¹² In Quarter 1 of 2020, the Board expects to issue amendments to this section based on proposals published in Exposure Draft *Classification of Liabilities* ED/2015/1 to amend paragraphs 69–76 of IAS 1.

GENERAL PRESENTATION AND DISCLOSURES

- B64 [IAS 1.75] However, an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.
- B65 [IAS 1.76] In respect of loans classified as current liabilities, if the following events occur between the end of the reporting period and the date the financial statements are authorised for issue, those events are disclosed as non-adjusting events in accordance with IAS 10 *Events after the Reporting Period*:
- (a) refinancing on a long-term basis;
 - (b) rectification of a breach of a long-term loan arrangement; and
 - (c) the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement ending at least twelve months after the reporting period.

Notes

Structure

- B66 [IAS 1.114] Paragraph 97 requires an entity to present notes in a systematic manner. Examples of systematic ordering or grouping of the notes include:
- (a) giving prominence to the areas of its activities that the entity considers to be most relevant to an understanding of its financial performance and financial position, such as grouping together information about particular business activities;
 - (b) grouping together information about items measured similarly such as assets measured at fair value; or
 - (c) following the order of the line items in the statement(s) of financial performance and the statement of financial position, such as:
 - (i) statement of compliance with IFRS Standards (see paragraph 6B of IAS 8);
 - (ii) significant¹³ accounting policies applied (see paragraph 27A of IAS 8);
 - (iii) supporting information for items presented in the statements of financial position and in the statement(s) of financial performance, and in the statements of changes in equity and of cash flows, in the order in which each statement is provided and each line item is presented; and

¹³ Exposure Draft ED/2019/6 *Disclosure of Accounting Policies* proposes amendments to the disclosure requirements for accounting policies including replacing 'significant' with 'material'.

- (iv) other disclosures, including:
 - (1) contingent liabilities (see IAS 37) and unrecognised contractual commitments; and
 - (2) non-financial disclosures, eg the entity's financial risk management objectives and policies (see IFRS 7).

Unusual income and expenses

- B67 Paragraph 101 requires an entity to disclose information in the notes about unusual income and expenses. An entity classifies income and expenses as unusual if and only if they have limited predictive value. Hence, income and expenses cannot be classified as unusual if it is reasonable to expect that income or expenses similar in type and amount will arise in any of several future annual reporting periods.
- B68 In determining whether income or expenses are unusual, an entity shall consider both the type of the income or expense and its amount. For example, an impairment loss resulting from a fire at an entity's factory is normally an unusual type of expense and hence would be classified as an unusual expense because in the absence of other indicators of impairment another similar expense would not reasonably be expected to recur for several future annual reporting periods.
- B69 Income and expenses that are not unusual by type may be unusual in amount. Whether an item of income or expense is unusual in amount is determined by the range of outcomes reasonably expected to arise for that income or expense in several future annual reporting periods. For example, an entity that incurs regular litigation costs that are all of a similar amount would not generally classify those litigation expenses as unusual. However, if in one reporting period, that entity incurred higher litigation costs than reasonably expected, because of a particular action, it would classify the costs from that action as unusual if litigation costs in several future annual reporting periods were not expected to be of a similar amount. The higher litigation costs are outside the range of reasonably expected outcomes and not predictive of future litigation costs.
- B70 Income or expenses are classified as unusual based on expectations about the future rather than past occurrences. Hence, it is possible for income or expenses similar to income or expenses reported in previous reporting period(s) to be classified as unusual. For example, an entity may incur an impairment loss resulting from a fire at one of its factories in one period. At the end of that period, the entity classifies the impairment as an unusual expense because it has a reasonable expectation that it will not suffer an impairment loss for several future annual reporting periods. In the next period, the entity once again incurs an impairment loss resulting from a fire at another one of its factories. If the two fires in close succession are not indicative of a developing pattern of fires and impairments, it may be possible for the entity to have a reasonable expectation at the end of the second reporting period that similar expenses will not arise for several future annual

reporting periods. If this is the case, the second impairment is also classified as unusual.

- B71 Expectations about the future will depend on the facts and circumstances of an entity. For example, an entity that undertakes a restructuring programme spanning several reporting periods or that makes regular acquisitions that result in restructuring expenses would not classify these expenses as unusual. However, an entity that undertakes a restructuring programme and that does not expect to incur expenses of a similar type and amount in the next several reporting periods would classify these expenses as unusual.
- B72 Income and expenses from the recurring remeasurement of items measured at current value would not normally be classified as unusual. Income and expenses from the remeasurement of such items are expected each reporting period and are expected to vary from period to period.
- B73 When an entity identifies unusual income or expenses it does not classify related income or expenses as unusual unless those related income and expenses are themselves unusual. For example, an entity may identify a sale that gives rise to unusual revenue. In earning that revenue, the entity may incur several related costs, including employee benefit expense, inventory cost and taxes. An entity would only identify as unusual those related costs that meet the definition of unusual.
- B74 When an entity discloses comparative information about unusual income and expenses it shall only classify amounts that met the definition of unusual income and expenses in the comparative period as unusual income and expenses.
- B75 An entity's management performance measure(s) may include some, or all, of its unusual income and expenses. In such cases, the entity may disclose the required information about those unusual income and expenses in the same note that it uses to disclose information about management performance measures provided the entity either:
- (a) includes in that note all of the information required by paragraph 101 for unusual income and expenses; or
 - (b) provides a separate note that includes all of the information required for unusual income and expenses.

Management performance measures

Identifying management performance measures

- B76 Paragraph 103 defines management performance measures. Some entities may have more than one management performance measure. However, not all entities will have management performance measures. For example, if an entity publicly communicates its financial performance to users of its financial statements, using only totals and subtotals specified by IFRS Standards, it will not have a management performance measure.

- B77 Paragraph 104 specifies subtotals that are not management performance measures. An entity is not required to provide the disclosures specified in paragraph 106 for these subtotals.
- B78 In accordance with paragraph 104(b) subtotals similar to gross profit are not management performance measures. A subtotal is similar to gross profit when it represents the difference between a type of revenue and directly related expenses incurred in generating that revenue. Examples include:
- (a) net interest income;
 - (b) net fee and commission income;
 - (c) insurance service result;
 - (d) net financial result (investment income minus insurance finance expenses); and
 - (e) net rental income.
- B79 Only subtotals that management uses in public communications outside financial statements, for example, in management commentary, press releases or in investor presentations, meet the definition of management performance measures.
- B80 A management performance measure is a subtotal of income and expenses. Examples of measures that are not management performance measures include:
- (a) individual items or subtotals of only income or expenses (for example, adjusted revenue as a stand-alone measure);
 - (b) assets, liabilities, equity or combinations of these elements;
 - (c) financial ratios (for example, return on assets);
 - (d) measures of growth;
 - (e) measures of liquidity or cash flows (for example, free cash flow); or
 - (f) non-financial performance measures.
- B81 A subtotal presented in the statement(s) of financial performance to comply with paragraph 42 may meet the definition of a management performance measure. When such a subtotal meets that definition, an entity shall disclose all the information required by paragraph 106.

Management performance measures note disclosure

- B82 All information required to be disclosed about management performance measures shall be included in a single note.
- B83 In some cases, one or more of an entity's management performance measures may be the same as part of the operating segment information disclosed by the entity in applying IFRS 8. In such cases, the entity may disclose the required information about those management performance measures in the same note that it uses to disclose information about its operating segments provided the entity either:

GENERAL PRESENTATION AND DISCLOSURES

- (a) includes in that note all of the information required by paragraph 106 for management performance measures; or
- (b) provides a separate note that includes all of the information required for management performance measures.

B84 Paragraph 106(a)(i) requires an explanation of how a management performance measure is calculated. To comply with this requirement an entity shall explain the specific principles, bases, conventions, rules and practices it applies in calculating its management performance measures.

B85 Paragraph 106(b) requires an entity to reconcile its management performance measure(s) to the most directly comparable subtotal or total specified by IFRS Standards. For example, an entity that discloses in the notes adjusted operating profit or loss as a management performance measure would reconcile to operating profit or loss as the most directly comparable subtotal. In aggregating or disaggregating the reconciling items disclosed an entity shall apply the requirements in paragraphs 25–28.

[Draft] Amendments to other IFRS Standards

This document sets out the [draft] amendments to other IFRS Standards. An entity shall apply the amendments when it applies [draft] IFRS X.

IAS 7 Statement of Cash Flows

Paragraphs 33A, 34A–34D, 38A and 62 are added, paragraphs 6, 12, 14, 16, 17, 18, 20 and 31 are amended and paragraphs 33 and 34 are deleted. New text is underlined and deleted text is struck through. Paragraphs 15, 32, 37 and 38 have not been amended but are included for ease of reference. Paragraph 6 includes text that has not been amended but is included for ease of reference.

Definitions

6 The following terms are used in this Standard with the meanings specified:

...

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

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents and the receipt of some interest and dividends as described in paragraphs 34A–34D.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

In relation to borrowings, financing activities involve the receipt or use of a resource from a provider of finance with the expectation that:

- (a) the resource will be returned to the provider of finance; and
- (b) the provider of finance will be appropriately compensated through the payment of a finance charge that is dependent on both the amount of the credit and its duration.

...

Presentation of a statement of cash flows

...

12 A single transaction may include cash flows that are classified differently. ~~For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element is classified as a financing activity.~~

Operating activities

...

14 Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss. Examples of cash flows from operating activities are:

- (a) cash receipts from the sale of goods and the rendering of services;
- (b) cash receipts from royalties, fees, commissions and other revenue;
- (c) cash payments to suppliers for goods and services;
- (d) cash payments to and on behalf of employees;
- (e) [deleted]
- (f) cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities; ~~and~~
- (g) cash receipts and payments from contracts held for dealing or trading purposes; ~~and~~
- (h) some cash receipts and payments of dividends and interest as described in paragraphs 34B–34C.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in recognised profit or loss. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale as described in paragraph 68A of IAS 16 *Property, Plant and Equipment* are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

15 An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by financial institutions are usually classified as operating activities since they relate to the main revenue-producing activity of that entity.

Investing activities

16 The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities. Examples of cash flows arising from investing activities are:

- (a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment;
- (b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
- (c) cash payments to acquire equity or debt instruments of other entities including ~~and~~ interests in associates and joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);
- (d) cash receipts from sales of equity or debt instruments of other entities including ~~and~~ interests in associates and joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);
- (e) cash advances and loans made to other parties (other than advances and loans made by a financial institution);
- (f) cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution);
- (g) cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; ~~and~~.
- (h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.
- (i) some cash receipts from dividends and interest as described in paragraphs 34A–34C.

When a contract is accounted for as a hedge of an identifiable position the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

Financing activities

17 The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

- (a) cash proceeds from issuing shares or other equity instruments;
- (b) cash payments to owners to acquire or redeem the entity's shares;
- (c) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short-term or long-term borrowings;
- (d) cash repayments of amounts borrowed; ~~and~~

GENERAL PRESENTATION AND DISCLOSURES

- (e) cash payments by a lessee for the reduction of the outstanding liability relating to a lease;
- (f) cash payments of dividends as described in paragraph 33A; and
- (g) some cash payments of interest as described in paragraphs 34A–34C.

Reporting cash flows from operating activities

- 18 An entity shall report cash flows from operating activities using either:
- (a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or
 - (b) the indirect method, whereby ~~profit or loss~~ operating profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items reflecting classification differences between income or expenses classified in operating profit or loss and cash flows classified as cash flows from operating activities of income or expense associated with investing or financing cash flows.

...

- 20 Under the indirect method, the net cash flow from operating activities is determined by adjusting ~~profit or loss~~ operating profit or loss for the effects of:
- (a) changes during the period in inventories and operating receivables and payables;
 - (b) non-cash items such as depreciation, provisions, ~~deferred taxes, and~~ unrealised foreign currency gains and losses included in operating profit or loss, and undistributed profits of associates; and
 - (c) ~~all any other items~~ income or expenses included in operating profit or loss for which the cash effects are investing or financing cash flows; ~~and.~~
 - (d) any other operating cash flows, such as income tax (in accordance with paragraph 35), for which the corresponding income or expenses are not included in operating profit or loss.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses ~~disclosed in the statement of comprehensive income~~ included in operating profit or loss, ~~and~~ the changes during the period in inventories and operating receivables and payables and any other operating cash flows for which the corresponding income or expenses are not included in operating profit or loss.

...

Interest and dividends

- 31 ~~Cash flows from interest and dividends received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period as either operating, investing or financing activities applying paragraphs 33A and 34A–34C.~~
- 32 The total amount of interest paid during a period is disclosed in the statement of cash flows whether it has been recognised as an expense in profit or loss or capitalised in accordance with IAS 23 *Borrowing Costs*.
- 33 ~~[Deleted]Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.~~
- 33A An entity shall classify dividends paid as cash flows from financing activities.
- 34 ~~[Deleted]Dividends paid may be classified as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, dividends paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an entity to pay dividends out of operating cash flows.~~
- 34A An entity, other than those entities described in paragraph 34B, shall classify:
- (a) interest paid as cash flows from financing activities. This includes interest that is capitalised as part of the cost of an asset applying IAS 23.
 - (b) interest and dividends received as cash flows from investing activities.
- 34B An entity that provides financing to customers as a main business activity or invests in the course of its main business activities in assets that generate a return individually and largely independently of other resources held by the entity shall classify the following cash flows each in a single category of the statement of cash flows (that is, either as operating, investing or financing activities):
- (a) dividends received (other than those described in paragraph 38A);
 - (b) interest paid; and
 - (c) interest received.
- 34C When applying paragraph 34B, an entity shall refer to the classification of the income or expenses corresponding to such cash flows in the statement of profit or loss:

GENERAL PRESENTATION AND DISCLOSURES

- (a) if the entity classifies related income or expenses in a single category of the statement of profit or loss, the entity shall classify the cash flows in the corresponding category in the statement of cash flows; or
- (b) if the entity classifies related income or expenses in more than one category of the statement of profit or loss, the entity shall make an accounting policy choice to classify the cash flows in one of the corresponding categories of the statement of cash flows.

34D For example, an entity applying paragraph 34C would classify interest paid:

- (a) as cash flows from financing activities if the entity classifies all its interest expenses in the financing category of the statement of profit or loss; or
- (b) in accordance with its accounting policy as either cash flows from operating activities or cash flows from financing activities if the entity classifies some of its interest expenses in the operating category and some of its interest expenses in the financing category of the statement of profit or loss.

...

Investments in subsidiaries, associates and joint ventures

37 When accounting for an investment in an associate, a joint venture or a subsidiary accounted for by use of the equity or cost method, an investor restricts its reporting in the statement of cash flows to the cash flows between itself and the investee, for example, to dividends and advances.

38 An entity that reports its interest in an associate or a joint venture using the equity method includes in its statement of cash flows the cash flows in respect of its investments in the associate or joint venture, and distributions and other payments or receipts between it and the associate or joint venture.

38A An entity shall classify cash flows from the acquisition and disposal of investments in associates and joint ventures applying paragraphs 16(c)–16(d). An entity shall classify as cash flows from investing activities dividends received from associates and joint ventures accounted for using the equity method. An entity shall present cash flows in respect of its investments in integral associates and joint ventures separately from cash flows in respect of its investments in non-integral associates and joint ventures.

...

Effective date

...

62 [Draft] IFRS X General Presentation and Disclosures issued in [date] added paragraphs 33A, 34A–34D, 38A and 62, amended paragraphs 6, 12, 14, 16, 17, 18, 20 and 31 and deleted paragraphs 33 and 34. An entity shall apply those amendments when it applies [draft] IFRS X.

IFRS 12 *Disclosure of Interests in Other Entities*

Paragraphs 20A–20E and defined terms are added and paragraph 7 is amended. Paragraph 20 has not been amended but is included for ease of reference. New text is underlined and deleted text is struck through.

Significant judgements and assumptions

- 7 An entity shall disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining:
- (a) that it has control of another entity, ie an investee as described in paragraphs 5 and 6 of IFRS 10 *Consolidated Financial Statements*;
 - (b) that it has joint control of an arrangement or significant influence over another entity; ~~and~~
 - (c) the type of joint arrangement (ie joint operation or joint venture) when the arrangement has been structured through a separate vehicle; ~~and~~
 - (d) whether an associate or joint venture that is accounted for using the equity method is integral or non-integral to the entity's main business activities.
- ...

Interests in joint arrangements and associates

- 20 An entity shall disclose information that enables users of its financial statements to evaluate:
- (a) the nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates (paragraphs 21 and 22); and
 - (b) the nature of, and changes in, the risks associated with its interests in joint ventures and associates (paragraph 23).
- 20A 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.
- 20B An entity shall change the classification of an associate or joint venture as integral or non-integral if and only if the relationship between the reporting entity and the associate or joint venture changes.
- 20C When an integral or non-integral associate or joint venture is reclassified in the period, an entity shall disclose how the entity's relationship with the associate or joint venture has changed and the amount reclassified.

GENERAL PRESENTATION AND DISCLOSURES

20D When assessing whether an associate or joint venture accounted for using the equity method is integral or non-integral to an entity's main business activities, the entity shall consider all facts and circumstances. 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. Examples of a significant interdependency between an entity and an associate or joint venture include:

- (a) having integrated lines of business with the associate or joint venture;
- (b) sharing a name or brand with the associate or joint venture so that externally it may appear as one business in relation to the activities of the associate or joint venture (although the reporting entity may have other, separate businesses); and
- (c) having a supplier or customer relationship with the associate or joint venture that the entity would have difficulty replacing without significant business disruption.

20E When applying paragraph 20 to associates and joint ventures accounted for using the equity method an entity shall disclose the information required separately for integral associates and joint ventures and non-integral associates and joint ventures.

...

New terms are added to Appendix A. New text is underlined.
--

Appendix A Defined terms

...

integral associates and joint ventures 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.

...

non-integral associates and joint ventures Associates and joint ventures accounted for using the equity method that are not integral to the main business activities of an entity and hence generate a return individually and largely independently of the other assets of the entity.

...

Paragraphs C1E–C1F are added to Appendix C. New text is underlined.

Appendix C

Effective date and transition

Effective date and transition

...

C1E [Draft] IFRS X General Presentation and Disclosures issued in [date] added paragraphs 7(d) and 20A–20E and the defined terms integral associates and joint ventures and non-integral associates and joint ventures. The date of initial application of those amendments is the date when an entity first applies the requirements of [draft] IFRS X.

C1F At the date of initial application, 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 applying paragraph 20D on the basis of the facts and circumstances that exist at that date.

...

IAS 33 *Earnings per Share*

Paragraphs 73–73A are deleted and paragraphs 73B–73C and 74F are added. New text is underlined and deleted text is struck through.

Disclosure

- ...
- 73 ~~[Deleted]If an entity discloses, in addition to basic and diluted earnings per share, amounts per share using a reported component of the statement of comprehensive income other than one required by this Standard, such amounts shall be calculated using the weighted average number of ordinary shares determined in accordance with this Standard. Basic and diluted amounts per share relating to such a component shall be disclosed with equal prominence and presented in the notes. An entity shall indicate the basis on which the numerator(s) is (are) determined, including whether amounts per share are before tax or after tax. If a component of the statement of comprehensive income is used that is not reported as a line item in the statement of comprehensive income, a reconciliation shall be provided between the component used and a line item that is reported in the statement of comprehensive income.~~
- 73A ~~[Deleted]Paragraph 73 applies also to an entity that discloses, in addition to basic and diluted earnings per share, amounts per share using a reported item of profit or loss, other than one required by this Standard.~~
- 73B An entity is permitted to disclose, in addition to basic and diluted earnings per share required by this Standard, per share measures of performance using a numerator different from that required by paragraph 10. However, such numerator(s) shall be the amount attributable to ordinary equity holders of the parent entity of:
- (a) a subtotal or total included in paragraph 104 of [draft] IFRS X *General Presentation and Disclosures*; or
 - (b) a management performance measure disclosed by the entity applying paragraph 106 of [draft] IFRS X.
- 73C If, applying paragraph 73B, an entity discloses an additional amount per share, it shall:
- (a) disclose both basic and diluted amounts per share with equal prominence;
 - (b) be calculated using the weighted average number of ordinary shares determined in accordance with this Standard; and
 - (c) be disclosed in the notes to financial statements, but not be presented in the primary financial statement(s).

Effective date

...

74F [Draft] IFRS X General Presentation and Disclosures issued in [date] added paragraphs 73B–73C and deleted paragraphs 73–73A. An entity shall apply those amendments when it applies [draft] IFRS X.

...

IAS 34 *Interim Financial Reporting*

Paragraph 16A is amended and paragraph 60 and heading for the effective date are added. New text is underlined and deleted text is struck through.

Other disclosures

16A In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements or elsewhere in the interim financial report. The following disclosures shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or risk report) that is available to users of the financial statements on the same terms as the interim financial statements and at the same time. If users of the financial statements do not have access to the information incorporated by cross-reference on the same terms and at the same time, the interim financial report is incomplete. The information shall normally be reported on a financial year-to-date basis.

- (a) ...
- (c) ~~the nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence~~ the disclosures about unusual items required by paragraph 100 of [draft] IFRS X General Presentation and Disclosures.
- (d) ...
- (m) the disclosures about management performance measures required by paragraph 106 of [draft] IFRS X.

...

Effective date

...

60 [Draft] IFRS X General Presentation and Disclosures issued in [date] amended paragraph 16A. An entity shall apply those amendments when it applies [draft] IFRS X.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

The title of IAS 8 is amended. New text is underlined and deleted text is struck through.

IAS 8 Basis of Preparation, Accounting Policies, Changes in Accounting Estimates and Errors

Paragraphs 1 and 3 are amended and paragraph 2 is deleted. New text is underlined and deleted text is struck through. Part of paragraph 7 of IAS 1 *Presentation of Financial Statements* is moved to paragraph 5 of IAS 8 and the reference to paragraph 7 of IAS 1 in paragraph 5 is deleted. Text moved to IAS 8 unchanged is not marked up. Deleted text is struck through.

Objective

1 The objective of this Standard is to ~~prescribe~~enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities by prescribing:

- (a) the basis of preparation of financial statements;
- (b) the criteria for selecting, ~~and~~ changing and disclosing accounting policies; ~~and~~
- (c) ~~together with~~ the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.

~~The Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.~~

2 ~~[Deleted] Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in IAS 1 *Presentation of Financial Statements*.~~

Scope

3 This Standard shall be applied in determining the basis of preparation of financial statements, selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.

...

Definitions

5 ...

Material is defined in paragraph 7 of IAS 1 and is used in this Standard with the same meaning.

Material:

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

- (a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
- (b) information regarding a material item, transaction or other event is scattered throughout the financial statements;
- (c) dissimilar items, transactions or other events are inappropriately aggregated;
- (d) similar items, transactions or other events are inappropriately disaggregated; and
- (e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

Assessing whether information could reasonably be expected to influence decisions made by the primary users of a specific reporting entity's general purpose financial statements requires an entity to consider the characteristics of those users while also considering the entity's own circumstances.

Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At

times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

...

Paragraphs 15–28 of IAS 1 are moved to IAS 8 as paragraphs 6A–6N with editorial changes. Related headings are moved from IAS 1 to IAS 8 with editorial changes. Text that was not included in IAS 1 but is included in IAS 8 is underlined, and text that was included in IAS 1 but is not included in IAS 8 is struck through. Text moved to IAS 8 that is unchanged is not marked up. Original paragraph numbers in IAS 1 are shown in brackets for ease of reference but will not be included in IAS 8.

General features of financial statements

Fair presentation and compliance with IFRSs Standards

- 6A [IAS 1.15] Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Conceptual Framework for Financial Reporting (Conceptual Framework)*. The application of ~~IFRSs~~IFRS Standards, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.
- 6B [IAS 1.16] An entity whose financial statements comply with ~~IFRSs~~IFRS Standards shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with ~~IFRSs~~IFRS Standards unless they comply with all the requirements of ~~IFRSs~~IFRS Standards.
- 6C [IAS 1.17] In virtually all circumstances, an entity achieves a fair presentation by compliance with applicable ~~IFRSs~~IFRS Standards. A fair presentation also requires an entity:
- (a) to select and apply accounting policies in accordance with this Standard ~~IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors~~. ~~IAS 8~~ This Standard sets out a hierarchy of authoritative guidance that management considers in the absence of an IFRS Standard that specifically applies to an item.
 - (b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
 - (c) to provide additional disclosures when compliance with the specific requirements in ~~IFRSs~~ IFRS Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

GENERAL PRESENTATION AND DISCLOSURES

- 6D [IAS 1.18] An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.
- 6E [IAS 1.19] In the extremely rare circumstances in which management concludes that compliance with a requirement in an IFRS Standard would be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework*, the entity shall depart from that requirement in the manner set out in paragraph ~~20-6F~~ if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.
- 6F [IAS 1.20] When an entity departs from a requirement of an IFRS Standard in accordance with paragraph ~~19-6E~~, it shall disclose:
- (a) that management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;
 - (b) that it has complied with applicable ~~IFRSs~~ IFRS Standard, except that it has departed from a particular requirement to achieve a fair presentation;
 - (c) the title of the IFRS Standard from which the entity has departed, the nature of the departure, including the treatment that the IFRS Standard would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the *Conceptual Framework*, and the treatment adopted; and
 - (d) for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.
- 6G [IAS 1.21] When an entity has departed from a requirement of an IFRS Standard in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in ~~paragraph 20(c) and (d)~~ paragraphs 6F(c)–6F(d).
- 6H [IAS 1.22] Paragraph ~~21-6G~~ applies, for example, when an entity departed in a prior period from a requirement in an IFRS Standard for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements.
- 6I [IAS 1.23] In the extremely rare circumstances in which management concludes that compliance with a requirement in an IFRS Standard would be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework*, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:

- (a) the title of the IFRS Standard in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in the *Conceptual Framework*; and
- (b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.

6J [IAS 1.24] For the purpose of paragraphs ~~19–23–6E–6I~~, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements. When assessing whether complying with a specific requirement in an IFRS Standard would be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework*, management considers:

- (a) why the objective of financial statements is not achieved in the particular circumstances; and
- (b) how the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework*.

Going concern

6K [IAS 1.25] When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

6L [IAS 1.26] In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases,

management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

Accrual basis of accounting

- 6M [IAS 1.27] An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.
- 6N [IAS 1.28] When the accrual basis of accounting is used, an entity recognises items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the *Conceptual Framework*.

...

Paragraphs 117–124 and 125–133 of IAS 1 are moved to IAS 8 as paragraphs 27A–27G and 31A–31I with editorial changes. Related headings are moved from IAS 1 to IAS 8 with editorial changes. Headings before paragraphs 27A and 28 are added. Text that was not included in IAS 1 but is included in IAS 8 is underlined, and text that was included in IAS 1 but is not included in IAS 8 is struck through. Text moved to IAS 8 that is unchanged is not marked up. Original paragraph numbers in IAS 1 are shown in brackets for ease of reference but will not be included in IAS 8.

Paragraphs 28 and 30–31 of IAS 8 are amended, added text is underlined and removed text is struck through. Paragraph 29 of IAS 8 is not amended but is included for ease of reference.

The heading before paragraph 54I is added.

Disclosure

Disclosure of selection and application of accounting policies

- 27A [IAS 1.117] An entity shall disclose in the notes its significant accounting policies¹⁴ comprising:
- (a) the measurement basis (or bases) used in preparing the financial statements; and
 - (b) the other accounting policies used that are relevant to an understanding of the financial statements.
- 27B [IAS 1.118] It is important for an entity to inform users of financial statements of the measurement basis or bases used in the financial statements (~~for example, historical cost, current cost, net realisable value, fair value or recoverable amount~~or current value) because the basis on which an entity prepares the financial statements significantly affects users' analysis. When an entity uses more than one measurement basis in the financial statements, for example when particular classes of assets are revalued, it is sufficient to

¹⁴ Exposure Draft ED/2019/6 *Disclosure of Accounting Policies* proposes amendments to the disclosure requirements for accounting policies.

provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

- 27C [IAS 1.119] In deciding whether a particular accounting policy should be disclosed in the notes, management considers whether disclosure would assist users of financial statements in understanding how transactions, and other events and conditions are reflected in reported financial performance and financial position. Each entity considers the nature of its operations and the policies that the users of its ~~financial statements~~ would expect to be disclosed for that type of entity. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in ~~IFRSs~~IFRS Standards. An example is disclosure of whether an entity applies the fair value or cost model to its investment property (see IAS 40 *Investment Property*). Some ~~IFRSs~~IFRS Standards specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, IAS 16 *Property, Plant and Equipment* requires disclosure of the measurement bases used for classes of property, plant and equipment.
- 27D [IAS 1.121] An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose in the notes each significant accounting policy that is not specifically required by ~~IFRSs~~IFRS Standards but the entity selects and applies in accordance with ~~IAS 8~~this Standard.
- 27E [IAS 1.122] An entity shall disclose in the notes, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph ~~125~~31A), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.
- 27F [IAS 1.123] In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts it recognises in the financial statements. For example, management makes judgements in determining:
- (a) ~~{deleted}~~
 - ~~(b)~~(a) when substantially all the significant risks and rewards of ownership of financial assets and, for lessors, assets subject to leases are transferred to other entities;
 - ~~(e)~~(b) whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and
 - ~~(d)~~(c) whether the contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

27G [IAS 1.124] Some of the disclosures made in accordance with paragraph ~~12227E~~ are required by other ~~IFRSs~~ IFRS Standards. For example, IFRS 12 *Disclosure of Interests in Other Entities* requires an entity to disclose in the notes the judgements it has made in determining whether it controls another entity. IAS 40 *Investment Property* requires disclosure in the notes of the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, when classification of the property is difficult.

Disclosure of changes in accounting policies

28 When initial application of an IFRS Standard has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

- (a) the title of the IFRS Standard;
- (b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;
- (c) the nature of the change in accounting policy;
- (d) when applicable, a description of the transitional provisions;
- (e) when applicable, the transitional provisions that might have an effect on future periods;
- (f) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
 - (i) for each financial statement line item affected; and
 - (ii) if IAS 33 *Earnings per Share* applies to the entity, for basic and diluted earnings per share;
- (g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
- (h) if retrospective application required by paragraph 19(a) or 19(b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

29 When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:

- (a) the nature of the change in accounting policy;
- (b) the reasons why applying the new accounting policy provides reliable and more relevant information;

- (c) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
 - (i) for each financial statement line item affected; and
 - (ii) if IAS 33 applies to the entity, for basic and diluted earnings per share;
- (d) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
- (e) if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

30 When an entity has not applied a new IFRS Standard that has been issued but is not yet effective, the entity shall disclose:

- (a) this fact; and
- (b) known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS Standard will have on the entity's financial statements in the period of initial application.

31 In complying with paragraph 30, an entity considers disclosing:

- (a) the title of the new IFRS Standard;
- (b) the nature of the impending change or changes in accounting policy;
- (c) the date by which application of the IFRS Standard is required;
- (d) the date as at which it plans to apply the IFRS Standard initially; and
- (e) either:
 - (i) a discussion of the impact that initial application of the IFRS Standard is expected to have on the entity's financial statements; or
 - (ii) if that impact is not known or reasonably estimable, a statement to that effect.

Disclosure of sources ~~Sources of estimation uncertainty~~

31A [IAS 1.125] An entity shall disclose in the notes information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

- (a) their nature; and

(b) **their carrying amount as at the end of the reporting period.**

- 31B [IAS 1.126] Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. For example, in the absence of recently observed market prices, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence on inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates, future changes in salaries and future changes in prices affecting other costs.
- 31C [IAS 1.127] The assumptions and other sources of estimation uncertainty disclosed in the notes in accordance with paragraph ~~425~~31A relate to the estimates that require management's most difficult, subjective or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.
- 31D [IAS 1.128] The note disclosures in paragraph ~~425~~31A are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the end of the reporting period, they are measured at fair value based on a quoted price in an active market for an identical asset or liability. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting period.
- 31E [IAS 1.129] An entity ~~presents~~provides the note disclosures in paragraph ~~425~~31A in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures an entity makes are:
- (a) the nature of the assumption or other estimation uncertainty;
 - (b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;
 - (c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and
 - (d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

- 31F [IAS 1.130] This [draft] Standard does not require an entity to disclose in the notes budget information or forecasts in making the note disclosures in paragraph ~~425~~31A.
- 31G [IAS 1.131] Sometimes it is impracticable to disclose in the notes the extent of the possible effects of an assumption or another source of estimation uncertainty at the end of the reporting period. In such cases, the entity discloses in the notes that it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses in the notes the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.
- 31H [IAS 1.132] The note disclosures in paragraph ~~422~~27E of particular judgements that management made in the process of applying the entity's accounting policies do not relate to the note disclosures of sources of estimation uncertainty in paragraph ~~425~~31A.
- 31I [IAS 1.133] Other ~~IFRSs~~IFRS Standards require the note disclosure of some of the assumptions that would otherwise be required in accordance with paragraph ~~425~~31A. For example, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires note disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. IFRS 13 *Fair Value Measurement* requires note disclosure of significant assumptions (including the valuation technique(s) and inputs) the entity uses when measuring the fair values of assets and liabilities that are carried at fair value.

...

Effective date and transition

...

- 54I [Draft] IFRS X *General Presentation and Disclosures* issued in [date] amended paragraphs 1, 3 and 5 and added paragraphs 6A–6N, 27A–27G and 31A–31I and deleted paragraph 2. An entity shall apply those amendments when it applies [draft] IFRS X.

IFRS 7 *Financial Instruments: Disclosures*

Paragraph 3(f) is amended. New text is underlined and deleted text is struck through.

Scope

3 This IFRS shall be applied by all entities to all types of financial instruments, except:

...

- (f) instruments that are required to be classified as equity instruments in accordance with paragraphs 16A–16B or paragraphs 16C–16D of IAS 32. However, the disclosures required by paragraphs 19A–19B are required for such instruments.

...

Paragraphs 80A and 136A of IAS 1 *Presentation of Financial Statements* are moved to IFRS 7 as paragraphs 19A–19B and the related heading is added. Paragraph 44EE is added. Text that was not included in IAS 1 but is included in IFRS 7 is underlined, and text that was included in IAS 1 but not included in IFRS 7 is struck through. Text moved to IFRS 7 unchanged is not marked up. Original paragraph numbers in IAS 1 are shown in brackets for ease of reference but will not be included in IFRS 7.

Statement of financial position

...

Financial instruments classified as equity in accordance with paragraphs 16A–16B or paragraphs 16C–16D of IAS 32

19A [IAS 1.136A] For puttable financial instruments classified as equity instruments in accordance with paragraphs 16A–16B of IAS 32, an entity shall disclose (to the extent not disclosed elsewhere):

- (a) summary quantitative data about the amount classified as equity;
- (b) its objectives, policies and processes for managing its obligation to repurchase or redeem the instruments when required to do so by the instrument holders, including any changes from the previous period;
- (c) the expected cash outflow on redemption or repurchase of that class of financial instruments; and
- (d) information about how the expected cash outflow on redemption or repurchase was determined.

19B [IAS 1.80A] If an entity has reclassified any of the following financial instruments between financial liabilities and equity, it shall disclose the amount reclassified into and out of each category (financial liabilities or equity), and the timing and reason for that reclassification:

- (a) a puttable financial instrument classified as an equity instrument applying paragraphs 16A–16B of IAS 32; or
- (b) an instrument that imposes on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and is classified as an equity instrument applying paragraphs 16C–16D of IAS 32.

~~between financial liabilities and equity, it shall disclose the amount reclassified into and out of each category (financial liabilities or equity), and the timing and reason for that reclassification.~~

...

Effective date and transition

...

44EE [Draft] IFRS X *General Presentation and Disclosures* issued in [date] amended paragraph 3(f) and added paragraphs 19A–19B. An entity shall apply those amendments when it applies [draft] IFRS X.

GENERAL PRESENTATION AND DISCLOSURES

This table shows how the Board proposes to amend the following references in other Standards.

Standard	Description of amendment
General	Replace references to IAS 1 <i>Presentation of Financial Statements</i> , including references to specific paragraphs in IAS 1 to refer to the corresponding paragraphs in [draft] IFRS X, IFRS 7 <i>Financial Instruments: Disclosures</i> and IAS 8 <i>Basis of Preparation, Accounting Policies, Changes in Accounting Estimates and Errors</i> .
General	Replace references to 'other comprehensive income items that will not be reclassified subsequently to profit or loss', including variations of the term, with 'remeasurements permanently reported outside profit or loss' (or its variation).
General	Replace references to 'other comprehensive income items that will be reclassified subsequently to profit or loss', including variations of the term, with 'income and expenses to be included in profit or loss in the future when specific conditions are met' (or its variation).
General	Replace references to 'statement of profit or loss and other comprehensive income' with 'statement(s) of financial performance'.
IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	Replace the references to 'presented' and 'a financing cost' in paragraph 17 of the Standard with 'classified' and 'an interest expense on liabilities not arising from financing activities', respectively.
IFRS 16 <i>Leases</i>	Replace the reference to 'finance costs' in paragraph 49 of the Standard with 'expenses from financing activities'.
IAS 8 <i>Basis of Preparation, Accounting Policies, Changes in Accounting Estimates and Errors</i>	Replace references to 'IFRSs' and 'IFRS' with 'IFRS Standards' and 'IFRS Standard' throughout, as shown in the revised paragraphs of IAS 8 included in this document.
IAS 12 <i>Income Taxes</i>	Replace the reference to 'operating profits' in the third paragraph in the example illustrating paragraphs 52A and 57A, shown below paragraph 52A in the Standard, with 'profits'.
IFRIC 1 <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>	Replace the reference to 'a finance cost' in paragraph 8 of the Interpretation with 'an interest expense on liabilities not arising from financing activities'.
Illustrative Examples accompanying IAS 34 <i>Interim Financial Reporting</i>	Replace the reference to 'an operating loss carryforward' in paragraph B22 of the Illustrative Examples with 'a loss carryforward'.
IFRS Practice Statement 2 <i>Making Materiality Judgements</i>	Remove footnotes which made reference to paragraph 30A of IAS 1 and/or paragraph BC30F of the Basis for Conclusions on IAS 1. Update the corresponding extracts of paragraphs of [draft] IFRS X and IAS 8 that are reproduced in the Appendix to the Practice Statement 2.

Table of concordance with IAS 1 and other IFRS Standards

The tables below show how the contents of IAS 1 Presentation of Financial Statements and [draft] IFRS X General Presentation and Disclosures or other IFRS Standards correspond.

From IAS 1 paragraph	
IAS 1 paragraph	New paragraph
1	IFRS X.1
2	IFRS X.2
3	IFRS X.4
4	IFRS X.5–6
5	IFRS X.7
6	IFRS X.8
7	IFRS X Appendix A, IFRS X.B50, IAS 8.5
8	IFRS X.12
8A	None
9	IFRS X.19
10	IFRS X.10
10A	IFRS X.13
11	IFRS X.15
12	None
13–14	IFRS X.9
15–24	IAS 8.6A–6J
25–26	IAS 8.6K–6L
27–28	IAS 8.6M–6N
29–30	None
29, 30A	IFRS X.25
31	IFRS X.24
32–33	IFRS X.29–30
34–35	IFRS X.B16–B17
36–37	IFRS X.31–32
38–38A	IFRS X.34–35
38B	IFRS X.B19
38C–38D	IFRS X.B20–B21
39–40	None
40A–42	IFRS X.36–41
43–44	IFRS X.B22–B23
45	IFRS X.33

continued...

GENERAL PRESENTATION AND DISCLOSURES

...continued

From IAS 1 paragraph	
IAS 1 paragraph	New paragraph
46	IFRS X.B18
47	IFRS X.3
48	None
49–51	IFRS X.16–18
52–53	IFRS X.B1–B2
54	IFRS X.82
55–55A	IFRS X.42–43
56	IFRS X.86
57	IFRS X.83
58–59	IFRS X.B12–B13
60–61	IFRS X.84–85
62–65	IFRS X.B53–B56
66	IFRS X.87
67–68	IFRS X.B57–B58
69	IFRS X.88
70–76	IFRS X.B59–B65
77	None
78	IFRS X.B14
79–80	IFRS X.114–115
80A	IFRS 7.19B
81	None
81A	IFRS X.60, 73
81B	IFRS X.67, 76
82	IFRS X.65
82A	IFRS X.74–75
83–84	None
85–85A	IFRS X.42–43
85B	None
86	IFRS X.66
87	None
88	IFRS X.44
89	IFRS X.B49
90	IFRS X.80

continued...

EXPOSURE DRAFT—DECEMBER 2019

...continued

From IAS 1 paragraph	
IAS 1 paragraph	New paragraph
91	IFRS X.81
92–94	IFRS X.77–79
95–96	IFRS X.B51–B52
97	None
98	IFRS X.B15
99	IFRS X.68
100–102	None
103	None
104	IFRS X.72
105	None
106	IFRS X.89
106A–109	IFRS X.91–94
110	IFRS X.90
111	IFRS X.95
112–113	IFRS X.96–97
114	IFRS X.B66
115	None
116	IFRS X.98
117–124	IAS 8.27A–27G
125–133	IAS 8.31A–31I
134–136	IFRS X.111–113
136A	IFRS 7.19A
137	IFRS X.116
138	IFRS X.99
139–139T	None
140	None

GENERAL PRESENTATION AND DISCLOSURES

From IFRS X paragraph	
IFRS X paragraph	IAS 1 paragraph
1	1
2	2
3	47
4	3
5–6	4
7–8	5–6
9	13–14
10	10
11	None
12	8
13	10A
14	None
15	11
16–18	49–51
19	9
20–23	None
24	31
25	29, 30A
26–28	None
29–30	32–33
31–32	36–37
33	45
34–35	38–38A
36–41	40A–42
42	85, 55
43	85A, 55A
44	88
45–59	None
60	81A (partial)
61–64	None
65	82
66	86
67	81B (partial)
68	99

continued...

EXPOSURE DRAFT—DECEMBER 2019

...continued

From IFRS X paragraph	
IFRS X paragraph	IAS 1 paragraph
69–71	None
72	104
73	81A (partial)
74–75	82A
76	81B (partial)
77–79	92–94
80–81	90–91
82	54
83	57
84–85	60–61
86	56
87	66
88	69
89	106
90	110
91–94	106A–109
95	111
96–97	112–113
98	116
99	138
100–110	None
111–113	134–136
114–115	79–80
116	137
117–120	None
B1–B2	52–53
B3–B11	None
B12–B13	58–59
B14	78
B15	98
B16–B17	34–35
B18	46
B19	38B

continued...

GENERAL PRESENTATION AND DISCLOSURES

...continued

From IFRS X paragraph	
IFRS X paragraph	IAS 1 paragraph
B20–B21	38C–38D
B22–B23	43–44
B24–B48	None
B49	89
B50	7 (partial)
B51–B52	95–96
B53–B56	62–65
B57–B58	67–68
B59–B65	70–76
B66	114
B67–B85	None

Approval by the Board of Exposure Draft *General Presentation and Disclosures* published in December 2019

The Exposure Draft *General Presentation and Disclosures* was approved for publication by all 14 members of the International Accounting Standards Board.

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IFRS[®] Standards Exposure Draft ED/2019/7
Basis for Conclusions

General Presentation and Disclosures

Comments to be received by 30 June 2020

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**Basis for Conclusions on
Exposure Draft**

General Presentation and Disclosures

Comments to be received by 30 June 2020

This Basis for Conclusions accompanies the Exposure Draft ED/2019/7 *General Presentation and Disclosures* (issued December 2019; see separate booklet). The proposals may be modified in the light of comments received before being issued in final form. Comments need to be received by 30 June 2020 and should be submitted in writing to the address below, by email to commentletters@ifrs.org or electronically using our 'Open for comment documents' page at: <https://www.ifrs.org/projects/open-for-comment/>.

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CONTENTS

from paragraph

**BASIS FOR CONCLUSIONS ON
EXPOSURE DRAFT *GENERAL PRESENTATION AND
DISCLOSURES***

INTRODUCTION	BC1
The need for the project	BC4
Project objective and the scope	BC12
Structure of the Exposure Draft	BC15
GENERAL PRESENTATION AND DISCLOSURE REQUIREMENTS	BC18
Objective and roles of the primary financial statements and the notes	BC19
Aggregation and disaggregation	BC21
STATEMENT(S) OF FINANCIAL PERFORMANCE	BC28
Structure of the statement of profit or loss	BC28
Financing category and the subtotal of profit or loss before financing and income tax	BC33
Investing category	BC48
Operating category and the operating profit or loss subtotal	BC53
Classification of income and expenses from associates and joint ventures accounted for using the equity method	BC77
Classification of fair value gains and losses on derivatives and of exchange differences	BC90
Line items to be presented in the statement of profit or loss	BC103
Presentation of operating expenses	BC109
Statement presenting comprehensive income	BC117
STATEMENT OF FINANCIAL POSITION	BC119
Line items to be presented in the statement of financial position	BC119
UNUSUAL INCOME AND EXPENSES	BC122
Definition of unusual income and expenses	BC129
Remeasurements	BC137
Information to be disclosed about unusual income and expenses	BC140
MANAGEMENT PERFORMANCE MEASURES	BC145
Definition and restrictions	BC153
Location of information about management performance measures	BC163
Information to be disclosed about management performance measures	BC167
Relationship of unusual income and expenses with management performance measures	BC180
EFFECTIVE DATE AND TRANSITION	BC181
PROPOSED AMENDMENTS TO OTHER IFRS STANDARDS	BC185
<i>IAS 7 Statement of Cash Flows</i>	BC185

continued...

...continued

IFRS 12 <i>Disclosure of Interests in Other Entities</i>	BC209
IAS 33 <i>Earnings per Share</i>	BC214
IAS 34 <i>Interim Financial Reporting</i>	BC219
IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	BC226
IFRS 7 <i>Financial Instruments: Disclosures</i>	BC230
EXPECTED EFFECTS OF THE PROPOSALS	BC232
Summary of effects analysis	BC236
Entities affected by the Board's proposals	BC248
The likely effects of the proposals on the quality of financial reporting	BC250
The likely effects of the proposals on how information is reported in the financial statements	BC279
The likely costs of the proposals	BC281
Other effects of the proposals	BC301
APPENDIX—ANALYSIS OF CURRENT PRACTICE	

Basis for Conclusions on Exposure Draft *General Presentation and Disclosures*

This Basis for Conclusions accompanies, but is not part of, Exposure Draft General Presentation and Disclosures. It summarises the considerations of the International Accounting Standards Board (Board) when developing the Exposure Draft. Individual Board members gave greater weight to some factors than to others.

Introduction

- BC1 The Exposure Draft sets out proposals for a draft IFRS Standard on presentation and disclosures in financial statements that, when finalised, will replace IAS 1 *Presentation of Financial Statements* (IFRS X). It also proposes amendments to IAS 7 *Statement of Cash Flows*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 33 *Earnings per Share* and IAS 34 *Interim Financial Reporting*. The Exposure Draft responds to the strong demand from users of financial statements for the Board to undertake a project on performance reporting.
- BC2 The Exposure Draft also proposes amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IFRS 7 *Financial Instruments: Disclosures* to move the requirements currently set out in IAS 1 that would be better located in those Standards.
- BC3 This Basis for Conclusions is organised as follows:
- (a) the need for the project (see paragraphs BC4–BC11);
 - (b) project objective and the scope (see paragraphs BC12–BC14);
 - (c) structure of the Exposure Draft (see paragraphs BC15–BC17);
 - (d) the proposals in the Exposure Draft (see paragraphs BC18–BC231); and
 - (e) the expected effects of the proposals (see paragraphs BC232–BC312).

The need for the project

- BC4 The Exposure Draft proposes improvements to the presentation and disclosure of information in an entity's financial statements with a focus on the statement of profit or loss. The Board developed these proposals in its Primary Financial Statements project, which is part of the Board's work on Better Communication in Financial Reporting.
- BC5 The Primary Financial Statements project was added to the Board's research agenda in July 2014 in response to the strong demand from stakeholders, and in particular users of financial statements, for the Board to undertake a project to improve the reporting of financial performance. Feedback on the Board's 2015 Agenda Consultation reinforced the view that the Primary Financial Statements project should be a high priority for the Board.

BC6 Research and outreach meetings undertaken as part of the project showed that:

- (a) the structure and content of the statement(s) of financial performance vary even among entities in the same industry. This reduces the ability of users of financial statements to compare the financial performance of entities. Therefore, many users said that they would welcome more defined subtotals and line items in that statement (see paragraphs BC7–BC8).
- (b) users would like to see greater disaggregation of information in the primary financial statements and the notes (see paragraphs BC9–BC10).
- (c) users find management-defined measures of performance, sometimes called alternative performance measures or non-GAAP measures, useful in analysing performance or making forecasts about future performance. However, sometimes entities provide these measures without defining them or explaining their intended purpose, reducing their usefulness (see paragraph BC11).

Presentation of subtotals in the statement(s) of financial performance

BC7 IAS 1 requires an entity to present profit or loss, but no other specific subtotals, in the statement(s) of financial performance. The lack of specific requirements in IAS 1 has led to diversity in the presentation and calculation of subtotals even among entities in the same industry. Subtotals with the same label are often defined differently by different entities. This diversity makes it difficult for users of financial statements to understand the information provided and compare information across entities. Comparability is important to users, in particular to buy-side investors who typically analyse many entities across different industries rather than focus on a few entities.

Presentation of information about associates and joint ventures

BC8 IAS 1 requires presentation of the share of profit or loss of associates and joint ventures accounted for using the equity method as a separate line item but does not specify its location. The Board has observed significant diversity in practice in the presentation of this information. Some entities present the share of profit or loss as part of the measure labelled operating profit or loss, some present it just below the measure labelled operating profit or loss and others present it after the tax line item. A reason for the diversity could be that some associates and joint ventures' activities are more closely related to an entity's main business activities than others. Users of financial statements expressed concerns that this diversity in practice reduces comparability, particularly of the subtotals presented in the statement of profit or loss, making their analysis more difficult and time consuming.

Disaggregation of information in the financial statements

BC9 Requirements for the disaggregation of information in the primary financial statements and the notes are sometimes not understood nor applied well in practice. This can make it difficult for users of financial statements to find and understand relevant information. An entity might also disclose in the notes large 'other' expenses with no information provided to help users understand what these items comprise.

BC10 Many entities also disclose unusual or similarly described expenses (and a few disclose unusual income) to provide information about what many refer to as underlying earnings or normalised earnings. However, users of financial statements expressed concerns that the way entities provide this information varies significantly and that it is often not clear how or why items have been identified as unusual.

Information about management-defined performance measures

BC11 Users of financial statements have stated that management-defined performance measures can provide useful information (see paragraph BC6(c)). However, users have expressed concerns that information about management-defined performance measures, including how and why they are calculated, can be difficult to find and understand. Because information about these measures is also often presented outside the financial statements, such information is typically not audited and is subject to varying regulatory requirements.

Project objective and the scope

BC12 The objective of the project is to improve how information is communicated in the financial statements, with a focus on information included in the statement of profit or loss. The Board proposes:

- (a) requiring additional subtotals in the statement of profit or loss (see paragraphs BC28–BC89). These subtotals would provide relevant information and create a more consistent structure to the statement of profit or loss, thereby improving comparability.
- (b) requiring separate presentation of the income and expenses from, investments in, and cash flows from investments in integral and non-integral associates and joint ventures (see paragraphs BC77–BC89).
- (c) requiring further disaggregation to help an entity to provide relevant information (see paragraphs BC21–BC27). The Board proposes disaggregation principles, disaggregation of operating expenses either by nature or by function in the statement of profit or loss, a requirement for disaggregation of large 'other' balances, a requirement to disaggregate information about unusual income and expenses and additional minimum line items in the statement of financial position.

- (d) requiring disclosure of some management-defined performance measures, that is performance measures not specified by IFRS Standards (see paragraphs BC145–BC180). To promote transparency, the Board proposes reconciliations between some management-defined performance measures and subtotals specified by IFRS Standards.
- (e) limited changes to the statement of cash flows to improve consistency in classification by removing options (see paragraphs BC185–BC208).

BC13 The Board decided not to consider changes as part of this project to:

- (a) segment reporting and the presentation of discontinued operations. The Board decided not to consider these areas as part of this project because doing so would significantly widen the scope of the project, potentially delaying improvements to the structure and content of the statement of profit or loss.
- (b) the statement of changes in equity. The Board may consider changes to that statement in its project on Financial Instruments with Characteristics of Equity.

BC14 The Board decided not to reconsider when income or expenses should be reported in other comprehensive income or when such items should be reclassified to the statement of profit or loss. It had already considered this topic as part of its *Conceptual Framework for Financial Reporting (Conceptual Framework)*. However, the Exposure Draft includes proposals designed to improve the communication of information about income and expenses included in other comprehensive income (see paragraphs BC117–BC118).

Structure of the Exposure Draft

BC15 The Exposure Draft includes:

- (a) a draft new Standard that sets out:
 - (i) proposed new requirements on presentation and disclosures in an entity's financial statements; and
 - (ii) requirements brought forward from IAS 1 with only limited changes to the wording; and
- (b) proposed amendments to other Standards:
 - (i) IAS 7 (see paragraphs BC185–BC208);
 - (ii) IFRS 12 (see paragraphs BC209–BC213);
 - (iii) IAS 33 (see paragraphs BC214–BC218);
 - (iv) IAS 34 (see paragraphs BC219–BC225);
 - (v) IAS 8 to include some requirements from IAS 1 (see paragraphs BC226–BC229); and
 - (vi) IFRS 7 to include some requirements from IAS 1 (see paragraphs BC230–BC231).

- BC16 The changes described in paragraph BC15(a)(ii) are limited to changes to ensure consistency with other proposals in the Exposure Draft and with the *Conceptual Framework*. These proposed changes are not intended to modify any requirements. The text of these requirements brought forward from IAS 1 is coloured in grey in the Exposure Draft. A document providing a mark-up of changes to those IAS 1 paragraphs is included in the Exposure Draft package.
- BC17 The Board decided to combine the paragraphs it proposes to bring forward from IAS 1 with new requirements to create a coherent set of general and specific requirements relating to presentation and disclosure in a draft Standard. As a result:
- (a) some requirements in IAS 1 are replaced or made redundant by the proposed new requirements and the order of the requirements brought forward from IAS 1 differs from their order in IAS 1;
 - (b) some requirements in IAS 1 have been moved to IAS 8 and IFRS 7 because they relate more closely to the matters addressed in those Standards than to the matters addressed in draft IFRS [X]; and
 - (c) the Board proposes to withdraw IAS 1.

General presentation and disclosure requirements

- BC18 To help entities exercise judgement when deciding whether to provide information in the primary financial statements or in the notes and when deciding what amount of detail is needed to provide useful information to users of financial statements, the Board proposes:
- (a) describing the roles of the primary financial statements and the notes (see paragraphs BC19–BC20); and
 - (b) adding definitions, principles and requirements for aggregation and disaggregation (see paragraphs BC21–BC27).

Objective and roles of the primary financial statements and the notes (paragraphs 19–24 and B3–B4)

- BC19 The Board proposes to describe the roles of the primary financial statements and the notes. The proposed descriptions are based on those in Section 3 of the 2017 Discussion Paper *Disclosure Initiative – Principles of Disclosure*. The feedback received on the Discussion Paper was broadly supportive. Respondents commented that the descriptions would help preparers of financial statements decide whether information should be provided in an entity's primary financial statements or in the notes.
- BC20 Such descriptions would also help the Board when developing new or revised IFRS Standards.

Aggregation and disaggregation (paragraphs 25–28 and B5–B15)

- BC21 The Board’s proposals include principles for aggregation and disaggregation, supporting definitions and specific requirements. The principles state, in summary, that items with shared characteristics should be grouped together and those that do not share characteristics should be separated.
- BC22 These principles are derived from the descriptions of classification and aggregation in the *Conceptual Framework* which emphasise the existence of shared characteristics as a condition for classifying and aggregating items. Aggregating items that have shared characteristics makes large volumes of information understandable and avoids obscuring relevant information. Similarly, disaggregating items with dissimilar characteristics provides users of financial statements with relevant information and avoids obscuring material information.
- BC23 Definitions of classification, aggregation and disaggregation are proposed to support the principles of aggregation. These definitions are based on the definitions in the *Conceptual Framework*. To help entities apply the principles, the Board also proposes requirements on the steps involved in deciding whether to aggregate or disaggregate the effects of transactions or other events.
- BC24 The proposals respond to feedback from users of financial statements in the 2015 Agenda Consultation that financial statements do not always include information that is appropriately aggregated or disaggregated. For example, an entity might present in the statement of profit or loss all its operating expenses as a single line item, or an entity might disclose in the notes large ‘other’ expenses with no information provided to help users understand what these items comprise. In contrast, some users were concerned that some entities disclose too much detail, thereby obscuring material information. Providing the appropriate amount of detail will better enable users to compare information for the same entity between reporting periods and across different entities.
- BC25 The Board also recognised that an entity may need to aggregate immaterial items with dissimilar characteristics to avoid obscuring relevant information and that aggregation in this way may result in items that cannot be faithfully represented without further information. In response to the concerns of users of financial statements about such items, which are often described as ‘other’, the Board proposes specific requirements to provide more useful information about aggregations of dissimilar immaterial items.
- BC26 The Board considered providing quantitative thresholds for disaggregation, for example, requiring separate disclosure of any balances over 10% of an entity’s revenue or requiring entities to review whether balances exceeding such threshold should be disaggregated. However, it rejected this approach to avoid conflict with the definition of materiality and the guidance that an entity’s judgement of materiality should include a qualitative assessment. Also, the Board concluded that it would be difficult to determine an appropriate threshold that would apply in all cases.

- BC27 The Board considered introducing mandatory templates that would require specified line items. However, it rejected this approach because it would not be possible to develop templates applicable to all types of entities or business activities or to all methods of reporting. Additionally, mandatory templates may conflict with local laws and regulations in some jurisdictions. The Board has, however, developed a set of draft non-mandatory illustrative examples to help stakeholders understand the proposals and illustrate how they could be applied.

Statement(s) of financial performance

Structure of the statement of profit or loss (paragraphs 44–72)

- BC28 The Board proposes that an entity classify income and expenses included in profit or loss, other than income or expenses related to income taxes or discontinued operations, into the following categories in its statement of profit or loss:
- (a) the operating category (see paragraphs BC53–BC76);
 - (b) the integral associates and joint ventures category (see paragraphs BC77–BC89);
 - (c) the investing category (see paragraphs BC48–BC52); and
 - (d) the financing category (see paragraphs BC33–BC47).
- BC29 The Board also proposes to require an entity, except in circumstances discussed in paragraph BC69, to present the following new subtotals in its statement of profit or loss:
- (a) operating profit or loss (see paragraphs BC53–BC76);
 - (b) operating profit or loss and income and expenses from integral associates and joint ventures (see paragraphs BC77–BC89); and
 - (c) profit or loss before financing and income tax (see paragraphs BC33–BC47).
- BC30 The Board developed proposals for the categories in the statement of profit or loss without trying to align classifications across the primary financial statements. Instead, the Board focused on providing information in the statement of profit or loss that meets the needs of users of financial statements for that statement.
- BC31 The Board proposes to retain the requirement for entities to present additional subtotals when relevant to understanding the entity's financial performance. The Board noted that any additional subtotals can be presented only if they fit in the proposed structure of the statement(s) of financial performance. The Board proposes to remove the requirement that any additional subtotals need to reconcile with the required subtotals because the proposed structure and content of the statement(s) of financial performance make this requirement redundant.

BC32 The Board began work on the subtotals by developing the proposal for profit or loss before financing and income tax, followed by proposals for the investing category and integral associates and joint ventures, and finally the operating profit or loss subtotal. The following sections explain the basis for the Board's proposals.

Financing category and the subtotal of profit or loss before financing and income tax (paragraphs 49–52 and B34–B37)

BC33 Many users of financial statements seek to analyse an entity's performance independently of how that entity is financed. To facilitate such analysis, the Board proposes to require an entity 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.

BC34 To meet the objective of providing a useful basis for comparing an entity's performance independently of how that entity is financed, the proposed subtotal would present profit or loss of the entity before income and expenses classified in the following categories:

- (a) financing (see paragraphs BC35–BC47);
- (b) income tax; and
- (c) discontinued operations.

BC35 The financing category includes:

- (a) income and expenses on liabilities arising from financing activities (see paragraph BC37);
- (b) income and expenses from cash and cash equivalents (see paragraphs BC38–BC41); and
- (c) interest income and expenses on liabilities that do not arise from financing activities (see paragraphs BC42–BC45).

BC36 The Board proposes to require some entities, depending on their main business activities, to classify some or all income and expenses that meet the definition of income and expenses from financing activities in the operating category instead of the financing category in the statement of profit or loss. This is discussed in paragraphs BC62–BC69.

Income and expenses from financing activities

BC37 To describe which income and expenses arise from financing activities, the Board proposes to expand and clarify the definition of financing activities in IAS 7 and apply it to the statement of profit or loss. The Board based its proposed definition on the work of the IFRS Interpretations Committee in March 2013. The Committee explored how the definitions in IAS 7 of financing activities and borrowing could be clarified, and thus achieve greater consistency in their application. Providing a clear definition of financing

activities is also expected to result in more transparency about the classification of items in the financing category.

Income and expenses from cash and cash equivalents

BC38 The Board proposes that income and expenses from cash and cash equivalents should be classified in the financing category (see paragraphs BC39–BC41), except for in some cases, depending on an entity’s main business activities, as discussed in paragraphs BC70–BC72.

BC39 Typically, users of an entity’s financial statements treat excess cash and temporary investments of excess cash as part of the entity’s financing. This treatment is typical because how an entity manages such assets is interrelated with its decisions about debt and equity financing. Excess cash can, for instance, be used to pay dividends, repay debt or buy back shares.

BC40 The Board proposes to classify income and expenses from cash and cash equivalents in the financing category because:

- (a) cash and cash equivalents represent a reasonable proxy for excess cash and the temporary investments of excess cash for many entities (see paragraphs BC70–BC72 for a discussion of the Board’s proposal when this is not the case).
- (b) cash and cash equivalents are defined in IAS 7. Using existing definitions that are well understood helps to ensure that the requirement is applied consistently and that the amounts classified in the financing category are comparable.
- (c) while most entities require some cash for operational purposes (for example, as a part of working capital) requiring entities to split cash and cash equivalents between amounts used for operational purposes and excess cash would impose undue cost or effort.

BC41 The Board acknowledges that some users of financial statements view investments other than cash and cash equivalents as part of an entity’s financing—for example, some liquid financial assets. However, the Board’s proposal to require an entity to provide information about income and expenses from investments in the investing category should enable users to make adjustments in their analysis if they regard a particular investment as part of the entity’s financing. For example, a user could reclassify items of income from the investing category and include them in the financing category.

Interest income and expenses on liabilities that do not arise from financing activities

BC42 The Board proposes that the unwinding of a discount on liabilities that do not arise from financing activities be classified in the financing category.

BC43 This proposal is intended 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. Many users of financial statements

consider such income and expenses to be similar to income or expenses from financing activities.

BC44 The Board recognises that not all users of financial statements consider such income or expenses to be similar to income or expenses from financing activities. However, the Board's proposal provides a consistent basis for the presentation of information related to financing and the related disclosures should enable users that disagree with the classification of these income and expenses as financing to adjust the profit or loss before financing and income tax subtotal if they wish to do so.

BC45 The Board's proposed subtotal of profit or loss before financing and income tax precedes the financing category. The financing category incorporates definitions of items that users of financial statements commonly regard as part of an entity's financing. This approach provides a consistent basis for the presentation of the information related to an entity's financing, resulting in a comparable subtotal. The requirements for separate presentation of items classified in the financing category enable users, when doing their own analyses, to adjust the amounts classified in this category if they have different views about whether those items form part of an entity's financing.

The EBIT subtotal

BC46 Today, many users of financial statements use subtotals such as earnings before interest and tax (EBIT) to compare the financial performance of entities that are financed differently. However, EBIT and similar subtotals are not comparable between entities because of the diverse ways in which entities classify items between finance income and expenses and other income and expenses. Many calculations of EBIT also include some interest items, which is incompatible with describing EBIT as a subtotal *before* interest. The proposed subtotal of profit or loss before financing and income tax would be comparable between entities.

BC47 The proposed subtotal serves a similar purpose to a consistently defined EBIT subtotal—it allows users of financial statements to analyse an entity's performance independently of how that entity is financed. However, the Board decided not to describe the proposed subtotal as EBIT because such a description would imply that all interest is excluded from the subtotal, and that the subtotal only excludes interest and tax and nothing else. This may not be the case and so the description would be misleading. Under the Board's proposals interest may be included in profit or loss before financing and income tax because most interest revenue would be classified in the investing category. Furthermore, interest revenue may be classified in the operating category, for example when an entity provides financing to customers as a main business activity. Profit or loss before financing and income tax also excludes expenses from financing activities other than interest, for example exchange rate differences on foreign currency denominated liabilities.

Investing category (paragraphs 47–48 and B32–B33)

- BC48 The Board proposes to require entities to present an investing category in the statement of profit or loss. This category would include income and expenses from investments and incremental expenses related to those investments. Income and expenses from investments comprise income and expenses from assets that generate a return individually and largely independently of other resources held by the entity.
- BC49 The objective of the investing category is to identify returns from investments that are not part of the entity's main business activities. For example, equity or debt investments typically generate dividend or interest returns individually and largely independently of an entity's other assets. Information about the income or expenses arising from such assets would provide useful information to users of financial statements who often analyse returns from an entity's investments separately from the entity's operations.
- BC50 The Board proposes that the investing category include incremental expenses related to the investments only – expenses that would not have been incurred had the investment not been made. The Board considered whether it should include all expenses directly related to investments in this category. However, it rejected this approach because it would result in expense allocations that could be complex and costly. For example, expenses directly related to an investment may include an allocation of labour costs if some employees of an entity are engaged in both operating and investing activities. The Board's objective for the investing category is not to present the profit from an entity's investing activities, but to separate investing income and expenses from operating income and expenses without imposing undue cost or effort on preparers of financial statements. Therefore, the Board decided to limit the allocation to the investing category to incremental expenses related to the investments.
- BC51 The investing category in the statement of profit or loss is different from investing activities as defined in IAS 7. The objective of the IAS 7 classification is to identify investments made in long-term assets that will generate future returns. Some of these investments may include assets whose returns would be classified in the investing category in the statement of profit or loss. However, the definition of investing activities in IAS 7 would also include investments in operating assets, such as property, plant and equipment. Because income and expenses related to such assets reflect an entity's main business activities, they would be classified in the operating category of the statement of profit or loss.
- BC52 The Board also proposes that income and expenses from non-integral associates and joint ventures are classified in the investing category. The Board's proposals for the presentation of information about associates and joint ventures are discussed in paragraphs BC77–BC89 and BC209–BC213.

Operating category and the operating profit or loss subtotal (paragraphs 46, 48, 51–52 and B25–B31)

- BC53 To increase comparability between entities, the Board proposes to require entities to classify specified income and expenses into an operating category and present an operating profit or loss subtotal in the statement of profit or loss. This may require some entities to change which income and expenses they include in operating profit or loss as they currently define it, as discussed in the effects analysis (see paragraphs BC232–BC312).
- BC54 The operating category comprises all income and expenses included in profit or loss that are not classified as income or expenses from integral associates and joint ventures, investing or financing, and those that are not classified in income taxes or discontinued operations—that is, operating profit or loss is defined as a default or a residual category. However, the Board considers that, because of the way in which amounts excluded from operating profit or loss are defined, the operating category would include income and expenses from an entity’s main business activities.
- BC55 Some stakeholders have told the Board 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, because:
- (a) the Board’s view is that all income and expenses included in profit or loss, other than those related to financing, tax, some investments or discontinued operations, arise from an entity’s operations. The definitions of financing and investing include exceptions for entities for which investing and financing are main business activities, resulting in an operating profit category that includes all income and expenses that relate to an entity’s main business activities (see paragraphs BC58–BC76).
 - (b) defining operating profit or loss as a default category is simpler than using a direct definition. This is because entities have various business activities making it difficult to arrive at a direct definition that could be applied consistently, even between entities in the same industry. Furthermore, the Board noted that previous attempts at developing a direct definition were not successful.
 - (c) defining operating profit or loss as a default category is also simpler for entities to apply because determining which income and expenses are classified in the investing or financing categories is expected to require less judgement than applying a direct definition of operating. There is also likely to be more agreement on proposed classification in investing and financing categories than any direct definition of operating. Therefore, the proposed definition is more likely to be consistently applied, resulting in more comparable information to users of financial statements.

- BC56 The operating category includes unusual income and expenses, which have limited predictive value. The Board does not view predictive value as a characteristic that differentiates whether income or expenses are operating (or any other category). However, the Board is aware that users of financial statements find information about unusual income and expenses useful; it has created a separate proposal to require entities to provide this information (see paragraphs BC122–BC144).
- BC57 The operating category is designed to include all income and expenses from an entity’s main business activities, even if such income or expenses meet the definitions of income or expenses from investing or financing activities. For example, a bank would classify interest expense used to finance lending to its customers in the operating category, even when such expense meets the definition of expense from financing activities. The Board has, therefore, specified circumstances in which an entity would not classify income or expenses in the financing or investing categories and instead classify them as operating. These circumstances are as follows:
- (a) income and expenses from investments are classified in the operating category, when an entity, in the course of its main business activities, invests in assets that generate returns individually and largely independently of the entity’s other resources (see paragraphs BC58–BC61); and
 - (b) some income and expenses from the financing category are classified in the operating category when:
 - (i) an entity provides financing to customers as a main business activity (see paragraphs BC62–BC69);
 - (ii) an entity’s cash and cash equivalents are closely linked to income and expenses from investments included in operating profit or loss (see paragraphs BC70–BC72);
 - (iii) an entity recognises insurance finance income or expenses as defined by IFRS 17 *Insurance Contracts* (see paragraph BC73); and
 - (iv) an entity incurs expenses related to liabilities arising from investment contracts with participation features that are in the scope of IFRS 9 *Financial Instruments* (see paragraphs BC74–BC76).

Income and expenses from investments classified in the operating category (paragraph 48)

- BC58 The Board proposes that an entity classify in the operating category income and expenses from investments made in the course of its main business activities.
- BC59 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, the investment returns are an important indicator of operating performance. For some entities, presenting investment returns separately from operating profit or loss would mean that operating profit or loss would

only include expenses. For example, an investment property entity's operating profit or loss would exclude rental income and remeasurements of investment properties. For such entities, a subtotal of operating profit or loss that excludes returns from those investments would not faithfully represent that entity's main business activities. The Board's proposals are designed so that operating profit or loss provides useful information in such circumstances.

BC60 For some entities, such as insurers, investing in assets that generate returns individually and largely independently of entity's other resources is an important activity performed in the course of their main business activities although it may not be their main business activity. For example, an insurer's main business activity may be underwriting, but it may invest in assets that generate returns individually and largely independently of its other resources in the course of its underwriting business activity. To classify income and expenses from such assets in the operating category, the proposals refer to 'activities that are conducted in the course of an entity's main business activities' rather than to an entity's main business activities. This proposal would also capture entities for whom such activities are their main business activity, for example, investment entities.

BC61 The Board's proposal relates only to returns from investments made in the course of an entity's main business activities. Entities with such investments may also have investments that are not made in the course of their main business activities. Income or expenses arising from such investments are classified in the investing category. The Board recognises that this would require entities to separate returns from investments made in the course of their main business activities from those that are not. However, the Board concluded that this would not cause significant incremental costs as entities are likely to have this information to manage their business. Also, users of financial statements would benefit from separate information about returns from investments that are unrelated to an entity's main business activities for all entities.

Income and expenses from financing activities classified in the operating category (paragraph 51)

BC62 The Board proposes to require entities with a main business activity of providing financing to customers to classify in the operating category income and expenses from financing activities and income and expenses from cash and cash equivalents.

BC63 When an entity provides financing to customers as a main business activity, the difference between the interest revenue from that activity and the related interest expense—a cost of earning that income—is an important indicator of operating performance. For example, in the lending business, a main business activity is earning interest revenue from providing financing to customers. The difference between interest revenue and interest expense incurred to obtain some or all of the financing needed for that main business activity is a key performance measure for financial institutions and is used by users of financial statements when analysing the performance of such entities. The

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

Board's proposal would enable entities such as banks to continue presenting a net interest income subtotal.

- BC64 When an entity that provides financing to customers has more than one main business activity, it may have financing activities that are unrelated to the provision of financing to customers. In some such situations, the entity may be unable to identify which income and expenses from financing activities and income and expenses from cash and cash equivalents relate to the provision of financing to customers and which do not without undue cost or effort.
- BC65 For example, an entity with a central treasury that raises funding for all of the entity's activities and allocates those costs internally may not be able to identify a non-arbitrary basis for allocating financing expenses between those that do or do not relate to the provision of financing to customers.
- BC66 Some entities both provide financing to customers and invest in the course of their main business activities. It may be difficult to allocate expenses from financing activities to these two activities. For example, a bank that provides financing to customers, but also invests in equity instruments, may not be able to identify a non-arbitrary basis for allocating interest expense from its financing activities between these two activities.
- BC67 Therefore, the Board proposes that when an entity provides financing to customers, it should make an accounting policy choice between classifying in the operating category:
- (a) only income and expenses that arise from financing activities and income and expenses from cash and cash equivalents relating to its provision of financing to customers; or
 - (b) all income and expenses from financing activities and all income and expenses from cash and cash equivalents.
- BC68 The Board recognised that permitting an accounting policy choice may result in some loss of comparability between entities and that classifying in the operating category only the income and expenses arising from financing activities related to providing financing to customers would provide more useful information. However, because of the difficulty in some cases in allocating income or expenses between the categories, the Board concluded that allocation should not be required but should be permitted.
- BC69 The Board concluded that presenting a subtotal of profit or loss before financing and income tax would be misleading if all of an entity's expenses from financing activities were included in that subtotal. The Board, therefore, proposes that an entity that classifies all expenses from financing activities in the operating category shall not present a subtotal of profit or loss before financing and income tax.

Income and expenses from cash and cash equivalents classified in the operating category (paragraph 52(a))

BC70 As discussed in paragraph BC40, the Board concluded that, for most entities, cash and cash equivalents are a reasonable proxy for excess cash and investments of excess cash and that income and expenses from cash and cash equivalents should therefore be classified in the financing category. However, the Board observed that some entities require a significant balance of cash and cash equivalents for operational purposes. The Board concluded that for such entities cash and cash equivalents are not a reasonable proxy of excess cash and investments of excess cash. For example:

- (a) insurers need to maintain a significant balance of cash and cash equivalents to be able to pay out insurance claims;
- (b) insurers and investment funds often have significant balances of cash and cash equivalents as a result of continuously rebalancing their investment portfolios; and
- (c) open-ended investment funds need to maintain a significant balance of cash and cash equivalents to be able to buy back shares from investors who wish to redeem their shares.

BC71 In cases where an entity needs a significant balance of cash and cash equivalents for operational purposes, classifying the income and expenses from cash and cash equivalents in the operating category provides more useful information than classifying such income and expenses in the financing category. Therefore, the Board proposes to address this issue.

BC72 The Board considered different ways to describe entities that would classify income and expenses from cash and cash equivalents in the operating category. The Board decided to limit the scope of that requirement to entities that invest in financial assets in the course of their main business activities. Feedback from users of financial statements suggested that for entities that only invest in non-financial assets in the course of their main business activities, such as property companies, classifying income and expenses from cash and cash equivalents in the operating category would not be useful. The Board concluded that such classification would not be useful because entities such as property companies invest in non-current assets and therefore cash is less likely to be interchangeable with their investments.

Insurance finance income and expenses (paragraph 52(c))

BC73 The Board proposes classifying insurance finance income and expenses as defined in IFRS 17 in the operating category. Insurance finance income and expenses arise from insurance contracts and investment contracts with direct participation features accounted for applying IFRS 17. Because insurance finance income and expenses relate to the main business activities of insurers, the Board concluded that insurance finance income and expenses should be classified in operating profit or loss, noting that IFRS 17 requires them to be presented separately from the insurance service result. This proposal also enables an insurer to present its insurance service result and insurance finance result in the operating category.

Income and expenses from investment contracts with participation features

- BC74 In the course of their main business activities, some entities issue investment contracts within the scope of IFRS 9 with participation features—that is, contracts specifying that the compensation owed to the investor varies with the returns on underlying items. For some of these contracts, the entity issuing the contract recognises the investors' claim as a liability and the investments linked to the contract as assets.
- BC75 Applying the Board's proposals, the income or expenses from the investment contract liability that represent the investors' claim may meet the definition of income and expenses from financing activities and would be classified in the financing category, and the returns on the underlying investments would be classified in the operating category. However, the difference between the investment returns and the expense on the investment contract liability is an important indicator of the operating performance of the entity. Classifying the income and expenses on these liabilities in operating profit or loss would provide more useful information than would classifying them in the financing category.
- BC76 Therefore, the Board proposes that income and expenses related to liabilities arising from issued investment contracts with participation features that are accounted for applying IFRS 9 are classified in the operating category. The Board considered different approaches to determining when entities that do not provide financing to customers should classify income and expenses from financing activities in the operating category. A possible approach would be a principle that income and expenses related to financing *from* customers should be classified in the operating category. Such a principle would be likely to cover the specific proposals for insurance finance income and expense (see paragraph BC73) as well as the income and expenses on liabilities arising from investment contracts with participation features accounted for applying IFRS 9. However, the Board concluded that such a principle would be likely to have too broad an effect in that it would also apply to entities for whom such an outcome would not provide useful information, for example for construction companies recognising interest expense on customer prepayments.

Classification of income and expenses from associates and joint ventures accounted for using the equity method (paragraphs 53, 60, 62–63 and B38)

- BC77 As discussed in paragraph BC8, the Board has observed significant diversity in practice in the presentation of an entity's share of the profit or loss of associates and joint ventures accounted for using the equity method. Therefore, the Board considered specifying where in the statement of profit or loss an entity should present its share of the profit or loss of associates and joint ventures accounted for using the equity method.

- BC78 The Board considered requiring entities to present their share of the profit or loss of associates and joint ventures in a single location in the statement of profit or loss—the investing category. However, stakeholder feedback suggests some associates and joint ventures may have important differences in characteristics in that:
- (a) the activities of some associates and joint ventures are integral to the reporting entity's main business activities. Feedback suggests this characteristic is common in joint ventures.
 - (b) the activities of some associates and joint ventures are not integral to the reporting entity's main business activities, that is they have little or no effect on those activities.
- BC79 Therefore, the Board proposes to require entities to classify their associates and joint ventures as either integral or non-integral associates and joint ventures and present separately the share of profit or loss of these different types of associates and joint ventures. To achieve this the Board proposes to amend IFRS 12 to define integral and non-integral associates and joint ventures and to provide indicators to help entities apply those definitions, as well as requirements for when a change in classification may be appropriate (see paragraphs BC209–BC213).
- BC80 The Board concluded that the share of profit or loss of non-integral associates and joint ventures meets the definition of income and expenses from investments and therefore proposes to classify it in the investing category.
- BC81 In contrast, the Board concluded that an entity should not classify the share of profit or loss of integral associates and joint ventures in the investing category because such income and expenses are not largely independent from income and expenses classified in the operating category. In other words, they do not meet the definition of income or expenses from investments.
- BC82 The Board considered whether to require entities to classify the share of profit or loss of integral associates and joint ventures in the operating category. Such an approach would be a response to the views of some stakeholders that entities may invest in integral associates and joint ventures in the course of their main business activities. However, it rejected this approach because many users of financial statements analyse the results of investments in associates and joint ventures accounted for using the equity method separately from the results of an entity's operating activities. Users explain that this is because:
- (a) the equity method of accounting combines income and expenses that users would normally analyse separately, including financing expenses and income taxes.
 - (b) classifying the share of profit or loss of associates and joint ventures in the operating category would significantly disrupt users' analyses of operating margins. For example, the revenue line does not include revenue from associates and joint ventures.

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

- (c) the entity does not control the activities of associates and joint ventures as it controls the other activities giving rise to income and expenses classified in the operating category and only exercises joint control over the activities of joint ventures.
- BC83 Instead of classifying the share of profit or loss of integral associates and joint ventures in the operating category, the Board proposes to create a separate category for income and expenses from integral associates and joint ventures and to require entities to:
- (a) classify income and expenses from integral associates and joint ventures in this proposed category; and
- (b) present an operating profit or loss and income and expenses from integral associates and joint ventures subtotal.
- BC84 The Board discussed whether, in addition to the share of profit or loss of integral associates and joint ventures, the integral associates and joint ventures category should include:
- (a) impairment losses and reversals of impairment losses on integral associates and joint ventures; and
- (b) gains or losses on disposals of integral associates and joint ventures.
- BC85 One view was that integral associates and joint ventures contribute in combination with other assets to an entity's main business activities, creating synergies that have an impact on the entity's operating profit or loss. Consequently, any income and expense relating to these investments should, in principle, be classified as operating. According to this view, presentation of the share of profit or loss of integral associates and joint ventures separately from the operating category should be regarded as an exception (justified in paragraph BC82). However, that exception should not be extended to income and expenses listed in paragraph BC84.
- BC86 The Board proposes, however, to classify the income and expenses from integral associates and joint ventures listed in paragraph BC84 in the integral associates and joint ventures category because:
- (a) this is consistent with the Board's general approach to classifying related income and expenses in the statement of profit or loss. Including such income and expenses in separate categories could lead to accounting mismatches.
- (b) this would respond to the views of users of financial statements who do not want to include any income and expenses relating to associates and joint ventures in the operating category because they would analyse returns on these investments separately from operating profit or loss.
- (c) although investments in integral associates and joint ventures may give rise to economic benefits arising from synergies with an entity's main business activities, classifying income and expenses from these investments in the operating category would nevertheless disrupt

users' analyses of operating margins. This is because the revenue line, for example, does not include revenue from associates and joint ventures.

BC87 The Board noted that some users of financial statements have said that, for reasons similar to those described in paragraph BC82, they would not use the proposed subtotal of operating profit or loss and income and expenses from integral associates and joint ventures. The Board however concluded that the proposed presentation and the subtotal requirement balance the needs for:

- (a) an operating profit or loss that excludes any income or expenses from financing, investing and income taxes, and provides a comparable basis for calculating operating margins; and
- (b) separate presentation of income and expenses from associates and joint ventures that are integral to the entity's main business activities.

BC88 Some stakeholders have asked the Board to require entities to disaggregate the share of profit or loss of integral associates and joint ventures between different categories in the statement of profit or loss. The Board, however, concluded that such a proposal would go beyond the scope of this project because it would involve a fundamental reconsideration of the requirements of IFRS 11 *Joint Arrangements*, IFRS 12 and IAS 28 *Investments in Associates and Joint Ventures*.

BC89 Consistent with its proposal to require entities to present the share of profit or loss of integral associates and joint ventures separately from the share of profit or loss of non-integral associates and joint ventures, the Board also proposes to amend:

- (a) IAS 7 to require that cash flows from investments in integral associates and joint ventures are presented separately from cash flows from investments in non-integral associates and joint ventures (see paragraphs BC205–BC208).
- (b) IFRS 12 to, in addition to requirements relating to the definition of integral and non-integral associates and joint ventures (see paragraph BC79), require separate disclosures about integral and non-integral associates and joint ventures. See paragraphs BC209–BC213 for discussion about proposed amendments to IFRS 12.

Classification of fair value gains and losses on derivatives and of exchange differences (paragraphs 56–59 and B39–B43)

BC90 The Board concluded that applying the proposed definitions of the financing, investing and operating categories, it was not clear how an entity would classify fair value gains and losses on derivatives or exchange differences. The Board has, therefore, developed specific proposals for how an entity would classify such income and expenses.

- BC91 The Board proposes that an entity classify foreign exchange differences in the same category of the statement of profit or loss as the income and expenses from the items that give rise to the foreign exchange differences. For example, foreign exchange differences relating to revenue would be classified in the operating category whereas foreign exchange differences on foreign currency denominated loans would be classified in the financing category (unless those loans relate to provision of finance to customers and are classified as operating, as discussed in paragraphs BC62–BC69).
- BC92 Classifying exchange differences in the same category of the statement of profit or loss as the income and expenses from the items that give rise to them contributes to a faithful representation of an entity's business activities. For example, in the Board's view, an entity would provide an incomplete picture of the performance of its main business activities if it excluded exchange differences related to the main business activities from operating profit or loss and classified them in a different category.
- BC93 Classification of gains or losses on derivatives is not straightforward. Derivatives generally generate returns individually and largely independently of the entity's other resources. Consequently, fair value gains and losses on a derivative arguably most closely align with the definition of income and expenses from investments. However, when derivatives are used for risk management there is a link between the derivative and the income or expenses, or assets or liabilities affected by the risk that is being managed.
- BC94 The Board proposes that an entity classify gains and losses on financial instruments designated as hedging instruments applying IFRS 9¹ in the:
- (a) operating category, if the instrument is used to manage risks relating to income or expenses classified in the operating category—except when doing so would require the grossing up of gains and losses (see paragraph BC97);
 - (b) financing category, if the instrument is used to manage risks relating to income or expenses classified in the financing category—except when doing so would require the grossing up of gains and losses; and
 - (c) investing category in all other cases—including in the circumstances set out in (a) and (b) involving the grossing up of gains and losses.
- BC95 An entity would also apply the proposal set out in paragraph BC94 to derivatives used to manage risks and not designated as hedging instruments applying IFRS 9 except when doing so would involve undue cost or effort. In such cases, an entity would classify in the investing category all gains and losses on the derivatives. Derivatives that are not used for risk management and that are not used in the course of an entity's main business activities would also be classified in the investing category because, as explained in paragraph BC93, derivatives most closely align with the definition of income and expenses from investments.

¹ And IAS 39 *Financial Instruments: Recognition and Measurement* during the period that entities are allowed to continue using that hedge accounting model.

- BC96 The Board concluded that classifying fair value gains or losses on derivatives in a manner that reflects an entity's risk management instead of classifying them in a single category would provide a more faithful representation of an entity's activities.
- BC97 However, when a hedging instrument hedges a group of items with offsetting risk positions and the hedged items are classified in multiple categories of the statement of profit or loss, applying the proposals in paragraphs BC90–BC95 would require grossing up of the fair value gains or losses. In such circumstances, paragraphs 6.6.4 and B6.6.15 of IFRS 9 require entities to present gains or losses on the hedging instrument in a separate line item to avoid the grossing up of gains and losses from a single hedging instrument. Therefore, the Board proposes that if the proposals in paragraphs BC90–BC95 would result in the grossing up of gains or losses, those gains or losses should instead be classified in the investing category. The Board proposes that these items be classified in the investing category because, as explained in paragraph BC93, derivatives most closely align with the definition of income and expenses from investments.
- BC98 When an entity designates derivatives in a hedging relationship applying IFRS 9, the link between the derivative and the risk it is used to manage is clear because of the eligibility criteria and documentation requirements for hedge accounting. However, an entity may use a derivative to manage a risk without designating a hedging relationship for the purposes of IFRS 9. When an entity does not apply hedge accounting to a derivative, the link between the derivative and the managed risk may be less clear. In some cases, identifying the categories affected by the risk(s) managed using non-designated derivatives may involve undue cost or effort—for example, when risks are managed by a central treasury. For such cases, the Board proposes to require entities to classify gains and losses in the investing category.
- BC99 Some stakeholders were concerned that the Board's proposals for classification treat derivatives designated as hedging instruments in the same way as non-designated derivatives which could be seen as undermining the hedge accounting requirements. The Board noted that the recognition and measurement requirements for derivatives including the hedge accounting requirements are unchanged by these proposals.
- BC100 Also, the Board's proposals do not affect constraints in IFRS Standards on the presentation of gains or losses on derivatives and other financial instruments used for risk management. Specifically, IFRS Standards only permit entities to include components of fair value gains and losses in the line item 'interest revenue calculated using the effective interest method' if those arise from designated hedging instruments.
- BC101 The Board has concluded that the proposals described in paragraph BC94 should also apply to fair value gains and losses on non-derivative financial instruments designated as hedging instruments applying IFRS 9. The Board believes that this approach appropriately reflects the entity's risk management activities in the classification of income and expenses in the

statement of profit or loss. This approach is also consistent with current practice for many entities.

- BC102 The Board considered applying a similar approach to that described in paragraph BC94 to non-derivative financial instruments used for risk management that are not designated as hedging instruments applying IFRS 9. However, the Board rejected this approach because it may be costly for an entity to identify the categories affected by the risk(s) managed and monitor whether the entity is holding the financial instrument for risk management. This is because entities may hold non-derivative financial instruments for multiple purposes, including risk management. This is different from derivatives, which are often held only for the purpose of risk management. Applying a similar approach to that described in paragraph BC94 to non-derivative financial instruments not designated as hedging instruments may also involve significant judgement, leading to inconsistent application and reduced comparability. Income and expenses on these non-derivative financial instruments would be classified in the operating, investing or financing categories applying the Board's general proposals.

Line items to be presented in the statement of profit or loss (paragraphs 65–67 and B44)

- BC103 The Board proposes to require entities to present income or expenses from financing activities as a line item in the statement of profit or loss. The separate line item would enable users of financial statements to identify income and expenses that arise from financing activities separately from other income and expenses classified in the financing category, facilitating their analysis of the entity's financing.
- BC104 The Board also considered requiring entities to present the other income and expenses classified in the financing category as separate line items in the statement of profit or loss. However, the Board concluded such a requirement would be unnecessary because:
- (a) IFRS Standards already require the separate presentation of interest revenue accounted for using the effective interest method. Consequently, entities would be required to present a separate line item for interest revenue on cash and cash equivalents.
 - (b) the proposed requirements for disaggregation would apply to other income and expenses classified in the financing category.
- BC105 Due to the Board's proposal to require entities to present income or expenses from financing activities as a separate line item, the requirement in IAS 1 to present finance costs would be redundant and is proposed to be withdrawn.
- BC106 Following on from the proposals for integral and non-integral associates and joint ventures (see paragraphs BC77–BC89), the Board proposes to remove the requirement to present a single line item for the share of profit or loss from associates and joint ventures accounted for using the equity method and replace it with a requirement to present the share of profit or loss from

integral associates and joint ventures separately from the share of profit or loss from non-integral associates and joint ventures.

- BC107 In response to requests from some users of financial statements, the Board considered whether to require entities to present depreciation, amortisation and research and development expenses as separate line items in the statement of profit or loss. The Board rejected such a requirement because it would not, in all cases, result in useful information. For example, for entities that present their primary analysis of expenses using the function of expense method, a requirement to present depreciation as a separate line item would mean the cost of sales would exclude depreciation, potentially understating the cost of sales for that entity. Also, research and development expenses may include allocations of natural expenses such as employee benefits and depreciation. Requiring an entity that presents its primary analysis of expenses using the nature of expense method to present a research and development expenses line item could result in misleading information about the line items presented using the nature of expense method—for example the line item ‘employee benefits’ would not include employee benefits relating to research and development.

Relationship between required line items and the proposed categories in the statement of profit or loss

- BC108 The Board considered how the proposed new categories and subtotals would affect the way entities apply requirements for presentation of line items in the statement of profit or loss. The Board noted that, applying the proposed classification requirements, an entity might be required to disaggregate a required line item, for example impairment losses on financial instruments, and present it in different categories of the statement of profit or loss. The Board concluded such an outcome is appropriate because it would help achieve a faithful representation of each of the categories in the statement of profit or loss.

Presentation of operating expenses (paragraphs 68–72 and B45–B48)

- BC109 The Board proposes that an entity present in the statement of profit or loss an analysis of expenses included in operating profit or loss based on either the nature or the function of the expenses, using whichever method provides the most useful information.
- BC110 Both the nature of expense and the function of expense methods of analysis can provide useful information. Information about the nature of expenses allows users of financial statements to analyse the detailed components of an entity’s operating expenses, helping them to forecast those expenses for future periods. Information that aggregates expenses by function facilitates the calculation of some performance metrics and margins. However, users have raised concerns that useful information can be lost because entities choose which method to use and because, in practice, many entities use a mixture of both methods. IAS 1 requires an entity to choose a method that is reliable and more relevant. The Board proposes to strengthen this by requiring

an entity to use the single method that would provide the most useful information to the users of its financial statements, considering the entity's particular circumstances. To help entities assess which method is most useful in their circumstances, the Board proposes to provide a set of factors for entities to consider when making this assessment.

- BC111 IAS 1 requires an entity presenting an analysis of expenses using the function of expense method to provide information about the nature of its expenses. The Board proposes to strengthen this by requiring such entities to, in a single note to the financial statements, disclose an analysis of its total operating expenses using the nature of expense method. This proposal reflects feedback from users of financial statements that analysing expenses using the function of expense method can lead to a loss of useful information. Information is lost because functional line items combine expense items with different natures that respond differently to changes in the economic environment, making it difficult for users to forecast future operating expenses. Information about the nature of operating expenses also enables direct comparison with information provided in the statement of cash flows.
- BC112 The Board considered requiring an entity that presents its primary analysis of expenses using the function of expense method to disclose an analysis of each functional line item by nature. Requiring this analysis would provide users of financial statements with information to help them better forecast an entity's functional line items. However, feedback from preparers of financial statements suggested that this approach would be significantly more complex and costly to apply than the Board's proposed approach. Therefore, the Board decided to limit the requirement to an analysis of total operating expenses using the nature of expense method.
- BC113 The Board heard from some preparers of financial statements that even the proposed requirement may be costly for entities to implement, particularly for those that operate multiple purchase systems making it difficult to track information about the nature of the total costs incurred. Such entities may not always retain information about the nature of the costs capitalised and, therefore, may find it difficult to disclose an analysis of expenses by nature. Other preparers, however, either provide this analysis today or could provide it with limited costs. The strong support for this proposal from users of financial statements has led the Board to conclude that the benefits of having information about operating expenses by nature would be likely to exceed the costs. The Board intends to seek further feedback on the likely costs and benefits of this proposal during consultation on the Exposure Draft.
- BC114 The Board considered requiring an entity that presents its primary analysis of expenses using the nature of expense method to disclose in the notes an analysis of expenses using the function of expense method. However, it rejected such a requirement because there was no evidence of demand from users of financial statements for this disclosure.

Relationship between required line items and the requirements for presentation of operating expenses

- BC115 The Board noted that expense line items required to be presented in the statement of profit or loss by paragraph 68 are expenses analysed by nature applying the Board's description of the nature of expense method.
- BC116 To ensure that these line items continue to be presented prominently, the Board proposes to require entities to present them separately in the statement of profit or loss whichever method of analysis of operating expenses is used.

Statement presenting comprehensive income (paragraphs 73–81 and B49–B52)

- BC117 IAS 1 requires income and expenses included in other comprehensive income to be categorised into income and expenses that may be reclassified (recycled) to profit or loss in subsequent periods and items that are permanently reported outside profit or loss and will not be reclassified. This creates two categories of income and expenses included in other comprehensive income. To increase the understandability of amounts included in other comprehensive income, the Board proposes to create more descriptive labels for these two categories of other comprehensive income, that is, income and expenses to be included in profit or loss in the future when specific conditions are met and remeasurements permanently reported outside profit or loss.
- BC118 The Board considered requiring an entity to present a subtotal of profit or loss and remeasurements permanently reported outside profit or loss. However, the Board concluded that such a subtotal would not provide useful information to users of financial statements.

Statement of financial position

Line items to be presented in the statement of financial position (paragraphs 82 and B12–B14)

- BC119 The Board proposes to require an entity to present goodwill separately from intangible assets in its statement of financial position. Goodwill is an asset that is not identifiable and is measured only as a residual; it cannot be measured directly. Therefore, the Board considers that the characteristics of goodwill are sufficiently different from those of intangible assets to warrant separate presentation.²
- BC120 To help users of financial statements to analyse returns from integral associates and joint ventures separately from other investments, the Board proposes to require an entity to present investments in integral associates and joint ventures separately from investments in non-integral associates and joint ventures. Paragraphs BC77–BC89 discuss the basis for the split between integral and non-integral associates and joint ventures.

² For similar reasons, in its Goodwill and Impairment project, the Board is exploring whether it should require an entity to present an amount representing total equity before goodwill in its statement of financial position.

- BC121 As a result of proposals for integral and non-integral associates and joint ventures, the Board proposes to remove the requirement to present a single line item representing investments accounted for using the equity method.

Unusual income and expenses

- BC122 The Board observed that many entities disclose unusual or similarly described expenses (and a few disclose unusual income). However, the way entities provide this information varies significantly and it is often not clear how or why items have been identified as unusual.
- BC123 Stakeholders commented on the use of the terms ‘unusual’ and ‘infrequent’ and discussed possible definitions in feedback on the 2017 Discussion Paper *Disclosure Initiative – Principles of Disclosure*:
- (a) many users of financial statements agreed that the Board should develop requirements for the disclosure of unusual income and expenses because the separate presentation or disclosure of unusual or infrequent income and expenses provides information that is useful in making forecasts about future cash flows. Also, definitions and requirements developed by the Board could make such income and expenses more transparent and comparable across entities and could reduce entities’ opportunistic classification of expenses as unusual. However, a few users commented that defining unusual or infrequent income and expenses may be difficult because they are entity-specific and identifying them would involve significant judgement.
 - (b) many respondents that are not users said that the Board should not develop definitions for unusual or infrequent income and expenses because those items vary across entities and industries and their identification involves significant judgement. They suggested that the Board could consider instead developing general requirements for the disclosure and faithful representation of such items, for example, requiring them to be classified and presented consistently over time or labelled in a clear and non-misleading way.
- BC124 The Board acknowledges that any requirement to disclose unusual income and expenses would require entities to exercise judgement in deciding which income and expenses are unusual. However, the Board proposes to define and require entities to disclose unusual income and expenses to provide information to users of financial statements about the persistence of income and expenses. The proposed disclosure would enable users to identify income and expenses which may not persist and to analyse them separately when predicting an entity’s future cash flows.
- BC125 The Board proposes that information about unusual income and expenses should be disclosed in the notes rather than presented in the statement(s) of financial performance. The Board concluded that disclosure in the notes would enable entities to provide a more complete description and analysis of such income and expenses. Disclosure in the notes also provides users of financial statements with a single location to find information about such

income and expenses and addresses some stakeholders' concerns that unusual income and expenses may be given more prominence than other information in the statement(s) of financial performance.

- BC126 Some stakeholders suggested that, given the importance some users of financial statements attach to the disclosure of unusual income and expenses, operating profit before unusual income and expenses should be added to the list of subtotals specified by IFRS Standards and the requirements relating to analysis of operating expenses by function or by nature adjusted accordingly. In their view, no longer being able to present an operating profit subtotal before unusual items would be a significant step back from current practice. The Board has not proposed adding this subtotal because, in some cases, presentation of an operating profit before unusual income and expenses subtotal could result in a presentation that mixes natural and functional line items. Users have told the Board that they do not find mixed presentation useful and want to see all operating expenses analysed by one characteristic (nature or function).
- BC127 In developing its proposals for unusual income and expenses, the Board considered:
- (a) how to define unusual income and expenses (see paragraphs BC129–BC136);
 - (b) whether remeasurements are unusual income and expenses (see paragraphs BC137–BC139);
 - (c) what information an entity should provide about unusual income and expenses and where that information should be provided (see paragraphs BC140–BC144); and
 - (d) how unusual income and expenses relate to management performance measures (see paragraph BC180).
- BC128 The Board noted that its proposal for unusual income and expenses is different from the requirement for presentation of extraordinary items that was removed from IAS 8 in 2003. Extraordinary items were defined as clearly distinct from the ordinary activities of an entity and were presented in their own category after tax, separately from profit or loss from ordinary activities. Unusual income and expenses, on the other hand, are classified in categories in the statement(s) of financial performance together with 'usual' income and expenses, according to their nature, function or other characteristics. The notion of extraordinary items is not referred to in the Exposure Draft. The Board noted that, as a result of proposals for categories in the statement of profit or loss, entities would be required to classify all income and expenses in one of the categories and would be prohibited from creating a separate category for extraordinary items.

Definition of unusual income and expenses (paragraph 100)

- BC129 The Board proposes to define unusual income and expenses as income and expenses with limited predictive value. The Board decided that defining unusual items in this way would:
- (a) address the need of users of financial statements for information about income and expenses that are unlikely to persist and so have limited predictive value (see paragraph BC124); and
 - (b) help preparers of financial statements identify unusual income and expenses by providing them with a concept that underpins the identification of unusual income and expenses.
- BC130 Though most unusual items currently disclosed are unusual expenses, entities can have unusual income. Disclosure of both unusual income and unusual expenses contributes to a faithful representation of an entity's performance, helping to ensure that entities provide information that is neutral and complete. Therefore, the definition of unusual items refers to both income and expenses. The Board considered specifying that information about unusual items should be neutral but rejected this as unnecessary because neutrality applies to all items included in the financial statements.
- BC131 The proposed definition of unusual income and expenses requires an entity to assess whether it is reasonable to expect that income and expenses similar in type or amount will not arise for several future annual reporting periods. The Board proposes using the term 'reasonable to expect' because this term is used in other IFRS Standards and so should be familiar to entities applying the requirement.
- BC132 The Board did not indicate a specific period over which an entity should assess whether it is reasonable to expect that similar income or expenses will not arise. However, it did not intend to require an entity to consider all possible future reporting periods nor to consider only a short period. Considering all possible future reporting periods would be impractical and would result in few cases of income or expenses being identified as unusual and resulting in a loss of potentially useful information. Considering only a short period could result in income and expenses that have predictive value being identified as unusual. Specifying the period over which an entity should consider whether a similar income or expense will arise would be arbitrary and might not lead to the identification of all income and expenses that have limited predictive value.
- BC133 The Board recognises that, when assessing whether income and expenses are unusual, it may be helpful to consider the nature of transactions or other events that gave rise to the income or expenses. For example, an entity might conclude that income or expenses (for example, impairment losses) are:

- (a) not reasonably expected to arise for several future annual reporting periods and, therefore, should be classified as unusual income and expenses, and the transactions or other events that gave rise to the income or expenses are unusual in nature (for example, an earthquake in a non-earthquake prone zone); and
- (b) reasonably expected to arise for several future annual reporting periods and, therefore, should not be classified as unusual income or expenses and the transactions or other events that gave rise to the income or expenses are usual in nature (for example, a drop in product prices).

BC134 However, the Board concluded that although unusual income or expenses often result from transactions or other events that are unusual in nature, this is not always the case. Transactions or other events that are unusual in nature can give rise to 'usual' income or expenses. For example, an earthquake may give rise to increased costs that are expected to arise for a number of years, and as such are not unusual expenses. Therefore, the Board did not include reference to the nature of underlying transactions and other events in the definition of unusual income and expenses.

BC135 The Board noted that an entity need not consider individual transactions when assessing whether income or expenses are unusual. A type of income or expense arising from a group of transactions may be assessed as unusual income or expense.

BC136 The proposed definition requires entities to consider whether similar income or expense will recur in the future. It does not require entities to consider whether a similar income or expense has occurred in the past. The occurrence of income or expense in the past does not necessarily indicate that similar income or expense will occur in the future. Therefore, an item of income or expense that occurred in a previous period but is not reasonably expected to recur for several future reporting periods would be identified as an unusual income or expense.

Remeasurements (paragraphs 102 and B72)

BC137 The Board proposes that recurring measurements of assets or liabilities measured at current value would not normally be classified as unusual. This is the case even when amounts of income or expense recognised are expected to vary from period to period.

BC138 Some users of financial statements view gains or losses arising from changes in current value measurements (including fair value measurements) as having limited predictive value. However, current values are likely to change each reporting period and therefore gains or losses from remeasurement are expected to arise in each reporting period. Consequently, such gains or losses are likely to be similar in type to gains or losses expected in future reporting periods and would not normally meet the definition of unusual income and expenses.

- BC139 Because of the potential volatility of gains or losses from remeasurements, the range of the amount reasonably expected to arise in future reporting periods may be wider than that for other categories of income or expense. Consequently, a wide range of gains or losses may be considered similar in amount.

Information to be disclosed about unusual income and expenses (paragraph 101)

- BC140 The Board proposes that, in the note disclosure about unusual income and expenses, an entity attribute unusual income and expenses to the line items presented in the statement(s) of financial performance, thus enabling users of financial statements to assess the effect of unusual income and expenses on those line items and on subtotals.
- BC141 Some unusual expenses—for example, unusual restructuring costs—can include expenses with different natures (for example, staff costs, impairments and legal costs). Users of financial statements said they find the information provided by the nature of expense method useful. Therefore, the Board proposes that an entity also attribute unusual expenses to the line items using the nature of expense method it presents in the statement of profit or loss or discloses in the notes (see paragraphs BC109–BC114).
- BC142 The Board proposes that an entity provide a description of the underlying transactions or other events that gave rise to unusual income or expenses. Information about the underlying transactions or other events that gave rise to unusual income or expenses is useful because it enables users of financial statements to understand what caused the unusual income or expense and to assess the entity's classification of the income or expense as unusual.
- BC143 The Board considered requiring entities to identify income and expenses related to unusual income and expenses. Transactions or other events that give rise to unusual income and expenses may also give rise to related income or expenses that do not meet the proposed definition of unusual income and expenses. For example, a sale may give rise to unusual revenue. In earning that revenue, the entity may incur related costs, including staff costs, inventory cost and taxes, which may not meet the definition of unusual expenses. Users of financial statements may find information about the related income and expenses useful even though they do not meet the definition of unusual income and expenses.
- BC144 However, the Board rejected this approach because it may be difficult for preparers of financial statements to identify related income and expenses and it may be costly to track them. Such difficulties and costs may lead to inconsistent application of the requirement, making the resulting information less useful. Therefore, the Board does not propose to require an entity to provide information about income and expenses related to unusual income or expenses unless the related income or expenses are themselves unusual.

Management performance measures

- BC145 When an entity provides one or more performance measures that meet the definition of management performance measures, the Board proposes to require entities to disclose information about such measures in their financial statements.
- BC146 Research undertaken as part of the Primary Financial Statements project, feedback received on the 2017 Discussion Paper *Disclosure Initiative – Principles of Disclosure* and the 2015 Agenda Consultation indicated that:
- (a) many entities disclose financial information outside the financial statements by providing management-defined performance measures in communications with users of financial statements; and
 - (b) users consider that information provided by such measures can be useful because it provides insight into:
 - (i) how management views the entity's financial performance;
 - (ii) how a business is managed; and
 - (iii) the persistence or sustainability of an entity's financial performance.
- BC147 However, users of financial statements expressed concerns about the quality of disclosures provided about these measures. According to users, in some cases, the disclosures:
- (a) lack transparency in how the management-defined performance measures are calculated;
 - (b) lack clarity regarding why these measures provide management's view of the entity's performance;
 - (c) create difficulties for users trying to reconcile the measures to the related measures specified by IFRS Standards; and
 - (d) are reported inconsistently from period to period.
- BC148 Including disclosures about these measures in the financial statements could help address some of the concerns expressed by users of financial statements. However, some stakeholders raised concerns about including management-defined performance measures in financial statements prepared applying IFRS Standards, which were that:
- (a) management-defined performance measures may be incomplete or biased and therefore including them in the financial statements may be misleading to users of financial statements;
 - (b) management-defined performance measures may be given undue prominence or legitimacy by including them in the financial statements; and

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

- (c) some adjustments made in calculating management-defined performance measures may be difficult to audit—for example, adjustments made when an entity calculates its performance measures using accounting policies that do not comply with IFRS Standards.
- BC149 The Board considered the concerns raised, noting that management-defined performance measures that meet the definition of management performance measures, and would thus be included in the financial statements:
- (a) would be subject to the general requirement for information to faithfully represent what it purports to represent, which would not be met if measures were misleading (see paragraph BC158).
- (b) would rarely be presented in the statement(s) of financial performance (see paragraphs BC163–BC166).
- (c) are similar to segment measures of profit or loss in that they are based on management’s view. Segment measures of performance are included in the financial statements and are audited.
- BC150 Some stakeholders also expressed concerns that management performance measures may proliferate if they are included in the financial statements. The Board noted that it is difficult to predict the effect of the proposals on the number of management performance measures an entity would use. While it is possible that the use of such measures would increase as a result of the Board’s proposals, it is also possible that the use of management performance measures would decline if entities choose to use the proposed new subtotals to communicate their performance instead. Paragraphs BC304–BC307 include further discussion of the expected effects of the proposals for management performance measures on the use of performance measures defined by management.
- BC151 The Board acknowledges the concerns of some stakeholders, but concluded that management performance measures can complement measures specified by IFRS Standards, providing users of financial statements with useful insight into management’s view of performance and its management of the business. Including these measures in the financial statements would make them subject to the same requirements regardless of the entity’s jurisdiction and would improve the discipline with which they are prepared and improve their transparency.
- BC152 In developing the requirements for management performance measures, the Board considered:
- (a) how to define management performance measures (see paragraphs BC153–BC162);
- (b) where in the financial statements to include information about management performance measures (see paragraphs BC163–BC166); and
- (c) what information an entity should be required to provide about management performance measures (see paragraphs BC167–BC179).

Definition and restrictions (paragraphs 103–105 and B76–B81)

- BC153 The Board proposes to define management performance measures as subtotals of income and expenses that:
- (a) are used in public communications, outside financial statements;
 - (b) complement totals or subtotals specified by IFRS Standards (see paragraphs BC168–BC173 for discussion of the proposed specified subtotals); and
 - (c) in management’s view, communicate to users of financial statements an aspect of an entity’s financial performance.
- BC154 Feedback from users of financial statements led the Board to focus on improvements to the reporting of financial performance in the statement(s) of financial performance and the related notes. Therefore, the Board’s proposed definition for management performance measures is limited to subtotals of income and expenses. Thus, other financial measures (such as currency adjusted revenue or return on capital employed) and non-financial measures (such as customer retention rate) are not management performance measures and would not be included in the proposed disclosure.
- BC155 To address concerns that management performance measures might be misleading, the Board considered whether any specific restrictions should be applied to the calculation of these measures, such as restricting measures to those based on amounts recognised and measured in accordance with IFRS Standards. Such a restriction would have prohibited measures based on accounting policies that do not comply with IFRS Standards, such as measures that apply proportionate consolidation. However, the Board rejected imposing such specific restrictions on how management performance measures are calculated because:
- (a) such restrictions might prevent entities from disclosing measures that users of financial statements find useful, for example, measures that adjust for some effects of acquisition accounting to facilitate trend analysis;
 - (b) such restrictions might prevent entities from disclosing industry-defined performance measures;
 - (c) such restrictions might create conflict with regulatory guidance that permits or requires some or all of these measures; and
 - (d) the requirement would be inconsistent with the objective of providing management’s view of performance.
- BC156 The Board’s view is that performance measures used in public communications outside the financial statements should be consistent with the performance measures disclosed in the financial statements because:
- (a) it is hard to justify that a measure, in management’s view, communicates performance if an entity is not using it in communicating performance; and

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

- (b) it would be confusing if one entity were to provide two sets of management-defined measures, one within and one outside the financial statements.
- BC157 The Board considered defining management performance measures as all subtotals of income and expense included in an entity's annual report. The Board rejected such an approach because:
- (a) consistent with the feedback received in response to the Exposure Draft on proposed amendments to IFRS 8 *Operating Segments*, it may not be clear what constitutes an annual report; and
- (b) management may include performance measures in an entity's annual report to comply with regulatory or other requirements.
- BC158 The Board noted that management performance measures disclosed in the notes to the financial statements would need to comply with the general requirements for information included in financial statements. That is:
- (a) the management performance measure must faithfully represent the aspect of financial performance of the entity it purports to represent;
- (b) the disclosures supporting the management performance measure must comply with the proposed guidance on aggregation and disaggregation, for example, when disclosing reconciling items;
- (c) comparative information should be provided for the management performance measure and related disclosures; and
- (d) the management performance measure should be calculated consistently from one period to the next and be subject to change only if the new measure provides more useful information.
- BC159 Some stakeholders argue that there should be no restriction on when an entity can disclose information about its management performance measures. In their view, one of the main objectives of the management performance measure proposals is to provide users of financial statements with enough information to prevent them from being misled by these measures. They argue that restricting the disclosure of information about management performance measures to situations when those measures faithfully represent an aspect of an entity's performance is inconsistent with that objective because:
- (a) the requirements of IFRS Standards cannot prevent disclosure of potentially misleading measures outside the financial statements. While in some jurisdictions local law or regulation may prevent the disclosure of such measures, this is not always the case.
- (b) the requirement that a management performance measure must faithfully represent an aspect of an entity's performance would prevent the disclosure of useful information about such measures in circumstances when users are most likely to be misled.

- (c) entities wishing to avoid the proposed disclosure requirements could do so by disclosing performance measures outside the financial statements that they believe would be assessed by their auditors or regulators as not providing a faithful representation.
- BC160 These stakeholders also note that IFRS 8 does not place a similar explicit restriction on the disclosure of segment information which reflects the views of management.
- BC161 The Board acknowledges that including information about such measures in the financial statements may increase transparency about these measures. However, the Board thinks that all information included in the financial statements should provide a faithful representation of what it purports to represent. A management-defined performance measure that does not faithfully represent an aspect of an entity's performance should not be included in the financial statements as a management performance measure.
- BC162 The Board also considered whether it should specifically state that management performance measures should not be misleading. The Board rejected such a proposal as unnecessary because misleading measures would not provide a faithful representation of the financial performance of the entity.

Location of information about management performance measures (paragraphs 106, 110 and B82–B85)

- BC163 The Board proposes that an entity disclose management performance measures and all related information in a single note. Disclosing management performance measures and the related information in a single location improves the transparency of those measures by:
- (a) providing management performance measures together with the information needed to understand those measures; and
 - (b) helping users of financial statements to identify and locate the related information.
- BC164 To address the concerns of some stakeholders that management performance measures could be misleading and should not be given prominence, the Board considered prohibiting entities from presenting management performance measures in the statement(s) of financial performance. However, paragraphs the Board proposes to move from IAS 1 to the draft IFRS [X] require entities to present line items, headings and subtotals in the statement(s) of financial performance that are not required by IFRS Standards if that information is relevant to an understanding of the entity's financial performance. Prohibiting an entity from presenting management performance measures in the statement(s) of financial performance may prevent them from complying with this requirement. Therefore, the Board does not propose prohibiting an entity from presenting management performance measures in the statement(s) of financial performance.

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

- BC165 However, the Board expects that few management performance measures would meet the requirements for presentation as a subtotal in the statement(s) of financial performance. To meet the requirements, such subtotals must:
- (a) fit into the structure of the proposed categories (see paragraph BC28);
 - (b) not disrupt the presentation of an analysis of expenses in the operating category using either the function of expense or nature of expense method (see paragraph BC109); and
 - (c) comprise amounts recognised and measured applying IFRS Standards.
- BC166 The Board is, however, proposing to prohibit entities from using columns to present a management performance measure in the statement(s) of financial performance. Prohibiting the use of columns further restricts the circumstances in which such measures may be presented in the statement(s) of financial performance, which helps address the concerns of some stakeholders that doing so would give them undue prominence. Additionally, this restriction is consistent with the Board's objective of improving the comparability of information provided in the statement(s) of financial performance.

Information to be disclosed about management performance measures (paragraphs 106–108)

- BC167 Transparency is enhanced by an entity clearly stating the purpose and limitations of management performance measures. In presenting management's view, a management performance measure is entity-specific and requires management's judgements about what is useful to users of financial statements. Users require sufficient information about those judgements to understand the information the management performance measure provides and how it provides a faithful representation of an aspect of an entity's performance. Therefore, the Board proposes that an entity disclose a description of each management performance measure, explaining how it has been calculated, and why and how it communicates information about an entity's performance. An entity would also be required to explain that the management performance measure is entity-specific by disclosing that the measure provides a management view of financial performance and stating that it is not necessarily comparable with measures used by other entities.
- BC168 The Board proposes that an entity provide a reconciliation to the most directly comparable total or subtotal specified by IFRS Standards for each management performance measure, making these measures more transparent. The Board also noted that, because the Board's proposals increase the number of subtotals specified by IFRS Standards, these reconciliations would contain fewer reconciling items than today making them more understandable.
- BC169 Because a management performance measure is complementary to the totals or subtotals in IFRS Standards, it is important for users of financial statements to understand how such measures relate to these totals or subtotals. A reconciliation provides users with information about how the management

performance measure is calculated and how the measure compares to similar measures provided by other entities. The reconciliation also provides users with the information required to make their own adjustments to the management performance measure, should they decide that adjustments are needed.

- BC170 However, the Board recognises that some subtotals currently not specified by IFRS Standards are commonly used in the financial statements and are well understood by users of financial statements. Providing a reconciliation for such measures would not provide additional information because their purposes and relationship to totals or subtotals specified by IFRS Standards are well understood and would usually be apparent from their presentation in the statement(s) of financial performance.
- BC171 Therefore, the Board proposes to specify a list of subtotals that are not considered management performance measures including gross profit or loss (revenue less cost of sales) and similar subtotals, operating profit or loss before depreciation and amortisation, profit or loss from continuing operations, and profit or loss before income tax. These subtotals would thus be specified by IFRS Standards and management performance measures could be reconciled to these subtotals.
- BC172 The Board also considered whether to define earnings before interest, tax, depreciation and amortisation (EBITDA). However, the Board noted that, although EBITDA is one of the most commonly used measures in communications with users of financial statements, it is not used in some industries such as finance. Furthermore, users have no consensus about what EBITDA represents, other than it being a useful starting point for various analyses. Its calculation is diverse in practice. Consequently, EBITDA measures may meet the definition of management performance measures.
- BC173 The Board also considered whether a measure calculated as operating profit or loss before depreciation and amortisation would provide similar information to many of the EBITDA measures that are currently provided. However, the Board concluded it should not describe operating profit or loss before depreciation and amortisation as EBITDA. To do so would imply that operating profit or loss is the same as earnings before interest and tax which is not the case because operating profit or loss does not include, for example, income from investments or from equity-accounted associates and joint ventures. In other words, the Board was concerned about the difference between what the measure represents and the meaning of the EBITDA acronym. However, as discussed in paragraph BC171, the Board has included operating profit or loss before depreciation and amortisation in the list of IFRS specified subtotals. Consequently, an EBITDA measure equal to that amount would not be a management performance measure.
- BC174 The Board proposes an entity provide sufficient explanation to help users of financial statements understand any changes in management performance measures or in how they are calculated; the entity would also quantify the effect of such changes. Comparability from period to period is enhanced by the provision of information about changes in these measures.

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

- BC175 The Board considered whether it should require a five-year historical summary of management performance measures. However, it rejected this requirement because changes in accounting standards may make it difficult or costly for entities to disclose comparable measures beyond the time frame set out in those changes.
- BC176 IAS 33 requires some entities to disclose their earnings per share and permits an entity to disclose adjusted earnings per share measure(s). The Board considered whether an adjusted earnings per share that is based on the entity's management performance measures should be required. It rejected this approach because it would introduce complexity when entities have more than one management performance measure, if these measures are not calculated consistently.
- BC177 However, the Board considered feedback that earnings per share information was important to users of financial statements and that one of the benefits of management performance measures to users is the detailed information that can be used to calculate a related earnings per share figure. To calculate such an earnings per share figure, users need information about the earnings adjustments attributable to the parent and the tax effects of those adjustments. Therefore, the Board proposes an entity should disclose separately the effect of income tax and the amount attributable to non-controlling interests for each reconciling item between a management performance measure and the most directly comparable total or subtotal specified by IFRS Standards. The Board decided to propose this disclosure at the level of individual adjustments made in calculating a management performance measure rather than at the level of the total adjustment because it gives users information needed to select which adjustments they want to consider in arriving at an adjusted earnings per share measure used in their analysis.
- BC178 The Board noted that some preparers of financial statements have said the disclosure of the tax and non-controlling interest effects for individual adjustments may be complex and costly. To alleviate the costs of preparing disclosures about the tax effect of management performance measure adjustments, the Board proposes a simplified approach for calculating the income tax effect of the reconciling items. The Board concluded that this simplified approach would provide users of financial statements with a reasonable estimate of the income tax effect of adjustments, making it clear when the tax effect of an adjustment is materially different to the effect calculated applying the entity's effective tax rate. The Board noted that this approach is similar to the approach for determining the income tax effect on items of other comprehensive income set out in IAS 12 *Income Taxes*.
- BC179 The Board considered, but rejected, requiring an entity to disclose the reasons for any differences between its management performance measures and its operating segment measures of performance. The Board concluded that, based on evidence of current practice and feedback from outreach meetings, such disclosure would not provide useful information, might result in boilerplate disclosures and would add unnecessary complexity to the proposals.

Relationship of unusual income and expenses with management performance measures (paragraph B75)

- BC180 The Board noted that entities often adjust for unusual income and expenses when disclosing management-defined performance measures and that, in some cases, such an adjustment may make the separate disclosure of unusual income or expenses unnecessary. However, the Board proposes to require all entities to disclose information about unusual income and expenses because:
- (a) not all entities communicate performance using management-defined performance measures. Therefore, not all entities would be required to provide the proposed disclosures for management performance measures. Such entities would have no management performance measures and, hence, would not provide information about unusual income and expenses unless the Board required such information.
 - (b) the proposals for management performance measures do not require entities to adjust for unusual income and expenses. Therefore, users would not be provided with the information that they need about such income and expenses on a consistent basis.

Effective date and transition

- BC181 The Board proposes to require entities to apply draft IFRS [X] after a transition period of 18–24 months starting on the date of publication, with retrospective application.
- BC182 In deciding on a transition period, the Board noted that because its proposals affect presentation and disclosure only, they should be more straightforward to implement than changes affecting recognition and measurement. Consequently, the Board concluded that the proposed transition period of 18–24 months would allow sufficient time for entities to make any necessary updates to their systems, collect the information needed to restate comparatives, and resolve any operational challenges.
- BC183 The Board's proposals are expected to result in extensive changes to the statement(s) of financial performance. If comparatives in that statement(s) are not restated, there is a risk that the information included in the statement(s) of financial performance could be misleading. Also, because the proposals affect presentation and disclosure requirements only, entities would not need to consider periods before the start of the earliest comparative period. So, restatement of comparatives should be relatively straightforward. Therefore, the Board proposes retrospective application.
- BC184 Paragraph 10 of IAS 34 requires an entity to present, at a minimum, the same subtotals as in the most recent annual financial statements. In the first year of application of this proposed Standard, an entity may have different subtotals in its most recent annual financial statements from those required by the proposed Standard. Consequently, the entity would be prevented from presenting the subtotals required by the proposed Standard in its interim financial report. The Board concluded that presenting the subtotals required by the proposed Standard would provide useful information to users of

financial statements. Therefore, the Board proposes that, in the first year of application of the proposed Standard, an entity present the proposed headings and subtotals in condensed financial statements in interim financial report(s), for both the current and comparative periods.

Proposed amendments to other IFRS Standards

IAS 7 *Statement of Cash Flows*

BC185 As discussed in paragraph BC12, the Board proposes only limited changes to the statement of cash flows. Those changes include:

- (a) specifying a consistent starting point for the indirect method of reporting cash flows from operating activities (see paragraphs BC186–BC188);
- (b) eliminating options for the classification of interest and dividend cash flows (see paragraphs BC189–BC204); and
- (c) introducing new requirements for the classification of cash flows from investments in associates and joint ventures (see paragraphs BC205–BC208).

Starting point for the indirect method

BC186 The Board observed that entities use different starting points for the indirect method for reporting operating cash flows such as profit or loss, profit or loss from continuing operations, profit or loss before tax or operating profit or loss.

BC187 The Board proposes to require all entities to use the same starting point for the indirect method because users of financial statements have indicated that the diversity in practice reduces comparability between entities, making their analyses more difficult.

BC188 The Board proposes to use operating profit or loss as the starting point rather than profit or loss because:

- (a) using operating profit or loss, an entity needs to present fewer adjustments to the starting point, which simplifies the presentation of the operating cash flows category. This is because, compared to profit or loss, operating profit or loss includes fewer income and expenses for which the cash effects are classified as investing or financing cash flows. For example, operating profit or loss does not include the share of profit or loss of associates and joint ventures.
- (b) the difference between cash flows from operating activities and operating profit or loss provides a measure of operating accruals. Some users of financial statements find such a measure useful because it helps them understand how operating profit or loss is converted into cash flows.

Classification of interest and dividend cash flows

- BC189 IAS 7 permits entities to choose an accounting policy for classifying interest and dividend cash flows in the statement of cash flows. As a result, classification varies, even among entities in the same industry.
- BC190 The Board proposes to remove this classification choice for most entities, because users of financial statements have indicated that the diversity in classification between entities in the same industry:
- (a) reduces comparability, making their analysis more difficult; and
 - (b) is often not meaningful—that is, the different classifications of these cash flows do not necessarily convey information about the role of interest and dividends in the entity’s business activities.

Dividends paid

- BC191 The Board proposes that all entities should classify dividends paid as cash flows from financing activities because dividends paid are a price of obtaining financing.
- BC192 IAS 7 currently allows classification of dividends paid as cash flows from operating activities. Paragraph 34 of IAS 7 explains that classifying dividends paid as cash flows from operating activities may assist users of financial statements with determining an entity’s ability to pay dividends out of operating cash flows. However, the Board no longer supports that rationale for classifying dividends paid as cash flows from operating activities because:
- (a) classifying dividends paid in this way does not provide a faithful representation of the operating cash flows. Dividend payments are financing in nature.
 - (b) when assessing cash flows available to pay dividends, users tend to use other measures, such as free cash flow, which take into account cash needed for capital expenditure.
 - (c) users can continue comparing dividends paid with cash flows from operating activities if they wish, because IAS 7 requires the disclosure of dividends paid.

Dividends received and interest paid and received

- BC193 The Board considered two approaches for classifying dividends received and interest paid and received:
- (a) seeking to align, to the extent possible, the classification in the statement of profit or loss with the classification in the statement of cash flows. Doing so would mean the classification of dividends received and interest paid and received would depend on the entity’s main business activities (see paragraphs BC194–BC202).
 - (b) requiring all entities to classify dividends received, interest paid and interest received as operating cash flows (see paragraphs BC203–BC204).

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

- BC194 The Board proposes the approach described in paragraph BC193(a) because, when alignment can be achieved, it can increase the understandability of the resulting information. However, the Board is not proposing full alignment between the categories in the statement of profit or loss and the statement of cash flows (see paragraph BC30).
- BC195 As it did for classification in the statement of profit or loss, the Board distinguished the following types of entities in developing its proposed approach for the statement of cash flows:
- (a) entities that provide financing to customers as a main business activity or invest in the course of their main business activities in assets that generate a return individually and largely independently of other entity resources (see paragraphs BC198–BC202); and
 - (b) entities whose main business activities do not include any of those described in (a) (see paragraphs BC196–BC197).
- BC196 The Board proposes that the entities described in paragraph BC195(b) classify:
- (a) cash receipts from interest and dividends as cash flows from investing activities. The Board proposes this classification because, in most cases, the related income is expected to be classified in the investing category in the statement of profit or loss.
 - (b) cash payments arising from interest incurred as cash flows from financing activities. The Board proposes this classification because interest paid represents the cost of obtaining financing. The related interest expenses are classified in the financing category in the statement of profit or loss by such entities (see paragraph BC37).
 - (c) cash payments arising from interest capitalised applying IAS 23 *Borrowing Costs* as part of the cost of an asset as cash flows from financing activities. The Board proposes this classification to avoid requiring potentially arbitrary allocations between operating and investing activities and because this approach would result in the consistent classification of interest paid, regardless of whether it has been capitalised.³
- BC197 The Board expects the proposed approach in paragraph BC196 to align the classification of interest and dividends in the statement of cash flows with the classification in the statement of profit or loss in most cases. The Board acknowledges that this approach does not achieve full alignment. For example:

³ The Exposure Draft *Annual Improvements to IFRSs 2010–2012 Cycle* issued in May 2012 proposed to amend IAS 7 *Statement of Cash Flows* to require that interest paid that is capitalised be classified either as operating or investing in line with the nature of the underlying asset to which those payments were capitalised—for example, inventory (operating), and property, plant and equipment (investing). The Board did not proceed with the amendments because of concerns raised about the implementation of the amendment, including concerns that applying the requirements would result in arbitrary allocations.

- (a) interest revenue from cash and cash equivalents is classified in the financing category in the statement of profit or loss, whereas all interest received is classified as cash flows from investing activities in the statement of cash flows; and
- (b) interest capitalised as part of the cost of an item of property, plant and equipment would be recognised in profit or loss through depreciation expenses, which would be included in operating profit or loss, whereas capitalised interest paid would be included in cash flows from financing activities.

However, the Board concluded that classification of interest or dividend cash flows in a single category in the statement of cash flows is more useful than full alignment.

BC198 The Board noted that the proposed approach described in paragraph BC196 could not be applied without modification to the entities described in paragraph BC195(a). This is because applying the approach to such entities without modification:

- (a) would result in cash flows that are operating in nature being classified as investing or financing cash flows (for example, interest paid on deposits would be classified as financing by a bank); and
- (b) may not result in alignment with the classification of related dividend and interest income and expenses in the statement of profit or loss.

BC199 The Board considered whether to require the entities described in paragraph BC195(a) to fully align the classification of dividends received and interest paid and received with the classification of the related income and expenses in the statement of profit or loss. However, the Board rejected this approach because it may be costly for entities to split dividends received and interest paid and received between different categories of the statement of cash flows when the related income and expenses are classified in multiple categories of the statement of profit or loss. The Board also understands that some users of financial statements question the usefulness of the statement of cash flows for entities of the type described in paragraph BC195(a) and, therefore, the benefits of such an approach may not outweigh the costs.

BC200 Instead, the Board proposes to require the entities described in paragraph BC195(a) to classify each type of cash flow (dividends received, interest paid and interest received) in a single category of the statement of cash flows, even if related income and expenses are in more than one category in the statement of profit or loss. The Board prefers this approach over full alignment because:

- (a) the presentation of cash flows is simplified, in that each type of cash flow is classified in a single category of the statement of cash flows; and
- (b) the classification of each type of cash flow in a single category is consistent with current practice and with the Board's proposed approach in paragraph BC196.

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

- BC201 Applying the Board's proposed approach described in paragraph BC200, the Board considered requiring an entity to determine the single category for classification of each type of cash flow either by making an accounting policy choice or by reference to the category in the statement of profit or loss that includes most of the related income or expenses. The Board proposes the first approach because the second approach could result in the inconsistent classification of cash flows over time.
- BC202 Applying the proposed approach, the Board expects that, in most cases, interest payments would be classified in the same category of the statement of cash flows as repayment of the principal. Consequently, the Board proposes to delete the example in paragraph 12 of IAS 7 that illustrates when an entity might classify cash flows from a single transaction in multiple categories in the statement of cash flows.
- BC203 The Board also considered an alternative approach described in paragraph BC193(b), which would be requiring all entities to classify dividends received, interest paid and interest received as operating cash flows. This approach would have had some advantages:
- (a) it would have achieved the Board's objective of eliminating options for the classification of interest and dividend cash flows.
 - (b) it would have allowed users of financial statements to easily identify where in the statement of cash flows interest received and paid and dividends received had been classified, because they would all have been classified as operating cash flows. This would have been particularly beneficial to users comparing a large number of companies using electronic reports.
 - (c) it would have been consistent with the principle in IAS 7 that cash flows from transactions and other events that enter into the determination of profit or loss should be classified in operating activities.
 - (d) unlike the Board's proposed approach, it would not have required amending the definition of investing activities to include the receipt of interest and dividends.
 - (e) it would have been less costly for preparers of financial statements to apply because:
 - (i) classifying these cash flows would have been less complex than applying the Board's proposed approach; and
 - (ii) for many entities this approach would not have resulted in a change to existing practice.
- BC204 However, the Board rejected the approach described in paragraph BC193(b) because:

- (a) the approach would be inconsistent with the proposed definition of financing activities in IAS 7. The definition in IAS 7 captures interest paid, but applying this approach interest paid would be classified as cash flows from operating activities.
- (b) the approach would not align operating profit or loss with the operating cash flows category of the statement of cash flows (see paragraph BC194). As a consequence, the difference between cash flows from operating activities and operating profit or loss would be a poorer measure of operating accruals than the difference that would result from applying the Board's proposed approach (see paragraph BC188(b)).

Classification of cash flows from investments in associates and joint ventures

- BC205 The Board proposes to require an entity to present the share of profit or loss of integral associates and joint ventures separately from the share of profit or loss of non-integral associates and joint ventures in the statement of profit or loss. The Board also proposes to require a split between integral and non-integral associates and joint ventures in the statement of cash flows because the link between income and expenses and their related cash flows is important to many users of financial statements.
- BC206 The Board proposes that an entity should classify, as cash flows from investing activities, cash flows from the acquisition and sale of investments in associates and joint ventures. This is consistent with the IAS 7 definition of cash flows from investing activities. The Board proposes that all entities should classify as cash flows from investing activities dividends received from associates and joint ventures accounted for using the equity method. This is consistent with its proposal to require all entities to exclude the share of profit or loss of associates and joint ventures from the operating profit or loss subtotal in the statement of profit or loss (see paragraph BC83).
- BC207 The Board considered alternative approaches for classifying cash flows from the acquisition and disposal of, and dividends received from, integral associates and joint ventures. The approaches would be to present the cash flows:
- (a) as operating activities to respond to the views of some stakeholders that the operating category better represents the nature of these transactions.
 - (b) in a separate category of the statement of cash flows closer to operating activities. This would be similar to the Board's approach for integral associates and joint ventures in the statement of profit or loss.
- BC208 However, the Board rejected the approach in paragraph BC207(a) because classifying these cash flows in the operating category would be inconsistent with the definitions of investing and operating cash flows in IAS 7. It would also be inconsistent with the Board's proposal to exclude the share of profit or loss of integral associates and joint ventures from the operating profit or loss subtotal. The Board rejected the approach in paragraph BC207(b) because it

would result in investing cash flows, as defined in IAS 7, being presented outside the investing category. A new category would also result in increased complexity in the statement of cash flows.

IFRS 12 *Disclosure of Interests in Other Entities*

- BC209 As discussed in paragraph BC79, the Board proposes to require an entity to classify its investments in associates and joint ventures accounted for using the equity method as either integral to an entity's main business activities or non-integral to those activities.
- BC210 To achieve this, the Board proposes to amend IFRS 12 to introduce a definition of integral and non-integral associates and joint ventures. The proposed definition is based on the proposed definition of income and expenses from investments. The purpose of this approach is for income and expenses from associates and joint ventures to be classified in the investing category only when they would meet the definition of income and expenses from investments. This approach is also easier and more understandable than developing a definition for integral and non-integral associates and joint ventures that is not based on an existing definition.
- BC211 The Board further proposes introducing a set of indicators to help an entity determine which associates and joint ventures are integral to an entity's main business activities. Given the wide range of possible business relationships between an entity and its associate or joint venture, the Board concluded that it is not possible to develop an exhaustive list of criteria that could encompass all possible business scenarios and has instead proposed a list of indicators. 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.
- BC212 The Board also proposes amending IFRS 12 to require separate disclosures about integral and non-integral associates and joint ventures.
- BC213 To help users of financial statements understand the judgements made by an entity, the Board further proposes requiring an entity to disclose significant judgements and assumptions it made to assess whether associates and joint ventures accounted for using the equity method are integral or not, and disclosure requirements relating to any changes in classification.

IAS 33 *Earnings per Share*

- BC214 The Board proposes amending IAS 33 to restrict the numerator used to calculate adjusted earnings per share to subtotals presented in IFRS Standards or a management performance measure that is attributable to holders of equity claims of the parent.

- BC215 Currently, applying the IAS 33 requirements, an adjusted earnings per share could be calculated based on any component of the statement(s) of financial performance. The numerator used in an adjusted earnings per share need not be a subtotal specified by IFRS Standards or a management performance measure. Because adjusted earnings per share result in fewer disclosure requirements than those for management performance measures, users of financial statements would receive less information if an entity chose to disclose an adjusted earnings per share instead of a management performance measure. Restricting the numerator used in adjusted earnings per share to subtotals presented in IFRS Standards or a management performance measure attributable to holders of equity claims of the parent means that users should receive the same information about adjusted earnings per share as they receive for management performance measures.
- BC216 The Board has decided that adjusted earnings per share based on management performance measures may provide useful information to users of financial statements. Therefore, it proposes to state that management performance measures can be used as numerators when an entity discloses adjusted earnings per share.
- BC217 The Board considered the implications of the earnings per share proposal in paragraph BC214 for entities required by local law or regulation to disclose an adjusted earnings per share. If such an entity concludes that the numerator used in the earnings per share measure required by local law or regulation meets the definition of a management performance measure, that entity would be permitted to disclose the measure in its financial statements. If, however, the entity does not identify the numerator as a management performance measure, the earnings per share measure required by local law or regulation would be disclosed only outside the financial statements.
- BC218 The Board also proposes to specify that adjusted earnings per share can only be disclosed in the notes and cannot be presented in the primary financial statements. To be understood by users of financial statements, adjusted earnings per share calculations require additional information and reconciliation to the measures presented in the primary financial statements. This additional information and reconciliations can only be provided in the notes. Disclosure in the notes also addresses the concerns of some stakeholders that adjusted measures of performance should not be given more prominence than measures specified by IFRS Standards.

IAS 34 Interim Financial Reporting

- BC219 The Board proposes amending IAS 34 to require disclosure of information about management performance measures in the notes to an entity's condensed interim financial statements.
- BC220 Some users of financial statements requested that information about management performance measures be disclosed in the notes to all interim financial reports, including when entities present a set of condensed financial statements. Such disclosures would allow users to better understand management performance information released at the same time as the

interim financial report. Requiring information about management performance measures in interim financial reports would provide users with transparent information about management performance measures and allow them to analyse all aspects of an entity's performance on a timely basis.

- BC221 Consistent with the objective of condensed interim financial reports an entity would not need to duplicate previously reported information about management performance measures—for example, information about why management thinks a management performance measure communicates aspects of the entity's performance.
- BC222 In response to the concerns of some preparers of financial statements regarding the costs of preparing the disclosure of the income tax and non-controlling interest effects of reconciling items between the management performance measure and the subtotals specified by IFRS Standards, the Board considered not requiring this disclosure in condensed financial statements. However, it rejected this approach because omitting this information from condensed financial statements could undermine the usefulness of the management performance measure disclosures. The Board noted that its proposed requirements for determining the tax effect of management performance measure adjustments should also reduce the costs of providing this information (see paragraph BC178).
- BC223 The Board also proposes to amend IAS 34 to align the description of unusual items in that Standard with the Board's proposed definition of unusual income and expenses.
- BC224 Some users of financial statements have told the Board they want information presented or disclosed using the nature of expense method in the condensed financial statements. The Board has decided not to propose such a requirement because it would be inconsistent with the objective of condensed financial statements, which is to provide an update on the latest complete set of annual financial statements.
- BC225 The Board proposes requirements for the presentation of headings and subtotals in condensed financial statements in condensed interim financial report(s) in the first year an entity applies draft IFRS [X] (see paragraph BC184).

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

- BC226 IAS 1 includes requirements relating to the general features of financial statements as well as general presentation and disclosure requirements. The Board proposes to move the paragraphs setting out general features of financial statements from IAS 1 to IAS 8 as well as some disclosure requirements and to withdraw IAS 1.
- BC227 The paragraphs the Board proposes to move to IAS 8 unchanged include:
- (a) the definition of material (part of paragraph 7 of IAS 1);
 - (b) the requirements relating to fair presentation and compliance with IFRS Standards (paragraphs 15–24 of IAS 1);

- (c) the requirements relating to going concern (paragraphs 25–26 of IAS 1);
 - (d) the requirements relating to the accrual basis of accounting (paragraphs 27–28 of IAS 1); and
 - (e) the requirements relating to disclosures of accounting policies and sources of estimation uncertainty (paragraphs 117–133 of IAS 1).
- BC228 The Board considered retaining these requirements in IAS 1 or moving the requirements to the proposed draft IFRS [X] on presentation and disclosure, but concluded that they would fit better with the content of IAS 8.
- BC229 In the light of proposed additions to IAS 8, the Board is also proposing to amend IAS 8 to:
- (a) change the title of the Standard to *Basis of Preparation, Accounting Policies, Changes in Accounting Estimates and Errors*; and
 - (b) revise the objective and scope paragraphs.

IFRS 7 *Financial Instruments: Disclosures*

- BC230 The Board proposes to move paragraphs 80A and 136A from IAS 1 to IFRS 7. These paragraphs set out requirements for disclosures relating to puttable instruments classified as equity in accordance with paragraphs 16A–16B of paragraphs 16C–16D of IAS 32 *Financial Instruments: Presentation*. The Board concluded that disclosure requirements specific to a type of financial instrument would better fit in an IFRS Standard dealing with other financial instruments than in a general presentation and disclosure Standard.
- BC231 As equity instruments subject to these disclosure requirements are currently outside the scope of IFRS 7, the Board also proposes to amend the scope of IFRS 7 to reflect the relocation of those paragraphs.

Expected effects of the proposals

- BC232 The Board is committed to assessing and sharing knowledge about the likely costs of implementing proposed new requirements and the likely ongoing application costs and benefits of those requirements—these costs and benefits are collectively referred to as ‘effects’. The Board gains insight on the likely effects of proposed new requirements through its formal exposure of the proposals and through its fieldwork, analysis and consultations.
- BC233 The paragraphs that follow discuss the likely effects of the proposed requirements, including:
- (a) a summary of effects analysis (see paragraphs BC236–BC247);
 - (b) entities affected by the Board’s proposals (see paragraphs BC248–BC249);
 - (c) the likely effects of the proposals on the quality of financial reporting (see paragraphs BC250–BC277);

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

- (d) the likely effects of the proposals on how information is reported in the financial statements (see paragraphs BC279–BC280);
- (e) the likely costs of the proposals (see paragraphs BC281–BC300); and
- (f) other effects of the proposals (including the likely effects on electronic reporting, use of management-defined performance measures, and consequences for contracts and agreements) (see paragraphs BC301–BC312).

BC234 The analysis of these effects (the effects analysis) is mainly qualitative, rather than quantitative. Initial and subsequent costs and benefits are likely to vary among stakeholders. Quantifying costs and, particularly, benefits, is both a subjective and a difficult process. No sufficiently well-established and reliable techniques quantify either costs or benefits in this type of analysis. The analysis is also of the likely effects of the proposed requirements rather than the actual effects, because these cannot be known prior to application. The actual effects are one aspect that is considered through the Board's post-implementation reviews.

BC235 The Board has sought to understand the potential effects of its proposals throughout the development of the Exposure Draft. The project and its likely effects were discussed on 23 separate occasions with the Board's advisory bodies and standing consultative groups, including the Capital Markets Advisory Committee, the Global Preparers Forum, the Emerging Economies Group and the Accounting Standards Advisory Forum. The implications of the proposals for electronic reporting were discussed with the IFRS Taxonomy Consultative Group. Furthermore, Board members and staff performed extensive outreach with external stakeholders from February 2016 to June 2019. Over 100 outreach meetings were conducted with stakeholders; more than 50 of those meetings were with users of financial statements. Other meetings included preparers of financial statements, academics, regional standard-setters, regulators and other stakeholders. The Board also considered the results from:

- (a) an analysis of the reporting practices of 100 entities in various industries;
- (b) a review of selected academic literature and reports and guidance published by other organisations; and
- (c) research on regulatory requirements in different jurisdictions in relation to measures defined by management.

Summary of effects analysis

What are the main changes expected to the financial statements?

BC236 The Board's proposals are expected to result in changes to:

- (a) the presentation of subtotals in the statement of profit or loss;
- (b) the presentation of information about associates and joint ventures accounted for using the equity method;

- (c) the disaggregation of information in the financial statements, including unusual income and expenses;
- (d) the information provided about management-defined performance measures; and
- (e) the presentation of information in the statement of cash flows.

BC237 Table 1 summarises the expected effects of the Board’s proposals on each of the components of the financial statements. Only the Board’s proposals on the disaggregation of financial information are expected to affect the statement of changes in equity.

Table 1 Summary of expected effects on the financial statements

Key proposals	Likely effects on how information is reported in the financial statements
Expected effects on the statement of profit or loss	
Requiring defined subtotals and categories in the statement of profit or loss	<ul style="list-style-type: none"> • Presenting an ‘operating profit or loss’ subtotal would be new for some entities. In addition, many of the entities that already present the measure labelled operating profit or loss would need to change how they calculate it. • Distinguishing between ‘integral’ and ‘non-integral’ associates and joint ventures and presenting an ‘operating profit or loss and income and expenses from integral associates and joint ventures’ subtotal would be new for almost all entities that have investments in associates and joint ventures. • The investing category would be new for most entities. However, entities who invest in the course of their main business activities such as banks and insurers are expected to be less affected by this requirement. • Presenting a financing category and a ‘profit or loss before financing and income tax’ subtotal would be new for most entities. However, entities such as banks are likely to be exempt from this requirement. In addition, many of the entities that already present such a subtotal today would need to change how they calculate it.
Analysis of operating expenses by nature or by function	<ul style="list-style-type: none"> • Some entities would need to change the method they use to analyse operating expenses. • Some entities would need to stop using a mixed approach to analyse operating expenses.

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BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

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Key proposals	Likely effects on how information is reported in the financial statements
Expected effects on the statement of cash flows	
Starting point for the indirect method	<ul style="list-style-type: none"> Using operating profit or loss as the starting point for the indirect method would be a change for most entities.
Classification of interest and dividends	<ul style="list-style-type: none"> Many entities would need to change the classification of interest received and interest paid. Some entities would need to change the classification of dividends received. For those entities, cash flows from operating activities would change. A few entities would need to change the classification of dividends paid.
Expected effects on the notes	
Unusual income and expenses	<ul style="list-style-type: none"> Disclosing information about unusual income and expenses would be new for many entities. Many of the entities that already disclose such information today would need to change how they identify unusual income and expenses and would need to provide additional information about such items.
Management performance measures	<ul style="list-style-type: none"> Some entities would need to include management performance measures in the notes, rather than only outside the financial statements. Most entities would need to provide more disclosures about their management performance measures than they do today, including a reconciliation and the tax and non-controlling interests effect for each adjustment. Some entities would need to provide such disclosures in the financial statements, rather than only outside the financial statements. Some entities do not use management performance measures as defined and would not be affected by the proposals.
Analysis of operating expenses by nature or by function	<ul style="list-style-type: none"> Many of the entities that present their primary analysis of expenses by function would need to provide additional information in the notes about the nature of operating expenses.

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Key proposals	Likely effects on how information is reported in the financial statements
Expected effects on aggregation and disaggregation in the financial statements	
Role of primary financial statements and notes and aggregation and disaggregation	<ul style="list-style-type: none"> Many entities are expected to change the level of disaggregation provided both in the primary financial statements and the notes.

What are the expected benefits to users of financial statements?

BC238 The Board's proposals would provide users of financial statements with better information to make economic decisions, with a focus on improving the information included in the statement of profit or loss. In particular, the proposals aim to improve how information is communicated in the financial statements and thus improve the quality of financial reporting by:

- (a) providing additional relevant information, particularly about financial performance;
- (b) enhancing comparability across entities; and
- (c) improving the transparency and discipline of reporting about some management-defined performance measures.

BC239 Specifically, the main expected benefits are:

- (a) providing users of financial statements with additional relevant information about an entity's performance, including information about:
 - (i) the operating performance of an entity, including its main business activities, through the operating profit or loss subtotal, for all entities;
 - (ii) the performance of an entity before the effect of financing decisions, through the profit or loss before financing and income tax subtotal, for most entities;
 - (iii) returns from an entity's investments, through separate presentation in the investing category, for most entities;
 - (iv) the performance of investments accounted for using the equity method—with separate information about investments integral to an entity's main business activities and about investments that are not;
 - (v) unusual income and expenses, which would help users of financial statements assess the persistence of the entity's earnings and, therefore, assess expected future cash flows; and
 - (vi) management performance measures.

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

- (b) providing additional relevant information through improved disaggregation, including disaggregation of total operating expenses by nature and disaggregation of large 'other' balances.
- (c) enabling users to find and compare information between entities and between periods, including the information described in (a), by:
 - (i) defining three new subtotals in the statement of profit or loss;
 - (ii) defining unusual income and expenses;
 - (iii) strengthening requirements for disaggregation;
 - (iv) removing options for the classification of interest and dividend cash flows in the statement of cash flows; and
 - (v) requiring a consistent starting point for the indirect method of reporting cash flows from operating activities.
- (d) introducing transparency and discipline in the reporting of some management-defined performance measures. The proposals for management performance measures would enable users to analyse and adjust entity-specific information about performance. Users would know where to find information about management-defined performance measures and would have more complete information about these measures including how and why they are prepared. In addition, information about the effect on tax and non-controlling interests of these adjustments would enable users to accept or reject adjustments and calculate their own measure of adjusted earnings per share.

What are the expected costs of implementation and application?

- BC240 The Board's proposals would only affect presentation and disclosure requirements—they would not affect recognition and measurement requirements. Therefore, in general, the proposals would be likely to have fewer significant system implications for entities than new or amended IFRS Standards that affect recognition and measurement requirements.
- BC241 Entities' costs to implement and apply the proposed requirements would vary because their practices now vary. For example, the Board's proposals could be similar to the existing reporting practices of some entities, and such entities would incur limited costs. Also, some entities may have most of the required information available through their existing systems and, as such, would incur limited costs.
- BC242 The feedback received in outreach so far indicates that the proposals that could be costly to implement in particular circumstances include the following:
 - (a) classifying income and expenses in the operating, investing and financing categories in the statement of profit or loss;

- (b) disclosing an analysis of total operating expenses by nature, if an entity that presents its analysis of expenses by function currently discloses limited information about the nature of their expenses;
- (c) identifying the effect on tax and non-controlling interests of the adjustments made in calculating management performance measures; and
- (d) applying judgement, for example, in identifying which associates and joint ventures are integral or non-integral or in identifying unusual income and expenses.

BC243 The Board has proposed simplified approaches where it assessed that the approach that would provide the most useful information to users of financial statements would result in costs that would exceed the benefits. For example, the Board proposes simplified approaches to calculating the tax effect of management performance measure adjustments (see paragraph BC178), and to allocating some income and expenses to the categories in the statement of profit or loss (see paragraph BC95). The Board also proposes simplified requirements for analysis of expenses by nature (see paragraphs BC109–BC114). For proposals that require the application of judgement, the Board proposes application guidance to facilitate the process, for example relating to unusual income and expenses and definitions of integral and non-integral associates and joint ventures.

BC244 Most of the costs for entities would relate to process changes required to implement the proposals and some entities may need to adjust their systems. Some of the proposals, particularly the proposed disclosures about unusual income and expenses and management performance measures, would also result in ongoing process costs.

BC245 The proposals would also add costs for users of financial statements—mostly implementation costs required for adjusting models and analyses to the proposed new structure of the financial statements. The Board expects the implementation of the proposals by entities to ultimately save costs for users by enabling them to spend less time obtaining the information they need for their analyses than is currently the case.

Overall assessment

BC246 The Board concluded that the benefits in terms of expected improvements to financial reporting as a result of proposals in draft IFRS [X] outweigh the expected costs of implementing and applying the proposals.

BC247 Paragraphs BC248–BC312 provide a more detailed analysis of the expected effects of the Board’s proposals.

Entities affected by the Board’s proposals

BC248 The draft IFRS [X] would apply to all entities preparing financial statements applying IFRS Standards.

- BC249 The magnitude of change introduced by the proposals would differ depending on the presentation and disclosure practices currently used by entities and the nature and range of their business activities. As explained in paragraph BC240, the proposals would not affect recognition and measurement of any assets, liabilities, equity, income or expenses.

The likely effects of the proposals on the quality of financial reporting

- BC250 Assessing how the proposed requirements are likely to affect the quality of financial reporting, the Board has identified improvements regarding:
- (a) the relevance of information about financial performance (see paragraphs BC251–BC264);
 - (b) the comparability of information (see paragraphs BC265–BC274); and
 - (c) the transparency of information about financial performance (see paragraphs BC275–BC277).

How the proposals would provide relevant information about financial performance

- BC251 The Board's proposals would result in entities providing additional relevant information, mostly about financial performance, which includes information about:
- (a) the operating performance of an entity, including its main business activities, through the operating profit or loss subtotal, for all entities;
 - (b) the performance of an entity before the effect of financing decisions, through the profit or loss before financing and income tax subtotal, for most entities;
 - (c) returns from an entity's investments, through separate presentation in the investing category, for most entities;
 - (d) the performance of investments accounted for using the equity method—with separate information about investments integral to an entity's main business activities and about investments that are not;
 - (e) unusual income and expenses, which would help users of financial statements assess the persistence of an entity's earnings and, therefore, assess expected future cash flows; and
 - (f) income, expenses, assets, liabilities and equity through improved disaggregation, including the disaggregation of total operating expenses by nature and the disaggregation of large 'other' balances.
- BC252 Feedback from users of financial statements suggests that management-defined performance measures that entities currently use to communicate with users can provide relevant information. However, as these measures are defined by entities and not by IFRS Standards, the Board's proposals for management performance measures focus on their transparency (see paragraphs BC146–BC148).

Operating profit or loss

BC253 Operating profit or loss is one of the most commonly presented subtotals in the financial statements. For example, in the 100 sample entities the Board analysed (see Table A.1 in the Appendix), 63 entities presented the measure labelled operating profit or loss. The majority of users of financial statements who responded to a survey by the CFA Institute wanted standard-setters to define key subtotals for entities to present in the primary financial statements, such as operating profit or loss.⁴ Research on the line items and subtotals presented by entities from 46 countries showed that value relevance is highest for measures in the middle of the income statement, for example, the operating profit or loss subtotal.⁵ By requiring all entities to present a consistently defined operating profit or loss subtotal, the Board's proposals would provide users with relevant information about an entity's financial performance.

Profit or loss before financing and income tax

BC254 EBIT is another widely used performance measure that aims to distinguish an entity's value-generating activities from its value distribution to capital providers and tax authorities. A study of EUROSTOXX 50 companies by Mazars in 2016 reported that the 34 industrial companies surveyed reported EBIT, usually as a subtotal in the statement(s) of financial performance. EBIT is commonly used for screening and ratio analysis, or as a starting point for forecasting cash flows.⁶ A survey by the CFA Institute in 2016 found that 45.9% of 431 (mostly buy-side respondents) investors use EBIT in their analysis.⁷

BC255 Although the Board proposes to require and define profit or loss before financing and income tax rather than EBIT, for the reasons explained in paragraph BC47, the Board expects users of financial statements will use the proposed subtotal as they currently use the subtotals (such as EBIT) that seek to portray the performance of entities before financing and income tax, and, as such, the subtotal will provide relevant information to users.

Investing category

BC256 Users of financial statements told the Board that they consider income and expenses arising from some items (for example, income from some investments) separately from those that reflect an entity's day-to-day business operations (some users refer to these as 'non-core' or 'non-operating' items). Users value these items using different valuation assumptions to the operating items (in terms of cash, risk and growth profiles). The Board's proposal to require separate information about income and expenses from investments

4 CFA Institute, 'Bridging the Gap: Ensuring Effective Non-GAAP and Performance Reporting', November 2016. Available here.

5 Barton J., Hansen, T. B., and Pownall, G., 'Which Performance Measures Do Investors Around the World Value the Most – and Why?', *The Accounting Review*, vol 85, no 3, May 2010, pp 753–89.

6 Mazars, 'The use of alternative performance measures in financial information current practice of European listed companies', as of 30 June 2016 and 31 December 2015. Available here.

7 CFA Institute, 'Bridging the Gap: Ensuring Effective Non-GAAP and Performance Reporting', November 2016.

would help ensure this information is consistently defined and disaggregated from operating activities, providing users with relevant information for their analysis.

Integral and non-integral associates and joint ventures

- BC257 The Board's proposals for presentation of integral and non-integral associates and joint ventures should provide users of financial statements with the information to analyse results from associates and joint ventures whose business activities are integral to the entity's business activities, and distinguish those results from income and expenses from other investments.
- BC258 The proposals to separately present results, assets and cash flows arising from integral and non-integral associates and joint ventures should enable entities to faithfully represent the performance of different business activities.

Unusual income and expenses

- BC259 Analysts believe earnings are high quality if they are backed by operating cash flows, are sustainable and repeatable, reflect economic reality, and reflect consistent reporting choices over time.⁸ In other words, users of financial statements are seeking to identify the extent to which the earnings are likely to recur. The Board expects that the note disclosure of unusual income and expenses can provide relevant information to users, by helping them identify the extent to which income and expenses reported in one period are expected to arise in future periods.
- BC260 The Board proposes that an entity shall disclose in the notes a narrative description of the transactions or other events that give rise to unusual income and expenses that are not expected to arise for several future annual reporting periods. The proposal would require disclosure of all unusual income and expenses so the Board expects this to enable users of financial statements to obtain complete information about unusual income and expenses, thus contributing to a faithful representation of the entity's performance.

Disaggregation

- BC261 Users of financial statements have told the Board that information is sometimes aggregated to the extent that relevant information is omitted.
- BC262 To help preparers of financial statements provide relevant information, the Board proposes to describe the steps involved in and considerations for determining appropriate aggregation and disaggregation. The Board expects that the proposals would help an entity identify and disclose material information, which in turn, would provide users of financial statements with relevant information for making economic decisions.

⁸ Brown, L. D., Call, A. C., Clement, M. B., and Sharp, N. Y., 'Inside the "Black Box" of Sell-Side Financial Analysts', *Journal of Accounting Research*, vol 53, no 1, March 2015, pp 1–47.

BC263 The Board further expects that the proposed specific requirements for disaggregating large balances consisting of individually immaterial items would lead to entities providing more explanation of what is included in these items and thus achieve a more complete, and therefore a more faithful, representation of such items.

BC264 The Board also found that many entities that present the analysis of their expenses by function disclose in the notes limited additional information on the nature of their expenses. Users of financial statements have told the Board that they find an analysis of expenses by nature useful but that it is sometimes missing or incomplete. The requirement for entities that present the analysis of their operating expenses by function to provide an analysis of total operating expenses by nature would provide users with additional relevant information needed for their analyses.

How the proposals would improve comparability

Comparability between entities

BC265 Users of financial statements have told the Board that the structure and content of the statement(s) of financial performance vary even among entities operating in the same industry. This diversity makes it difficult for users to compare financial performance between entities. Users have told the Board they need comparable subtotals in the statement(s) of financial performance for screening, ratio analyses and as a starting point for their own analyses. These users observed that, while many entities already present additional subtotal(s) in accordance with paragraph 85 of IAS 1, these additional subtotal(s) are not comparable because entities present different subtotals or calculate similarly labelled subtotal(s) differently. By defining and requiring some of the most relevant measures of performance, the proposals would enable users to compare different aspects of performance between entities, for example:

- (a) the operating profit or loss subtotal should enable users to compare results from main business activities of entities in the same industry and of entities in different industries; and
- (b) the profit or loss before financing and taxes subtotal should enable users to compare the performance of entities before the effect of financing.

BC266 Users of financial statements have also told the Board that inconsistencies in classification of income and expenses can reduce comparability. For example, some entities include interest expense on a net defined benefit liability in the measure labelled operating profit or loss while others include the expense in finance costs. The proposals would require more consistent classification of such income and expenses, which should improve comparability. Consistent classification should also enable users to more easily adjust the amounts presented if the required classification of particular income or expenses differs from those users' need for analyses.

- BC267 Appropriate disaggregation can enhance the comparability of information available to users of financial statements. For example, academic research indicates that imprecision in requirements on the disaggregation of financial information affects the content of financial statements and can have a major effect on the comparability of entities operating in different jurisdictions.⁹ The Board's specific proposals on disaggregation (relating to subtotals and minimum line items), together with the proposed definitions, principles and requirements for aggregation and disaggregation, should result in information being provided that will significantly improve users' ability to compare information between entities and for the same entity over time.
- BC268 Users of financial statements have told the Board that information about unusual income and expenses is useful for assessing the persistence or sustainability of an entity's financial performance. However, users observed variability in the way entities currently define and include in the financial statements information about unusual income and expenses. The Board expects that:
- (a) the proposed definition of unusual income and expenses and the proposed required disclosure of such items in the notes would result in more comparable information across entities, which would help users with their analyses; and
 - (b) the proposed requirement to disclose unusual income and expenses in a single location in the notes would make it easier for users to find and compare such items.
- BC269 As discussed in paragraph BC111, having information about the nature of operating expenses for all entities would enable users of financial statements to compare inputs used in operations, regardless of whether entities present an analysis of expenses by nature or by function in their statement of profit or loss.
- BC270 The Board observed diversity in practice—entities currently use different starting points for the indirect method of reporting cash flows from operating activities, which users of financial statements say hinders comparisons and analyses. The Board expects that the proposal for using the operating profit or loss subtotal as a consistent starting point for the indirect method of reporting cash flows from operating activities would address diversity in practice and, therefore, help users analyse and compare entities' operating cash flows.
- BC271 Academic research shows that the presentation options in IAS 7 lead to diversity in the presentation of interest and dividend cash flows. A study of 798 entities from 13 European countries found that 76% included interest paid in cash flows from operating activities, 60% included interest received and 50% included dividends received. The study concluded that such diversity in presentation hinders the comparability of reported cash flows from

⁹ Libby, R., and Emett, S. A., 'Earnings Presentation Effects on Manager Reporting Choices and Investor Decisions', *Accounting and Business Research*, vol 44, no 4, July 2014, pp 410–38.

operating activities.¹⁰ The Board has also observed significant diversity in practice in the presentation of cash flows arising from interest and dividends (see Tables A.7.1–A.7.4 in the Appendix). Many users of financial statements told the Board that they would prefer not to have to spend as much time searching for information about interest and dividend cash flows, and making such information more comparable. Therefore, the Board proposes to remove options for the classification of interest and dividends paid or received in the statement of cash flows and to prescribe a single classification for each of these items.

- BC272 The Board proposes that an entity would be required to present additional minimum line items in the statement of financial position for goodwill, investments in integral associates and joint ventures (accounted for using the equity method), and investments in non-integral associates and joint ventures (accounted for using the equity method). Entities would also be required to separately present the share of profit or loss of, and cash flows from investments in, integral and non-integral associates and joint ventures in the statement of profit or loss and the statement of cash flows, respectively. These additional minimum line items should reduce diversity in the location and disaggregation of these items, and, therefore improve comparability between entities.

Comparability from period to period for an individual entity

- BC273 Users of financial statements expressed concerns that the classification of unusual income and expenses by entities is inconsistent over time. The Board expects that the proposed definition of unusual income and expenses, together with the related requirements, would result in more consistent classification of unusual income and expenses. Applying the proposed definition and related requirements would, therefore, provide users with information they can compare from period to period for an individual entity.
- BC274 Users of financial statements also expressed concerns that it is not always clear from the disclosures currently provided by many entities how and why the calculation of management-defined performance measures has changed since a previous reporting period. The Board proposes that management performance measures would be subject to the general requirements for consistency of presentation and classification over time. Applying the proposal, if the way management performance measures are calculated changes, sufficient explanation would be required to help users understand the reasons for, and the effect of, the change. Such explanation, along with the required restatement of comparative information, would improve the comparability of information from period to period for an individual entity.

¹⁰ Gordon, E. A., Henry, E., Jorgensen, B. N., and Linthicum, C. L., 'Flexibility in Cash-flow Classification Under IFRS: Determinants and Consequences', *Review of Accounting Studies*, vol 22, no 2, June 2017, pp 839–72.

How the proposals would improve transparency of reporting of management-defined performance measures

- BC275 As discussed in paragraph BC252, management-defined performance measures may provide relevant information. For example, a survey by the CFA Institute showed that users of financial statements found management-defined performance measures useful in many ways, including as a valuation input, as an indicator of accounting quality and as a starting point for analysis.¹¹ The Board's proposals focus on improving the transparency of management-defined performance measures thus enabling users to better assess their relevance.
- BC276 Users of financial statements:
- (a) said that the calculation of management-defined performance measures and the reasons for providing those measures sometimes lack transparency.
 - (b) said that, when provided, this information is often difficult to find, as it may be scattered across different parts of the annual report.
 - (c) said that the quality of the disclosures provided about management-defined performance measures varies between jurisdictions and depends on whether the measures are subject to regulation, the nature of those regulations and how strictly the regulations are enforced. For example, it is not always clear from the disclosures in the financial statements how these measures relate to measures defined in IFRS Standards.
 - (d) said that they often do not have enough information to make their own adjustments when they disagree with items adjusted for in these measures.
 - (e) are not always aware that information about management-defined performance measures provided outside the financial statements is usually not audited.
- BC277 The Board expects that the proposals to define management performance measures and require disclosure of information about those measures in the financial statements would improve the discipline in using such measures (including bringing the measure within the scope of an audit in some jurisdictions) and improve their transparency. In particular requiring disclosure of:
- (a) information about management performance measures in a single location, including the reconciliation to the most directly comparable total or subtotal specified by IFRS Standards, should allow users of financial statements to more easily obtain complete information about such measures; and

¹¹ CFA Institute, 'Investor Uses, Expectations and Concerns on Non-GAAP Financial Measures', September 2016. Available here.

- (b) the effect on tax and non-controlling interests of management performance measure adjustments would enable users to change the treatment of particular adjustments in their analysis of earnings if they disagree with the treatment of that adjustment.

BC278 The Board’s proposals are consistent with the findings of another survey by the CFA Institute that showed that users of financial statements supported reporting management-defined performance measures in the financial statements.¹²

The likely effects of the proposals on how information is reported in the financial statements

BC279 The tables in this section summarise the expected effect of the Board’s proposals on how information is reported in the financial statements. The Board expects no significant change to the statement of changes in equity to result from the proposals other than changes arising from the proposed requirements for disaggregation.

BC280 The Board analysed a sample of 100 annual reports for 2017–18, prepared applying IFRS Standards. The results of this analysis are summarised in the Appendix. The tables below include cross-references to the findings, where applicable.

Table 2 Expected effects on the statement(s) of financial performance

Current situation	Likely effects of the proposals on how information is reported
Operating profit or loss	
<ul style="list-style-type: none"> • Operating profit or loss is not defined or required by IFRS Standards. • Many entities present a subtotal labelled operating profit or loss in the statement of profit or loss (see Table A.1 in Appendix). • Those subtotals are not comparable between entities, even within the same industry (in the sample of 100 entities the Board analysed, there are at least nine different definitions of operating profit or loss). • In some cases, it is unclear how entities have defined operating profit or loss. 	<ul style="list-style-type: none"> • Operating profit or loss would be defined and required by IFRS Standards. • All entities would present an operating profit or loss subtotal. The presentation of an operating profit or loss subtotal would be new for some entities. • The Board’s proposed definition is likely to be different from the definitions many entities currently use. Consequently, entities’ operating profit or loss applying the Board’s proposals could be different from the operating profit or loss subtotal they currently use. • Important subtotals similar to gross profit, such as net interest income for banks can continue to be presented, above operating profit or loss.

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¹² CFA Institute, ‘Bridging the Gap: Ensuring Effective Non-GAAP and Performance Reporting’, November 2016.

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

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Current situation	Likely effects of the proposals on how information is reported
Income and expenses from associates and joint ventures	
<ul style="list-style-type: none"> • IAS 1 requires presentation of the share of profit or loss of associates and joint ventures as a separate line item but does not specify its location. • Most entities present a single line item and do not distinguish between different types of associates and joint ventures. • There is diversity in the classification of this line item—some entities include it in the measure labelled operating profit or loss, others present it below the measure labelled operating profit or loss (see Table A.2 in the Appendix). 	<ul style="list-style-type: none"> • All entities would consistently classify income and expenses from associates and joint ventures in the categories of the statement of profit or loss. • Operating profit or loss would exclude the share of profit or loss of all associates and joint ventures accounted for using the equity method, which would be a change for some entities. Consequently, those entities' operating profit or loss would change applying the Board's proposals. • Making a distinction between integral and non-integral associates and joint ventures and presenting the operating profit or loss and income and expenses from integral associates and joint ventures subtotal would be new for most entities.
Investing category	
<ul style="list-style-type: none"> • IFRS Standards currently do not require presentation of or define income and expenses from investments. • Some entities include income and expenses from investments in the measure labelled operating profit or loss (labelled other income, for example), other entities include these income and expenses items from investments in a financing category below the measure labelled operating profit or loss. Few entities present a separate investing category. 	<ul style="list-style-type: none"> • The investing category would be required and defined by IFRS Standards. • Presentation of a separate investing category would be new for most entities. • Entities such as investment companies may not be affected or be less affected by this proposal.

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Current situation	Likely effects of the proposals on how information is reported
Financing category and the subtotal of profit or loss before financing and income tax	
<ul style="list-style-type: none"> • IAS 1 requires that finance costs are presented as a separate line item, but IFRS Standards do not define finance costs. • Some entities present a subtotal labelled profit before interest and tax (or EBIT) (see Table A.3 in the Appendix). Such a subtotal is rarely presented by banks and insurers. • Such subtotals and line items are not comparable between entities. • A common source of diversity is the classification of net interest on net defined benefit liabilities (see Table A.4 in the Appendix). 	<ul style="list-style-type: none"> • The financing category and the profit or loss before financing and income tax subtotal would be defined and required by IFRS Standards. • Most entities would present a profit or loss before financing and income tax subtotal. The presentation of such a subtotal would be new for many entities. • The Board's proposed definition for the subtotal is likely to be different from the definitions entities currently use. • The finance costs line item would be replaced by the expenses from financing activities line item. The content of those line items is expected to be broadly similar, though there may be some differences. • Net interest on net defined benefit liabilities would be classified in the financing category—this would be a change for entities that currently classify it in the measure labelled operating profit or loss. • Some entities that provide financing to customers as a main business activity would not present a profit or loss before financing and income tax subtotal which is expected to be consistent with current practice so this aspect of the proposals is expected to have a limited effect on these entities.

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BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

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Current situation	Likely effects of the proposals on how information is reported
Analysis of operating expenses by nature or by function	
<ul style="list-style-type: none"> • IAS 1 requires entities to select a method for analysing their expenses and allows entities to present their analyses in the statement of profit or loss or disclose it in the notes. When an entity presents its analysis by function, IAS 1 requires disclosure of additional information by nature in the notes. • Most entities present their analyses of expenses in the statement of profit or loss. Many entities present an analysis of expenses by function, some present an analysis by nature and some use a mixed approach (see Table A.5.1 in the Appendix). • Entities that do not present an analysis of expenses by nature in the statement of profit or loss provide additional information by nature in the notes, with varying level of detail. Only some provide a complete analysis of expenses by nature in the notes (see Table A.5.2 in the Appendix). 	<ul style="list-style-type: none"> • All entities would present the analysis of operating expenses in the statement of profit or loss, which would be a change for a few entities. • Entities would need to reassess which method to use for the analysis of operating expenses (by nature or by function) based on what is useful for users of financial statements, using the Board's proposed factors. This may lead some entities to change the method they use. • An analysis of operating expenses using a mixed method in the statement of profit or loss would be prohibited. Entities that use a mixed method would need to change to the required single approach. • Entities that present in the statement of profit or loss their analyses of operating expenses by function would need to disclose in the notes an analysis of their total operating expenses using the nature of expense method. This means some entities that currently disclose in the notes only limited information about the nature of their expenses would need to provide more information.
Minimum line items in the statement of profit or loss	
<ul style="list-style-type: none"> • IAS 1 requires minimum line items to be presented in the statement of profit or loss but does not specify their location. For example, an entity is required to present: <ul style="list-style-type: none"> • interest revenue calculated using the effective interest method; and • impairment losses determined in accordance with Section 5.5 of IFRS 9. 	<ul style="list-style-type: none"> • An entity may need to present a minimum line item in more than one category if the item is comprised of income and expenses that are required to be classified in more than one category.

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Current situation	Likely effects of the proposals on how information is reported
Renaming the categories of other comprehensive income	
<ul style="list-style-type: none"> • IAS 1 requires the presentation of two categories in other comprehensive income: <ul style="list-style-type: none"> • other comprehensive income items that will not be reclassified subsequently to profit or loss; and • other comprehensive income items that will be reclassified subsequently to profit or loss when specific conditions are met. 	<ul style="list-style-type: none"> • The two categories would be relabelled as: <ul style="list-style-type: none"> • remeasurements reported permanently outside profit or loss; and • income and expenses to be included in profit or loss in the future when specific conditions are met. • This proposal would change the description but would not affect which items are presented in other comprehensive income or the classification of other comprehensive income items between the two categories.

Table 3 Expected effects on the statement of cash flows

Current situation	Likely effects of the proposals on how information is reported
Starting point for the indirect method	
<ul style="list-style-type: none"> • IAS 7 refers to the profit or loss total as the starting point for the indirect method for reporting cash flows from operating activities. However, the Illustrative Examples accompanying IAS 7 use the profit before tax subtotal as the starting point. • Entities use different starting points for the indirect method, for example, profit or loss, profit before tax or operating profit or loss (see Table A.6 in the Appendix). 	<ul style="list-style-type: none"> • Entities would be required to use operating profit or loss as the starting point for the indirect method, which would be a change for many entities. • The reconciliation of cash flows might be simplified by removing some reconciling items that some entities currently present.

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BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

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Current situation	Likely effects of the proposals on how information is reported
Classification of interest and dividend cash flows	
<ul style="list-style-type: none"> • IAS 7 allows options for classification of interest and dividend cash flows. • There is diversity in the classification of these cash flows as operating, financing or investing cash flows (see Tables A.7.1–A.7.4 in the Appendix). 	<ul style="list-style-type: none"> • The proposals would result in a more consistent classification of interest and dividend cash flows. • Applying the Board's proposals, entities (except those that provide financing to customers as a main business activity or invest in the course of their main business activities) would be required to classify interest and dividends received as investing cash flows and interest paid as financing cash flows. This would be a change for entities that currently classify such cash flows as cash flows from operating activities. Consequently, those entities' reported cash flows from operating activities may change applying the Board's proposals. • Entities such as banks and investment companies may not be affected or be less affected by this proposal. • Few entities would need to change the classification of dividends paid.
Cash flows from investments in integral and non-integral associates and joint ventures	
<ul style="list-style-type: none"> • IAS 7 provides a few examples of cash flows that arise between the entity and its investments in associates and joint ventures but does not provide classification guidance for those cash flows. • Entities generally do not distinguish different types of associates and joint ventures in the statement of cash flows. In a sample of 100 entities, 77 entities had cash flows from investments in associates and joint ventures and none made such a distinction. 	<ul style="list-style-type: none"> • The separate presentation of cash flows from investments in integral and non-integral associates and joint ventures would be new for most entities.

Table 4 Expected effects on the statement of financial position

Current situation	Likely effects of the proposals on how information is reported
Presentation of goodwill	
<ul style="list-style-type: none"> • IAS 1 does not require goodwill to be separately presented. • Many entities currently present goodwill as a separate line item in the statement of financial position and others disclose it in the notes (see Table A.8 in the Appendix). 	<ul style="list-style-type: none"> • Entities would be required to separately present goodwill as a line item in the statement of financial position, which would be a change for some entities.
Presentation of investments in integral and non-integral associates and joint ventures	
<ul style="list-style-type: none"> • IAS 1 requires presentation of investments accounted for using the equity method as a line item, but does not require entities to distinguish between integral and non-integral associates and joint ventures. • Entities generally do not make such a distinction in the statement of financial position. In a sample of 100 entities, 77 entities had investments in associates and joint ventures and none of them made such a distinction. One entity disclosed in the notes information about amounts of investments in associates and joint ventures that represent an extension of the entity's business separately from those associates and joint ventures that do not. 	<ul style="list-style-type: none"> • Entities would be required to present in the statement of financial position investments in integral associates and joint ventures separately from investments in non-integral associates and joint ventures, which would be a change for most entities.

Table 5 Expected effects on the notes

Current situation	Likely effects of the proposals on how information is reported
Unusual income and expenses	
<ul style="list-style-type: none"> • IAS 1 does not provide specific requirements for the disclosure in the notes of unusual income and expenses nor is this term defined. • Some entities present in the statement(s) of financial performance or disclose in the notes information about unusual or similarly labelled items (as defined by the entity). Of those entities, many disclose unusual items as adjustments for management-defined performance measures (see Table A.15 in the Appendix). • Items excluded from management-defined performance measures are commonly labelled as non-recurring, exceptional, special or one-time items. • The way entities present information about unusual or infrequent items varies significantly. 	<ul style="list-style-type: none"> • All entities would be required to identify unusual income and expenses applying the proposed definition, and disclose in the notes additional information about these income and expenses, which would be a change for many entities. • For some entities, the proposals would mean a change in items that they currently describe as non-recurring, infrequent or unusual. • Disclosing unusual income and expenses in a separate note might be a change from current practice when entities present unusual income and expenses in the statement(s) of financial performance.

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Current situation	Likely effects of the proposals on how information is reported
Management performance measures	
<ul style="list-style-type: none"> • There are no specific requirements in IFRS Standards about management-defined performance measures that are not subtotals presented in accordance with paragraph 85 of IAS 1 or segment measures. • Many entities provide management-defined performance measures, such as adjusted operating profit or loss and adjusted profit or loss (see Table A.10 in the Appendix). • Entities use such measures in the financial statements and in other communications with users of financial statements (see Table A.11 in the Appendix). • Some entities present such measures as a subtotal in the statement of profit or loss; a few entities use a columnar approach to present these measures (see Table A.11 in the Appendix). • In the calculation of their management-defined performance measures entities commonly adjust for items such as restructuring costs with gain or losses on disposal and acquisition-related costs (see Table A.13 in the Appendix). 	<ul style="list-style-type: none"> • Entities would be required to include measures that they identify as meeting the definition of management performance measures in the notes. This would be a change for entities that currently only include such measures in communications other than financial statements. • Entities would not be permitted to present management performance measures using columns in the statement(s) of financial performance, which would be a change for some entities—particularly entities operating in jurisdictions where the use of columns is common. • The proposals on subtotals and disaggregation would prevent entities from presenting some management-defined performance measures in the statement(s) of financial performance, which might be a change for some entities. • The introduction of newly defined subtotals in IFRS Standards may reduce the use of some management-defined performance measures once these new subtotals become established.

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BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

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Current situation	Likely effects of the proposals on how information is reported
<ul style="list-style-type: none"> • Many entities reconcile such measures to measures specified by IFRS Standards, applying regulatory requirements in their jurisdiction. • A few entities provide the effect of tax and non-controlling interest for each reconciling item (see Table A.12 in the Appendix). 	<ul style="list-style-type: none"> • Entities using management performance measures would be required to provide a note in the financial statements about these measures. Most entities do not currently provide a note about management-defined performance measures so providing a note would be a change for most entities. For entities that do provide a note the contents of the note would likely change. • Entities would be required to provide a reconciliation in the notes of their management performance measures to the most directly comparable total or subtotal specified by IFRS Standards. Many entities already provide such reconciliations, although they are sometimes only provided outside the financial statements. • The reconciliation provided may change as a result of the requirements to reconcile to the most directly comparable total or subtotal specified by IFRS Standards (including newly proposed subtotals). • For many entities, the disclosure of the effect on tax and non-controlling interests of each reconciling item would be new. For some this would require disaggregating information about tax and non-controlling interest they currently provide in aggregate.

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Current situation	Likely effects of the proposals on how information is reported
<ul style="list-style-type: none"> • IFRS Standards currently do not define or require presentation of EBITDA. • Many entities use EBITDA in financial statements or in other communications with users of financial statements (see Table A.9 in the Appendix). 	<ul style="list-style-type: none"> • If an entity identifies EBITDA as a management performance measure, it would need to provide the disclosures in the notes required for management performance measures, including the reconciliation. • However, if an entity discloses in the notes a measure that is calculated as operating profit or loss before depreciation and amortisation, that measure would not be considered a management performance measure and the disclosures for management performance measures would not be required.
Adjusted earnings per share	
<ul style="list-style-type: none"> • IAS 33 requires entities to present basic and diluted earnings per share. • An entity is permitted to disclose, in addition to basic and diluted earnings per share, amounts per share using a reported component of the statement(s) of financial performance other than one required by IAS 33. Entities are required to provide a reconciliation of the numerator to a line item in the statement(s) of financial performance. • Of the entities that disclose management-defined performance measures, many disclose adjusted earnings per share. • Entities that disclose adjusted earnings per share generally calculate it using numerators that are based on management-defined performance measures (see Table A.14.2 in the Appendix). 	<ul style="list-style-type: none"> • An entity would still be permitted to disclose in the notes, in addition to basic and diluted earnings per share, per share measures of performance using a numerator different from that required by IAS 33. • However, such numerator(s) would be limited to amounts based on a subtotal or total specified by IFRS Standards or management performance measures. As a result, the same constraints and disclosure requirements would apply to adjusted earnings per share as to management performance measures. • Some entities that currently disclose adjusted earnings per share calculated using a numerator that is not a management performance measure would need to change their disclosure.

Table 6 Expected effects on aggregation and disaggregation in the primary financial statements and the notes

Current situation	Likely effects of the proposals on how information is reported
<ul style="list-style-type: none"> • IAS 1 requires separate presentation of each material class of similar items and material items of a dissimilar nature or function. • Information provided by some line items is sometimes too highly aggregated to be useful for users of financial statements. For example, some entities present 'other' categories in the primary financial statements without providing further disaggregation (see Tables A.16.1–A.16.2 in the Appendix). 	<ul style="list-style-type: none"> • Some entities would be required to change disaggregation of groups of items in the financial statements, including additional disaggregation of groups of items currently labelled as other.

The likely costs of the proposals

- BC281 As discussed in paragraph BC240, the proposals do not affect recognition and measurement. Therefore, the Board expects that the proposals would be less likely to affect systems and have fewer process implications for entities than new or amended IFRS Standards that affect recognition and measurement requirements. Hence, the Board expects the proposals would be less costly to implement than changes that affect recognition and measurement requirements.
- BC282 However, all entities would incur some costs to implement and apply the proposed requirements. These costs would vary depending on the entity's current reporting practices and their type and range of business activities. For some entities, the proposed requirements would be similar to their current reporting practice and, for such entities, the implementation costs are not expected to be significant. The Board expects that:
- (a) most of the proposed requirements' implementation costs for preparers of financial statements would relate to:
 - (i) the process changes and possible system changes the implementation would require (see paragraphs BC284–BC295); and
 - (ii) training for staff and updating internal procedures, and communicating changes to reported information to external parties (see paragraph BC296); and
 - (b) some of the proposed requirements would also result in ongoing costs, particularly the processes required to prepare proposed disclosures about management performance measures and unusual income and expenses (see paragraph BC297).

BC283 Other stakeholders would also incur some costs relating to the proposals, as discussed in paragraphs BC298–BC299.

Implementation costs for preparers of financial statements

BC284 The Board expects that implementation costs would arise mainly from the proposed requirements to:

- (a) classify income and expenses in the operating, investing and financing categories in the statement of profit or loss;
- (b) identify integral and non-integral associates and joint ventures;
- (c) identify unusual income and expenses;
- (d) apply the requirements for disaggregation;
- (e) analyse total operating expenses by their nature, when entities present their primary analysis of expenses by function; and
- (f) identify and provide disclosures in the notes for management performance measures, including disclosure of the effect on tax and non-controlling interests for adjustments made in calculating management performance measures.

Operating, investing and financing categories

BC285 Entities may need to change their internal processes and possibly adapt their accounting systems to classify their income and expenses into the proposed categories in the statement of profit or loss. The costs of these changes may be higher for entities that:

- (a) have more than one business activity, including providing finance to customers or investing—such entities may need to use judgement to assess whether providing finance to customers or investing are their main business activities (or they invest in the course of their main business activities). Such entities may also incur costs to classify income and expenses between the operating, investing and financing categories. For example, some entities may incur costs when allocating expenses from financing activities between those expenses that relate to the provision of finance to customers and those that do not (however, such entities could choose to classify all such expenses in the operating category, as discussed in paragraph BC300(a)).
- (b) have a centralised treasury function managing financing activities and risks—for example, such entities might incur additional costs to classify foreign exchange differences and derivatives to the categories of the statement of profit or loss.

BC286 However, the Board noted that classification may be less costly for some entities, including entities that:

- (a) have only one main business activity;
- (b) do not provide financing to customers as a main business activity and do not invest in the course of their main business activities; and

- (c) provide financing to customers as one of their main business activities and make an accounting policy choice to classify all income and expenses from financing in the operating category.

Integral and non-integral associates and joint ventures

- BC287 Entities may incur costs to implement the proposal to identify integral associates and joint ventures, and to present the operating profit or loss and income and expenses from integral associates and joint ventures subtotal. Entities would need to establish processes to make the distinction between integral and non-integral associates and joint ventures and they would also need to make judgements. To help an entity distinguish associates and joint ventures that are integral from those that are non-integral, the Board proposes a non-exhaustive list of indicators.

Unusual income and expenses

- BC288 Entities may incur costs to implement the proposal to require disclosure in the notes of unusual income and expenses. Processes will need to be established and judgement will be required to identify unusual income and expenses. Some entities already provide similar disclosures and have processes established to identify unusual items; their costs would comprise process adjustments required to apply the Board's proposed definition of unusual income and expenses.

Analysis of total operating expenses by nature when the primary analysis of expenses is by function

- BC289 The proposal to disaggregate total operating expenses by nature when the primary analysis of operating expenses is presented by function in the statement of profit or loss might be costly to implement for entities that currently disclose only limited information about the nature of their operating expenses. Such entities may have to adjust their accounting systems to enable them to obtain more detailed information about the nature of inputs used, for example, raw materials used. As discussed in paragraph BC112, so that entities will not have to unbundle cost allocations, for example, amounts allocated to cost of sales, the Board is proposing to require an analysis by nature of total operating expenses, rather than an analysis of operating expenses by nature for each functional expense item presented.

Note disclosures of management performance measures

- BC290 Entities that do not communicate using management-defined performance measures would have no management performance measures and therefore incur no costs related to the Board's proposals for management performance measures. In addition, if an entity communicates using measures that are not management performance measures as defined in the proposals, they would not incur costs related to these aspects of the proposals.

- BC291 Entities that communicate using measures that meet the definition of management performance measures are expected to incur costs to implement the Board's proposals. The costs will vary. Many entities that communicate using management-defined performance measures provide a reconciliation between their management-defined performance measures and subtotals or totals specified by IFRS Standards, as well as some of the related note disclosures the Board is proposing for management performance measures. For entities currently making these disclosures, the incremental costs of including these disclosures in the financial statements are likely to be limited.
- BC292 Few entities currently provide information about the effect on tax and non-controlling interests of management performance measure adjustments. Most entities that provide information about tax in relation to management-defined performance measures do so in aggregate. Therefore, the proposed requirement to disclose in the notes the effect on tax and non-controlling interests of the adjustments made in calculating management performance measures would result in costs for many entities. Determining the effect on tax could be difficult when an entity has subsidiaries in many jurisdictions. To alleviate these costs, the Board proposes a simplified approach to calculating the effect on tax (see paragraph BC300(c)).

Other costs

- BC293 The Board expects that the proposed principles and general requirements for aggregation and disaggregation would result in incremental costs for most entities. For some entities, the costs would only be the cost of implementing a process to ensure their disaggregation is consistent with the proposed requirements. For other entities, additional costs may be incurred to apply the requirements, for example, to disaggregate some balances described as other.
- BC294 The Board expects that, once an entity has developed processes for classifying income and expenses in the proposed categories, the cost of implementing the proposals for subtotals would be limited. The proposals to present new subtotals and line items would also require entities that report electronically, for example, using the IFRS Taxonomy, to retag their financial statements for those subtotals and related items. Retagging may be a significant one-off exercise.
- BC295 The Board expects that the proposal to require operating profit or loss as a consistent starting point for the indirect method of reporting cash flows from operating activities, and the proposals on the classification of interest and dividend cash flows, would not be costly to implement. Entities would already have the information needed to implement these changes.

Education and communication

- BC296 The Board expects that entities would incur costs in educating staff and updating internal procedures. The Board expects that education would be required, for example, in identifying whether associates and joint ventures are integral or non-integral, whether income and expenses are unusual, and in classifying income and expenses in the operating, investing and financing categories. The Board also expects that an entity would incur costs in

communicating changes to their reported information to external parties (for example, investors and lenders). These costs are expected to be incurred when first implementing the proposals.

Ongoing costs for preparers of financial statements

BC297 The Board expects that most costs related to the proposals would be one-off implementation costs. However, there would also be ongoing costs arising from proposals that require the exercise of judgement and processes to apply the requirements, including:

- (a) identifying unusual income and expenses;
- (b) providing disclosures relating to management performance measures, particularly the calculation of the income tax effect on the adjustments made in calculating management performance measures;
- (c) applying disaggregation requirements; and
- (d) classifying income and expenses into categories of the statement of profit or loss following a business combination or other major business change.

Costs for users of financial statements

BC298 The Board expects that users of financial statements would incur costs as a result of its proposals. However, these are mostly initial implementation costs required to adjust their models and analysis methods to the new structure of the financial statements and additional information provided. The Board expects that its proposals would ultimately save costs for users by providing them more directly with the information that they need for their analysis.

Costs for regulators

BC299 In some jurisdictions, some of the amounts reported in accordance with IFRS Standards support regulatory objectives such as prudential requirements. Therefore, the proposed changes to presentation and disclosure might affect regulatory treatments for some entities. Regulators use different frameworks in different jurisdictions, and different effects would be expected in those different jurisdictions. The Board expects that regulators might incur costs relating to the proposed requirements. This is because they may need to consider the effect of these changes in presentation and disclosure on their requirements. The associated costs would be expected to vary by jurisdiction based on local requirements. However, as the Board's proposals do not affect recognition and measurement the Board does not expect the proposals to have a significant effect on regulatory requirements. Therefore, the Board expects limited effects on costs for regulators.

Cost reliefs

BC300 The Board does not propose specific exemptions to alleviate the costs of application; however, the proposals include simplifications and practical expedients, which are that:

- (a) if an entity that provides financing to customers as a main business activity has more than one main business activity, it can elect to classify in the operating category *all* income and expenses from financing activities and *all* income and expenses from cash and cash equivalents, instead of classifying only those income and expenses from financing activities relating to the provision of financing to customers and income and expenses from cash and cash equivalents relating to the provision of financing to customers;
- (b) for derivatives not designated as hedging instruments in accordance with IFRS 9, an entity would be able to classify *all* gains and losses on those derivatives in the investing category if it concludes that it would incur undue cost or effort by classifying gains and losses on those derivatives between three categories in the statement of profit or loss on the basis of its risk management activities; and
- (c) an entity would determine the income tax effect for each item disclosed in the reconciliation between the management performance measure and the most directly comparable subtotal or total specified by IFRS Standards on the basis of a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction(s) concerned.

Other effects of the proposals

How the proposals would improve the quality of electronic reporting

- BC301 Users of financial statements require electronic data that is:
- (a) comparable across entities and over time;
 - (b) entity-specific;
 - (c) available in a format that is easy to use;
 - (d) consistently available; and
 - (e) free from errors.¹³
- BC302 However, reported electronic data does not always meet the requirements in paragraph BC301. As a result, few users of financial statements use electronic data directly. Many users instead rely on paid services from information intermediaries, such as data aggregators, to cleanse, supplement, aggregate and standardise the tagged data.
- BC303 The Board expects the proposals in the draft IFRS [X] would contribute to improving the quality of electronic data. Table 7 analyses the expected effects of each proposal.

¹³ The Board does not have any evidence that the proposals would have a significant effect on the number of errors.

Table 7 Summary of effects on the quality of electronic data

User requirement	Current situation	Likely effects of the proposals in the draft IFRS [X]
Comparable across entities and over time	<p>Different reporting practices result in entities tagging:</p> <ul style="list-style-type: none"> • comparable data in different ways; and • non-comparable data in the same way. <p>Users of financial statements may assume information tagged using the same IFRS Taxonomy element is comparable across entities when it is not.</p>	<p>The new proposed structure for the statement of profit or loss and illustrative examples would reduce diversity in reporting practices, which in turn would reduce diversity in tagging.</p> <p>The new proposed defined subtotals should be comparable across entities.</p>
Entity-specific	<p>Entity-specific information, such as unusual income and expenses and management-defined performance measures, is:</p> <ul style="list-style-type: none"> • tagged using extensions; or • not tagged at all—some management-defined performance measures are reported outside financial statements and, therefore, are not required to be tagged by some regulators. <p>Therefore, such information is difficult to extract and analyse.</p>	<p>Unusual income and expenses and disclosures about management performance measures (including the reconciliation to subtotals specified by IFRS Standards) would be included in the financial statements, so they would be more likely to be tagged.</p> <p>New IFRS Taxonomy elements resulting from the proposed new disclosure requirements should reduce the need for entities to create their own extensions.</p>
Available in a format that is easy to use	<p>Users of financial statements either use information intermediaries or need to spend significant resources—using XBRL calculations and manual adjustments to:</p> <ul style="list-style-type: none"> • make subtotals comparable; and • identify unusual income and expenses and normalise data. 	<p>The cost of using electronic data would be reduced through:</p> <ul style="list-style-type: none"> • enhanced comparability of subtotals across entities; and • required disclosure of unusual income and expenses and management performance measures in a single note, which would make them easier to extract.

continued...

...continued

User requirement	Current situation	Likely effects of the proposals in the draft IFRS [X]
Consistently available	<p>The IFRS Taxonomy has elements for commonly-reported line items and subtotals such as operating profit or loss.</p> <p>However, not all entities report such line items and subtotals due to different reporting practices. This makes it difficult to compare a large sample of entities based on the same criteria.</p>	Defined and comparable subtotals should be consistently available for all entities.

Effects on the use of management-defined performance measures and financial metrics

- BC304 Many entities that apply IFRS Standards communicate performance using management-defined performance measures. The objective of the Board's proposals for these measures is not to increase or decrease their use. However, the Board considered what effects the proposals might have on the use of such measures outside financial statements.
- BC305 In particular, the Board considered the effect of these proposals on entities that currently:
- (a) do not communicate with users of financial statements using management-defined performance measures. Such entities would not be required to disclose in the notes management performance measures applying the Board's proposals.
 - (b) provide management-defined performance measures that would meet the definition of management performance measures. The effects of these proposals could vary, for example:
 - (i) the proposals for new subtotals may make some management performance measures unnecessary. For example, the Board identified operating profit or loss as one of most commonly used management-defined performance measures. Some entities may decide to communicate using the Board's defined operating profit or loss and to stop using a management-defined performance measure representing adjusted operating profit or loss.
 - (ii) the proposals may lead to some entities using fewer management-defined performance measures, due to the costs associated with complying with the disclosure requirements and the costs of auditing the disclosures.

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

- (iii) the proposals may lead to entities communicating using more measures that meet the definition of management performance measures because the proposals may normalise their use in jurisdictions that currently do not use management-defined performance measures in the financial statements.

BC306 The Board's proposals would not affect the recognition and measurement of any assets, liabilities, equity, income or expenses and therefore, in principle, would not affect the calculation of financial metrics. However, the introduction of new subtotals may lead some entities to redefine or re-evaluate their financial metrics. For example, measures that use the effect of financing activities as a component may or may not be adjusted to reflect the Board's proposed definition of financing activities.

BC307 The Board's proposals for management performance measures are intended to increase the transparency about these measures and improve the discipline with which these measures are provided.

Effects on non-professional investors

BC308 The Board noted that the proposals for management performance measures might affect non-professional investors differently from professional investors and that there are a range of possible effects, which are that the proposals might have:

- (a) positive effects on some non-professional investors because the proposals could help them better understand measures that meet the definition of management performance measures they already use. In addition, the proposals may encourage non-professional investors to make greater use of the information in the financial statements by providing them with better information than they have today. The fact that information about management performance measures is required to be provided in a single note, should also help non-professional investors access this information more easily.
- (b) negative effects on some non-professional investors because the proposals could encourage greater use of measures that meet the definition of management performance measures by non-professional investors who may not be able to understand these measures.
- (c) no effect on some non-professional investors because they are less likely than other investors to use the financial statements.

BC309 While any of the effects outlined in paragraph BC308 are possible, the Board expects the risk of the negative effect described in paragraph BC308(b) to be low, because non-professional investors already rely on management-defined performance measures. Academic research indicates that non-professional investors may rely more on management-defined measures than other investors.¹⁴

¹⁴ Bhattacharya, N., Black, E. L., Christensen, T. E., and Mergenthaler, R. D., 'Who Trades on Pro Forma Earnings Information?', *The Accounting Review*, vol 82, no 3, May 2007, pp 581–619.

BC310 Overall, the Board expects that the proposals for management performance measures would create an opportunity for more transparency about these measures in communications both within and outside financial statements, thus potentially benefitting even those investors that currently do not focus on financial statements.

Effects on contracts and agreements

BC311 The Board considered the likely effects that the proposals might have on contracts and agreements. Although the proposals only affect the presentation and disclosure of financial information, and therefore, do not affect entities' financial performance and financial position, the Board noted that, when information reported in financial statements is used to monitor compliance with contracts and agreements, new requirements might affect those contracts and agreements.

BC312 For example, covenants in banking and loan agreements may impose minimum requirements on measures, such as the operating profit or loss subtotal shown in a borrower's financial statements. Many entities that currently present such subtotals may need to change what they include in the subtotals to align them with the proposed definitions of those subtotals (see Table A.1 in the Appendix). In such cases, the parties to a contract or agreement will need to consider how the changes to presentation and disclosure could affect that contract or agreement. However, sometimes loan covenants specify the calculation of such requirements and, therefore, would not be affected by changes in presentation and disclosure.

Appendix—Analysis of current practice

- A1 The Board analysed a sample of 2017–18 annual reports prepared applying IFRS Standards. The sample comprised 100 listed entities with a large market capitalisation across 26 jurisdictions and 12 industries. The tables below report the Board’s findings.
- A2 The industries covered were healthcare (10), energy (10), materials (10), industrials (10), IT (10), consumer staples (10), consumer discretionary (10), real estate (5), utilities (5), telecommunication (5), banking (10) and insurance (5). The regions covered were Europe (57), Asia-Oceania (30), Americas (8), and Africa and Middle East (5).
- A3 The Board acknowledges that the entities selected and industries represented in the sample may not be a sufficiently representative sample for determining the effect of its proposals globally. However, the Board expects that the analysis to be useful in indicating types of changes that might be expected in practice as a result of the proposals.

Statement of profit or loss

Table A.1—Use of measures labelled operating profit or loss (or a similar label)	Number of entities
Used in the financial statements and presented as a subtotal in the statement of profit or loss	63
Used <i>only</i> in sections of the annual report other than the financial statements	3
Not used in the annual report	34
Total	100

Table A.2—Location of share of profit or loss of associates and joint ventures	Above	Below	Total number of entities
Location of share of profit or loss of associates and joint ventures relative to the measure labelled operating profit or loss by entities	14	36	50
Location of share of profit or loss of associates and joint ventures relative to the measure labelled EBIT by entities	2	3	5
Entities that did not present measures labelled EBIT or operating profit or loss or did not present the share of profit or loss of associates and joint ventures	NA	NA	45
Total			100

One entity presented the following two subtotals in the statement of profit or loss and disclosed in the notes information about associates and joint ventures that represent an extension of the entity’s business separately from those associates and joint ventures that do not:

- operating profit or loss before share of profit or loss of associates and joint ventures; and
- operating profit or loss after share of profit or loss of associates and joint ventures.

EXPOSURE DRAFT—DECEMBER 2019

Table A.3—Use of measure labelled profit before financing or EBIT	Banking and insurance	Other industries	Total number of entities
Used in the financial statements		21	21
<i>Of which presented as a subtotal in the statement of profit or loss</i>		15	15
<i>Of which disclosed as a segment measure of performance or in note about financial covenants</i>	-	20	20
Used <i>only</i> in sections of the annual report other than the financial statements	-	1	1
Not used in the annual report	15	63	78
Total	15	85	100

Table A.4—Classification of net interest on net defined benefit liabilities	Number of entities
Classified in the measure labelled operating profit or loss	12
Classified in finance costs, below the measure labelled operating profit or loss	25
Classification unclear	11
Did not present a measure labelled operating profit or loss, nor disclose net interest on net defined benefit liabilities	52
Total	100

Table A.5.1—Analysis of operating expenses in the statement of profit or loss	Number of entities
By nature	21
By function	41
Mixed method	33
No analysis of expenses presented in the statement of profit or loss	5
Total	100

Table A.5.2—Analysis of operating expenses by nature	Number of entities
Analysis of expenses by nature in the statement of profit or loss (see Table A.5.1)	21
Complete analysis of expenses by nature in the notes	27
Limited analysis of expenses by nature in the notes	52
Total	100

Statement of cash flows

Table A.6—Starting point for the indirect method	Number of entities
Profit or loss	38
Profit before tax	30
Operating profit or loss	10
Other subtotals	15
Entities using the direct method	7
Total	100

Table A.7.1—Classification of interest received in the statement of cash flows	Banking and insurance	Other industries	Total number of entities
Operating cash flows	9	47	56
Investing cash flows	1	29	30
Financing cash flows	-	1	1
Classification unclear	5	8	13
Total	15	85	100

Table A.7.2—Classification of interest paid in the statement of cash flows	Banking and insurance	Other industries	Total number of entities
Operating cash flows	8	51	59
Investing cash flows	-	-	-
Financing cash flows	3	31	34
Classification unclear	4	3	7
Total	15	85	100

Table A.7.3—Classification of dividends received in the statement of cash flows	Banking and insurance	Other industries	Total number of entities
Operating cash flows	6	32	38
Investing cash flows	3	38	41
Financing cash flows	-	-	-
Classification unclear	6	15	21
Total	15	85	100

EXPOSURE DRAFT—DECEMBER 2019

Table A.7.4—Classification of dividends paid in the statement of cash flows	Banking and insurance	Other industries	Total number of entities
Operating cash flows	1	2	3
Investing cash flows	-	-	-
Financing cash flows	11	78	89
Classification unclear	3	5	8
Total	15	85	100

Statement of financial position

Table A.8—Presentation or disclosure of carrying amount of goodwill	Number of entities
Goodwill presented separately in the statement of financial position	59
Goodwill disclosed in the notes	35
Goodwill not presented separately or disclosed (may not be material)	6
Total	100

Management-defined performance measures¹⁵

Table A.9—Use of measure labelled EBITDA	Banking and insurance	Other industries	Total number of entities
Total used in the financial statements	-	42	42
<i>Of which presented as a subtotal in the statement of profit or loss</i>	-	4	4
<i>Of which disclosed as a segment measure of performance or in the note about capital structure and debt</i>	-	40	40
<i>Of which presented as a subtotal in the statement of cash flows using the indirect method</i>	-	2	2
Used <i>only</i> in sections of the annual report other than the financial statements	-	30	30
Not used in the annual report	15	13	28
Total	15	85	100

¹⁵ See Tables A.1 and A.3 for the use of measures labelled operating profit or loss and profit before financing or EBIT. Such measures are not specified by IFRS Standards and may or may not meet the definition of management performance measures applying the Board's proposals. The analysis in tables A.9–A.14.2 focuses on income and expenses subtotals, other than those measures.

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

Table A.10—Most common management-defined performance measures <i>other than</i> those labelled operating profit or loss, EBIT, profit before financing or EBITDA	Number of entities^(a)
Adjusted profit or similar labels	33
Adjusted operating profit or similar labels	29
Adjusted EBITDA or similar labels	20
Adjusted EBIT or similar labels	11
Adjusted profit before tax or similar labels	9
(a) Some entities used more than one measure so the total is greater than the sample size.	

Table A.11—Use of measures <i>other than</i> those labelled operating profit or loss, EBIT, profit before financing or EBITDA	Number of entities
Used in the financial statements ^(a)	31
Used <i>only</i> in sections of the annual report other than the financial statements	36
Not used in the annual report	33
Total	100
(a) Two entities presented the measures using columns in the statement of profit or loss.	

Table A.12—Reconciliation of measures <i>other than</i> those labelled operating profit or loss, EBIT, profit before financing or EBITDA	Number of entities
Total reconciliation provided to measures specified by IFRS Standards	60
<i>Of which provided tax effect per reconciling item</i>	<i>13</i>
<i>Of which provided tax effect in aggregate</i>	<i>13</i>
No reconciliation provided	7
N/A (entity did not use such measures in annual report)	33
Total	100

Table A.13—Most common adjustments made in calculation of management-defined performance measures	Number of entities^(a)
Restructuring costs	32
Gains or losses on disposal	31
Impairment and amortisation of intangible assets	21
Acquisition-related costs	19
Fair value changes for financial instruments	16
Impairment of property, plant and equipment	15
Legal expenses	12
Share-based payment expense	9
(a) Some entities made more than one of the adjustments listed so the total is greater than the sample size.	

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Table A.14.1—Use of adjusted earnings per share	Number of entities
Used in the financial statements	12
Used <i>only</i> in sections of the annual report other than the financial statements	33
Not used in the annual report	55
Total	100

Table A.14.2—Alignment of adjusted earnings per share with management-defined performance measures	Number of entities
Adjusted earnings per share calculated consistently with a management-defined performance measure	38
Adjusted earnings per share calculated inconsistently with a management-defined performance measure	2
Unclear whether adjusted earnings per share is calculated consistently with a management-defined performance measure	3
Adjusted earnings per share disclosed without accompanying management-defined performance measure	2
Total adjusted earnings per share used in the annual report	45
No adjusted earnings per share measure used in the annual report	55
Total	100

Unusual income and expenses

Table A.15—Unusual, infrequent or non-recurring items	Number of entities
Information provided in the financial statements about unusual, infrequent or non-recurring items	48
<i>Of which disclosed as adjustments to management-defined performance measures</i>	26
No information in the financial statements about unusual, infrequent or non-recurring items	52
Total	100

General aggregation and disaggregation

Table A.16.1—Aggregation in the statement(s) of financial performance	Number of entities
Line items labelled other presented in the statement(s) of financial performance, with further explanation in the notes	68
Line items labelled other presented in the statement(s) of financial performance, without further explanation in the notes (some of which may be immaterial)	22
No line items labelled other presented in the statement(s) of financial performance	10
Total	100

BASIS FOR CONCLUSIONS ON GENERAL PRESENTATION AND DISCLOSURES

Table A.16.2—Aggregation in the statement of financial position	Number of entities
Line items labelled other presented in the statement of financial position, with further explanation in the notes	88
Line items labelled other presented in the statement of financial position, without further explanation in the notes (some of which may be immaterial)	10
No line items labelled other presented in the statement of financial position	2
Total	100



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Illustrative Examples

General Presentation and Disclosures

Comments to be received by 30 June 2020

Includes a comparison of proposals
with requirements in IAS 1
Presentation of Financial Statements

IASB[®]

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**Illustrative Examples on
Exposure Draft**

General Presentation and Disclosures

Comments to be received by 30 June 2020

These Illustrative Examples accompany the Exposure Draft ED/2019/7 *General Presentation and Disclosures* (issued December 2019; see separate booklet). The proposals may be modified in the light of comments received before being issued in final form. Comments need to be received by 30 June 2020 and should be submitted in writing to the address below, by email to commentletters@ifrs.org or electronically using our 'Open for comment documents' page at: <https://www.ifrs.org/projects/open-for-comment/>.

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CONTENTS

	<i>from page</i>
[DRAFT] INTERNATIONAL FINANCIAL REPORTING STANDARD X GENERAL PRESENTATION AND DISCLOSURES	
ILLUSTRATIVE EXAMPLES	4
INTRODUCTION	4
PART I—EXAMPLES OF PRESENTATION AND DISCLOSURES	5
Statement of profit or loss	6
Statement presenting comprehensive income	7
Statement of financial position	8
Statement of changes in equity	10
Note 1—Analysis of operating expenses by nature	11
Note 2—Management performance measures and unusual income and expenses	11
Note 3—Analysis of reclassification adjustments	16
Note 4—Analysis of tax effects relating to each component of other comprehensive income	16
PART II—FURTHER EXAMPLES OF STATEMENT(S) OF FINANCIAL PERFORMANCE	17
Example II-1—Statement of financial performance for an entity investing in the course of its main business activity (a property investment entity)	17
Example II-2—Statement of financial performance for an entity investing in the course of its main business activity (an insurance entity)	19
Example II-3—Statement of financial performance for an entity investing in the course of its main business activity and providing financing to customers as a main business activity (an investment and retail bank)	20
Example II-4—Statement of financial performance for an entity with two main business activities, one of which is providing financing to customers (a manufacturer providing financing to customers)	22
PART III—CAPITAL DISCLOSURES	23
Example III-1—An entity that is not a regulated financial institution	23
Example III-2—An entity that has not complied with externally imposed capital requirements	25
AMENDMENTS TO ILLUSTRATIVE EXAMPLES ACCOMPANYING IAS 7 STATEMENT OF CASH FLOWS	26
A COMPARISON OF PROPOSALS WITH REQUIREMENTS IN IAS 1 PRESENTATION OF FINANCIAL STATEMENTS	34

Exposure Draft

IFRS X General Presentation and Disclosures

Illustrative Examples

These examples accompany, but are not part of, [draft] IFRS X. They illustrate aspects of [draft] IFRS X but are not intended to provide interpretative guidance.

Introduction

- IE1 [Draft] IFRS X sets out general and specific requirements for the presentation and disclosures of information in financial statements. These examples illustrate ways in which an entity can meet the presentation and disclosure requirements of [draft] IFRS X. As discussed in paragraphs 7–8, 10, 12, 83 and 97 of [draft] IFRS X, an entity may change the order of presentation or disclosures, the titles of statements and the descriptions used for line items, subject to compliance with the requirements in IFRS Standards for the presentation and disclosure of financial information.
- IE2 The examples are not intended to illustrate all aspects of IFRS Standards, nor do they constitute a complete set of financial statements. The examples do not show all the line items that could be required of an entity applying paragraphs 65 and 82 of [draft] IFRS X.
- IE3 The examples are structured as follows:
- (a) Part I—Examples of presentation and disclosures. This part provides examples of the statements of financial performance, financial position and changes in equity for a manufacturer that neither invests in the course of its main business activities, nor does it provide financing to customers as a main business activity. Therefore, this entity does not apply the requirements in paragraph 48 or 51 of [draft] IFRS X. Rather, it classifies all income and expenses from investments in the investing category, and all income and expenses from cash and cash equivalents as well as all income and expenses from financing activities in the financing category. Part I also provides examples of some notes to the statements set out.
 - (b) Part II—Further examples of statement(s) of financial performance. This part provides examples of (a section of) the statement(s) of financial performance for an entity that either invests in the course of its main business activities or provides financing to customers as a main business activity (or both). Therefore, such an entity would apply the requirements in either paragraph 48 or 51 of [draft] IFRS X (or both), and classify some income and expenses in the operating category, which otherwise would be classified in the investing or financing category.
 - (c) Part III—Capital disclosures. This part provides examples illustrating the application of paragraphs 111–112 of [draft] IFRS X.

Part I—Examples of presentation and disclosures

- IE4 XYZ Group is a manufacturer that does not invest in assets that generate a return individually and largely independently of other resources it holds, nor does it provide financing to customers as a main business activity. This part provides the following examples of some of XYZ Group's primary financial statements and notes:
- (a) statements of financial performance (a statement of profit or loss and a statement presenting comprehensive income);
 - (b) a statement of financial position;
 - (c) a statement of changes in equity;
 - (d) Note 1—Analysis of operating expenses by nature (required by paragraph 72 of [draft] IFRS X);
 - (e) Note 2—Management performance measures and unusual income and expenses (required by paragraphs 101 and 106 of [draft] IFRS X, (see also paragraph B74 of [draft] IFRS X));
 - (f) Note 3—Analysis of reclassification adjustments (required by paragraph 77 of [draft] IFRS X); and
 - (g) Note 4—Analysis of tax effects relating to each component of other comprehensive income (required by paragraph 80 of [draft] IFRS X).
- IE5 This part does not illustrate XYZ Group's complete set of financial statements. For instance, it does not provide examples of:
- (a) a statement of cash flows. The illustrative examples accompanying IAS 7 *Statement of Cash Flows* provide examples of that statement.
 - (b) a statement of financial position as at 1 January 20X1. XYZ Group would be required to present such a statement because it has made a retrospective restatement of retained earnings as at 1 January 20X1, as illustrated in the statement of changes in equity (see paragraph 36 of [draft] IFRS X).
 - (c) other disclosures required by IFRS Standards. Cross-references to the notes are included in the examples only when related illustrative notes are provided in this part.
- IE6 For the purpose of the examples in this part, XYZ Group presents profit or loss and other comprehensive income in two statements (paragraph 13(b) of [draft] IFRS X). Items of other comprehensive income included in the statement presenting comprehensive income are presented before tax effects with one amount shown for the aggregate amount of income tax relating to those items in each category (paragraph 81(b) of [draft] IFRS X). XYZ Group has determined that an analysis of operating expenses using the function of expense method provides the most useful information to users of financial statements in accordance with paragraph 68 of [draft] IFRS X. It has also determined that presenting a statement of financial position distinguishing current items from

non-current items provides the most useful information to users (paragraph 84 of [draft] IFRS X).

Statement of profit or loss

XYZ Group—Statement of profit or loss for the year ended 31 December 20X2

		(in currency units)	
	Note	20X2	20X1
Revenue	2	347,000	335,000
Cost of goods sold	1,2	(237,100)	(219,900)
Gross profit		109,900	115,100
Other income ^(a)		3,800	4,100
Selling expenses	1	(28,900)	(27,350)
Research and development expenses	1	(13,850)	(22,400)
General and administrative expenses	1,2	(25,180)	(25,060)
Impairment losses on trade receivables	1	(4,500)	(3,800)
Operating profit		41,270	40,590
Share of profit or loss of integral associates and joint ventures		(600)	2,000
Gains on disposals of integral associates and joint ventures		–	2,200
Operating profit and income and expenses from integral associates and joint ventures		40,670	44,790
Share of profit or loss of non-integral associates and joint ventures		3,380	1,000
Dividend income		3,550	3,210
Profit before financing and income tax		47,600	49,000
Expenses from financing activities	2	(3,800)	(4,500)
Unwinding of discount on provisions		(3,000)	(2,500)
Profit before tax		40,800	42,000
Income tax expense	2	(7,200)	(10,500)
Profit for the year from continuing operations		33,600	31,500
Loss for the year from discontinued operations		–	(5,500)
PROFIT FOR THE YEAR		33,600	26,000
Profit attributable to:			
Holders of claims against the parent classified as equity		26,880	20,800
Non-controlling interests		6,720	5,200
		33,600	26,000
Earnings per share for profit from continuing operations:			
Basic and diluted		0.67	0.66
Earnings per share for profit:			
Basic and diluted		0.67	0.55

(a) Paragraph 28 of [draft] IFRS X requires the composition of 'other income' to be analysed in the notes. However, such a note is not included in the examples.

Statement presenting comprehensive income**XYZ Group—Statement presenting comprehensive income for the year ended 31 December 20X2**

		(in currency units)	
	Note	20X2	20X1
Profit for the year		33,600	26,000
Remeasurements permanently reported outside profit or loss:			
Gains (losses) on investments in equity instruments		3,500	(6,000)
Gains on remeasurements of defined benefit pension plans		3,200	1,400
Share of other comprehensive income of integral associates and joint ventures ^(a)		(2,800)	1,000
Share of other comprehensive income of non-integral associates and joint ventures ^(a)		600	2,300
Income tax relating to remeasurements permanently reported outside profit or loss	4	(1,675)	1,150
Total remeasurements permanently reported outside profit or loss		2,825	(150)
Income and expenses that may be included in profit or loss in the future:			
Exchange differences on translating foreign operations	3	(5,600)	10,000
Losses on cash flow hedges	3	(1,200)	(4,000)
Income tax relating to income and expenses that may be included in profit or loss in the future	4	1,700	(1,500)
Total income and expenses that may be included in profit or loss in the future		(5,100)	4,500
Other comprehensive income for the year, net of tax	4	(2,275)	4,350
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		31,325	30,350
Total comprehensive income attributable to:			
Holders of claims against the parent classified as equity		24,620	24,940
Non-controlling interests		6,705	5,410
		31,325	30,350

- (a) In this example, the other comprehensive income of integral and non-integral associates and joint ventures consists only of items that are remeasurements permanently reported outside profit or loss. If an entity has an integral or non-integral associate or joint venture whose other comprehensive income includes items that may be included in profit or loss in the future, it is required to present that amount in a separate line.

Statement of financial position**XYZ Group—Statement of financial position as at 31 December 20X2**

(in currency units)

	31 Dec 20X2	31 Dec 20X1
ASSETS		
Non-current assets		
Property, plant and equipment	220,000	205,500
Goodwill	10,800	10,800
Intangible assets	14,000	19,500
Investments in integral associates and joint ventures	12,600	13,200
Investments in non-integral associates and joint ventures	7,650	4,270
Investments in equity instruments other than associates and joint ventures	26,500	23,000
Total non-current assets	<u>291,550</u>	<u>276,270</u>
Current assets		
Inventories	55,500	52,500
Trade receivables	34,000	32,000
Other current assets	7,625	10,100
Cash and cash equivalents	23,400	22,900
Total current assets	<u>120,525</u>	<u>117,500</u>
Total assets	<u><u>412,075</u></u>	<u><u>393,770</u></u>
EQUITY AND LIABILITIES		
Equity attributable to holders of claims against the parent classified as equity		
Share capital	110,000	100,000
Retained earnings	142,180	124,300
Accumulated other comprehensive income	2,480	4,740
Total equity attributable to holders of claims against the parent classified as equity	<u>254,660</u>	<u>229,040</u>
Non-controlling interests	<u>42,015</u>	<u>35,310</u>
Total equity	<u>296,675</u>	<u>264,350</u>
Non-current liabilities		
Long-term borrowings	50,000	55,000
Deferred tax liabilities	4,800	8,600
Long-term provisions	15,000	12,000
Total non-current liabilities	<u>69,800</u>	<u>75,600</u>

continued...

ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

...continued

Current liabilities		
Trade and other payables	21,800	20,420
Contract liabilities	6,200	7,200
Short-term borrowings	4,000	6,000
Current portion of long-term borrowings	5,000	12,000
Current tax payable	5,100	4,800
Short-term provisions	3,500	3,400
Total current liabilities	<u>45,600</u>	<u>53,820</u>
Total liabilities	<u>115,400</u>	<u>129,420</u>
Total equity and liabilities	<u><u>412,075</u></u>	<u><u>393,770</u></u>

(in currency units)

XYZ Group—Statement of changes in equity for the year ended 31 December 20X2

	Share capital	Retained earnings	Investments in equity instruments	Defined benefit pension plans	Share of other comprehensive income of integral associates and joint ventures	Share of other comprehensive income of non-integral associates and joint ventures	Translation of foreign operations	Cash flow hedges	Total equity attributable to holders of claims against the parent classified as equity	Non-controlling interests	Total equity
Balance at 1 January 20X1	100,000	108,100	1,600	1,000	1,400	(1,400)	(4,000)	2,000	208,700	29,800	238,500
Changes in accounting policy	–	400	–	–	–	–	–	–	400	100	500
Restated balance	100,000	108,500	1,600	1,000	1,400	(1,400)	(4,000)	2,000	209,100	29,900	239,000
Changes in equity for 20X1											
Dividends	–	(5,000)	–	–	–	–	–	–	(5,000)	–	(5,000)
Profit or loss	–	20,800	–	–	–	–	–	–	20,800	5,200	26,000
Other comprehensive income ^(a)	–	–	(3,600)	840	1,000	2,300	6,000	(2,400)	4,140	210	4,350
Total comprehensive income for the year	–	20,800	(3,600)	840	1,000	2,300	6,000	(2,400)	24,940	5,410	30,350
Balance at 31 December 20X1	100,000	124,300	(2,000)	1,840	2,400	900	2,000	(400)	229,040	35,310	264,350
Changes in equity for 20X2											
Issue of share capital	10,000	–	–	–	–	–	–	–	10,000	–	10,000
Dividends	–	(9,000)	–	–	–	–	–	–	(9,000)	–	(9,000)
Profit or loss	–	26,880	–	–	–	–	–	–	26,880	6,720	33,600
Other comprehensive income ^(a)	–	–	2,100	1,920	(2,800)	600	(3,360)	(720)	(2,260)	(15)	(2,275)
Total comprehensive income for the year	–	26,880	2,100	1,920	(2,800)	600	(3,360)	(720)	24,620	6,705	31,325
Balance at 31 December 20X2	110,000	142,180	100	3,760	(400)	1,500	(1,360)	(1,120)	254,660	42,015	296,675

(a) The amount included in investments in equity instruments, remeasurements of defined benefit pension plans, share of other comprehensive income of integral associates and joint ventures, share of other comprehensive income of non-integral associates and joint ventures, translation of foreign operations and cash flow hedges represent other comprehensive income for each component, net of tax and non-controlling interests. For example, the expense in other comprehensive income related to investments in equity instruments for 20X1 of 3,600 is 6,000, net of tax of 1,500 and non-controlling interests of 900.

Note 1—Analysis of operating expenses by nature

The following table analyses operating expenses included in the statement of profit or loss using the nature of expense method. Other miscellaneous expenses consist of several unrelated immaterial amounts, the largest of which is travel expenses of currency units (CU) 700 (20X2) and CU560 (20X1).

		(in currency units)	
	Note	20X2	20X1
Changes in inventories of finished goods and work in progress		3,000	(3,700)
Raw material used		(146,000)	(143,200)
Reversal of inventory write-downs	2	–	4,400
Employee benefits	2	(107,000)	(104,600)
Depreciation		(27,000)	(26,500)
Amortisation		(5,500)	(5,300)
Impairment of property, plant and equipment	2	(5,000)	(4,500)
Impairment losses on trade receivables		(4,500)	(3,800)
Property taxes	2	(5,200)	(5,100)
Litigation expenses	2	(1,900)	(5,200)
Gains (losses) on derivatives ^(a)		(5,500)	2,200
Other miscellaneous expenses		(4,930)	(3,210)
Operating expenses total		<u>(309,530)</u>	<u>(298,510)</u>

(a) 'Gains (losses) on derivatives' consists of gains and/or losses on derivatives used to manage risks related to manufacturing activity for which hedge accounting has not been applied.

Note 2—Management performance measures and unusual income and expenses

The Group uses three management performance measures as defined in [draft] IFRS X in its financial communications with users of financial statements. The three measures are 'adjusted operating profit', 'adjusted net profit' and 'adjusted equity holders' profit of parent'.

These management performance measures provide management's view of an aspect of the Group's financial performance. They are not specified by IFRS Standards and therefore may not be comparable to apparently similar measures used by other entities. They are provided to complement measures of performance specified by IFRS Standards, and are not intended to be a substitute for measures specified by IFRS Standards.

The management performance measures have been calculated by adjusting for the effect of the following items which, in the view of the Group's management, should be considered separately when assessing trends:

- (1) unusual income and expenses – these are not expected to arise for several future annual reporting periods, unlike other items in the statements of financial performance.

- (2) revenue adjustment—the Group has acquired several entities which had recognised contract liabilities. IFRS 3 *Business Combinations* requires a contract liability of an acquired entity to be recognised at fair value on the acquisition date. Because the fair value of the contract liabilities is lower than the contract consideration received, the Group recognised less revenue when it provided its services than would have been recognised by the acquired entities had the acquisition not occurred. In the calculation of its management performance measures, the Group adjusts for the difference between the revenue recognised and the consideration received.

The Group believes that its management performance measures help users of financial statements to assess underlying trends in profitability including the effect of acquisitions on the profitability of the Group.

20X2

The Group identified the following unusual items in 20X2.

Tax reform

The Group's parent entity is located in Country A. In 20X2, the government of Country A reformed the tax system, introducing the following changes that affected the Group:

- (1) offshore income tax—the income tax rate affecting offshore income will decrease from 25% to 10% from 1 January 20X3. This affects the calculation of deferred tax liabilities on accumulated offshore income, resulting in a decrease in those liabilities of CU4,000. As a result, the Group recognised tax income of CU4,000 at the end of 20X2. The Group assessed that such a major tax reform will not occur in several future annual reporting periods, and the Group will not recognise such tax income in several future annual reporting periods. Therefore, the Group identified this tax income as unusual income.
- (2) property tax—one of Country A's property taxes will be abolished from 1 January 20X3. In prior periods the Group recognised property tax expenses in relation to this tax. In 20X2 the expense was CU2,500. As this property tax expense will not arise in several future annual reporting periods, the Group identified the property tax expense of CU2,500 as an unusual expense. Country A's property taxes are deductible from income tax.

Restructuring in Country B

The Group decided to move one of its factories from Country B to Country C because of uncertainty caused by proposed legal changes which would restrict the operation of foreign companies in Country B. Restructuring expenses of CU6,000 were recognised, made up of redundancy expenses for factory staff of CU2,050, impairment losses on factory machinery of CU3,350 and losses on extinguishment of loans of CU600 which resulted from modification of the terms of bank loans directly linked to the factory operation and factory properties. The Group identified these expenses as unusual expenses because it does not expect to conduct such a significant restructuring for several future annual reporting periods, and such expenses are only expected to arise from significant restructuring.

ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

(in currency units)

	Management performance measure	Adjustments for unusual items			Other adjustments	Measure specified by IFRS Standards
		Offshore income tax	Property tax	Restructuring in Country B	Revenue adjustment	
Revenue		–	–	–	(6,200)	
Cost of goods sold		–	–	(4,990)	–	
General and administrative expenses		–	(2,500)	(410)	–	
Adjusted operating profit / Operating profit	55,370	–	(2,500)	(5,400)	(6,200)	41,270
Expenses from financing activities		–	–	(600)	–	
Income tax		4,000	625	900	1,550	
Adjusted profit / Profit	41,225	4,000	(1,875)	(5,100)	(4,650)	33,600
Profit attributable to non-controlling interests ^(a)		–	–	(1,020)	–	
Adjusted profit attributable to holders of claims against the parent classified as equity / Profit attributable to holders of claims against the parent classified as equity	33,485	4,000	(1,875)	(4,080)	(4,650)	26,880

- (a) In this example, there are no amounts attributable to non-controlling interests for the tax reform (which affected offshore income tax and property tax) because it arose at the parent entity level. Also, there are no amounts attributable to non-controlling interests for the revenue adjustment because the revenue would have arisen from wholly owned subsidiaries.

Earnings per share for adjusted profit attributable to holders of claims against the parent classified as equity:

Basic and diluted

0.84

The tax effect of property tax being abolished is calculated based on the amount of property tax in 20X2 and the rate of income tax that was effective at the end of 20X2. The tax effect of restructuring in Country B is calculated based on a reasonable pro rata allocation of the current and deferred tax related to Country B. The tax effect of revenue adjustment is calculated based on the terms of contracts with customers and the rate of income tax effective at the end of 20X2. The change in the rate of offshore income tax does not have a tax effect for accounting purposes.

Unusual operating expenses by nature (see Note 1)

Operating expenses	(in currency units)		
	Property tax	Restructuring in Country B	Total
Employee benefits	–	(2,050)	(2,050)
Impairment of property, plant and equipment	–	(3,350)	(3,350)
Property taxes	(2,500)	–	(2,500)

20X1

The Group identified the following unusual items in 20X1.

Reversal of write-downs of raw material

The Group buys and holds raw material which is consumed in the Group's production process and therefore does not form part of its end product. During 20X0, Country D, a large consumer of that raw material, was hit by a huge earthquake and the market demand for the raw material fell significantly. This in turn led to a sharp drop in its market price. As a result, the Group recognised write-downs of CU4,900 in the raw material at the end of 20X0, and classified them as unusual expenses. However, during 20X1, the price of the raw material rebounded. So, at the end of 20X1, the Group recognised a reversal of the write-downs of CU4,400. The Group identified this reversal as an unusual item. This unusual item is included in 'reversal of inventory write-downs' in the analysis of operating expenses by nature (see Note 1).

Litigation expense arising from court case E

Litigation expense of CU3,500 arose from court case E in which the Group recognised an expense for damages incurred after the Group mislabelled one of its products. The Group has since taken measures to remedy its labelling procedures. The Group identified this litigation expense as an unusual expense. This unusual expense is included in 'litigation expenses' in the analysis of operating expenses by nature (see Note 1).

ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

(in currency units)

Management performance measure	Adjustments for unusual items		Other adjustments	Measure specified by IFRS Standards	
	Reversal of write-downs of raw material	Litigation expense from court case E	Revenue adjustment		
Revenue	–	–	(8,800)		
Cost of goods sold	4,400	–	–		
General and administrative expenses	–	(3,500)	–		
Adjusted operating profit / Operating profit	48,490	4,400	(3,500)	(8,800)	40,590
Income tax	–	–	2,200		
Adjusted profit / Profit	31,700	4,400	(3,500)	(6,600)	26,000
Profit attributable to non-controlling interests ^(a)	880	–	–		
Adjusted profit attributable to holders of claims against the parent classified as equity / Profit attributable to holders of claims against the parent classified as equity	27,380	3,520	(3,500)	(6,600)	20,800

- (a) In this example, there are no amounts attributable to non-controlling interests for litigation expense from court case E because the expenses arose at the parent entity level. Also, there are no amounts attributable to non-controlling interests for the revenue adjustment because the revenue would have arisen from wholly owned subsidiaries.

Earnings per share for adjusted profit attributable to holders of claims against the parent classified as equity:

Basic and diluted

0.72

The tax effect of the revenue adjustment is calculated based on the terms of contracts with customers and the rate of income tax that was effective at the end of 20X1. Litigation expense from court case E and the reversal of the write-downs of raw material do not have a tax effect because they are not tax-deductible or chargeable.

Note 3—Analysis of reclassification adjustments

The following table analyses the reclassification adjustments of the components of other comprehensive income to be included in profit or loss in the future when specific conditions are met. There were no disposals of a foreign operation in 20X2 and 20X1 and therefore there are no reclassification adjustments for the years presented.

(in currency units)

	20X2	20X1
Income and expenses that may be included in profit or loss in the future		
Exchange differences on translating foreign operations	(5,600)	10,000
Losses on cash flow hedges:		
Losses arising during the year	(5,200)	(4,000)
Less: Reclassification adjustments for losses included in profit or loss	4,000	(1,200)
	<u>4,000</u>	<u>(4,000)</u>

Note 4—Analysis of tax effects relating to each component of other comprehensive income

(in currency units)

	20X2			20X1		
	Amount before tax	Tax (expense) benefit	Amount net of tax	Amount before tax	Tax (expense) benefit	Amount net of tax
Remeasurement permanently reported outside profit or loss						
Gains (losses) on investments in equity instruments	3,500	(875)	2,625	(6,000)	1,500	(4,500)
Gains on remeasurements of defined benefit pension plans	3,200	(800)	2,400	1,400	(350)	1,050
Share of other comprehensive income of integral associates and joint ventures	(2,800)	–	(2,800)	1,000	–	1,000
Share of other comprehensive income of non-integral associates and joint ventures	600	–	600	2,300	–	2,300
Income and expenses that may be included in profit or loss in the future						
Exchange differences on translating foreign operations	(5,600)	1,400	(4,200)	10,000	(2,500)	7,500
Losses on cash flow hedges	(1,200)	300	(900)	(4,000)	1,000	(3,000)
Other comprehensive income	<u>(2,300)</u>	<u>25</u>	<u>(2,275)</u>	<u>4,700</u>	<u>(350)</u>	<u>4,350</u>

Part II—Further examples of statement(s) of financial performance

IE7 This part provides examples of (a section of) the statement(s) of financial performance for the following main business activities:

- (a) Example II-1—an entity investing in the course of its main business activity—a property investment entity (operating expenses analysed by nature);
- (b) Example II-2—an entity investing in the course of its main business activity—an insurance entity (operating expenses analysed by function);
- (c) Example II-3—an entity investing in the course of its main business activity and providing financing to customers as a main business activity—an investment and retail bank (operating expenses analysed by nature); and
- (d) Example II-4—an entity with two main business activities, one of which is providing financing to customers—a manufacturer providing financing to customers (operating expenses analysed by function).

Example II-1—Statement of financial performance for an entity investing in the course of its main business activity (a property investment entity)

IE8 The following example illustrates the statement of financial performance of AA Group. For the purpose of this example:

- (a) AA Group's main business activity is holding properties to earn rentals and for capital appreciation; that is, it invests in assets that generate a return individually and largely independently of its other resources (paragraphs 47–48 of [draft] IFRS X).
- (b) AA Group accounts for its investment properties using the fair value model in IAS 40 *Investment Property*.
- (c) AA Group prepares a single statement of profit or loss and other comprehensive income (paragraph 13(a) of [draft] IFRS X). Items of other comprehensive income included in the other comprehensive income section are presented net of related tax effects (paragraph 81(a) of [draft] IFRS X).
- (d) AA Group has determined that an analysis of operating expenses using the nature of expense method provides the most useful information to users of financial statements in accordance with paragraph 68 of [draft] IFRS X.

AA Group—Statement of financial performance for the year ended 31 December 20X2

	(in currency units)	
	20X2	20X1
Rental revenue	130,700	127,900
Depreciation of right-of-use asset on land	(15,800)	(15,600)
Maintenance and property service income	38,900	38,200
Maintenance and property service expenses	(42,500)	(42,800)
Net rental income	<u>111,300</u>	<u>107,700</u>
Gains (losses) from disposals of investment properties	1,520	(6,420)
Fair value losses on investment properties	(34,700)	(29,100)
Employee benefit expense	(26,000)	(26,200)
Other expenses ^(a)	(5,720)	(5,780)
Operating profit	<u>46,400</u>	<u>40,200</u>
Share of profit or loss of integral associates and joint ventures	4,250	4,600
Operating profit and income and expenses from integral associates and joint ventures	<u>50,650</u>	<u>44,800</u>
Share of profit or loss of non-integral associates and joint ventures	(3,450)	1,350
Dividend income	4,100	2,800
Profit before financing and income tax	<u>51,300</u>	<u>48,950</u>
Interest expense on lease liabilities	(3,200)	(3,400)
Other expenses from financing activities	(3,300)	(3,550)
Profit before tax	<u>44,800</u>	<u>42,000</u>
Income tax expense	(11,200)	(10,500)
Profit for the year from continuing operations	<u>33,600</u>	<u>31,500</u>
Loss for the year from discontinued operations	–	(5,500)
PROFIT FOR THE YEAR	<u>33,600</u>	<u>26,000</u>
Remeasurements permanently reported outside profit or loss, net of tax:		
Gains (losses) on investments in equity instruments	2,625	(4,500)
Gains on remeasurements of defined benefit pension plans	2,400	1,050
Share of other comprehensive income of integral associates and joint ventures ^(b)	(2,800)	1,000
Share of other comprehensive income of non-integral associates and joint ventures ^(b)	600	2,300
Total remeasurements permanently reported outside profit or loss	<u>2,825</u>	<u>(150)</u>
Income and expenses that may be included in profit or loss in the future, net of tax:		
Exchange differences on translating foreign operations	(4,200)	7,500
Losses on cash flow hedges	(900)	(3,000)
Total income and expenses that may be included in profit or loss in the future	<u>(5,100)</u>	<u>4,500</u>
Other comprehensive income for the year, net of tax	<u>(2,275)</u>	<u>4,350</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>31,325</u></u>	<u><u>30,350</u></u>

continued...

ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

...continued

Profit attributable to:

Holders of claims against the parent classified as equity	26,880	20,800
Non-controlling interests	6,720	5,200
	<u>33,600</u>	<u>26,000</u>

Total comprehensive income attributable to:

Holders of claims against the parent classified as equity	24,620	24,940
Non-controlling interests	6,705	5,410
	<u>31,325</u>	<u>30,350</u>

Earnings per share for profit from continuing operations:

Basic and diluted	0.67	0.66
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Earnings per share for profit:

Basic and diluted	0.67	0.55
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- (a) Paragraph 28 of [draft] IFRS X requires the composition of ‘other expenses’ to be analysed in the notes. However, such a note is not included in the examples.
- (b) In this example, the other comprehensive income of integral and non-integral associates and joint ventures consists only of items that are remeasurements permanently reported outside profit or loss. If an entity has an integral or non-integral associate or joint venture whose other comprehensive income includes items that may be included in profit or loss in the future, the entity is required to present that amount in a separate line.

Example II-2—Statement of financial performance for an entity investing in the course of its main business activity (an insurance entity)

IE9 The following example illustrates the profit or loss section of the statement of financial performance of BB Group. For the purpose of this example:

- (a) BB Group’s main business activity is providing insurance coverage. In the course of its main business activity it invests in financial assets that generate a return individually and largely independently of its other resources (paragraphs 47–48 of [draft] IFRS X). It does not provide financing to customers as a main business activity (paragraph 51 of [draft] IFRS X).
- (b) BB Group is applying IFRS 17 *Insurance Contracts* as issued in 2017.
- (c) BB Group prepares a single statement of profit or loss and other comprehensive income (paragraph 13(a) of [draft] IFRS X—only the profit or loss section is shown in the example).
- (d) BB Group has determined that an analysis of operating expenses using the function of expense method provides the most useful information to users of financial statements in accordance with paragraph 68 of [draft] IFRS X.

BB Group—Statement of financial performance for the year ended 31 December 20X2

	(in currency units)	
	20X2	20X1
Insurance revenue	138,200	133,800
Insurance service expenses	(107,000)	(106,000)
Insurance service result	<u>31,200</u>	<u>27,800</u>
Interest revenue calculated using the effective interest method	21,500	22,000
Other investment revenue	95,500	81,000
Credit impairment losses	(9,000)	(11,000)
Insurance finance expenses	(85,900)	(84,000)
Net financial result	<u>22,100</u>	<u>8,000</u>
Other expenses ^(a)	(3,100)	(4,600)
Operating profit	<u>50,200</u>	<u>31,200</u>
Share of profit or loss of integral associates and joint ventures	(3,200)	1,500
Operating profit and income and expenses from integral associates and joint ventures	<u>47,000</u>	<u>32,700</u>
Share of profit or loss of non-integral associates and joint ventures	(2,200)	3,300
Profit before financing and income tax / Profit before tax	<u>44,800</u>	<u>36,000</u>
Income tax expense	(11,200)	(9,000)
PROFIT FOR THE YEAR	<u>33,600</u>	<u>27,000</u>

- (a) Paragraph 28 of [draft] IFRS X requires the composition of ‘other expenses’ to be analysed in the notes. However, such a note is not included in the examples.

Example II-3—Statement of financial performance for an entity investing in the course of its main business activity and providing financing to customers as a main business activity (an investment and retail bank)

IE10 The following example illustrates the profit or loss section of the statement of financial performance of CC Group. For the purpose of this example:

- (a) CC Group’s main business activities are investing, trading and retail banking; that is, it invests in assets that generate a return individually and largely independently of its other resources in the course of its main business activities (paragraphs 47–48 of [draft] IFRS X), and it provides financing to customers as a main business activity (paragraph 51 of [draft] IFRS X).
- (b) CC Group prepares a single statement of profit or loss and other comprehensive income (paragraph 13(a) of [draft] IFRS X—only the profit or loss section is shown in the example).
- (c) CC Group has determined that an analysis of operating expenses using the nature of expense method provides the most useful information to users of financial statements in accordance with paragraph 68 of [draft] IFRS X.

ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

- (d) CC Group's accounting policy is to present all income and expenses from financing activities and from cash and cash equivalents in the operating category (paragraph 51(b) of [draft] IFRS X). This accounting policy is consistent with paragraph 51 of [draft] IFRS X which permits the choice. As a result, CC Group cannot present the profit before financing and income tax subtotal (paragraph 64 of [draft] IFRS X).

CC Group—Statement of financial performance for the year ended 31 December 20X2

	(in currency units)	
	20X2	20X1
Interest revenue calculated using the effective interest method	356,000	333,800
Interest expense	(281,000)	(259,000)
Net interest income	<u>75,000</u>	<u>74,800</u>
Fee and commission income	76,800	74,300
Fee and commission expenses	(45,300)	(44,800)
Net fee and commission income	<u>31,500</u>	<u>29,500</u>
Net trading income	9,100	900
Net investment income	11,600	7,800
Credit impairment losses	(17,300)	(19,100)
Employee benefits	(55,100)	(49,500)
Depreciation	(4,200)	(3,900)
Amortisation	(2,500)	(2,050)
Other operating expenses ^(a)	(5,100)	(4,550)
Operating profit	<u>43,000</u>	<u>33,900</u>
Share of profit or loss of integral associates and joint ventures	(2,400)	(1,800)
Operating profit and income and expenses from integral associates and joint ventures	<u>40,600</u>	<u>32,100</u>
Share of profit or loss of non-integral associates and joint ventures	4,200	3,900
Profit before tax	<u>44,800</u>	<u>36,000</u>
Income tax expense	(11,200)	(9,000)
PROFIT FOR THE YEAR	<u>33,600</u>	<u>27,000</u>

- (a) Paragraph 28 of [draft] IFRS X requires the composition of 'other expenses' to be analysed in the notes. However, such a note is not included in the examples.

Example II-4—Statement of financial performance for an entity with two main business activities, one of which is providing financing to customers (a manufacturer providing financing to customers)

IE11 The following example illustrates the profit or loss section of the statement of financial performance of DD Group. For the purpose of this example:

- (a) DD Group is a manufacturer. The Group also provides financing to its customers as a main business activity (paragraph 51 of [draft] IFRS X) to enable them to purchase its products.
- (b) DD Group prepares a single statement of profit or loss and other comprehensive income (paragraph 13(a) of [draft] IFRS X—only the profit or loss section is shown in the example).
- (c) DD Group has determined that an analysis of operating expenses using the function of expense method provides the most useful information to users of financial statements in accordance with paragraph 68 of [draft] IFRS X.
- (d) DD Group's accounting policy is to include only income and expenses from financing activities and from cash and cash equivalents relating to the provision of financing to customers in the operating category, rather than including all such income and expenses in the operating category (paragraph 51(a) of [draft] IFRS X). This accounting policy is consistent with paragraph 51 of [draft] IFRS X which permits the choice.

ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

DD Group—Statement of financial performance for the year ended 31 December 20X2

	(in currency units)	
	20X2	20X1
Revenue from the sale of goods	390,000	355,000
Cost of goods sold	(285,000)	(270,000)
Gross profit from the sale of goods	105,000	85,000
Interest revenue relating to the provision of financing to customers, calculated using effective interest method	119,500	121,000
Expenses related to the provision of financing to customers	(110,000)	(100,800)
Gross profit from the provision of financing to customers	9,500	20,200
Selling expenses	(28,900)	(26,300)
Research and development expenses	(15,800)	(15,400)
General and administrative expenses	(22,900)	(23,600)
Operating profit	46,900	39,900
Share of profit or loss of integral associates and joint ventures	4,700	1,300
Operating profit and income and expenses from integral associates and joint ventures	51,600	41,200
Share of profit or loss of non-integral associates and joint ventures	(3,400)	1,200
Income from financial instruments measured at fair value through profit or loss	4,200	1,500
Portfolio management fees	(3,700)	(3,600)
Profit before (non-customer) financing and income tax	48,700	40,300
Interest expense on borrowings not relating to the provision of financing to customers	(3,800)	(3,500)
Foreign exchange losses on borrowings ^(a)	(3,600)	(4,200)
Interest income on cash and cash equivalents not relating to the provision of financing to customers	3,500	3,400
Profit before tax	44,800	36,000
Income tax expense	(11,200)	(9,000)
PROFIT FOR THE YEAR	33,600	27,000

(a) In this example, no foreign exchange losses on borrowings relate to the provision of financing to customers.

Part III—Capital disclosures

Example III-1—An entity that is not a regulated financial institution

IE12 The following example illustrates the application of paragraphs 111–112 of [draft] IFRS X for an entity that is not a financial institution and is not subject to an externally imposed capital requirement. In this example, the entity monitors capital using a debt-to-adjusted capital ratio. Other entities may use different methods to monitor capital. The example is also relatively simple. An entity decides, in the light of its circumstances, how much detail it provides to satisfy the requirements of paragraphs 111–112 of [draft] IFRS X. In

determining the form and content of the disclosure to satisfy those requirements, an entity also considers the disclosure requirements set out in paragraphs 44A–44E of IAS 7.

Facts

Group A manufactures and sells cars. Group A includes a finance subsidiary that provides finance to customers, primarily in the form of leases. Group A is not subject to any externally imposed capital requirements.

Example disclosure

The Group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Consistently with others in the industry, the Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt ÷ adjusted capital. Net debt is calculated as total debt (as shown in the statement of financial position) less cash and cash equivalents. Adjusted capital comprises all components of equity (ie share capital, share premium, non-controlling interests, retained earnings, and revaluation surplus) other than amounts accumulated in equity relating to cash flow hedges, and includes some forms of subordinated debt.

During 20X2, the Group's strategy, which was unchanged from 20X1, was to maintain the debt-to-adjusted capital ratio at the lower end of the range 6:1 to 7:1, in order to secure access to finance at a reasonable cost by maintaining a BB credit rating. The debt-to-adjusted capital ratios at 31 December 20X2 and at 31 December 20X1 were as follows:

ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

	31 Dec 20X2	31 Dec 20X1
	CU million	CU million
Total debt	1,000	1,100
Less: cash and cash equivalents	(90)	(150)
Net debt	<u>910</u>	<u>950</u>
Total equity	110	105
Add: subordinated debt instruments	38	38
Less: amounts accumulated in equity relating to cash flow hedges	(10)	(5)
Adjusted capital	<u>138</u>	<u>138</u>
Debt-to-adjusted capital ratio	6.6	6.9

The decrease in the debt-to-adjusted capital ratio during 20X2 resulted primarily from the reduction in net debt that occurred on the sale of Subsidiary Z. As a result of this reduction in net debt, improved profitability and lower levels of managed receivables, the dividend payment was increased to CU2.8 million for 20X2 (from CU2.5 million for 20X1).

Example III-2—An entity that has not complied with externally imposed capital requirements

IE13 The following example illustrates the application of paragraph 111(e) when an entity has not complied with externally imposed capital requirements during the period. Other disclosures would be provided to comply with the other requirements of paragraphs 111–112 of [draft] IFRS X.

Facts

Entity A provides financial services to its customers and is subject to capital requirements imposed by Regulator B. During the year ended 31 December 20X2, Entity A did not comply with the capital requirements imposed by Regulator B. In its financial statements for the year ended 31 December 20X2, Entity A provides the following disclosure relating to its non-compliance.

Example disclosure

Entity A filed its quarterly regulatory capital return for 30 September 20X2 on 20 October 20X2. At that date, Entity A’s regulatory capital was below the capital requirement imposed by Regulator B by CU1 million. As a result, Entity A was required to submit a plan to the regulator indicating how it would increase its regulatory capital to the amount required. Entity A submitted a plan that entailed selling part of its unquoted equities portfolio with a carrying amount of CU11.5 million in the fourth quarter of 20X2. In the fourth quarter of 20X2, Entity A sold its fixed interest investment portfolio for CU12.6 million and met its regulatory capital requirement.

Amendments to Illustrative Examples accompanying IAS 7 Statement of Cash Flows

In the first illustrative example (A—Statement of cash flows for an entity other than a financial institution), amendments are made to: the illustrative example's title; paragraph 1; the illustrative consolidated statement of comprehensive income; the illustrative consolidated statement of financial position; the illustrative direct method statement of cash flows; and the illustrative indirect method statement of cash flows. In the second illustrative example (B—Statement of cash flows for a financial institution), its title, paragraph 1 and the illustrative direct method statement of cash flows are amended. New text is underlined and deleted text is struck through.

A Statement of cash flows for an entity other than a financial institution that does not have a main business activity of providing financing to customers

- 1 The examples show only current period amounts. ~~Corresponding amounts~~ Comparative information for the preceding period ~~are is~~ required to be presented in accordance with ~~IAS 1—Presentation of Financial Statements~~ [draft] IFRS X General Presentation and Disclosures.

...

Consolidated statement of comprehensive income for the period ended 20X2^(a)

Sales	30,650
Cost of sales	(26,000) <u>26,450</u>
Gross profit	<u>4,650</u> <u>4,200</u>
Depreciation	(450)
Administrative and selling expenses	(910)
<u>Operating profit</u>	<u>3,290</u>
<u>Share of profit or loss of integral associates and joint ventures</u>	<u>(20)</u>
<u>Operating profit and income and expenses from integral associates and joint ventures</u>	<u>3,270</u>
<u>Share of profit or loss of non-integral associates and joint ventures</u>	<u>70</u>
Interest expense	(400)
Investment income	<u>500</u> <u>450</u>

continued...

ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

...continued

Consolidated statement of comprehensive income for the period ended 20X2^(a)

Profit before financing and income tax	<u>3,790</u>
Interest expense	(400)
Foreign exchange loss	(40)
Profit before taxation	<u>3,350</u>
Taxes on income	(300)
Profit	<u><u>3,050</u></u>

(a) The entity did not recognise any components of other comprehensive income in the period ended 20X2.

Consolidated statement of financial position as at end of 20X2

	20X2	20X1
Assets		
Current assets		
Cash and cash equivalents	230	160
Accounts receivable	1,900	1,200
Inventory	1,000	1,950
Non-current assets		
<u>Investments in integral associates and joint ventures</u>	<u>800</u>	<u>820</u>
<u>Investments in non-integral associates and joint ventures</u>	<u>500</u>	<u>430</u>
<u>Investments in equity instruments other than associates and joint ventures</u>	<u>1,200</u>	<u>1,250</u>
Portfolio investments	2,500	2,500
Property, plant and equipment at cost	3,730	1,910
Accumulated depreciation	(1,450)	(1,060)
Property, plant and equipment-net	2,280	850
<u>Intangible assets</u>	<u>400</u>	<u>500</u>
Total assets	<u><u>7,940</u></u>	<u><u>6,660</u></u>
	<u><u>8,310</u></u>	<u><u>7,160</u></u>

continued...

...continued

Consolidated statement of financial position as at end of 20X2

	20X2	20X1
Liabilities		
<u>Current liabilities</u>		
Trade payables	250	1,890
Interest payable	230	100
Income taxes payable	400	1,000
<u>Non-current liabilities</u>		
Long-term debt	2,300	1,040
Total liabilities	<u>3,180</u>	<u>4,030</u>
Shareholders' equity		
Share capital	1,500	1,250
Retained earnings	3,230	4,380
	<u>3,630</u>	<u>1,880</u>
Total shareholders' equity	<u>4,730</u>	<u>2,630</u>
	<u>5,130</u>	<u>3,130</u>
Total liabilities and shareholders' equity	<u>7,910</u>	<u>6,660</u>
	<u>8,310</u>	<u>7,160</u>

Direct method statement of cash flows (paragraph 18(a))

	20X2
Cash flows from operating activities	
Cash receipts from customers	30,150
Cash paid to suppliers and employees	(27,600)
Cash generated from operations	<u>2,550</u>
<u>Cash from operating activities before income tax</u>	2,550
Interest paid	(270)
Income taxes paid	(900)
	<u>1,380</u>
<i>Net cash from operating activities</i>	<u>1,650</u>

continued...

ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

...continued

Direct method statement of cash flows (paragraph 18(a))

	20X2
Cash flows from investing activities	
Acquisition of subsidiary Subsidiary X, net of cash acquired (Note A)	(550)
Purchase of property, plant and equipment (Note B)	(350)
Proceeds from sale of equipment	20
Interest received	200
<u>Dividends received from integral associates and joint ventures</u>	<u>120</u>
<u>Dividends received from non-integral associates and joint ventures</u>	<u>20</u>
<u>Dividends received from equity instruments other than associates and joint ventures</u>	<u>20060</u>
<i>Net cash used in from investing activities</i>	(480)
Cash flows from financing activities	
Proceeds from issue of share capital	250
Proceeds from long-term borrowings	250
Payment of lease liabilities	(90)
<u>Interest paid</u>	<u>(270)</u>
<u>Dividends paid^(a)</u>	<u>(1,200)</u>
<i>Net cash used in from financing activities</i>	(790) <u>(1,060)</u>
Net increase in cash and cash equivalents	110
Cash and cash equivalents at beginning of period (Note C)	120
Cash and cash equivalents at end of period (Note C)	<u>230</u>

(a) This could also be shown as an operating cash flow.

Indirect method statement of cash flows (paragraph 18(b))

	20X2
Cash flows from operating activities	
Profit before taxation	3,350
<u>Operating profit</u>	<u>3,290</u>
Adjustments for:	
Depreciation	450
<u>Amortisation</u>	<u>100</u>
Foreign exchange loss	40
Investment income	(500)
Interest expense	400
	<u>3,740</u>
Increase in trade and other receivables	(500)
Decrease in inventories	1,050
Decrease in trade payables	(1,740)
<u>Cash generated from operations</u>	<u>2,550</u>
<u>Cash from operating activities before income tax</u>	<u>2,550</u>
Interest paid	(270)
Income taxes paid	(900)
	<u>1,380</u>
<i>Net cash from operating activities</i>	<u>1,650</u>
Cash flows from investing activities	
Acquisition of subsidiary <u>Subsidiary X₁</u> net of cash acquired (Note A)	(550)
Purchase of property, plant and equipment (Note B)	(350)
Proceeds from sale of equipment	20
Interest received	200
<u>Dividends received from integral associates and joint ventures</u>	<u>120</u>
<u>Dividends received from non-integral associates and joint ventures</u>	<u>20</u>
<u>Dividends received from investments in equity instruments other than associates and joint ventures</u>	<u>200</u>
	<u>60</u>
<i>Net cash used in from investing activities</i>	(480)

continued...

ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

...continued

Indirect method statement of cash flows (paragraph 18(b))

	20X2
Cash flows from financing activities	
Proceeds from issue of share capital	250
Proceeds from long-term borrowings	250
Payment of lease liabilities ^(a)	(90)
Interest paid	(270)
Dividends paid ^(b)	(1,200)
<i>Net cash used in from financing activities</i>	<u>(790)</u>
	<u>(1,060)</u>
Net increase in cash and cash equivalents	110
Cash and cash equivalents at beginning of period (Note C)	120
Cash and cash equivalents at end of period (Note C)	<u><u>230</u></u>

(a) 'Payment of lease liabilities' includes cash payments both for the principal portion of the lease liabilities and for the interest portion of the lease liabilities.

(b) This could also be shown as an operating cash flow.

B Statement of cash flows for a financial institution an entity that provides financing to customers as its main business activity

1 The example shows only current period amounts. Comparative ~~amounts information~~ for the preceding period ~~are is~~ required to be presented in accordance with ~~IAS 1 Presentation of Financial Statements~~~~(draft)~~ *IFRS X General Presentation and Disclosures*.

...

Direct method statement of cash flows (paragraph 18(a))

	20X2
Cash flows from operating activities	
Interest ^(a) and commission receipts	28,447
	<u>28,747</u>
Interest payments ^(a)	(23,463)
Recoveries on loans previously written off	237
Cash payments to employees and suppliers	(997)
	<u>4,224</u>
	<u>4,524</u>
<i>(Increase) decrease in operating assets:</i>	
Short-term funds	(650)
Deposits held for regulatory or monetary control purposes	234
Funds advanced to customers	(288)
Net increase in credit card receivables	(360)
Other short-term negotiable securities	(120)
<i>Increase (decrease) in operating liabilities:</i>	
Deposits from customers	600
Negotiable certificates of deposit	(200)
Net cash from operating activities before income tax	<u>3,440</u>
	<u>3,740</u>
Income taxes paid	(100)
<i>Net cash from operating activities</i>	<u>3,340</u>
	<u>3,640</u>

continued...

ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

...continued

Direct method statement of cash flows (paragraph 18(a))

	20X2
Cash flows from investing activities	
Disposal of subsidiary Subsidiary Y	50
Dividends received from investments in equity instruments	200
Interest received	300
Proceeds from sales of non-dealing securities	1,200
Purchase of non-dealing securities	(600)
Purchase of property, plant and equipment	(500)
<i>Net cash from investing activities</i>	<u>650</u>
Cash flows from financing activities	
Issue of loan capital	1,000
Issue of preference shares by subsidiary undertaking	800
Repayment of long-term borrowings	(200)
Net decrease in other borrowings	(1,000)
Dividends paid	(400)
<i>Net cash from financing activities</i>	<u>200</u>
Effects of exchange rate changes on cash and cash equivalents	<u>600</u>
Net increase in cash and cash equivalents	4,790
Cash and cash equivalents at beginning of period	<u>4,050</u>
Cash and cash equivalents at end of period	<u><u>8,840</u></u>

(a) An entity should classify each of these cash flows in a single category.

A comparison of proposals with requirements in IAS 1 *Presentation of Financial Statements*

The following table provides a mark-up of the requirements the Board proposes to bring forward from IAS 1 to the new IFRS Standard with only limited changes to the wording. The paragraphs coloured in grey in [draft] IFRS X also set out these requirements. Text that is shown as bold in the [draft] IFRS X is not shown as bold in the table text, and defined terms are not italicised at their first occurrence. Footnotes are not included.

In [draft] IFRS X, the section, [draft] Amendments to other IFRS Standards, includes paragraphs the Board proposes to move from IAS 1 to other IFRS Standards, and describes any proposed changes to those paragraphs.

IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
	Scope	
IAS 1.2	An entity shall apply this [draft] Standard in preparing and presenting general purpose and disclosing information <u>in financial statements in accordance with International Financial Reporting Standards (IFRSs) prepared applying IFRS Standards.</u>	IFRS X.2
IAS 1.3	Other IFRSs <u>IFRS Standards</u> set out the recognition, measurement, presentation and disclosure requirements for specific transactions and other events.	IFRS X.4
IAS 1.4	This [draft] Standard does not apply to the structure <u>presentation</u> and content <u>disclosure of information</u> in condensed interim financial statements prepared in accordance with IAS 34 <i>Interim Financial Reporting</i> . However, paragraphs 15–35 apply to such financial statements <u>25–30, 100–110 and 118 apply to such financial statements.</u>	IFRS X.5
	This [draft] Standard applies equally to all entities, including those that present consolidated financial statements in accordance with IFRS 10 <i>Consolidated Financial Statements</i> and those that present separate financial statements in accordance with IAS 27 <i>Separate Financial Statements</i> .	IFRS X.6
IAS 1.5	This [draft] Standard uses terminology that is suitable for profit-oriented entities, including public sector business entities. If entities with not-for-profit activities in the private sector or the public sector apply this [draft] Standard, they may need to amend the descriptions used for particular line items, <u>categories, subtotals or totals</u> in the financial statements and for the financial statements themselves.	IFRS X.7

continued...

ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

...continued

IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.6	Similarly, entities that do not have equity as defined in IAS 32 <i>Financial Instruments: Presentation</i> (eg some mutual funds) and entities whose share capital is not equity (eg some co-operative entities) may need to adapt the financial statement presentation of members' or unitholders' interests.	IFRS X.8
	Definitions	
IAS 1.7	impracticable Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.	IFRS X.App A
IAS 1.7 (cont)	International Financial Reporting Standards (IFRSs) <u>IFRS Standards</u> <u>IFRS Standards</u> are Standards and Interpretations issued by the International Accounting Standards Board (IASB <u>Board</u>). They comprise: (a) International Financial Reporting Standards; (b) International Accounting Standards; (c) IFRIC Interpretations; and (d) SIC Interpretations.	IFRS X.App A
IAS 1.7 (cont)	other comprehensive income comprises items <u>Items</u> of income and expense (including reclassification adjustments) that are not recognised in <u>outside</u> profit or loss as required or permitted by other IFRSs . <u>IFRS Standards</u> .	IFRS X.App A

continued...

...continued

IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.7 (cont)	<p data-bbox="445 427 1007 488"><u>Appendix A defines other comprehensive income.</u> The components of other comprehensive income include:</p> <p data-bbox="445 506 1046 566">(a) changes in revaluation surplus (see IAS 16 <i>Property, Plant and Equipment</i> and IAS 38 <i>Intangible Assets</i>);</p> <p data-bbox="445 584 948 645">(b) remeasurements of defined benefit plans (see IAS 19 <i>Employee Benefits</i>);</p> <p data-bbox="445 663 1078 757">(c) gains and losses arising from translating the financial statements of a foreign operation (see IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i>);</p> <p data-bbox="445 775 1062 898">(d) gains and losses from investments in equity instruments designated as <u>measured</u> at fair value through other comprehensive income in accordance with paragraph 5.7.5 of IFRS 9 <i>Financial Instruments</i>;</p> <p data-bbox="445 916 1062 1010">(d)(e) gains and losses on financial assets measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of IFRS 9;</p> <p data-bbox="445 1028 1062 1245">(e)(f) the effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through other comprehensive income in accordance with paragraph 5.7.5 of IFRS 9 (see Chapter 6 of IFRS 9);</p> <p data-bbox="445 1263 1078 1388">(f)(g) for particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see paragraph 5.7.7 of IFRS 9);</p> <p data-bbox="445 1406 1078 1563">(g)(h) changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value (see Chapter 6 of IFRS 9);</p>	IFRS X.B50

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ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.7 (cont)	<p>(h)(i) changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument (see Chapter 6 of IFRS 9);</p> <p>(i)(j) insurance finance income and expenses from contracts issued within the scope of IFRS 17 <i>Insurance Contracts</i> excluded from profit or loss when total insurance finance income or expense is disaggregated to include in profit or loss an amount determined by a systematic allocation applying paragraph 88(b) of IFRS 17, or by an amount that eliminates accounting mismatches with the finance income or expenses arising on the underlying items, applying paragraph 89(b) of IFRS 17; and</p> <p>(j)(k) finance income and expenses from reinsurance contracts held excluded from profit or loss when total reinsurance finance income or expenses is disaggregated to include in profit or loss an amount determined by a systematic allocation, applying paragraph 88(b) of IFRS 17.</p>	IFRS X.B50 (cont)
IAS 1.7 (cont)	<p>reclassification adjustments are amounts <u>Amounts</u> reclassified to profit or loss in the current <u>reporting</u> period that were recognised <u>included</u> in other comprehensive income in the current or previous periods.</p>	IFRS X.App A

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EXPOSURE DRAFT—DECEMBER 2019

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.7 (cont)	<p>total comprehensive income</p> <p>is theThe change in equity during a <u>reporting</u> period resulting from transactions and other events, other than those changes resulting from transactions with owners<u>holders of claims classified as equity</u> in their capacity as owners <u>holders of claims classified as equity</u>.</p> <p>Total comprehensive income comprises all components of 'profit or loss' and of 'other comprehensive income'.</p>	IFRS X.App A
IAS 1.8	<p>Although this [draft] Standard uses the terms <u>such as</u> 'other comprehensive income', 'profit or loss' and 'total comprehensive income', an entity may use other terms to describe the totals, <u>subtotals and line items required by this [draft] Standard</u> as long as the meaning is clear. For example, an entity may use the term 'net income' to describe profit or loss.</p>	IFRS X.12
	Financial statements	
	Complete set of financial statements	
IAS 1.11	<p>An entity shall present with equal prominence <u>at least</u> of the <u>primary</u> financial statements <u>with equal prominence</u> in a complete set of financial statements.</p>	IFRS X.15
	General features	
	Materiality and aggregation	
IAS 1.31	<p>Some IFRSs<u>IFRS Standards</u> specify information that is required to be included<u>presented</u> in the <u>primary</u> financial statements, which include or disclosed in the notes. An entity need not provide a specific <u>presentation or</u> disclosure required by an <u>IFRS Standard</u> if the information resulting from that <u>presentation or</u> disclosure is not material. This is the case even if the <u>IFRS Standard</u> contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in <u>IFRS Standards</u> is insufficient to enable users of financial statements to understand the impact of particular transactions, <u>and</u> other events and conditions on the entity's financial position and financial performance.</p>	IFRS X.24

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ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
	Offsetting	
IAS 1.32	An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an IFRS Standard (see paragraphs B16–B17).	IFRS X.29
IAS 1.33	An entity reports separately both assets and liabilities, and income and expenses. Offsetting in the statement(s) of profit or loss and other comprehensive income or financial performance or the statement of financial position, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users of <u>financial statements</u> both to understand the transactions, and other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances – for example, obsolescence allowances on inventories and doubtful debts allowances on receivables – is not offsetting.	IFRS X.30
IAS 1.34	<u>Paragraph 29 prohibits entities from offsetting unless required or permitted by an IFRS Standard.</u> IFRS 15 <i>Revenue from Contracts with Customers</i> requires an entity to measure revenue from contracts with customers at the amount of consideration to which the entity expects to be entitled in exchange for transferring promised goods or services. For example, the amount of revenue recognised reflects any trade discounts and volume rebates the entity allows. An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. An entity presents <u>in the primary financial statements or discloses in the notes</u> the results of such transactions, when this presentation or disclosure reflects the substance of the transaction or other event, by netting any income with related expenses arising on the same transaction. For example:	IFRS X.B16

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EXPOSURE DRAFT—DECEMBER 2019

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
	Frequency of reporting	
IAS 1.36	An entity shall present <u>provide</u> a complete set of financial statements (including comparative information) at least annually. When an entity changes the end of its reporting period and presents <u>provides</u> financial statements for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements: (a) the reason for using a longer or shorter period; and (b) the fact that amounts presented <u>included</u> in the financial statements are not entirely comparable.	IFRS X.31
IAS 1.37	Normally, an entity consistently prepares financial statements for a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This [draft] Standard does not preclude this practice.	IFRS X.32
	Comparative information	
	Minimum comparative information	
IAS 1.38	Except when IFRSs <u>IFRS Standards</u> permit or require otherwise, an entity shall present <u>provide</u> comparative information in respect of the preceding <u>reporting</u> period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information if it is relevant to <u>an</u> understanding of the current period's financial statements.	IFRS X.34
1.38A	An entity shall present, as a minimum, two <u>a current reporting period and preceding period</u> in each of its <u>primary financial</u> statements of financial position, two statements of profit or loss and other comprehensive income, two separate statements of profit or loss (if presented), two statements of cash flows and two statements of changes in equity, and related <u>and in the</u> notes.	IFRS X.35

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ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.38B	In some cases, narrative information provided in the financial statements for the preceding <u>reporting period(s)</u> continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute, the outcome of which was uncertain at the end of the preceding period and is yet to be resolved. Users <u>of financial statements</u> may benefit from the disclosure of information that the uncertainty existed at the end of the preceding period and from the disclosure of information about the steps that have been taken during the period to resolve the uncertainty.	IFRS X.B19
	Additional comparative information	
IAS 1.38C	An entity may present <u>provide</u> comparative information in addition to the minimum comparative financial statements <u>information</u> required by IFRSs <u>IFRS Standards</u> , as long as that information is prepared in accordance with IFRSs <u>IFRS Standards</u> . This comparative information may consist of one or more of the <u>primary financial statements</u> referred to in paragraph 10, but need not comprise a complete set of financial statements. When this is the case, the entity shall present <u>disclose</u> related note information for those additional <u>primary financial statements</u> .	IFRS X.B20
IAS 1.38D	For example, an entity may present a third statements <u>statement(s) of profit or loss and other comprehensive income</u> financial performance (thereby presenting the current <u>reporting period</u> , the preceding period and one additional comparative period). However, the entity is not required to present a third statement of financial position, a third statement of cash flows or a third statement of changes in equity (ie an additional financial statement comparative). The entity is required to present <u>disclose</u> , in the notes to the financial statements , the comparative information related to that additional statements <u>statement(s) of profit or loss and other comprehensive income</u> financial performance .	IFRS X.B21

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EXPOSURE DRAFT—DECEMBER 2019

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
	Change in accounting policy, retrospective restatement or reclassification	
IAS 1.40A	An entity shall present a third statement of financial position as at the beginning of the preceding <u>reporting</u> period in addition to the minimum comparative financial statements <u>information</u> required in paragraph 38A <u>35</u> if: <ul style="list-style-type: none"> (a) it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and (b) the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period. 	IFRS X.36
IAS 1.40B	In the circumstances described in paragraph 40A <u>36</u> , an entity shall present three statements of financial position as at: <ul style="list-style-type: none"> (a) the end of the current <u>reporting</u> period; (b) the end of the preceding period; and (c) the beginning of the preceding period. 	IFRS X.37
IAS 1.40C	When an entity is required to present an additional <u>a third</u> statement of financial position in accordance with paragraph 40A <u>36</u> , it must disclose the information required by paragraphs 41–44 <u>40–41</u> and IAS 8. However, it need not present <u>provide</u> the related notes to the opening statement of financial position as at the beginning of the preceding <u>reporting</u> period.	IFRS X.38
IAS 1.40D	The date of that opening statement of financial position shall be as at the beginning of the preceding <u>reporting</u> period regardless of whether an entity's financial statements present <u>provide</u> comparative information for earlier periods (as permitted in paragraph 38C <u>B20</u>).	IFRS X.39

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ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.41	<p>If an entity changes the presentation, <u>disclosure</u> or classification of items in its financial statements, it shall reclassify comparative amounts unless reclassification is impracticable. When an entity reclassifies comparative amounts, it shall disclose (including as at the beginning of the preceding <u>reporting period</u>) <u>(see paragraphs B22–B23)</u>:</p> <p>(a) the nature of the reclassification;</p> <p>(b) the amount of each item or class of items that is reclassified; and</p> <p>(c) the reason for the reclassification.</p>	IFRS X.40
IAS 1.42	<p>When it is impracticable to reclassify comparative amounts, an entity shall disclose:</p> <p>(a) the reason for not reclassifying the amounts; and</p> <p>(b) the nature of the adjustments that would have been made if the amounts had been reclassified.</p>	IFRS X.41
IAS 1.43	<p><u>Paragraph 40 requires an entity to reclassify comparative amounts if the entity changes the presentation, disclosure or classification of items in its financial statements.</u> Enhancing the inter-period comparability of information assists users of <u>financial statements</u> in making economic decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior <u>reporting period</u> to achieve comparability <u>consistency</u> with the current period. For example, an entity may not have collected data in the prior period(s) in a way that allows reclassification, and it may be impracticable to recreate the information.</p>	IFRS X.B22
IAS 1.44	<p><u>IAS 8 Basis of Preparation, Accounting Policies, Changes in Accounting Estimates and Errors</u> sets out the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.</p>	IFRS X.B23

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EXPOSURE DRAFT—DECEMBER 2019

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
	Consistency of presentation	
IAS 1.45	<p>An entity shall retain the presentation, <u>disclosure</u> and classification of items in the financial statements from one <u>reporting period</u> to the next unless (see <u>paragraph B18</u>):</p> <p>(a) it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation, <u>disclosure</u> or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IAS 8 <u>Basis of Preparation, Accounting Policies, Changes in Accounting Estimates and Errors</u>; or</p> <p>(b) an IFRS <u>Standard</u> requires a change in presentation, <u>disclosure</u> or <u>classification</u>.</p>	IFRS X.33
IAS 1.46	<p><u>Paragraph 33(a) permits an entity to change the presentation, disclosure or classification of items in the financial statements when it is apparent that another presentation, disclosure or classification would be more appropriate.</u> For example, a significant acquisition or disposal, or a review of the presentation of the financial statements, might suggest that the financial statements need to be presented differently <u>changed</u>. An entity changes the presentation, <u>disclosure</u> or <u>classification</u> of its financial statements only if the changed presentation <u>change</u> provides information that is <u>reliable and more relevant</u> useful to users of the financial statements and the revised structure <u>presentation, disclosure or classification</u> is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity reclassifies its comparative information in accordance with paragraphs 41 and 42 <u>40–41</u>.</p>	IFRS X.B18
	Structure and content	
	Identification of the financial statements	
IAS 1.49	<p>An entity shall clearly identify the financial statements and distinguish them from other information in the same published document (see <u>paragraphs B1–B2</u>).</p>	IFRS X.16

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ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.50	<p>IFRSs <u>IFRS Standards</u> apply only to financial statements, and not necessarily to other information presented <u>provided</u> in an annual report, a regulatory filing, or another document. Therefore, it is important that users <u>of financial statements</u> can distinguish information that is prepared using IFRSs <u>IFRS Standards</u> from other information that may be useful to users but is not the subject of those requirements.</p>	IFRS X.17
IAS 1.51	<p>An entity shall clearly identify each <u>primary</u> financial statement and the notes. In addition, an entity shall display the following information prominently, and repeat it when necessary for the information presented <u>provided</u> to be understandable:</p> <ul style="list-style-type: none"> (a) the name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period; (b) whether the financial statements are of an individual entity or a group of entities; (c) the date of the end of the reporting period or the period covered by the set of financial statements or notes <u>notes</u>; (d) the presentation currency, as defined in IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i>; and (e) the level of rounding used in presenting for the <u>in the</u> amounts in the financial statements. 	IFRS X.18
IAS 1.52	<p>An entity meets the requirements in paragraph 54 <u>16</u> by presenting <u>providing</u> appropriate headings for pages, statements, notes, columns and the like. Judgement is required in determining the best way of presenting <u>providing</u> such information. For example, when an entity presents <u>provides</u> the financial statements electronically, separate pages are not always used; an entity then presents <u>provides</u> the above items to ensure that the information included in the financial statements can be understood.</p>	IFRS X.B1
IAS 1.53	<p>An entity often makes financial statements more understandable by presenting <u>providing</u> information in thousands or millions of units of the presentation currency. This is acceptable as long as the entity discloses the level of rounding and does not omit material information.</p>	IFRS X.B2

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EXPOSURE DRAFT—DECEMBER 2019

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
	Statement of financial position	
	Information to be presented in the statement of financial position	
IAS 1.56	When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).	IFRS X.86
IAS 1.57	This [draft] Standard does not prescribe the order or format in which an entity presents items <u>in the statement of financial position</u> . Paragraph 5482 simply lists items that are sufficiently different in nature or function to warrant separate presentation in the statement of financial position. In addition: (a) <u>applying paragraph 42</u> , line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and (b) the descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position. For example, a financial institution may amend the above descriptions <u>in paragraph 82</u> to provide information that is relevant to the operations of a financial institution.	IFRS X.83
IAS 1.58	An <u>Applying paragraph 83(a)</u> an entity makes the judgement about whether to present additional items separately on the basis of an assessment of: (a) the nature and liquidity of assets; (b) the function of assets within the entity; and (c) the amounts, nature and timing of liabilities.	IFRS X.B12
IAS 1.59	The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that an entity presents them as separate line items. For example, different classes of property, plant and equipment can be carried at cost or at revalued amounts in accordance with IAS 16 <u>Property, Plant and Equipment</u> .	IFRS X.B13

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ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
	Current/non-current distinction	
IAS 1.60	An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position in accordance with paragraphs 66–76 87–88 except when a presentation based on liquidity provides information that is reliable <u>faithfully represents those assets and liabilities and is</u> more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity (<u>see paragraphs B53–B56</u>).	IFRS X.84
IAS 1.61	Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled: (a) no more than twelve months after the reporting period; ⁱ and (b) more than twelve months after the reporting period.	IFRS X.85
IAS 1.62	When applying paragraph 84, when an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities in the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same <u>reporting period</u> .	IFRS X.B53
IAS 1.63	For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable <u>faithfully represents those assets and liabilities and is</u> more relevant than a current/non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.	IFRS X.B54
IAS 1.64	In applying paragraph 60 84 , an entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable <u>faithfully represents those assets and liabilities and is</u> more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations.	IFRS X.B55

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EXPOSURE DRAFT—DECEMBER 2019

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.65	<p>Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. IFRS 7 <i>Financial Instruments: Disclosures</i> requires disclosure of the maturity dates<u>analysis</u> of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery of non-monetary assets, such as inventories and expected date of settlement for liabilities, such as provisions, is also useful, whether assets and liabilities are classified as current or as non-current. For example, an entity discloses <u>in the notes</u> the amount of inventories that are expected to be recovered more than twelve months after the reporting period.</p>	IFRS X.B56
	Current assets	
IAS 1.66	<p>An entity shall classify an asset as current when <u>(see paragraphs B57–B58)</u>:</p> <ul style="list-style-type: none"> (a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle; (b) it holds the asset primarily for the purpose of trading; (c) it expects to realise the asset within twelve months after the reporting period; or (d) the asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. <p>An entity shall classify all other assets as non-current.</p>	IFRS X.87
IAS 1.67	<p><u>Paragraph 87 requires an entity to classify as non-current all assets not classified as current.</u> This [draft] Standard uses the term ‘non-current’ to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.</p>	IFRS X.B57

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ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.68	<p>The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting period. Current assets also include assets held primarily for the purpose of trading (examples include some financial assets that meet the definition of held for trading in IFRS 9) and the current portion of non-current financial assets.</p>	IFRS X.B58
	Current liabilities	
IAS 1.69	<p>An entity shall classify a liability as current when <u>(see paragraphs B59–B65)</u>:</p> <ul style="list-style-type: none"> (a) it expects to settle the liability in its normal operating cycle; (b) it holds the liability primarily for the purpose of trading; (c) the liability is due to be settled within twelve months after the reporting period; or (d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period (see paragraph 73<u>B62</u>). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification. <p>An entity shall classify all other liabilities as non-current.</p>	IFRS X.88
IAS 1.70	<p><u>Paragraph 88 specifies when an entity is required to classify a liability as current.</u> Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. An entity classifies such operating items as current liabilities even if they are due to be settled more than twelve months after the reporting period. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months.</p>	IFRS X.B59

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EXPOSURE DRAFT—DECEMBER 2019

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.71	Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities that meet the definition of held for trading in IFRS 9, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting period are non-current liabilities, subject to paragraphs 74 and 75 <u>B63–B64</u> .	IFRS X.B60
IAS 1.72	An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if: (a) the original term was for a period longer than twelve months; and (b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorised for issue.	IFRS X.B61
IAS 1.73	If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.	IFRS X.B62
IAS 1.74	When an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date.	IFRS X.B63

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ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.75	However, an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.	IFRS X.B64
IAS 1.76	<p>In respect of loans classified as current liabilities, if the following events occur between the end of the reporting period and the date the financial statements are authorised for issue, those events are disclosed as non-adjusting events in accordance with IAS 10 <i>Events after the Reporting Period</i>:</p> <ul style="list-style-type: none"> (a) refinancing on a long-term basis; (b) rectification of a breach of a long-term loan arrangement; and (c) the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement ending at least twelve months after the reporting period. 	IFRS X.B65

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EXPOSURE DRAFT—DECEMBER 2019

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IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
	Information to be presented either in the statement of financial position or in the notes	
IAS 1.79	<p>An entity shall <u>either disclose in the following, either notes or present</u> in the statement of financial position or the statement of changes in equity, or in the notes <u>following</u>:</p> <p>(a) for each class of share capital:</p> <ul style="list-style-type: none"> (i) the number of shares authorised; (ii) the number of shares issued and fully paid, and issued but not fully paid; (iii) par value per share, or that the shares have no par value; (iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the <u>reporting</u> period; (v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital; (vi) shares in the entity held by the entity or by its subsidiaries or associates; and (vii) shares reserved for issue under options and contracts for the sale of shares, including terms and amounts; and <p>(b) a description of the nature and purpose of each reserve within equity.</p>	IFRS X.114
IAS 1.80	An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph 79 <u>114</u> (a), showing changes during the <u>reporting</u> period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest.	IFRS X.115
	Statement of profit or loss and other comprehensive income	
	Profit or loss for the period	
IAS 1.88	An entity shall recognise all items of income and expense in a <u>reporting period in the statement of profit or loss unless an IFRS Standard requires or permits otherwise (see paragraphs 74–81)</u> .	IFRS X.44

continued...

ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

...continued

IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.89	Some IFRSs IFRS Standards specify circumstances when an entity recognises particular items outside <u>the statement of profit or loss in the current reporting period</u> . IAS 8 specifies two such circumstances: the correction of errors and the effect of changes in accounting policies. Other IFRSs IFRS Standards require or permit components of other comprehensive income that meet the Conceptual Framework's <u>Conceptual Framework for Financial Reporting's</u> definition of income or expense to be excluded from profit or loss (see paragraph 7B50).	IFRS X.B49
	Other comprehensive income for the period	
IAS 1.90	An entity shall <u>either disclose in the notes or present in the statement presenting comprehensive income</u> the amount of income tax relating to each item of other comprehensive income, including reclassification adjustments, either in the statement of profit or loss and other comprehensive income or in the notes.	IFRS X.80
IAS 1.91	An entity may present items of other comprehensive income either: (a) net of related tax effects; ; or (b) before related tax effects with one amount shown for the aggregate amount of income tax relating to those items. If an entity elects alternative (b), it shall allocate the tax between the items that might be reclassified subsequently to the <u>measurements permanently reported outside profit or loss section and those that will not be reclassified subsequently to the income and expenses to be included in profit or loss section in the future when specific conditions are met.</u>	IFRS X.81
IAS 1.92	An entity shall <u>present in the statement presenting comprehensive income or disclose in the notes</u> reclassification adjustments relating to components of other comprehensive income (see paragraphs B51–B52).	IFRS X.77

continued...

EXPOSURE DRAFT—DECEMBER 2019

...continued

IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.93	Other IFRSs <u>IFRS Standards</u> specify whether and when amounts previously recognised <u>included</u> in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this [draft] Standard as reclassification adjustments. A reclassification adjustment is included with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss. These amounts may have been recognised <u>included</u> in other comprehensive income as unrealised gains in the current or previous periods. Those unrealised gains must be deducted from other comprehensive income in the period in which the realised gains are reclassified to profit or loss to avoid including them in total comprehensive income twice.	IFRS X.78
IAS 1.94	An entity may present <u>disclosing</u> reclassification adjustments in the <u>notes shall present in the</u> statement(s) of profit or loss and other <u>presenting</u> comprehensive income or in the notes . An entity presenting reclassification adjustments in the notes presents the items of other comprehensive income after any related reclassification adjustments.	IFRS X.79
IAS 1.95	Reclassification adjustments arise, for example, on disposal of a foreign operation (see IAS 21) and when some hedged forecast cash flows affect profit or loss (see paragraph 6.5.11(d) of IFRS 9 in relation to cash flow hedges).	IFRS X.B51

continued...

ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

...continued

IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.96	<p>Paragraph 77 requires an entity to present in the statement <u>presenting comprehensive income or disclose in the notes reclassification adjustments relating to the component of other comprehensive income, income and expenses to be included in profit or loss in the future.</u> Reclassification adjustments do not arise on changes in revaluation surplus recognised in accordance with IAS 16 or IAS 38 or on remeasurements of defined benefit plans recognised in accordance with IAS 19. These components are recognised in other comprehensive income and are not reclassified to profit or loss in subsequent <u>reporting</u> periods. Changes in revaluation surplus may be transferred to retained earnings in subsequent periods as the asset is used or when it is derecognised (see IAS 16 and IAS 38). In accordance with IFRS 9, reclassification adjustments do not arise if a cash flow hedge or the accounting for the time value of an option (or the forward element of a forward contract or the foreign currency basis spread of a financial instrument) result in amounts that are removed from the cash flow hedge reserve or a separate component of equity, respectively, and included directly in the initial cost or other carrying amount of an asset or a liability. These amounts are directly transferred to assets or liabilities.</p>	IFRS X.B52
	Information to be presented in the statement(s) of profit or loss and other comprehensive income or in the notes	
IAS 1.98	<p>Circumstances that would give rise to the separate <u>presentation in the statement(s) of financial performance or disclosure in the notes</u> of items of income and expense include:</p> <ul style="list-style-type: none"> (a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs; (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring; (c) disposals of items of property, plant and equipment; (d) disposals of investments; (e) discontinued operations; (f)(e) litigation settlements; and (g)(f) other reversals of provisions. 	IFRS X.B15

continued...

EXPOSURE DRAFT—DECEMBER 2019

...continued

IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
	Statement of changes in equity	
	Information to be presented in the statement of changes in equity	
IAS 1.106	<p>An entity shall present a statement of changes in equity as required by paragraph 10. The statement of changes in equity includes the following information:</p> <p>(a) total comprehensive income for the <u>reporting period</u>, showing separately the total amounts attributable to <u>ownersholders of claims against the parent classified as equity</u> and to non-controlling interests;</p> <p>(b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8; and</p> <p>(e) {deleted}</p> <p>(d)(c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) disclosing<u>presenting</u> changes resulting from:</p> <p>(i) profit or loss;</p> <p>(ii) other comprehensive income; and</p> <p>(iii) transactions with <u>ownersholders of claims classified as equity</u> in their capacity as <u>ownersholders of claims classified as equity</u>, showing separately contributions by and distributions to <u>ownersholders of claims classified as equity</u> and changes in <u>ownership interests in claims classified as equity against subsidiaries that do not result in a loss of control</u>.</p>	IFRS X.89
	Information to be presented in the statement of changes in equity or in the notes	
IAS 1.106A	For each component of equity an entity shall <u>either</u> present; either in the statement of changes in equity or <u>disclose</u> in the notes; an analysis of other comprehensive income by item (see paragraph 106(d)89(c)(ii)).	IFRS X.91
IAS 1.107	An entity shall <u>either</u> present; either in the statement of changes in equity or <u>disclose</u> in the notes; the amount of dividends recognised as distributions to <u>ownersholders of claims classified as equity</u> during the <u>reporting period</u> , and the related amount of dividends per share.	IFRS X.92

continued...

ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

...continued

IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.108	In paragraph 106,89 , the components of equity include, for example, each class of contributed equity, the accumulated balance of each class of other comprehensive income and retained earnings.	IFRS X.93
IAS 1.109	Changes in an entity's equity between the beginning and the end of the reporting period reflect the increase or decrease in its net assets during the period. Except for changes resulting from transactions owners <u>with holders of claims classified as equity</u> in their capacity as owners <u>holders of claims classified as equity</u> (such as equity contributions, reacquisitions of the entity's own equity instruments and dividends) and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of income and expense, including gains and losses, generated by the entity's activities during that period.	IFRS X.94
IAS 1.110	IAS 8 requires retrospective adjustments to effect changes in accounting policies, to the extent practicable, except when the transition provisions in another IFRS <u>Standard</u> require otherwise. IAS 8 also requires restatements to correct errors to be made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are not changes in equity, but they are adjustments to the opening balance of retained earnings, except when an IFRS <u>Standard</u> requires retrospective adjustment of another component of equity. Paragraph 106 <u>89(b)</u> requires disclosure <u>representation</u> in the statement of changes in equity of the total adjustment to each component of equity resulting from changes in accounting policies and, separately, from corrections of errors. These adjustments are disclosed <u>presented</u> for each prior <u>reporting</u> period and the beginning of the period.	IFRS X.90
	Statement of cash flows	
IAS 1.111	Cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. IAS 7 sets out requirements for the presentation and disclosure of cash flow information.	IFRS X.95

continued...

EXPOSURE DRAFT—DECEMBER 2019

...continued

IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
	Notes	
	Structure	
IAS 1.112	<p>The notes<u>An entity shall disclose in the notes:</u></p> <p>(a) present information about the basis of preparation of the financial statements <u>(see paragraphs 6K–6N of IAS 8)</u> and the specific accounting policies used in accordance with <u>(see paragraphs 117–12428A–28G of IAS 8)</u>;</p> <p>(b) disclosure the information required by IFRSs<u>IFRS Standards</u> that is not presented elsewhere in the <u>primary</u> financial statements; and</p> <p>(c) provide information that is not presented elsewhere in the <u>primary</u> financial statements, but is relevant to an understanding of any of them.</p>	IFRS X.96
IAS 1.113	<p>An entity shall, as far as practicable, present notes in a systematic manner. In determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its financial statements. An entity shall cross-reference each item in the <u>primary financial</u> statements of financial position and in the statement(s) of profit or loss and other comprehensive income, and in the statements of changes in equity and of cash flows to any related information in the notes <u>(see paragraph B66)</u>.</p>	IFRS X.97

continued...

ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

...continued

IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.114	<p>Paragraph 97 requires an entity to present notes in a systematic manner. Examples of systematic ordering or grouping of the notes include:</p> <ul style="list-style-type: none"> (a) giving prominence to the areas of its activities that the entity considers to be most relevant to an understanding of its financial performance and financial position, such as grouping together information about particular operating<u>business</u> activities; (b) grouping together information about items measured similarly such as assets measured at fair value; or (c) following the order of the line items in the statement(s) of profit or loss and other comprehensive income<u>financial performance</u> and the statement of financial position, such as: <ul style="list-style-type: none"> (i) statement of compliance with IFRSs<u>IFRS Standards</u> (see paragraph 466B of IAS 8); (ii) significant accounting policies applied (see paragraph 417<u>28A</u> of IAS 8); (iii) supporting information for items presented in the statements of financial position and in the statement(s) of profit or loss and other comprehensive income<u>financial performance</u>, and in the statements of changes in equity and of cash flows, in the order in which each statement is <u>provided</u> and each line item is presented; and (iv) other disclosures, including: <ul style="list-style-type: none"> (1) contingent liabilities (see IAS 37) and unrecognised contractual commitments; and (2) non-financial disclosures, eg the entity's financial risk management objectives and policies (see IFRS 7). 	IFRS X.B66
IAS 1.116	An entity may present <u>disclose</u> notes providing information about the basis of preparation of the financial statements and specific accounting policies as a separate section of the financial statements.	IFRS X.98

continued...

EXPOSURE DRAFT—DECEMBER 2019

...continued

IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
	Capital	
IAS 1.134	An entity shall disclose <u>in the notes</u> information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.	IFRS X.111
IAS 1.135	<p>To comply with paragraph 134<u>111</u>, the entity discloses <u>in the notes</u> the following:</p> <p>(a) qualitative information about its objectives, policies and processes for managing capital, including:</p> <p style="padding-left: 20px;">(i) a description of what it manages as capital;</p> <p style="padding-left: 20px;">(ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and</p> <p style="padding-left: 20px;">(iii) how it is meeting its objectives for managing capital.</p> <p>(b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (eg some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (eg components arising from cash flow hedges).</p> <p>(c) any changes in (a) and (b) from the previous <u>reporting</u> period.</p> <p>(d) whether during the period it complied with any externally imposed capital requirements to which it is subject.</p> <p>(e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.</p> <p>The entity bases these <u>note</u> disclosures on the information provided internally to key management personnel.</p>	IFRS X.112

continued...

ILLUSTRATIVE EXAMPLES ON GENERAL PRESENTATION AND DISCLOSURES

...continued

IAS 1 para #	Revised text (new text underlined, deleted text struck through)	New para #
IAS 1.136	An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's <u>user's</u> understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.	IFRS X.113
	Other disclosures	
IAS 1.137	An entity shall disclose in the notes: (a) the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to owners <u>holders of claims classified as equity</u> during the <u>reporting</u> period, and the related amount per share; and (b) the amount of any cumulative preference dividends not recognised.	IFRS X.116
IAS 1.138	An entity shall disclose <u>in the notes</u> the following, if not disclosed elsewhere in information published with the financial statements: (a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office); (b) a description of the nature of the entity's operations and its principal <u>main business</u> activities; (c) the name of the parent and the ultimate parent of the group; and (d) if it is a limited life entity, information regarding the length of its life.	IFRS X.99



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Snapshot: *General Presentation and Disclosures*

This Snapshot provides an overview of the Exposure Draft *General Presentation and Disclosures* published by the International Accounting Standards Board (Board).

The Board's objective:	To improve how information is communicated in the financial statements, with a focus on information about performance in the statement of profit or loss.
Proposals:	<p>The Board proposes to require companies to:</p> <ol style="list-style-type: none">1 present new defined subtotals in the statement of profit or loss;2 disaggregate information in a better way; and3 disclose information about some performance measures defined by management ('non-GAAP' measures). <p>The Board proposes to issue a new IFRS Standard, replacing IAS 1 <i>Presentation of Financial Statements</i>, and amend some IFRS Standards to reflect these proposals.</p>
Next steps:	The Board will consider feedback received on the Exposure Draft in developing its final requirements.
Comment deadline:	30 June 2020

Why is the Board undertaking this project?

The Exposure Draft responds to the strong demand from investors for the Board to improve performance reporting.

The Board developed the Exposure Draft in its Primary Financial Statements project. The Board undertook this project in response to concerns from investors about the comparability and transparency of companies' performance reporting.

The Board decided to prioritise the project in response to feedback from its 2015 Agenda Consultation, as part of its plan to promote better communication in financial reporting.

The Board's three main proposals and the investor concerns they respond to are set out in the table on this page. The Board is also proposing targeted improvements to the statement of cash flows, which are discussed on page 15.

What investors say



Subtotals in the statement of profit or loss need to be comparable between different companies.



Companies should provide more granular information and information grouped in a way that provides better inputs for our analysis.



Performance measures defined by management can provide useful information, but should be used in a more transparent and disciplined way.

Board's main proposals

- 1 Require companies to present additional **defined subtotals** in the statement of profit or loss (pages 3–8).
- 2 Strengthen requirements for **disaggregating information** in a useful way in the financial statements (pages 9–11), including requirements to:
 - analyse operating expenses; and
 - identify unusual income and expenses.
- 3 Require companies to disclose information about **management performance measures** in the notes to the financial statements, including a reconciliation to measures specified by IFRS Standards (pages 12–14).

1 Subtotals in the statement of profit or loss

What is the issue?

IAS 1 *Presentation of Financial Statements* requires companies to present 'revenue' and 'profit or loss' in the statement of profit or loss but it does not require any specific subtotals in between.

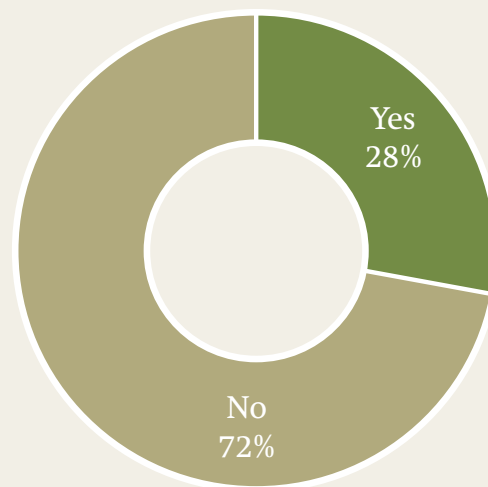
Consequently, the structure and content of the statement of profit or loss varies between companies, even among companies in the same industry. This diversity makes it difficult for investors to compare companies' financial performance.

For example, many companies present an 'operating profit' subtotal, which is currently not defined by IFRS Standards. Many investors use operating profit to assess margins and as a starting point for forecasting future cash flows. However, companies calculate operating profit in different ways.

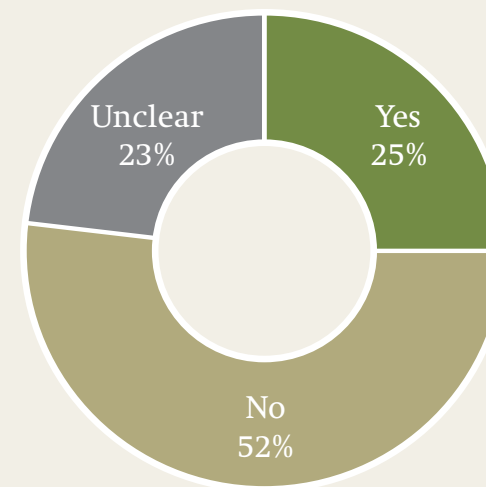
Operating profit is calculated inconsistently

In a sample of 100 companies, we found that 63 companies reported operating profit in the financial statements, **using at least nine different definitions**.¹

Is the share of profit or loss of associates and joint ventures included in operating profit?



Is the interest cost on defined benefit pension liabilities included in operating profit?



¹ We analysed the 2017-18 annual reports of 100 listed companies applying IFRS Standards from 26 jurisdictions and 12 industries.

What is the Board proposing?

The Board proposes to require companies to:

- classify their income and expenses into **four defined categories**—shown on the right in the illustration (companies would not be required to present category labels); and
- present **three subtotals** between these categories—labelled 1 to 3 in the illustration.

These subtotals and categories would:

- each reflect a different aspect of a company’s financial performance, providing relevant information for investors; and
- create a consistent structure for the statement of profit or loss, making it easier for investors to compare companies.

The example on this page illustrates how the proposals could apply to most companies, analysing operating expenses by nature (see page 9). Companies such as banks, insurers and investment companies would apply the proposals differently (see page 7). In the example, some of the line items shown within the categories would be required and others are included for illustrative purposes.

	Revenue	347,000	Operating
	Other income	3,800	
	Changes in inventories of finished goods and work in progress	3,000	
	Raw materials used	(146,000)	
	Employee benefits	(107,000)	
	Depreciation	(27,000)	
	Amortisation	(12,500)	
	Impairment of property, plant and equipment	(8,000)	
	Impairment of trade receivables	(6,500)	
	Professional fees and other expenses	(5,530)	
1	Operating profit	41,270	
	Share of profit or loss of integral associates and joint ventures	(600)	Integral associates and joint ventures
2	Operating profit and income and expenses from integral associates and joint ventures	40,670	
	Share of profit or loss of non-integral associates and joint ventures	3,380	Investing
	Dividend income	3,550	
3	Profit before financing and income tax	47,600	Financing
	Expenses from financing activities	(3,800)	
	Unwinding of discount on pension liabilities and provisions	(3,000)	
	Profit before tax	40,800	
	Income tax	(7,200)	
	Profit for the year	33,600	

What would be included in each of the categories?

Operating category

The operating category and the 'operating profit' subtotal would include information about income and expenses from a company's main business activities. This category is the default category—income and expenses would be classified in the operating category unless they are classified in the other categories.

Investing category

A company may have investments that generate returns independently of other company assets. For example, a company may have investment properties or hold some shares of other companies.

Investors often analyse returns from such 'stand-alone' investments separately from a company's operations. The investing category aims to capture income and expenses from such investments to facilitate investors' analysis.

Integral associates and joint ventures

This category would include the share of profit or loss and related income and expenses from those associates and joint ventures whose activities are closely related to the company's main business activities (see next page).

Financing category

The financing category and the 'profit before financing and income tax' subtotal would help investors compare companies' performance before the effects of companies' financing decisions.

The financing category would include:

- income and expenses from cash and cash equivalents;
- income and expenses on liabilities arising from financing activities, such as bank loans, lease liabilities and trade payables negotiated on extended credit terms; and
- interest income and expenses on other liabilities, such as the unwinding of a discount on pension liabilities and provisions.

How would income and expenses from equity-accounted associates and joint ventures be presented?

Different stakeholder views

Companies currently present the share of profit or loss of associates and joint ventures in different places in the statement of profit or loss (see chart on page 3).

Stakeholders have different views on what the best location would be.



Below operating profit—investors analyse results from associates and joint ventures **separately** because:

- the share of profit or loss is a net result, after financing and income tax;
- associates and joint ventures are not controlled by the company; and
- including the share of profit or loss in operating profit would distort operating profit margins.

Some associates' and joint ventures' activities are **closely related** to companies' main business activities. Some companies want to be able to communicate their performance **including** the results from such associates and joint ventures.



In response, the Board proposes a balanced approach—companies would be required to:

- exclude income and expenses from *all* equity-accounted associates and joint ventures from operating profit.
- identify which of their equity-accounted associates and joint ventures are closely related ('integral') to their main business activities. Income and expenses from integral associates and joint ventures would be presented closer to operating profit than those from non-integral associates and joint ventures.

Integral associates and joint ventures

- **Definition:** 'Do not generate a return individually and largely independently of other company assets.'
- Income and expenses from such associates and joint ventures would be classified in a separate category right below operating profit.
- Below that category, a subtotal of 'operating profit and income and expenses from integral associates and joint ventures' would be presented.

Non-integral associates and joint ventures

- **Definition:** 'Generate a return individually and largely independently of other company assets.'
- Income and expenses from such associates and joint ventures would be classified in the investing category.

How would the Board's proposals work for companies like banks and investment companies?

Some companies provide financing to customers or invest as a main business activity, for example banks and investment companies. Applying the definitions of the categories on page 5 to such companies would not provide relevant information because some income and expenses that relate to such companies' main business activities would not be classified in the operating category.

For example, applying the definitions to a bank, interest expense would be classified in the financing category instead of the operating category. As a result, banks would not be able to present a net interest income subtotal within the operating category.



To include income and expenses from companies' main business activities in operating profit, the Board proposes requirements for some companies to classify income and expenses in the operating category that would otherwise be classified in the investing or financing category.

If, applying these requirements, a company classifies all its income and expenses from financing activities in the operating category, it would not present the 'profit before financing and income tax' subtotal.

? What does this mean for companies applying IFRS 17 *Insurance Contracts*?

Applying the Board's proposals, insurers would include in the operating category:

- their insurance service result—including insurance revenue and insurance service expenses; and
- their insurance finance result—including investment revenue and insurance finance income or expenses.

The proposals would not affect how companies apply IFRS 17.

The Illustrative Examples accompanying the Exposure Draft include examples of what the statement of profit or loss might look like for a bank or an insurer applying the Board's proposals.

Q&A—Subtotals in the statement of profit or loss

? Why is the Board not defining EBITDA?²

While EBITDA is a commonly used measure in financial reporting, investors do not agree on what EBITDA represents, other than it being a useful starting point for analysis. Its calculation is diverse in practice. This lack of consensus made it difficult for the Board to define EBITDA.

However, the Board is proposing a measure similar to EBITDA, ‘operating profit before depreciation and amortisation’, as an IFRS-specified measure that companies can *choose* to present in a ‘by nature’ statement of profit or loss or disclose in the notes. The Board decided not to label this measure ‘EBITDA’ because its content does not match what the acronym ‘EBITDA’ stands for.

? Why is the Board proposing to define the operating category as a default category?

In the Board’s view, such a definition is more likely to be consistently applied than a direct definition. Even though not defined directly, the Board expects that operating profit would be a relevant subtotal that captures companies’ main business activities.

? When would companies be required to present the three subtotals?

- ‘Operating profit’ would always be required.
- ‘Operating profit and income and expenses from integral associates and joint ventures’ would be required when a company has income or expenses from integral associates and joint ventures.
- ‘Profit before financing and income tax’ would be required, except in the case described on page 7.

? How would foreign exchange differences be classified?

Foreign exchange differences recognised in profit or loss would be classified in the same category of the statement of profit or loss as the income and expenses from the items that gave rise to them.

For example, foreign exchange differences on trade payables on regular credit terms would normally be classified in the operating category, whereas foreign exchange differences on financing liabilities would normally be classified in the financing category.

? Would the categories have the same meaning as the categories in the statement of cash flows?

No. Although the categories have the same labels (operating, investing and financing), the Board is not seeking full alignment between the categories in the statement of profit or loss and those in the statement of cash flows.

The Board has intentionally defined the investing categories in the two statements with different objectives:

- in the statement of profit or loss the investing category aims to capture results of ‘stand-alone’ investments (see page 5).
- in the statement of cash flows the investing category aims to capture cash flows from investments in long-term assets that will generate future returns.

For example, cash flows from property, plant and equipment are included in the investing category in the statement of cash flows, but income and expenses from those assets would be included in the operating category in the statement of profit or loss.

² EBITDA stands for ‘earnings before interest, taxes, depreciation and amortisation’.

② Disaggregation—operating expenses

What is the issue?

Companies are currently required to analyse operating expenses in the statement of profit or loss either ‘by nature’ (showing line items such as employee benefits and depreciation) or ‘by function’ (showing line items such as cost of sales and general and administrative expenses). Both methods can provide useful information.

However, investors have raised concerns that useful information is lost because, in practice, companies may not choose the method that provides the most useful information in their circumstances and many companies use a mixture of both methods.

In addition, some investors have told the Board they need information about the nature of operating expenses for *all* companies because expenses by nature are easier to forecast than expenses by function.

What is the Board proposing?

Statement of profit or loss

The Board proposes to require companies to present an analysis of operating expenses using the method—by nature or by function—that provides the most useful information to investors.

With this approach, the Board aims to strengthen its requirements, emphasising that:

- the selection of the method is not a free choice. The Board is proposing to provide a set of indicators to help companies assess which method provides the most useful information.
- companies should not mix the two methods.

The Board’s proposed approach would also remove the option for companies to disclose an analysis of expenses in the notes only.

Notes

The Board proposes to strengthen the requirements for companies that present operating expenses by function in the statement of profit or loss. Such companies would be required to disclose in a single note an analysis of their *total* operating expenses by nature.

The Board considered a more comprehensive approach to facilitate investors’ analysis—requiring companies to analyse each functional line item by nature. However, the Board did not pursue this approach because companies said such an approach would be significantly more complex and costly than the Board’s proposed approach.

② Disaggregation—unusual income and expenses

What is the issue?

Information about income and expenses that are not expected to recur in the near future is useful to investors in predicting a company's future cash flows. IFRS Standards currently do not explicitly require such information.

Many companies disclose unusual or similarly described expenses and a few disclose unusual income. However, the way companies provide this information varies significantly and it is often unclear how or why items have been identified as unusual.

In their responses to the 2017 Discussion Paper *Disclosure Initiative—Principles of Disclosure*, many investors expressed support for the Board to develop disclosure requirements for unusual items.

What is the Board proposing?

The Board proposes to define unusual income and expenses as:

‘income and expenses with limited predictive value. Income and expenses have limited predictive value when it is reasonable to expect that income or expenses that are similar in type and amount will not arise for several future annual reporting periods.’

In other words, the definition is forward-looking. Income or expenses that have arisen in the past can meet the definition of an unusual item.

The Board proposes to require companies to disclose, in a single note, for each unusual item:

- the amount recognised in the period;
- a narrative description of how it arose and why it meets the definition of an unusual item;
- in which line item(s) in the statement of profit or loss it is included; and
- an analysis by nature, if the company presents operating expenses by function in the statement of profit or loss.

? IAS 1 prohibits extraordinary items. How are unusual items different?

IFRS Standards previously required presentation of extraordinary items after tax in a separate category of the statement of profit or loss, separately from profit or loss from ordinary activities. In 2002, the Board concluded extraordinary items do not warrant such separate presentation and prohibited presentation of extraordinary items.

Applying the Board's proposals, unusual items would not be presented in a separate category in the statement of profit or loss. Instead, unusual items would be presented together with 'usual' income and expenses in their respective categories in the statement(s) of financial performance, according to their nature, function or other characteristics. Unusual items would be separately identified and explained in the notes.

② Disaggregation—other proposals

What is the issue?

Investors have told the Board that the way some companies disaggregate information in financial statements does not provide the information they need for their analysis.

Investors are concerned about some companies insufficiently disaggregating information. For example, a company might disclose large ‘other’ expenses with no information provided to help investors understand what these line items comprise.

Some investors are also concerned that some companies disclose too much detail, obscuring material information.

What is the Board proposing?

The Board’s proposals on subtotals in the statement of profit or loss, the analysis of operating expenses and unusual income and expenses aim to improve how companies disaggregate information related to their performance. The Board’s other proposals related to disaggregation are set out in the table.

<p>Roles of the primary financial statements and the notes</p>	<p>The Board proposes to describe the roles of the primary financial statements and the notes to help companies decide where to present or disclose information. In their responses to the 2017 Discussion Paper <i>Disclosure Initiative—Principles of Disclosure</i>, many stakeholders expressed support for the Board to develop such descriptions.</p>
<p>Principles for aggregation and disaggregation</p>	<p>The Board proposes principles for aggregation and disaggregation in the financial statements, which a company should apply as follows:</p> <ol style="list-style-type: none"> 1. identify assets, liabilities, equity, income and expenses that arise from individual transactions or other events; 2. classify those items into groups based on shared characteristics, so that line items in the primary financial statements comprise items that share at least one characteristic; and 3. separate those line items based on further characteristics, resulting in the separate disclosure of material items in the notes.
<p>Grouping dissimilar immaterial items</p>	<p>A company may need to group immaterial items that are not similar to avoid obscuring relevant information. For example, a company may need to group various immaterial expenses in a single line item in the statement of profit or loss. The Board proposes that companies should use meaningful labels for such groups of items, avoiding labels such as ‘other expenses’. If that is not possible, companies would be required to provide information in the notes about the content of such groups of items.</p>
<p>Required line items</p>	<p>The Board proposes to require companies to present specific additional line items in the primary financial statements, including goodwill in the balance sheet.</p>

3 Management performance measures

What is the issue?

Many companies provide performance measures defined by management in communications with investors.

Investors have said such measures can be useful because they provide insight into how management views the company's financial performance, how a company is managed and the persistence of its financial performance.

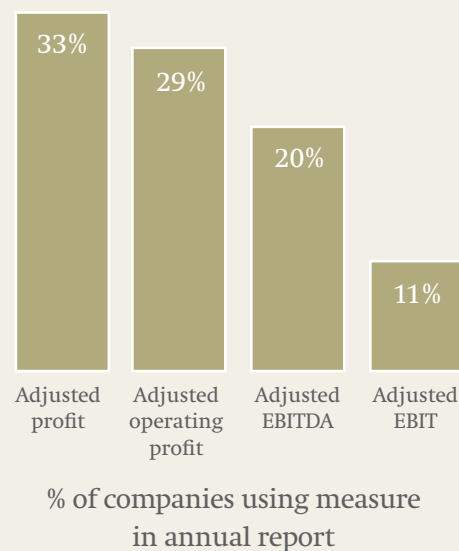
However, investors have expressed concerns about the quality of disclosures provided about such management-defined measures—for example, the disclosures do not always clearly explain:

- how the measures are calculated;
- why the measures provide management's view of the company's performance;
- how the measures can be reconciled to subtotals specified by IFRS Standards; or
- the effect on tax and non-controlling interests of the adjustments made in calculating the measures—investors use such information to calculate adjusted earnings per share measures.

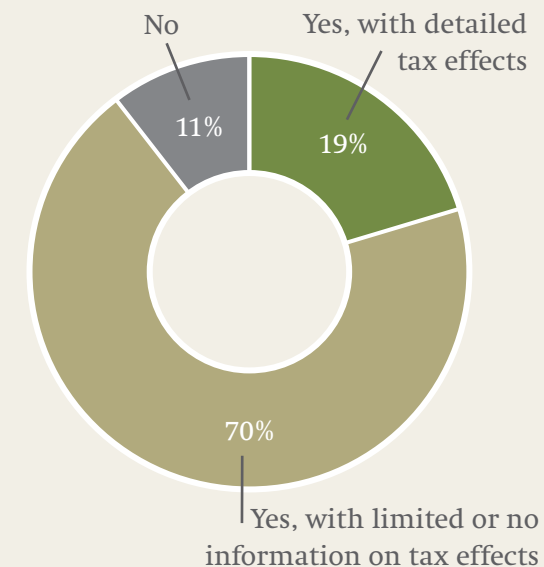
Use of measures defined by management

In a sample of 100 companies, we found that many companies used performance measures defined by management in their annual report.³

Common management-defined performance measures⁴



Is a reconciliation provided to a measure specified by IFRS Standards?



³ We analysed the 2017–18 annual reports of 100 listed companies applying IFRS Standards from 26 jurisdictions and 12 industries.

⁴ This is not a complete list of measures. Also, some companies used more than one of these measures.

What is the Board proposing?

The Board proposes to define ‘management performance measures’—see definition on the right—and require companies to include such measures in a single note to the financial statements, accompanied by disclosures aimed at enhancing their transparency.

Some stakeholders have raised the concern that including such measures in financial statements could give them undue prominence or result in misleading information.

The Board acknowledges those concerns but concluded that management performance measures can complement measures specified by IFRS Standards, providing investors with useful insight into management’s view of the company’s performance and its management of the company.

Including these management performance measures in the financial statements would ensure they are subject to the same requirements regardless of the company’s jurisdiction, thereby increasing their transparency and the discipline with which they are prepared.

Management performance measures are **subtotals of income and expenses** that:

are used in public communications outside financial statements

complement totals or subtotals specified by IFRS Standards

communicate management’s view of an aspect of a company’s financial performance

Disclosures

Management performance measures would be accompanied by explanatory disclosures in a single note, including:

- a reconciliation between each measure and the most directly comparable subtotal or total specified by IFRS Standards.
- the effect on tax and non-controlling interests for each reconciling item. The Board is proposing a simplified approach for calculating the tax effect.
- a description of why each measure communicates management’s view of performance and how it is calculated.
- an explanation of any changes in how a company calculates its management performance measures or which measures it provides.

Example of a reconciliation including the effect on tax and non-controlling interests (NCI)

		Tax	NCI
Adjusted operating profit (management performance measure)	52,870		
Restructuring in Country X	(5,400)	900	(1,020)
Revenue adjustment	(6,200)	1,550	–
Operating profit (subtotal specified by IFRS Standards)	41,270		

Q&A—Management performance measures

? Could management performance measures be presented in the statement of profit or loss?

The Board expects that few management performance measures would meet the requirements for presentation as a subtotal in the statement of profit or loss. To meet the requirements, subtotals must:

- fit into the categories;
- not disrupt the presentation of an analysis of operating expenses by nature or by function; and
- be comprised of amounts recognised and measured applying IFRS Standards.

The Board is proposing to prohibit companies from using columns to present management performance measures in the statement of profit or loss.

? Could a company have more than one management performance measure? Or none?

Yes—a company could have several management performance measures or none.

A company would have no management performance measures if any subtotals of income and expenses it uses to communicate its financial performance are specified by IFRS Standards.

? Would the Board prescribe how companies should calculate their management performance measures?

No—the Board considered, but rejected, requiring that management performance measures should be based on amounts recognised and measured in accordance with IFRS Standards.

Because management performance measures will be company-specific measures, the Board does not expect them to be comparable across companies. However, investors would be able to understand differences in how companies have calculated their measures using the proposed disclosures.

? How would unusual income and expenses (see page 10) relate to management performance measures?

Companies may choose to adjust for unusual items in the calculation of their management performance measures.

However, the Board proposes that all companies should disclose all unusual items, regardless of whether they identify any management performance measures or how their measures are calculated.

? Would all ‘non-GAAP’ measures be management performance measures?

No—management performance measures would only be subtotals of income and expenses. For example, the following types of measures would not meet the definition:

- cash flow measures, such as free cash flow;
- ratios, such as return on equity;
- adjusted revenue, such as same-store sales; and
- growth rates, such as constant currency revenue growth.

? Which totals or subtotals would be ‘specified by IFRS Standards’?

Subtotals specified by IFRS Standards would include:

- the three new subtotals (see page 4);
- ‘operating profit before depreciation and amortisation’ (see page 8);
- ‘gross profit’ and similar subtotals, such as ‘net interest income’;
- ‘profit before tax’; and
- ‘profit from continuing operations’.

Consequently, these subtotals would *not* be management performance measures.

Other proposals—statement of cash flows

What is the issue?

Stakeholders have expressed various concerns regarding the statement of cash flows. However, the Board concluded a complete overhaul of the statement of cash flows is not within the scope of this project. The Board is instead focusing on targeted improvements to eliminate diversity in classification and presentation.

The Board is proposing only targeted improvements to the statement of cash flows as part of this project.

There is diversity, even within an industry, in:

- how companies classify interest and dividend cash flows.
- which starting point companies use for the indirect method⁵ for reporting cash flows from operating activities. For example, some companies use ‘profit after tax’, others use ‘operating profit’ or ‘profit before tax’.

Investors have indicated that such diversity reduces comparability between companies, making their analysis difficult.

What is the Board proposing?

The Board proposes to:

- require operating profit as the single starting point for the indirect method for reporting cash flows from operating activities;
- require a split between cash flows from investments in integral and non-integral associates and joint ventures, consistent with its proposed approach for the statement of profit or loss; and
- remove the classification choice for interest and dividend cash flows for most companies, as explained in the table below.

Cash flow item	IAS 7	Proposed approach	
		Most companies	Companies with particular business activities incl. banks
Interest paid	Operating or financing	Financing	Depends on the classification of the related income and expenses in the statement of profit or loss
Interest received	Operating or investing	Investing	
Dividends received	Operating or investing	Investing	
Dividends paid	Operating or financing	Financing	

⁵ IAS 7 *Statement of Cash Flows* requires a company to report cash flows from operating activities using either the direct or the indirect method. Applying the indirect method, a company presents a reconciliation between profit or loss and cash flows from operating activities.

Summary—expected effects on financial statements

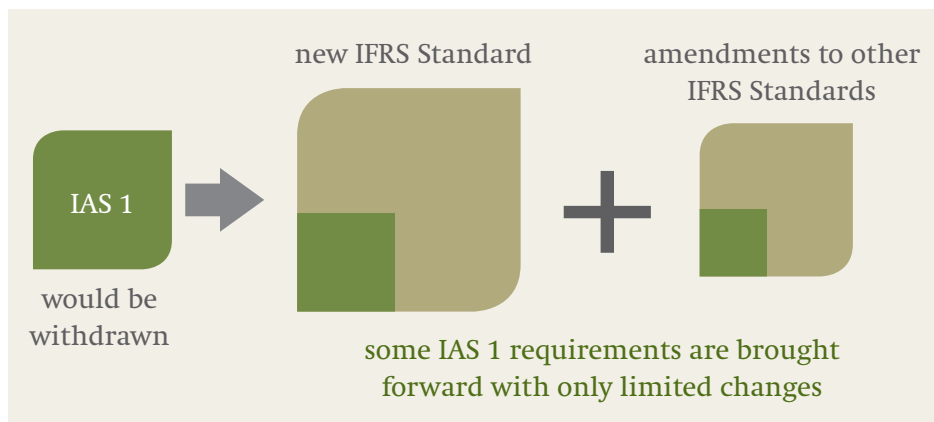
The proposals are expected to affect all companies applying IFRS Standards

Statement of profit or loss	<p>New subtotals for most companies. Companies such as banks and investment companies would be less affected.</p>	<p>Companies that already present the proposed new subtotals, such as ‘operating profit’, may need to change how they calculate them.</p>	<p>New presentation of an investing category and new line items for most companies, such as line items for integral and non-integral associates and joint ventures and for expenses from financing activities.</p>	<p>Some companies may need to change how they aggregate and label income and expenses, such as operating expenses.</p>
Statement of cash flows	<p>Change of the starting point of the indirect method for reporting operating cash flows for most companies.</p>	<p>Change in classification of interest received and paid for many companies. Change in classification of dividends received for some companies.</p>	<p>Change in the subtotal of ‘cash flows from operating activities’ as a result of reclassifying interest and dividend cash flows for many companies.</p>	
Balance sheet	<p>New line item for goodwill.</p>	<p>New line items for integral and non-integral associates and joint ventures.</p>	<p>Some companies may need to change how they aggregate and label assets, liabilities and equity.</p>	
Notes	<p>More note disclosures about the nature of operating expenses for many companies that present operating expenses by function in the statement of profit or loss.</p>	<p>New disclosures about unusual items for many companies. Companies that already provide such information may need to change how they identify unusual items and what they disclose about them.</p>	<ul style="list-style-type: none"> • More disclosures about management performance measures for most companies. • Change in the location of disclosures about such measures for some companies: in a single note, rather than only outside the financial statements. • Some companies may not use any such measures and would not be affected. 	<p>Many companies are expected to change how they disaggregate information in the notes.</p>

Which IFRS Standards would be affected?

The Exposure Draft sets out a proposed new IFRS Standard and proposed amendments to other IFRS Standards. IAS 1 would be withdrawn—the current requirements of IAS 1 would be replaced or moved:

- some would be replaced by new requirements in the new IFRS Standard;
- some would be brought forward to the new IFRS Standard with only limited wording changes; and
- some would be moved to IAS 8 and IFRS 7 without amendment (see table).



IFRS Standards not affected

The Board decided not to consider changes to segment reporting or the presentation of discontinued operations as part of this project. Doing so would have significantly widened the scope of the project, potentially delaying improvements to performance reporting.

Amendments to other IFRS Standards	
Amendments to reflect new proposals	
IAS 7 <i>Statement of Cash Flows</i>	See page 15.
IFRS 12 <i>Disclosure of Interests in Other Entities</i>	Introduce definitions of ‘integral’ and ‘non-integral’ associates and joint ventures and require separate disclosures for each (see page 6).
IAS 33 <i>Earnings per Share</i>	Restrict the numerator used to calculate adjusted earnings per share to subtotals specified by IFRS Standards or a management performance measure, attributable to ordinary equity holders of the parent.
IAS 34 <i>Interim Financial Reporting</i>	Require disclosure of information about management performance measures in interim financial statements. Some of the Board’s other proposals (including subtotals) would also apply to interim financial statements, without the Board needing to amend IAS 34.
Amendments to move parts of IAS 1 into other Standards	
IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	Include, without amendment, requirements from IAS 1 on general features of financial statements, including the definition of material. Change the title of the Standard to ‘ <i>Basis of Preparation, Accounting Policies, Changes in Accounting Estimates and Errors</i> ’.
IFRS 7 <i>Financial Instruments: Disclosures</i>	Include, without amendment, disclosure requirements from IAS 1 on puttable instruments classified as equity.

Information for respondents

The deadline for comments on the Exposure Draft is 30 June 2020

You can submit comments on our 'Open for comment documents' page at: www.ifrs.org/projects/open-for-comment/

Stay informed

To stay up to date with the latest developments on this project and to sign up for email alerts, please visit www.ifrs.org/projects/work-plan/primary-financial-statements/

Exposure Draft package

The Exposure Draft includes:

- questions for respondents; and
- the Board's detailed proposals, in the format of a draft new IFRS Standard and draft amendments to other IFRS Standards.

The Basis for Conclusions on the Exposure Draft includes:

- a summary of the Board's considerations in developing its proposals; and
- an analysis of the expected effects of the proposals, including the effects on electronic reporting.

The Board has also published:

- proposed non-mandatory illustrative examples; and
- a table that shows how the content of IAS 1 would correspond to the content of the new IFRS Standard and the amended IFRS Standards, paragraph by paragraph.

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NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 31 January 2020

To: NZASB Members

From: Joanne Scott

Subject: ***Withdrawal of PBE FRS 46 (Amendments to PBE FRS 47)***

Recommendations¹

1. We recommend that the Board:
 - (a) APPROVES for issue *Withdrawal of PBE FRS 46 (Amendments to PBE FRS 47)*; and
 - (b) APPROVES the signing memorandum from the Chair of the NZASB to the Chair of the XRB Board requesting approval to withdraw PBE FRS 46 and issue the amending standard.

Background

2. Last year the Board took a close look at the PBE Standards dealing with first-time adoption and agreed that there was no longer a need for two such standards. The Board agreed to propose to withdraw PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS* because there were few entities that would be able to apply the standard in the future and the standard was becoming increasingly outdated.
3. In September 2019 the Board issued NZASB Exposure Draft 2019-4 *Withdrawal of PBE FRS 46 (Proposed amendments to PBE FRS 47)*, with comments due by 31 January 2020. We have included the submissions received to date in the agenda papers. Any further submissions received will be tabled at this meeting.
4. The NZASB consulted with the Technical Reference Group (TRG) both before and after issuing the ED. The TRG was broadly supportive of the proposed withdrawal of PBE FRS 46.

Proposals in the ED

5. The ED proposed to:
 - (a) withdraw PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS* and shorten the title of PBE FRS 47 (from *First-time Adoption of PBE Standards by Entities other than those Previously Applying NZ IFRS to First-time Adoption of PBE Standards*);

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- (b) allow all first-time adopters to determine their accounting policies in accordance with the existing requirements in PBE FRS 47. By contrast PBE FRS 46 had restricted changes to the accounting policies of entities that had previously been applying NZ IFRS;
 - (c) allow all Tier 2 not-for-profit entities to use the concession to attach copies of the prior year’s financial statements instead of presenting comparative information. The NZASB also proposed to delete a sentence from the Basis for Conclusions which had caused confusion about the availability of this concession to certain entities moving from Tier 3 or Tier 4 to Tier 2; and
 - (d) amend the definition of *previous GAAP* to avoid a narrow interpretation of GAAP.
6. The ED also proposed some minor amendments to PBE FRS 47 and related standards. See Appendix 1 to this memo for a summary of the amendments.

Submissions received

7. We received two submissions on the ED.
- (a) R1 BDO (see agenda item 4.5.1); and
 - (b) R2 Office of the Controller and Auditor-General (see agenda item 4.5.2).
8. R1 supported the proposals and did not identify any issues. R2 was also generally supportive but proposed that the defined term *Previous GAAP* be changed to *Previous basis of accounting* to more accurately reflect the accounting basis used by entities prior to adopting PBE Standards or PBE Standards RDR. We have discussed this matter in the next section.

Previous GAAP

9. When we were drafting the proposed amendments to PBE FRS 47 (in September 2019) the Board asked us to consider whether the term *previous GAAP* is the most appropriate term to use in PBE FRS 47, given that an entity’s *previous GAAP*, as per PBE FRS 47, might not be generally accepted accounting practice as defined elsewhere.
10. The staff recommendation at that time (September 2019, agenda item 5) was to add a clarifying sentence rather than changing the term. Our arguments for continuing to use the term *previous GAAP* were that it has been used in the PBE Standards for some time, it is also used in NZ IFRS, and it is the risk of a narrow interpretation, rather than the term itself, that is a concern. The Board agreed with the staff recommendation.
11. Table 1 below shows the original definition in PBE FRS 47, the changes proposed in the ED, and R2’s suggestion.

Table 1 Previous GAAP/ Previous basis of accounting	
PBE FRS 47 – as first issued in 2014	<u>Previous GAAP</u> is the basis of accounting that a first-time adopter used immediately before adopting PBE Standards.
The Board’s proposal in ED 2019-4	<u>Previous GAAP</u> is the basis of accounting that a first-time adopter used immediately before adopting PBE Standards <u>or PBE Standards RDR.</u> <u>Previous GAAP refers to any basis of accounting previously used by a first-time</u>

Table 1 Previous GAAP/ Previous basis of accounting	
	<u>adopter, including the Tier 4 PBE Accounting Requirements and the basis of accounting used in special purpose financial reports.</u>
R2's suggestion	Previous GAAP basis of accounting is the basis of accounting that a first-time adopter used immediately before adopting PBE Standards or PBE Standards RDR. Previous GAAP basis of accounting refers to any basis of accounting previously used by a first-time adopter, including the Tier 4 PBE Accounting Requirements and the basis of accounting used in special purpose financial reports.

12. We do not have strong views on R2's suggestion. The term previous basis of accounting would be more accurate, but our arguments for continuing to use the term previous GAAP (considered by the Board in September 2019) still hold, and we have not heard from other constituents on this matter.
13. The staff recommendation is to keep the term previous GAAP as proposed in the ED.

Questions for the Board

Does the Board agree to continue to use the term previous GAAP in PBE FRS 47?

14. In the event that the Board disagrees with the staff recommendation, the amending standard would need to include more amendments to change all references to previous GAAP. We have checked the pronouncements issued by the NZASB to identify when the term previous GAAP is used. The following additional amendments would be required:
 - (a) PBE FRS 47 –change 74 references to previous GAAP, add a sentence to the effective date paragraph noting the change in term (without listing all of the affected paragraphs) and add an explanation of this change in the Basis for Conclusions;
 - (b) PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* – add a footnote to paragraph BC4 to note that the term was subsequently changed; and
 - (c) PBE IPSAS 41 *Financial Instruments* – update the amendments to PBE FRS 47to reflect the change in terminology (6 times).
15. We would also need to change the signing memo.

Due process

16. The due process undertaken by the NZASB, including its consultation with the TRG, is outlined in the draft signing memo at agenda item 4.4. It reflects the two submissions received to date. If we receive any further submissions, we will table them at the meeting.
17. The due process requirements for a revocation are almost the same as for an amending standard. The Board does not generally revoke standards; new standards generally supersede the previous standard. We did not issue a draft of the actual revocation because the proposed revocation was clearly signalled in the Invitation to Comment and in the title of the ED. We have summarised the legal requirements for revocations in Appendix 2 to this memo.

18. In accordance with section 22(2) of the Financial Reporting Act 2013 we have considered whether the amending standard is likely to require the disclosure of personal information. In our view the amending standard does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commissioner is required.

Draft amending standard and signing memo

19. The draft amending standard and revocation are attached as agenda items 4.2 and 4.3. The amending standard, *Withdrawal of PBE FRS 46 (Amendments to PBE FRS 47)*, applies to Tier 1 and Tier 2 public benefit entities.
20. Attached as agenda item 4.4 is a draft certificate signing memo from the Chair of the NZASB to the Chair of the XRB Board.

Questions for the Board

Does the Board approve for issue *Withdrawal of PBE FRS 46 (Amendments to PBE FRS 47)*?

Does the Board approve the signing memo?

Attachments

Agenda item 4.2: *Withdrawal of PBE FRS 46 (Amendments to PBE FRS 47)*

Agenda item 4.3: Revocation of PBE FRS 46

Agenda item 4.4: Draft signing memo

Agenda item 4.5: Submissions on ED 2019-4

4.5.1 BDO

4.5.2 Office of the Controller and Auditor-General

Appendix 1 Summary of amendments

This Appendix summarises the proposed amendments to PBE FRS 47 and other PBE Standards.

Table 1 Summary of amendments

Amendment	Reason
Shorten title	First-time Adoption of PBE Standards by Entities other than those Previously Applying NZ IFRS It is no longer necessary to distinguish between entities that have previously applied NZ IFRS and those that haven't.
Heading styles	Editorial correction to align the level of certain headings in PBE FRS 47 with the equivalent headings in NZ IFRS 1 <i>First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards</i> .
Scope	
Para 4	To reflect the withdrawal of PBE FRS 46 and the fact that NZ IFRS PBE and NZ IFRS Diff Rep were withdrawn some time ago.
Para 6	Editorial
Para RDR 8.1	To reflect the withdrawal of PBE FRS 46 and the fact that NZ IFRS PBE and NZ IFRS Diff Rep were withdrawn some time ago.
Para RDR 8.4	Editorial
Definitions (para 9)	
Date of transition to PBE Standards	The amendment to the definition is to reflect the withdrawal of PBE FRS 46.
NZ IFRS NZ IFRS Diff Rep NZ IFRS PBE NZ IFRS RDR	NZ IFRS PBE and NZ IFRS Diff Rep were withdrawn some time ago.
PBE Standards Reduced Disclosure Regime	Editorial – to refer in full to the Reduced Disclosure Regime
Previous GAAP	The amendment is to clarify that the reference to GAAP in this definition is broader than definitions of GAAP.
New sentence at end	Editorial. This generic sentence which refers to the <i>Glossary of Defined Terms</i> is used throughout PBE Standards.
Recognition and Measurement	
Para 13	Editorial
Para 14	Editorial
Para 16	Editorial
Para 22	Editorial
Para RDR 30.1	Editorial
Para 42.7	Editorial
Para 42.9	Editorial. Paragraphs E1 and E2 which were added to PBE FRS 47 by PBE IPSAS 41 should have been numbered D5 and D6.
Para 42.12	Effective date paragraph to record the amendments.
Para A8D	Editorial
D5	Editorial
D6	Editorial

Amendment	Reason
Basis for Conclusions	
BC3	To reflect the withdrawal of PBE FRS 46.
BC4	To reflect the withdrawal of PBE FRS 46.
BC5	To delete the outdated reference to Old GAAP.
BC7	To clarify that the concession in paragraph RDR 27.2 is available to entities moving from PBE Simple Format Reporting standards or special purpose reporting to PBE Standards.
BC13–BC15	New BC paragraphs to document the reasons for the proposals in this ED.
Amendments to other PBE Standards	
PBE IPSAS 3	To reflect the withdrawal of PBE FRS 46.
PBE IPSAS 39	To reflect the new title of PBE FRS 47.
PBE IPSAS 40	To reflect the new title of PBE FRS 47.
PBE IPSAS 41	Editorial. Paragraphs E1 and E2, which were added to PBE FRS 47 by PBE IPSAS 41, should have been numbered D5 and D6.
PBE FRS 42	To reflect the withdrawal of PBE FRS 46 and the new title of PBE FRS 47.
XRB A1	To reflect the withdrawal of PBE FRS 46 and the new title of PBE FRS 47.
EG A1	To reflect the new title of PBE FRS 47.

Appendix 2 Revocations

This Appendix summarises the requirements of the Financial Reporting Act 2013 with respect to revocations.

Financial Reporting Act 2013

Section	Revocation requirements (paraphrased)
21	revocation means a revocation of a standard or an authoritative notice or of any amendment of a standard or an authoritative notice.
22	<p>Consultation</p> <p>The Board must not issue a revocation unless the Board has taken reasonable steps to consult the persons or representatives of persons who, in the opinion of the Board, would be substantially affected by the issue of the revocation.</p> <p><i>The Invitation to Comment that accompanied ED 2019-4 sought feedback on the proposal to withdraw PBE FRS 46. The title of the ED also highlighted this proposal.</i></p> <p><i>We also consulted with the TRG over the proposal to withdraw PBE FRS 46.</i></p>
24	<p>Public notice</p> <p>The Board must give notice of the issue of a revocation in the Gazette (section 24(2)).</p> <p>The Board must publish standards and authoritative notices are available on the website and ensure that copies are available for purchase by members of the public (section 24(4)). This section of the Act does not mention revocations.</p> <p><i>We will give notice of the revocation at the same time as giving notice of the amending standard.</i></p> <p><i>We will put a copy of the revocation on the website (although this does not appear to be required by the Act).</i></p>
25	<p>Disallowance of instruments by House of Representatives</p> <p>A revocation is a disallowable instrument for the purposes of the Legislation Act 2012.</p> <p><i>Both the revocation and the Gazette notice state that the revocation is a disallowable instrument.</i></p>
26	<p>Certificates of Board</p> <p>A certificate purporting to be signed by any member of the Board as to any of the following is, in the absence of evidence to the contrary, sufficient evidence of the matters stated in the certificate:</p> <p>(a) the issuing of a standard, an authoritative notice, an amendment, or a revocation;</p> <p>(b) ...</p> <p><i>We have created a certificate of determination for the amending standard and a certificate of determination for the revocation.</i></p>
28	<p>Accounting period to which standards and authoritative notices apply</p> <p>A revocation commences to apply in relation to the accounting periods or interim accounting periods that the Board specifies in the revocation.</p> <p><i>The effective date of the revocation (being 1 January 2021) is stated in (i) the revocation; (ii) the certificate of determination; and (iii) the Gazette notice.</i></p>



WITHDRAWAL OF PBE FRS 46 (AMENDMENTS TO PBE FRS 47)

Issued February 2020

This Standard was issued on 20 February 2020 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 19 March 2020.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective date, which is set out in Part H.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard amends PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS* to reflect the withdrawal of PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS*. It changes the title of PBE FRS 47 to *First-time Adoption of PBE Standards* and updates some of the requirements in PBE FRS 47.

This Standard applies to Tier 1 and Tier 2 public benefit entities.

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CONTENTS

	<i>from page</i>
Part A: Introduction	5
Part B: Scope	5
Part C: Withdrawal of PBE FRS 46	5
Part D: Amendments to PBE FRS 47	5
Part E: Amendments to other PBE Standards	12
<i>PBE IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors</i>	12
<i>PBE IPSAS 39 Employee Benefits</i>	12
<i>PBE IPSAS 40 PBE Combinations</i>	12
<i>PBE IPSAS 41 Financial Instruments</i>	13
<i>PBE FRS 42 Prospective Financial Statements</i>	13
<i>XRB A1 Application of the Accounting Standards Framework</i>	14
Part F: Amendments to EG A1 Guide to Application of the Accounting Standards Framework	15
Part G: Changing heading levels in PBE FRS 47	15
Part H: Effective date	15

Part A: Introduction

This Standard amends PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS* to reflect the withdrawal of PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS* and to update some of the requirements in PBE FRS 47.

The amendments:

- (a) Amend the title of PBE FRS 47. The amended title is *First-time Adoption of PBE Standards*;
- (b) Remove references to PBE FRS 46 and the requirements in that Standard; and
- (c) Make editorial corrections.

Part B: Scope

This Standard applies to Tier 1 and Tier 2 public benefit entities.

Part C: Withdrawal of PBE FRS 46

In conjunction with the issue of this amending standard, PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS* is withdrawn – see *Revocation of PBE FRS 46*. The effective date of the revocation of PBE FRS 46 is the same as the effective date of this amending standard.

Part D: Amendments to PBE FRS 47

On the cover page of the Standard, the title of PBE FRS 47 is amended and a sentence is added at the bottom of the page. New text is underlined and deleted text is struck through.

**PUBLIC BENEFIT ENTITY FINANCIAL REPORTING STANDARD 47
FIRST-TIME ADOPTION OF PBE STANDARDS ~~BY ENTITIES OTHER THAN~~
~~THOSE PREVIOUSLY APPLYING NZ IFRS (PBE FRS 47)~~**

...

This Standard, when applied, supersedes PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS* issued in May 2013.

In 2020 the title of this Standard was changed to *First-time Adoption of PBE Standards*.

Paragraphs 4 and 6 are amended. New text is underlined and deleted text is struck through. Paragraphs 5 and 5.1 are shown for context.

Tier 1 Entities

4. **Subject to paragraph 5.1, a Tier 1 entity ~~that has not previously applied NZ IFRS PBE, NZ IFRS, NZ IFRS Diff Rep or NZ IFRS RDR in the immediately preceding period~~ shall apply this PBE Standard in:**
- (a) **Its first set of financial statements under PBE Standards;**
 - (b) **Each interim financial report, if any, that it presents in accordance with PBE IAS 34 *Interim Financial Reporting* for part of the period covered by its first set of financial statements under PBE Standards; and**
 - (c) **Its first set of prospective financial statements presented in accordance with PBE FRS 42 *Prospective Financial Statements* where an entity presents such statements prior to presenting its first set of financial statements under PBE Standards.**
5. A Tier 1 entity's first set of financial statements under PBE Standards is the first annual financial statements in which the entity adopts PBE Standards by a statement that the financial statements have been prepared in accordance with PBE Standards. Financial statements prepared in accordance with PBE Standards are an entity's first set of financial statements under PBE Standards if, for example, the entity:
- (a) Presented its most recent previous financial statements in accordance with requirements that are not consistent with PBE Standards in all respects;
 - (b) Prepared financial statements in accordance with PBE Standards for internal use only, without making them available to the entity's owners or any other external users; or
 - (c) Did not present financial statements for previous periods.
- 5.1 This Standard does not apply when a Tier 1 entity presented financial statements in its most recent previous reporting period that contained a statement of compliance with PBE Standards RDR.
6. Notwithstanding the requirements in paragraphs 4 and 5, a Tier 1 entity that has applied PBE Standards in a previous period, but not in its most recent financial statements, shall either apply this Standard or else apply PBE Standards retrospectively in accordance with PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* as if the entity had never stopped applying PBE Standards.

Paragraphs RDR 8.1 and RDR 8.4 are amended. New text is underlined and deleted text is struck through. Paragraphs RDR 8.2 and RDR 8.3 are shown for context.

- RDR 8.1 **Subject to paragraph RDR 8.3, a Tier 2 entity ~~that has not previously applied NZ IFRS PBE, NZ IFRS, NZ IFRS Diff Rep or NZ IFRS RDR in the immediately preceding period~~ shall apply this PBE Standard in:**
- (a) **Its first set of financial statements under PBE Standards RDR;**
 - (b) **Each interim financial report, if any, that it presents in accordance with PBE IAS 34 *Interim Financial Reporting* for part of the period covered by its first set of financial statements under PBE Standards RDR; and**
 - (c) **Its first set of prospective financial statements presented in accordance with PBE FRS 42 where an entity presents such statements prior to presenting its first set of financial statements under PBE Standards RDR.**
- RDR 8.2 A Tier 2 entity's first set of financial statements under PBE Standards RDR is the first annual financial statements in which the entity adopts PBE Standards RDR by a statement that the financial statements have been prepared in accordance with PBE Standards RDR. Financial statements prepared in accordance with

PBE Standards RDR are an entity's first set of financial statements under PBE Standards RDR if, for example, the entity:

- (a) Presented its most recent previous financial statements in accordance with requirements that are not consistent with PBE Standards RDR in all respects;
- (b) Prepared financial statements in accordance with PBE Standards RDR for internal use only, without making them available to the entity's owners or any other external users; or
- (c) Did not present financial statements for previous periods.

RDR 8.3 This Standard does not apply when a Tier 2 entity presented financial statements in its most recent previous reporting period that contained a statement of compliance with PBE Standards.

RDR 8.4 Notwithstanding the requirements in paragraphs RDR 8.1 and RDR 8.2, a Tier 2 entity that has applied PBE Standards RDR in a previous period, but not in its most recent previous financial statements, shall either apply this Standard or else apply PBE Standards RDR retrospectively in accordance with PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* as if the entity had never stopped applying PBE Standards RDR.

The definitions in paragraph 9 are amended. A sentence is added at the end of paragraph 9. New text is double underlined. Deleted text is struck through.

Definitions

9. The following terms are used in this Standard with the meanings specified:

~~For the purposes of this Standard, date Date of transition to PBE Standards:~~

- (a) ...
- ...

~~NZ IFRS are Standards and Interpretations issued by the External Reporting Board (XRB) or the New Zealand Accounting Standards Board of the XRB comprising:~~

- ~~(a) — New Zealand equivalents to:~~
 - ~~(i) — International Financial Reporting Standards;~~
 - ~~(ii) — International Accounting Standards;~~
 - ~~(iii) — IFRIC Interpretations; and~~
 - ~~(iv) — SIC Interpretations; and~~

~~(b) — Domestic Financial Reporting Standards.~~

~~NZ IFRS Diff Rep comprises NZ IFRS with differential reporting recognition, measurement and disclosure concessions.~~

~~NZ IFRS PBE comprises NZ IFRS with PBE modifications.~~

~~NZ IFRS RDR comprises NZ IFRS with disclosure concessions for Tier 2 for-profit entities.~~

...

PBE Standards Reduced Disclosure Regime (PBE Standards RDR) comprises PBE Standards with disclosure concessions for Tier 2 public benefit entities.

Previous GAAP is the basis of accounting that a first-time adopter used immediately before adopting PBE Standards or PBE Standards RDR. Previous GAAP refers to any basis of accounting previously used by a first-time adopter, including the Tier 4 PBE Accounting Requirements and the basis of accounting used in special purpose financial reports.

...

Terms defined in other PBE Standards are used in this Standard with the same meaning as in those standards, and are reproduced in the Glossary of Defined Terms published separately.

Paragraphs 13, 14, 16 and 22 are amended. New text is underlined and deleted text is struck through.

13. The transitional provisions in other PBE Standards apply to changes in accounting policies made by an entity that already uses PBE Standards; they do not apply to a first-time adopter's transition to PBE Standards, except as specified in Appendices A–~~C~~D.
14. **Except as described in paragraphs 18–23 and Appendices A–~~C~~D, an entity shall, in its opening statement of financial position under PBE Standards:**
- (a) ...
- ...
16. **This Standard establishes two categories of exceptions to the principle that an entity's opening statement of financial position under PBE Standards shall comply with each PBE Standard:**
- (a) ...
- (b) **Appendices B–~~C~~D grant exemptions from some requirements of other PBE Standards.**
- ...
22. **An entity may elect to use one or more of the exemptions contained in Appendices B–~~C~~D. An entity shall not apply these exemptions by analogy to other items.**

Paragraph RDR 30.1 is amended. New text is underlined.

RDR 30.1 A Tier 2 entity's first PBE Standards RDR financial statements shall include reconciliations of its net assets/equity reported in accordance with previous GAAP to its net assets/equity in accordance with PBE Standards RDR for both (i) the date of transition to PBE Standards RDR, and (ii) the end of the latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP.

Paragraph 42.7 is amended. New text is underlined and deleted text is struck through.

42.7 **2018 Omnibus Amendments to PBE Standards, issued in November 2018, amended paragraph C1 and added paragraph C3233. An entity shall apply those amendments when it applies Appendix A of PBE IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*.**

Paragraph 42.9 is amended. New text is underlined and deleted text is struck through.

42.9 **PBE IPSAS 41 *Financial Instruments*, issued in March 2019, amended paragraphs 36, 42.5, A1–A6, C1, C11, C12, C16 and C17, and added paragraphs 36A, RDR36.1, A8–A8G, A9, C16A–C16C, C32, and ~~D5–D6~~E1 and E2. An entity shall apply those amendments when it applies PBE IPSAS 41.**

Paragraph 42.12 is added. New text is underlined.

42.12 ***Withdrawal of PBE FRS 46 (Amendments to PBE FRS 47), issued in February 2020, amended the title of PBE FRS 47 to reflect the withdrawal of PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS*. It also amended paragraphs 4, 6, RDR 8.1, RDR 8.4, 9, 13, 14, 16, 22, RDR 30.1, 42.7, 42.9 and A8D. An entity shall apply the amendments to paragraphs 4, 6, RDR 8.1, RDR 8.4, 9, 13, 14, 16, 22, RDR 30.1 and 42.7 to annual financial statements covering periods beginning on or after 1 January 2021. Earlier application is permitted. An entity shall apply the amendments to paragraphs 42.9, A8D, D5 and D6 when it applies PBE IPSAS 41.***

Appendix A

Exceptions to the Retrospective Application of other PBE Standards

In Appendix A, paragraph A8D, which was added by PBE IPSAS 41, is amended. New text is underlined and deleted text is struck through.

A8D. An entity shall apply the impairment requirements in paragraphs 57–112 of PBE IPSAS 41 retrospectively subject to paragraphs A8E–A8G and D5–D6~~E1–E2~~.

Appendix D

Short-Term Exemptions from PBE Standards

Paragraphs E1 and E2, which were added by PBE IPSAS 41 *Financial Instruments*, are renumbered as paragraphs D5 and D6 and the preceding heading is amended. New text is underlined and deleted text is struck through.

Investment Entities

D1. ...

D2. ...

Employee Benefits

D3. ...

Uncertainty over Income Tax Treatments

D4. ...

Exemption from the requirement to restate comparative information for PBE IPSAS 41

~~Appendix E~~

~~Short-Term Exemptions from PBE Standards~~

~~D5E1~~. If an entity's first PBE Standards reporting period begins before 1 January 2023 and the entity applies PBE IPSAS 41 *Financial Instruments*, the comparative information in the entity's first set of financial statements under PBE Standards need not comply with PBE IPSAS 30 *Financial Instruments: Disclosures* or PBE IPSAS 41, to the extent that the disclosures required by PBE IPSAS 30 relate to items within the scope of PBE IPSAS 41. For such entities, references to the 'date of transition to PBE Standards' shall mean, in the case of PBE IPSAS 30 and PBE IPSAS 41 only, the beginning of the first reporting period under PBE Standards.

~~D6E2~~. An entity that chooses to present comparative information that does not comply with PBE IPSAS 30 and PBE IPSAS 41 in its first year of transition shall:

- (a) Apply the requirements of its previous GAAP in place of the requirements of PBE IPSAS 41 to comparative information about items within the scope of PBE IPSAS 41.
- (b) Disclose this fact together with the basis used to prepare this information.
- (c) Treat any adjustment between the statement of financial position at the comparative period's reporting date (i.e., the statement of financial position that includes comparative information under previous GAAP) and the statement of financial position at the start of the first reporting period under PBE Standards (i.e., the first period that includes information that complies with PBE IPSAS 30 and PBE IPSAS 41) as arising from a change in accounting policy and give the disclosures required by paragraph 33(a)–(e) and (f) of PBE IPSAS 3. Paragraph 33(f) applies only to amounts presented in the statement of financial position at the comparative period's reporting date.

- (d) Apply paragraph 29(c) of PBE IPSAS 1 to provide additional disclosures when compliance with the specific requirements in PBE Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE FRS 47.

The footnote to paragraph BC3 is amended. New text is underlined and deleted text is struck through.

- BC3. The NZASB noted that public benefit entities (PBEs) transitioning to PBE Standards could be classified as those that had previously applied standards in the NZ IFRS suites of standards* in the immediately preceding period and those that had not previously applied standards in the NZ IFRS suites of standards in the immediately preceding period.

...

* ~~When PBE Standards were first issued, the NZ IFRS suites of standards were include the various sets of standards based on IFRS that will exist at the time of transition, including NZ IFRS PBE, NZ IFRS, NZ IFRS Diff Rep and NZ IFRS RDR. NZ IFRS PBE and NZ IFRS Diff Rep were subsequently withdrawn.~~

Paragraph BC4 is amended. A footnote is added. New text is underlined.

- BC4. The NZASB therefore developed two standards:

- (a) PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS*; and
 (b) PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS*.*

...

* This section of the Basis for Conclusions identifies matters considered when PBE FRS 46 and PBE FRS 47 were first developed. In 2020 the NZASB withdrew PBE FRS 46 and amended the title of PBE FRS 47. Matters considered at that time are discussed later in this Basis for Conclusions.

The footnote to paragraph BC5 is amended. New text is underlined.

- BC5. Entities that have not previously applied standards in the NZ IFRS suites of standards may be public sector or not-for-profit entities. The NZASB noted that these entities may have applied Old GAAP* or may have applied other accounting policies in the preparation of their financial statements. In some cases, entities may not have prepared financial statements. In all cases, these entities would not have applied NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*. The NZASB considered that a standard based on NZ IFRS 1 would provide entities transitioning to PBE Standards with concessions similar to those made available to other entities when they transitioned to NZ IFRS.

...

* Old GAAP is New Zealand accounting standards and pronouncements that have authoritative support that were applicable in New Zealand prior to the adoption of NZ IFRS in New Zealand, and comprises Financial Reporting Standards (FRSs) and Statements of Standard Accounting Practice (SSAPs). [Old GAAP was withdrawn in 2015.]

Paragraph BC7 is amended. New text is underlined and deleted text is struck through.

- BC7. The NZASB has included an additional concession for Tier 2 not-for-profit entities on transition to PBE Standards. These entities are not required to present comparative information in their first set of financial statements under PBE Standards. The concession is available only on transition to PBE Standards (for example, when moving from PBE Simple Format Reporting standards or special purpose reporting to PBE Standards) ~~and not when moving between different tiers of PBE Accounting Standards.~~

Paragraphs BC13 to BC16 and the preceding heading are added.

Withdrawal of PBE FRS 46

- BC13. In September 2019 the NZASB issued ED 2019-4 *Withdrawal of PBE FRS 46* (Proposed amendments to PBE FRS 47). The NZASB proposed to withdraw PBE FRS 46 because of the limited circumstances in which entities could apply the Standard and the increasing differences between NZ IFRS and PBE Standards. These differences meant that the assumptions underpinning the approach in PBE FRS 46 no longer held and it would be difficult to maintain PBE FRS 46 as a separate standard. The NZASB noted that PBE FRS 47 had been developed for a wider range of entities than PBE FRS 46 and did not assume that an entity had applied a particular set of accounting policies. It was therefore suitable for application by all entities adopting PBE Standards, including those previously applying NZ IFRS.
- BC14. The NZASB also proposed to change the title of PBE FRS 47 to *First-time Adoption of PBE Standards*.
- BC15. The NZASB considered whether the RDR concessions in PBE FRS 47 were appropriate for all Tier 2 entities adopting PBE Standards. PBE FRS 47 permits a Tier 2 not-for-profit entity not to provide comparative information in its first set of financial statements prepared under PBE Standards. If a Tier 2 not-for-profit entity makes use of this concession it is required to attach a copy of the previous year's financial statements and explain significant differences in accounting policies between the two sets of financial statements. This concession was originally included in PBE FRS 47 because of concerns that it could be onerous for not-for-profit entities that had not previously applied NZ IFRS, in particular smaller entities, to present full comparative financial information on transition to PBE Standards. The NZASB agreed that, following the withdrawal of PBE FRS 46, this concession should continue to be available to all Tier 2 not-for-profit entities.
- BC16. Respondents supported the proposals and the NZASB finalised the proposals in February 2020. The effective date of the withdrawal of PBE FRS 46 was 1 January 2021.

Part E: Amendments to other PBE Standards

PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraph BC4 is amended. A footnote is added. New text is underlined.

First-time Adoption of PBE Standards

BC4. The NZASB agreed to develop a separate standard to establish requirements and concessions for the first-time adoption of PBE Standards. In developing PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS*, the NZASB decided that a change from one basis of accounting to another basis of accounting (for example, from NZ IFRSs to PBE Standards) is not a change in accounting policy to which PBE IPSAS 3 applies.*

...

* PBE FRS 46 was subsequently withdrawn – see *Withdrawal of PBE FRS 46 (Amendments to PBE FRS 47)* issued in February 2020.

PBE IPSAS 39 *Employee Benefits*

Paragraph 177 is amended. A footnote is added. New text is underlined and deleted text is struck through.

177. When an entity adopts PBE FRS 47 *First-time Adoption of PBE Standards* ~~by Entities Other Than Those Previously Applying NZ IFRS~~* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of PBE Standards.

...

* In February 2020 *Withdrawal of PBE FRS 46 (Amendments to PBE FRS 47)* changed the title of PBE FRS 47 from *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS* to *First-time Adoption of PBE Standards*.

PBE IPSAS 40 *PBE Combinations*

Paragraph 134.3 is amended and a footnote is added. New text is underlined and deleted text is struck through.

Limited Retrospective Application

134.3 An entity is permitted to apply the requirements of this Standard to PBE combinations that occurred before the effective date in paragraph 126.1, provided that on first-time application of this Standard it is also a first-time adopter of PBE Standards and has adopted PBE FRS 47 *First-time Adoption of PBE Standards* ~~by Entities Other Than Those Previously Applying NZ IFRS~~.*

...

* In February 2020 *Withdrawal of PBE FRS 46 (Amendments to PBE FRS 47)* changed the title of PBE FRS 47 from *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS* to *First-time Adoption of PBE Standards*.

Paragraph AG50.1 is amended. Deleted text is struck through.

AG50.1 Where the resulting entity is a continuing reporting entity and has previously applied PBE Standards prior to the amalgamation but one or more of the combining operations have not previously applied PBE Standards prior to the amalgamation, the resulting entity shall:

- (a) Prepare an opening statement of financial position as at the amalgamation date (this shall be the date of transition to PBE Standards) in accordance with paragraphs 10–23 of PBE FRS 47 *First-time Adoption of PBE Standards by ~~Entities Other Than Those Previously Applying NZ IFRS~~* for each of the combining operations that have not previously applied PBE Standards; and
- (b) Use the same accounting policies for those combining operations as are already being applied by the continuing reporting entity. However, the resulting entity may early adopt new or amending PBE Standards that have been issued but are not yet effective.

Paragraphs BC20 and BC34 are amended. Footnotes are added. Deleted text is struck through and new text is underlined.

BC20. The NZASB was of the view that IPSAS 40 does not contain sufficient guidance about these issues for New Zealand PBEs. For example, IPSAS 40 does not establish requirements about when the first-time adoption standard would be applied; this has been left to the judgement of the reporting entity. This guidance is particularly important in New Zealand because of our tiered Accounting Standards Framework. The NZASB also considered scenarios where the amalgamation involves combining operations that have been reporting under the Tier 3 or Tier 4 PBE Accounting Requirements. The NZASB therefore added guidance to address these situations (see paragraphs 20.1, AG50.1, AG50.2 of the Standard and paragraphs B6 to B9 of PBE FRS 47 *First-time Adoption of PBE Standards by ~~Entities Other Than Those Previously Applying NZ IFRS~~*)*.

...

* In February 2020 *Withdrawal of PBE FRS 46 (Amendments to PBE FRS 47)* changed the title of PBE FRS 47 from *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS* to *First-time Adoption of PBE Standards*.

BC34. The NZASB has therefore:

- (a) ...
- (b) ...
- (c) ...
- (d) Prohibited retrospective application for first-time adopters of PBE Standards to which PBE FRS 46 *First-time Adoption of PBE Standards by ~~Entities Previously Applying NZ IFRS~~** applies. This is consistent with the general principle in PBE FRS 46 which restricts an entity changing its accounting policies previously used under NZ IFRS on first-time adoption of PBE Standards (see paragraph 29.1 of PBE FRS 46); and
- (e) ...

...

* PBE FRS 46 was subsequently withdrawn – see *Withdrawal of PBE FRS 46 (Amendments to PBE FRS 47)* issued in February 2020.

PBE IPSAS 41 *Financial Instruments*

PBE IPSAS 41, issued in March 2017, amended PBE FRS 47. These amendments were set out in Appendix D of PBE IPSAS 41. For the avoidance of doubt, the impact of *Withdrawal of PBE FRS 46* (Amendments to PBE FRS 47) on those amendments to PBE FRS 47 is noted here. These amendments will be shown in Appendix D of PBE IPSAS 41 until those amendments are compiled.

Appendix D (of PBE IPSAS 41) Amendments to Other Standards

PBE IPSAS 41 amends the following standards:

- ...
- PBE FRS 47 *First-time Adoption of PBE Standards* ~~by Entities Other Than Those Previously Applying NZ IFRS~~

PBE FRS 47 *First-time Adoption of PBE Standards* ~~by Entities Other Than Those Previously Applying NZ IFRS~~

Paragraph A8D, which was added by PBE IPSAS 41, is amended. New text is underlined and deleted text is struck through.

Impairment of Financial Assets

A8D. An entity shall apply the impairment requirements in paragraphs 57–112 of PBE IPSAS 41 retrospectively subject to paragraphs A8E–A8G and D5–D6~~E1–E2~~.

Paragraphs E1 and E2 are renumbered as paragraphs D5 and D6 and the preceding heading is amended. New text is underlined and deleted text is struck through.

Uncertainty over Income Tax Treatments

D4. ...

Exemption from the requirement to restate comparative information for PBE IPSAS 41

~~Short-Term Exemptions from PBE Standards~~

D5E1. If an entity's first PBE Standards reporting period begins before 1 January 2023 and the entity applies PBE IPSAS 41 *Financial Instruments*, ...

D6E2. An entity that chooses to present comparative information that does not comply with PBE IPSAS 30 and PBE IPSAS 41 in its first year of transition shall:

- (a) ...

Appendix E is deleted. Paragraphs E1 and E2 have been renumbered as paragraphs D5 and D6.

~~Appendix E~~

PBE FRS 42 *Prospective Financial Statements*

Paragraph 73 is amended and a footnote is added. Paragraph 73.3 is added. New text is underlined and deleted text is struck through.

73. If an entity issues prospective financial statements in accordance with this Standard prior to its adoption of PBE Standards, it shall apply ~~PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS*~~ or PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS* as appropriate.

...

* In February 2020 *Withdrawal of PBE FRS 46 (Amendments to PBE FRS 47)* changed the title of PBE FRS 47 from *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS* to *First-time Adoption of PBE Standards*.

...

- 73.3 *Withdrawal of PBE FRS 46 (Amendments to PBE FRS 47)* issued in February 2020 amended paragraph 73.

XRB A1 *Application of the Accounting Standards Framework*

Paragraph 52 is amended and a footnote is added. Paragraph 77 is added. New text is underlined and deleted text is struck through.

- 52 Where an entity that had applied Tier 3 PBE Accounting Requirements subsequently applies Tier 1 PBE Accounting Requirements, it shall apply PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS*.*

...

* In February 2020 *Withdrawal of PBE FRS 46 (Amendments to PBE FRS 47)* changed the title of PBE FRS 47 from *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS* to *First-time Adoption of PBE Standards*.

- 77 *Withdrawal of PBE FRS 46 (Amendments to PBE FRS 47)* issued in February 2020 amended paragraph 52.

Appendix C is amended. Deleted text is struck through.

Accounting Standards

PBE FRS 46 ~~*First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS*~~

PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS*

Part F: Amendments to EG A1 *Guide to Application of the Accounting Standards Framework*

Amendments to EG A1 as a consequence of issuing *Withdrawal of PBE FRS 46* (Amendments to PBE FRS 47) are shown below.

Paragraph 86 is amended. Deleted text is struck through.

- 86 XRB A1 also sets out the first-time adoption requirements that must be applied when an entity first moves into a particular tier: a Tier 3 or Tier 4 PBE that subsequently applies Tier 1 or Tier 2 PBE Accounting Requirements is required to apply PBE FRS 47 *First-time Adoption of PBE Standards by ~~Entities Other Than Those Previously Applying NZ IFRS.~~*

Part G: Changing heading levels in PBE FRS 47

The following headings are changed from Level 2 (10 font, bold, not italics) to Level 3 (10 font, italics). This aligns the level of these headings with the level of the equivalent headings in NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards.*

Heading	Paragraph
<i>Estimates</i>	18
<i>Non-PBE Standards Comparative Information and Historical Summaries</i>	28
<i>Reconciliations</i>	30
<i>Designation of Financial Assets or Financial Liabilities</i>	36
<i>Use of Fair Value as Deemed Cost</i>	37
<i>Use of Deemed Cost for Investments in Controlled Entities, Joint Ventures and Associates</i>	38
<i>Interim Financial Reports</i>	39
<i>Prospective Financial Statements</i>	41

Part H: Effective date

The amendments in this Standard, with the exception of those that relate to PBE IPSAS 41 *Financial Instruments*, are effective for annual financial statements covering periods beginning on or after 1 January 2021.

The amendments that relate to PBE IPSAS 41 *Financial Instruments* are effective when an entity applies PBE IPSAS 41.

Earlier application is permitted.



NZ ACCOUNTING
STANDARDS
BOARD

REVOCATION OF PBE FRS 46

Issued February 2020

This Revocation was issued on 20 February 2020 by the New Zealand Accounting Standards Board (NZASB) pursuant to section 12(f) of the Financial Reporting Act 2013.

This Revocation is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 19 March 2020.

In finalising this Revocation, the NZASB has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Revocation is effective for annual financial statements covering periods beginning on or after 1 January 2021. Early application is permitted.

This Revocation, when effective, will revoke PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS*. PBE FRS 46 was developed to deal with a specific set of circumstances that existed when PBE Standards were first issued. Tier 1 and Tier 2 public benefit entities adopting PBE Standards will now apply PBE FRS 47 *First-time Adoption of PBE Standards*.

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Revocation of PBE FRS 46 is set out in paragraphs 1–3.

Objective

- 1 The objective of this Revocation is to revoke PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS*.

Revocation

- 2 PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS* is revoked.

Effective date

- 3 This Revocation is effective for annual financial statements covering periods beginning on or after 1 January 2021. Early application is permitted.



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 14 February 2020

To: Michele Embling, Chair External Reporting Board

From: Kimberley Crook, Chair NZASB

Subject: ***Withdrawal of PBE FRS 46 (Amendments to PBE FRS 47)***

Introduction¹

1. In accordance with the protocols established by the XRB Board, the NZASB seeks your approval to issue:
 - (a) an amending standard – *Withdrawal of PBE FRS 46 (Amendments to PBE FRS 47)*; and
 - (b) a revocation – *Revocation of PBE FRS 46*.
2. Up until now there have been two PBE Standards dealing with first-time adoption:
 - (a) PBE FRS 46 *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS*; and
 - (b) PBE FRS 47 *First-time Adoption of PBE Standards by Entities Other Than Those Previously Applying NZ IFRS*.
3. PBE FRS 46 streamlined the adoption process for the large number of public sector PBEs previously applying NZ IFRS (PBE), whose accounting policies remained largely unchanged by the adoption of PBE Standards. It required that, unless a change was specifically required by a PBE Standard, an entity continue to apply the same accounting policies.
4. PBE FRS 47 was developed for a wider range of entities and did not assume that an entity had applied any particular accounting policies. PBE FRS 47 was based on NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* and included most of the exceptions and exemptions in NZ IFRS 1.
5. Since PBE Standards were first issued two things have changed. There are now few entities that fall within the scope of PBE FRS 46 and an increasing number of differences between NZ IFRS and PBE Standards.² The ongoing changes to NZ IFRS, including new standards dealing with revenue, leases and insurance, mean that maintaining PBE FRS 46 as a separate standard is not a viable option.

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

² An entity applying NZ IFRS or NZ IFRS RDR is required (by paragraph 7 of FRS-44 *New Zealand Additional Disclosures*) to disclose that, for the purposes of complying with GAAP, it is a for-profit entity. A for-profit entity reporting in accordance with NZ IFRS or NZ IFRS RDR would therefore adopt PBE Standards only if it changed designation.

6. As a result of withdrawing PBE FRS 46, the NZASB has simplified the title of PBE FRS 47 to *First-time Adoption of PBE Standards* and removed references to PBE FRS 46. The NZASB also took the opportunity to make a few editorial corrections to PBE FRS 47 and other related standards.

Due process

7. The NZASB consulted with its Technical Reference Group (TRG) both before and after proposing the withdrawal of PBE FRS 46. In 2018 the NZASB sought feedback from the TRG on (i) when and how often PBE FRS 46 was still being used and (ii) the pros and cons of keeping PBE FRS 46 as a separate standard. The TRG noted the limited application of PBE FRS 46, expressed general support for a single PBE Standard dealing with first-time adoption and agreed that it would be appropriate to reconsider the restrictions on changing accounting policies for entities that had previously applied NZ IFRS.
8. The NZASB issued NZASB ED 2019-4 *Withdrawal of PBE FRS 46* (Proposed amendments to PBE FRS 47) for comment in September 2019, with comments due by 31 January 2020.
9. Following the issue of the ED, the NZASB once again sought feedback from the TRG. The TRG was supportive of the proposal to withdraw PBE FRS 46.
10. The NZASB received comments from two constituents. Constituents were broadly supportive of the proposals. One suggested changing the defined term *previous GAAP* to *previous basis of accounting* to acknowledge that an entity's previous basis of accounting may not have been GAAP. The NZASB decided not to change the term on the grounds that it had been used in PBE Standards for some time and it is used in NZ IFRS. The NZASB noted that it had considered this matter before issuing the ED and had added an additional sentence to the definition of previous GAAP to acknowledge this possibility.
11. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in the NZASB's view, meets the requirements of section 22 of the Financial Reporting Act 2013.
12. In accordance with section 22(2) of the Financial Reporting Act 2013 the NZASB has considered whether the amending standard is likely to require the disclosure of personal information. In the NZASB's view the amending standard does not include requirements that would result in the disclosure of personal information and therefore no consultation with the Privacy Commissioner is required.

Consistency with XRB Financial Reporting Strategy

13. PBE FRS 46 will cease to be available for application by Tier 1 and 2 public benefit entities. Instead Tier 1 and 2 public benefit entities will apply PBE FRS 47 as amended.
14. When PBE FRS 46 and PBE FRS 47 were developed there was no IPSAS dealing with first-time adoption. The NZASB therefore developed domestic standards. In January 2015 the IPSASB issued IPSAS 33 *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*. IPSAS 33 is based in part on IFRS 1 *First-time Adoption of International Financial*

Reporting Standards but it also gives first-time adopters three years to recognise certain assets and liabilities. Following the issuance of IPSAS 33 the NZASB considered whether to develop a PBE Standard based on IPSAS 33 but decided not to. The NZASB considered that PBE FRS 46 and PBE FRS 47 already appropriately addressed the needs of Tier 1 and Tier 2 public benefit entities.

15. PBE FRS 47 contains some RDR concessions. The amending standard makes a minor change to an RDR concession in PBE FRS 47 (paragraph RDR 8.4) to better align it with the equivalent RDR concession in NZ IFRS 1.
16. The issue of this amending standard and the withdrawal of PBE FRS 46 is consistent with the Financial Reporting Strategy to the extent that it better aligns the first-time adoption requirements in domestic PBE Standards with first-time adoption requirements in NZ IFRS and Australian Accounting Standards. However it maintains the current difference between first-time adoption requirements in PBE Standards and IPSASs.

Effective date

17. The revocation of PBE FRS 46 and most of the amendments in the amending standard are effective for annual financial statements covering periods beginning on or after 1 January 2021. The editorial amendments that relate to PBE IPSAS 41 *Financial Instruments* are effective when an entity applies PBE IPSAS 41.

Other matters

18. There are no other matters relating to the issue of this amending standard and the withdrawal of PBE FRS 46 that the NZASB considers to be pertinent or that should be drawn to your attention.

Recommendation

19. The NZASB recommends that you sign the attached certificate of determination and revocation on behalf of the XRB Board.

Attachments

Withdrawal of PBE FRS 46 (Amendments to PBE FRS 47)

Certificate of determination

Revocation of PBE FRS 46

Kimberley Crook
Chair NZASB

12 November 2019

Mr Warren Allen
The Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington
6142

Dear Sir

Requests to comment on Exposure Draft NZASB ED 2019-4 *Withdrawal of PBE FRS 46*

Thank you for the opportunity to comment on the above Exposure Draft.

We are making this submission to you to assist the New Zealand Accounting Standard Board (NZASB) with the above Exposure Draft. We are happy for you to publish our comments publically.

In responding we have addressed the specific questions for respondents in Appendix 1.

Overall we are supportive of the proposals contained in the Exposure Draft.

More information on BDO is provided in Appendix 2 to this letter.

We hope that our responses and comments are helpful. Should you wish to discuss any of the points we have raised please contact me (michael.rondel@bdo.co.nz) should you have any queries or require further information.

Yours faithfully,



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Head of Financial Reporting

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Appendix 1 - Response to questions

Question	Response
Question 1 Do you agree with the proposal to withdraw PBE FRS 46? If you disagree, please explain why.	Yes, we agree with the proposal to withdraw PBE FRS 46.
Question 2 Do you agree with the proposed amendments to PBE FRS 47 and other PBE Standards? If you disagree, please explain why	Yes, we agree with the proposed amendments to PBE FRS 47 and other PBE Standards
Question 3 Do you agree with the proposed effective dates (1 January 2021 for most of the amendments)? If you disagree, please explain why.	Yes, we agree with the proposed effective dates.
Question 4 Do you have any other comments on the ED?	We have no further comments.

Appendix 2 - Information on BDO

1. BDO New Zealand is a network of ten independently owned accounting practices, with fifteen offices located throughout New Zealand.
2. BDO firms in New Zealand offer a full range of accountancy services, including business advisory, audit, taxation, risk advisory, internal audit, corporate finance, forensic accounting and business recovery and insolvency supporting over 28,000 SME, mid-market and corporate clients.
3. BDO in New Zealand has 88 partners and over 800 staff.
4. BDO firms throughout New Zealand have a significant number of clients in the not-for-profit sector.
5. Five BDO firms in New Zealand (BDO Auckland, BDO Christchurch, BDO Northland, and BDO Wellington) are registered audit firms and thirteen audit partners are licensed auditors.
6. Internationally, BDO is the fifth largest full-service audit, tax and advisory firm in the world, with over 70,000 people in over 1,500 offices across over 162 countries and territories.

From: Lay Wee Ng <LayWee.Ng@oag.govt.nz>
Sent: Wednesday, 4 December 2019 8:55 AM
To: Anthony Heffernan <anthony.heffernan@xrb.govt.nz>
Cc: Todd Beardsworth <todd.beardsworth@oag.govt.nz>
Subject: NZASB Exposure Draft 2019 Withdrawal of PBE FRS 46

Hi Anthony,

Thank you for the opportunity to comment on NZASB Exposure Draft 2019 *Withdrawal of PBE FRS 46*.

We agree with the proposal to withdraw PBE FRS 46, for the reasons stated in the ED.

We have one comment to make. It relates to proposed amendments to PBE FRS 47 in relation to the definition of "Previous GAAP".

The ED proposes to define "Previous GAAP" as:

"Previous GAAP is the basis of accounting that a first-time adopter used immediately before adopting PBE Standards or PBE Standards RDR. Previous GAAP refers to any basis of accounting previously used by a first-time adopter, including the Tier 4 PBE Accounting Requirements and the basis of accounting used in special purpose financial reports."

Tier 4 PBE Accounting Requirements is non-GAAP and the basis of accounting used in special purpose financial reports is not GAAP. We recommend that the definition be amended to "Previous basis of accounting" to more accurately reflect the accounting basis that the entities were using prior to adopting PBE Standards or PBE Standards RDR.

We suggest the definition be amended along the following lines:

"Previous ~~GAAP~~ basis of accounting is the basis of accounting that a first-time adopter used immediately before adopting PBE Standards or PBE Standards RDR. Previous ~~GAAP~~ basis of accounting refers to any basis of accounting previously used by a first-time adopter, including the Tier 4 PBE Accounting Requirements and the basis of accounting used in special purpose financial reports."

We recommend all other references to "previous GAAP" in the rest of the ED be amended accordingly.

Thank you.

Regards,

Lay Wee

Lay Wee Ng

Technical Specialist

Phone: +64 21 222 9752 | Email: laywee.ng@oag.govt.nz

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NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 31 January 2020

To: NZASB Members

From: Joanne Scott

Subject: *PBE Interest Rate Benchmark Reform*

Action required¹

1. The Board is asked to APPROVE for issue *PBE Interest Rate Benchmark Reform* and the related signing memo. The amending standard will amend:
 - (a) PBE IPSAS 41 *Financial Instruments*;
 - (b) PBE IFRS 9 *Financial Instruments*;
 - (c) PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*; and
 - (d) PBE IPSAS 30 *Financial Instruments: Disclosures*.
2. The proposed amendments are equivalent to *Interest Rate Benchmark Reform* (November 2019) which amended a number of NZ IFRSs.

Background

3. The background to the reform of interest rate benchmarks was discussed in some detail in the Board's October 2019 agenda papers. Key points are summarised in the signing memo.
4. Uncertainties regarding alternative benchmarks and when replacements occur could have resulted in the discontinuation of hedge accounting. The IASB issued *Interest Rate Benchmark Reform* to address this matter. The IASB's amendments established mandatory exceptions to certain hedge accounting requirements. These amendments were then incorporated into NZ IFRS.
5. The Board considered the application of the *Policy Approach to Developing the Suite of PBE Standards* to these amendments in October 2019 and agreed to propose equivalent amendments to PBE Standards. The Board noted that although most PBEs would not require the amendments, a few might. In addition, making equivalent amendments to PBE Standards could prevent mixed group issues.

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

Due process

6. The NZASB issued NZASB Exposure Draft 2019-5 *PBE Interest Rate Benchmark Reform* early in November 2019. Comments were due by 14 January 2020. We did not receive any responses.
7. The due process followed by the NZASB in respect of *PBE Interest Rate Benchmark Reform* complied with the due process requirements established by the XRB Board and, in our view, meets the requirements of section 22 of the Financial Reporting Act 2013. The comment period of 75 days was shorter than the usual period of 90 days, due to the urgent nature of the amendments for any affected entities.
8. In accordance with section 22(2) of the Financial Reporting Act 2013 we have considered whether the amending standard is likely to require the disclosure of personal information. In our view the amending standard does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commissioner is required.

Draft amending standard and signing memo

9. Attached as agenda item 5.2 is a copy of *PBE Interest Rate Benchmark Reform*.
10. Attached as agenda item 5.3 is a draft certificate signing memorandum from the Chair of the NZASB to the Chair of the XRB Board.

Recommendations

11. We recommend that the Board:
 - (a) APPROVES for issue *PBE Interest Rate Benchmark Reform*; and
 - (b) APPROVES the signing memorandum from the Chair of the NZASB to the Chair of the XRB Board requesting approval to issue the amending standard.

Attachments

Agenda item 5.2: Draft *PBE Interest Rate Benchmark Reform*

Agenda item 5.3: Draft signing memorandum



PBE Interest Rate Benchmark Reform

Issued February 2020

This Standard was issued on 20 February 2020 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 19 March 2020.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective date, which is set out in Part G.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Tier 1 and Tier 2 PBE Standard is based on amendments issued by the International Accounting Standards Board to support the provision of useful financial information by entities during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as interbank offered rates.

PBE INTEREST RATE BENCHMARK REFORM

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PBE INTEREST RATE BENCHMARK REFORM

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CONTENTS

	<i>from page</i>
PART A: INTRODUCTION	5
PART B: SCOPE	5
PART C: AMENDMENTS TO PBE IPSAS 41 <i>FINANCIAL INSTRUMENTS</i>	6
PART D: AMENDMENTS TO PBE IFRS 9 <i>FINANCIAL INSTRUMENTS</i>	9
PART E: AMENDMENTS TO PBE IPSAS 29 <i>FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT</i>	12
PART F: AMENDMENTS TO PBE IPSAS 30 <i>FINANCIAL INSTRUMENTS: DISCLOSURES</i>	15
PART G: EFFECTIVE DATE	16

Part A – Introduction

This Standard sets out amendments to PBE Standards to support the provision of useful financial information by entities applying hedge accounting during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as IBORs.

Tier 2 public benefit entities are required to comply with all the requirements in this Standard.

Part B – Scope

This Standard applies to Tier 1 and Tier 2 public benefit entities.

Part C – Amendments to PBE IPSAS 41 *Financial Instruments*

Paragraphs 155.1–155.12 and 156.4 are added. A new heading is added before paragraph 155.1. New subheadings are added before paragraphs 155.4, 155.5, 155.6, 155.7 and 155.9. These paragraphs have not been underlined for ease of reading.

Paragraphs 157.7, 157.8, 179 and 184 are amended. New text in these paragraphs is underlined.

Hedge Accounting

...

Temporary Exceptions from Applying Specific Hedge Accounting Requirements

155.1 An entity shall apply paragraphs 155.4–155.12 and paragraphs 156.4 and 184(d) to all hedging relationships directly affected by interest rate benchmark reform. These paragraphs apply only to such hedging relationships. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about:

- (a) the interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk; and/or
- (b) the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.

155.2 For the purpose of applying paragraphs 155.4–155.12, the term ‘interest rate benchmark reform’ refers to the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board’s July 2014 report ‘Reforming Major Interest Rate Benchmarks’.¹

155.3 Paragraphs 155.4–155.12 provide exceptions only to the requirements specified in these paragraphs. An entity shall continue to apply all other hedge accounting requirements to hedging relationships directly affected by interest rate benchmark reform.

Highly Probable Requirement for Cash Flow Hedges

155.4 For the purpose of determining whether a forecast transaction (or a component thereof) is highly probable as required by paragraph 124, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Reclassifying the Amount Accumulated in the Cash Flow Hedge Reserve

155.5 For the purpose of applying the requirement in paragraph 141 in order to determine whether the hedged future cash flows are expected to occur, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Assessing the Economic Relationship Between the Hedged Item and the Hedging Instrument

155.6 For the purpose of applying the requirements in paragraphs 129(c)(i) and AG278–AG280, an entity shall assume that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

Designating a Component of an Item as a Hedged Item

155.7 Unless paragraph 155.8 applies, for a hedge of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the requirement in paragraphs 128(a) and AG257—that the risk component shall be separately identifiable—only at the inception of the hedging relationship.

¹ The report, ‘Reforming Major Interest Rate Benchmarks’, is available at http://www.fsb.org/wp-content/uploads/r_140722.pdf.

155.8 When an entity, consistent with its hedge documentation, frequently resets (ie discontinues and restarts) a hedging relationship because both the hedging instrument and the hedged item frequently change (ie the entity uses a dynamic process in which both the hedged items and the hedging instruments used to manage that exposure do not remain the same for long), the entity shall apply the requirement in paragraphs 128(a) and AG257—that the risk component is separately identifiable—only when it initially designates a hedged item in that hedging relationship. A hedged item that has been assessed at the time of its initial designation in the hedging relationship, whether it was at the time of the hedge inception or subsequently, is not reassessed at any subsequent redesignation in the same hedging relationship.

End of Application

155.9 An entity shall prospectively cease applying paragraph 155.4 to a hedged item at the earlier of:

- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and
- (b) when the hedging relationship that the hedged item is part of is discontinued.

155.10 An entity shall prospectively cease applying paragraph 155.5 at the earlier of:

- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based future cash flows of the hedged item; and
- (b) when the entire amount accumulated in the cash flow hedge reserve with respect to that discontinued hedging relationship has been reclassified to surplus or deficit.

155.11 An entity shall prospectively cease applying paragraph 155.6:

- (a) to a hedged item, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk or the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and
- (b) to a hedging instrument, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedging instrument.

If the hedging relationship that the hedged item and the hedging instrument are part of is discontinued earlier than the date specified in paragraph 155.11(a) or the date specified in paragraph 155.11(b), the entity shall prospectively cease applying paragraph 155.6 to that hedging relationship at the date of discontinuation.

155.12 When designating a group of items as the hedged item, or a combination of financial instruments as the hedging instrument, an entity shall prospectively cease applying paragraphs 155.4–155.6 to an individual item or financial instrument in accordance with paragraphs 155.9, 155.10, or 155.11, as relevant, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and/or the timing and the amount of the interest rate benchmark-based cash flows of that item or financial instrument.

Effective Date and Transition

Effective Date

...

156.4 *PBE Interest Rate Benchmark Reform*, which amended PBE IPSAS 41, PBE IPSAS 29 and PBE IPSAS 30, issued in February 2020, added paragraphs 155.1–155.12 and amended paragraphs 157.7, 157.8, 179 and 184. If an entity has applied PBE IPSAS 41 for annual periods beginning on or before 1 January 2020 it shall apply these amendments for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. If an entity has not applied PBE IPSAS 41 for annual periods beginning on or before 1 January 2020, it shall apply these amendments when it first applies PBE IPSAS 41.

Transition

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Entities Transitioning from PBE IFRS 9

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Hedge Accounting

157.7 When an entity that has previously applied the hedge accounting requirements of PBE IFRS 9 first applies this Standard it shall apply the requirements in paragraphs 113–155.12 of this Standard. On first time application of this Standard it shall apply hedge accounting to the existing hedging relationships to which it applied hedge accounting under PBE IFRS 9.

157.8 When an entity that has previously applied PBE IFRS 9 continued to apply the hedge accounting requirements of PBE IPSAS 29 it may continue to apply those requirements. Alternatively, an entity may elect, on adoption of this Standard, to apply the requirements in paragraphs 113–155.12 of this Standard in accordance with paragraphs 179–184 of this Standard.

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Entities Transitioning from PBE IPSAS 29

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Transition for Hedge Accounting

179. When an entity first applies this Standard, it may choose as its accounting policy to continue to apply the hedge accounting requirements of PBE IPSAS 29 instead of the requirements in paragraphs 113–155.12 of this Standard. An entity shall apply that policy to all of its hedging relationships. An entity that chooses that policy shall also apply Appendix C of PBE IPSAS 29.

...

184. As an exception to prospective application of the hedge accounting requirements of this Standard, an entity:

...

- (d) shall apply the requirements in paragraphs 155.1–155.12 retrospectively. This retrospective application applies only to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies those requirements or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve that existed at the beginning of the reporting period in which an entity first applies those requirements.

In the Basis for Conclusions, paragraph BC14 is added.

Interest Rate Benchmark Reform

BC14. In September 2019 the IASB issued *Interest Rate Benchmark Reform* which amended IFRS 9, IAS 39 and IFRS 7 *Financial Instruments: Disclosures*. In November 2019 the NZASB incorporated these amendments in NZ IFRS. These temporary exceptions addressed the potential impact of uncertainty about the long-term viability of some interest rate benchmarks on specific hedge accounting requirements. The NZASB considered that any PBEs subject to such uncertainty would also benefit from these temporary exceptions. The NZASB therefore issued NZASB ED 2019-5 *PBE Interest Rate Benchmark Reform* in November 2019 and finalised these amendments in February 2020.

Part D – Amendments to PBE IFRS 9 *Financial Instruments*

Paragraphs 6.8.1–6.8.12 and 7.1.8 are added. A new heading is added before paragraph 6.8.1. New subheadings are added before paragraphs 6.8.4, 6.8.5, 6.8.6, 6.8.7 and 6.8.9. These paragraphs have not been underlined for ease of reading.

Paragraph 7.2.26 is amended. New text in this paragraph is underlined.

Chapter 6 Hedge accounting

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6.8 Temporary exceptions from applying specific hedge accounting requirements

- 6.8.1 An entity shall apply paragraphs 6.8.4–6.8.12 and paragraphs 7.1.8 and 7.2.26(d) to all hedging relationships directly affected by interest rate benchmark reform. These paragraphs apply only to such hedging relationships. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about:
- (a) the interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk; and/or
 - (b) the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.
- 6.8.2 For the purpose of applying paragraphs 6.8.4–6.8.12, the term ‘interest rate benchmark reform’ refers to the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board’s July 2014 report ‘Reforming Major Interest Rate Benchmarks’.²
- 6.8.3 Paragraphs 6.8.4–6.8.12 provide exceptions only to the requirements specified in these paragraphs. An entity shall continue to apply all other hedge accounting requirements to hedging relationships directly affected by interest rate benchmark reform.

Highly probable requirement for cash flow hedges

- 6.8.4 For the purpose of determining whether a forecast transaction (or a component thereof) is highly probable as required by paragraph 6.3.3, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Reclassifying the amount accumulated in the cash flow hedge reserve

- 6.8.5 For the purpose of applying the requirement in paragraph 6.5.12 in order to determine whether the hedged future cash flows are expected to occur, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Assessing the economic relationship between the hedged item and the hedging instrument

- 6.8.6 For the purpose of applying the requirements in paragraphs 6.4.1(c)(i) and B6.4.4–B6.4.6, an entity shall assume that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually

² The report, ‘Reforming Major Interest Rate Benchmarks’, is available at http://www.fsb.org/wp-content/uploads/r_140722.pdf.

or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

Designating a component of an item as a hedged item

- 6.8.7 Unless paragraph 6.8.8 applies, for a hedge of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the requirement in paragraphs 6.3.7(a) and B6.3.8—that the risk component shall be separately identifiable—only at the inception of the hedging relationship.
- 6.8.8 When an entity, consistent with its hedge documentation, frequently resets (ie discontinues and restarts) a hedging relationship because both the hedging instrument and the hedged item frequently change (ie the entity uses a dynamic process in which both the hedged items and the hedging instruments used to manage that exposure do not remain the same for long), the entity shall apply the requirement in paragraphs 6.3.7(a) and B6.3.8—that the risk component is separately identifiable—only when it initially designates a hedged item in that hedging relationship. A hedged item that has been assessed at the time of its initial designation in the hedging relationship, whether it was at the time of the hedge inception or subsequently, is not reassessed at any subsequent redesignation in the same hedging relationship.

End of application

- 6.8.9 An entity shall prospectively cease applying paragraph 6.8.4 to a hedged item at the earlier of:
- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and
 - (b) when the hedging relationship that the hedged item is part of is discontinued.
- 6.8.10 An entity shall prospectively cease applying paragraph 6.8.5 at the earlier of:
- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based future cash flows of the hedged item; and
 - (b) when the entire amount accumulated in the cash flow hedge reserve with respect to that discontinued hedging relationship has been reclassified to surplus or deficit.
- 6.8.11 An entity shall prospectively cease applying paragraph 6.8.6:
- (a) to a hedged item, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk or the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and
 - (b) to a hedging instrument, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedging instrument.

If the hedging relationship that the hedged item and the hedging instrument are part of is discontinued earlier than the date specified in paragraph 6.8.11(a) or the date specified in paragraph 6.8.11(b), the entity shall prospectively cease applying paragraph 6.8.6 to that hedging relationship at the date of discontinuation.

- 6.8.12 When designating a group of items as the hedged item, or a combination of financial instruments as the hedging instrument, an entity shall prospectively cease applying paragraphs 6.8.4–6.8.6 to an individual item or financial instrument in accordance with paragraphs 6.8.9, 6.8.10, or 6.8.11, as relevant, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and/or the timing and the amount of the interest rate benchmark-based cash flows of that item or financial instrument.

Chapter 7 Effective date and transition

7.1 Effective date

- ...
- 7.1.8 *PBE Interest Rate Benchmark Reform*, which amended PBE IPSAS 41, PBE IFRS 9, PBE IPSAS 29 and PBE IPSAS 30, issued in February 2020, added Section 6.8 and amended paragraph 7.2.26. An entity shall

apply these amendments for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

7.2 Transition

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Transition for hedge accounting (Chapter 6)

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7.2.26 As an exception to prospective application of the hedge accounting requirements of this Standard, an entity:

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- (d) shall apply the requirements in Section 6.8 retrospectively. This retrospective application applies only to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies those requirements or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve that existed at the beginning of the reporting period in which an entity first applies those requirements.

In the Basis for Conclusions, paragraph BC21 is added.
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Interest Rate Benchmark Reform

BC21. In September 2019 the IASB issued *Interest Rate Benchmark Reform* which amended IFRS 9, IAS 39 and IFRS 7 *Financial Instruments: Disclosures*. In November 2019 the NZASB incorporated these amendments in NZ IFRS. These temporary exceptions addressed the potential impact of uncertainty about the long-term viability of some interest rate benchmarks on specific hedge accounting requirements. The NZASB considered that any PBEs subject to such uncertainty would also benefit from these temporary exceptions. The NZASB therefore issued NZASB ED 2019-5 *PBE Interest Rate Benchmark Reform* in November 2019 and finalised these amendments in February 2020.

Part E – Amendments to PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*

Paragraphs 113A–113N and 126.9 are added. A new heading is added before paragraph 113A. New subheadings are added before paragraphs 113D, 113E, 113F, 113H and 113J. These paragraphs have not been underlined for ease of reading.

The references to PBE IFRS 9 (which are shown in square brackets []) are relevant only for those entities that have early adopted PBE IFRS 9. References to PBE IFRS 9 will be omitted when PBE IPSAS 41 is compiled (which will be closer to the effective date of PBE IPSAS 41 – 1 January 2022).

Hedging

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Temporary Exceptions from Applying Specific Hedge Accounting Requirements

113A An entity shall apply paragraphs 113D–113N and 113G to all hedging relationships directly affected by interest rate benchmark reform. These paragraphs apply only to such hedging relationships. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about:

- (a) the interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk; and/or
- (b) the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.

113B For the purpose of applying paragraphs 113D–113N, the term ‘interest rate benchmark reform’ refers to the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board’s July 2014 report ‘Reforming Major Interest Rate Benchmarks’.³

113C Paragraphs 113D–113N provide exceptions only to the requirements specified in these paragraphs. An entity shall continue to apply all other hedge accounting requirements to hedging relationships directly affected by interest rate benchmark reform.

Highly Probable Requirement for Cash Flow Hedges

113D For the purpose of applying the requirement in paragraph 98(c) that a forecast transaction must be highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Reclassifying the Cumulative Gain or Loss Recognised in Other Comprehensive Revenue and Expense

113E For the purpose of applying the requirement in paragraph 112(c) in order to determine whether the forecast transaction is no longer expected to occur, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Effectiveness Assessment

113F For the purpose of applying the requirements in paragraphs 98(b) and AG145(a), an entity shall assume that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

³ The report, ‘Reforming Major Interest Rate Benchmarks’, is available at http://www.fsb.org/wp-content/uploads/r_140722.pdf.

113G For the purpose of applying the requirement in paragraph 98(e), an entity is not required to discontinue a hedging relationship because the actual results of the hedge do not meet the requirements in paragraph AG145(b). For the avoidance of doubt, an entity shall apply the other conditions in paragraph 98, including the prospective assessment in paragraph 98(b), to assess whether the hedging relationship must be discontinued.

Designating Financial Items as Hedged Items

113H Unless paragraph 113I applies, for a hedge of a non-contractually specified benchmark portion of interest rate risk, an entity shall apply the requirement in paragraphs 90 and AG139—that the designated portion shall be separately identifiable—only at the inception of the hedging relationship.

113I When an entity, consistent with its hedge documentation, frequently resets (ie discontinues and restarts) a hedging relationship because both the hedging instrument and the hedged item frequently change (ie the entity uses a dynamic process in which both the hedged items and the hedging instruments used to manage that exposure do not remain the same for long), the entity shall apply the requirement in paragraphs 90 and AG139—that the designated portion is separately identifiable—only when it initially designates a hedged item in that hedging relationship. A hedged item that has been assessed at the time of its initial designation in the hedging relationship, whether it was at the time of the hedge inception or subsequently, is not reassessed at any subsequent redesignation in the same hedging relationship.

End of Application

113J An entity shall prospectively cease applying paragraph 113D to a hedged item at the earlier of:

- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and
- (b) when the hedging relationship that the hedged item is part of is discontinued.

113K An entity shall prospectively cease applying paragraph 113E at the earlier of:

- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based future cash flows of the hedged item; and
- (b) when the entire cumulative gain or loss recognised in other comprehensive revenue and expense with respect to that discontinued hedging relationship has been reclassified to surplus or deficit.

113L An entity shall prospectively cease applying paragraph 113F:

- (a) to a hedged item, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk or the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and
- (b) to a hedging instrument, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedging instrument.

If the hedging relationship that the hedged item and the hedging instrument are part of is discontinued earlier than the date specified in paragraph 113L(a) or the date specified in paragraph 113L(b), the entity shall prospectively cease applying paragraph 113F to that hedging relationship at the date of discontinuation.

113M An entity shall prospectively cease applying paragraph 113G to a hedging relationship at the earlier of:

- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or of the hedging instrument; and
- (b) when the hedging relationship to which the exception is applied is discontinued.

113N When designating a group of items as the hedged item, or a combination of financial instruments as the hedging instrument, an entity shall prospectively cease applying paragraphs 113D–113G to an individual item or financial instrument in accordance with paragraphs 113J, 113K, 113L, or 113M, as relevant, when

the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and/or the timing and the amount of the interest rate benchmark-based cash flows of that item or financial instrument.

Effective Date and Transition

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- 126.9 *PBE Interest Rate Benchmark Reform* which amended PBE IPSAS 41, [PBE IFRS 9,] PBE IPSAS 29 and PBE IPSAS 30, issued in February 2020, added paragraphs 113A–113N. An entity shall apply these amendments for annual financial statements covering periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. An entity shall apply these amendments retrospectively to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies these amendments or were designated thereafter, and to the gain or loss recognised in other comprehensive revenue and expense that existed at the beginning of the reporting period in which an entity first applies these amendments.

In the Basis for Conclusions, paragraph BC4 is added.

Interest Rate Benchmark Reform

- BC4. In September 2019 the IASB issued *Interest Rate Benchmark Reform* which amended IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*. In November 2019 the NZASB incorporated these amendments in NZ IFRS. These temporary exceptions addressed the potential impact of uncertainty about the long-term viability of some interest rate benchmarks on specific hedge accounting requirements. The NZASB considered that any PBEs subject to such uncertainty would also benefit from these temporary exceptions. The NZASB therefore issued NZASB ED 2019-5 *PBE Interest Rate Benchmark Reform* in November 2019 and finalised these amendments in February 2020.

Part F – Amendments to PBE IPSAS 30 *Financial Instruments: Disclosures*

Paragraphs 28H and 53.9–53.10 are added and a subheading is added before paragraph 28H. These paragraphs have not been underlined for ease of reading.

The references to PBE IFRS 9 (which are shown in square brackets []) are relevant only for those entities that have early adopted PBE IFRS 9. References to PBE IFRS 9 will be omitted when PBE IPSAS 41 is compiled (which will be closer to the effective date of PBE IPSAS 41 – 1 January 2022).

Hedge Accounting

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Uncertainty Arising from Interest Rate Benchmark Reform

28H For hedging relationships to which an entity applies the exceptions set out in paragraphs 155.4–155.12 of PBE IPSAS 41, [paragraphs 6.8.4–6.8.12 of PBE IFRS 9], or paragraphs 113D–113N of PBE IPSAS 29, an entity shall disclose:

- (a) the significant interest rate benchmarks to which the entity’s hedging relationships are exposed;
- (b) the extent of the risk exposure the entity manages that is directly affected by the interest rate benchmark reform;
- (c) how the entity is managing the process to transition to alternative benchmark rates;
- (d) a description of significant assumptions or judgements the entity made in applying these paragraphs (for example, assumptions or judgements about when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows); and
- (e) the nominal amount of the hedging instruments in those hedging relationships.

Effective Date and Transition

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53.9 *PBE Interest Rate Benchmark Reform*, which amended PBE IPSAS 41, [PBE IFRS 9], PBE IPSAS 29 and PBE IPSAS 30, issued in February 2020, added paragraphs 28H and 53.10. An entity shall apply these amendments when it applies the amendments to PBE IPSAS 41, [PBE IFRS 9] or PBE IPSAS 29.

53.10 In the reporting period in which an entity first applies *PBE Interest Rate Benchmark Reform*, issued in February 2020, an entity is not required to present the quantitative information required by paragraph 33(f) of PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.

In the Basis for Conclusions, paragraph BC3 is added.

Interest Rate Benchmark Reform

BC3. In September 2019 the IASB issued *Interest Rate Benchmark Reform* which amended IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*. In November 2019 the NZASB incorporated these amendments in NZ IFRS. These temporary exceptions addressed the potential impact of uncertainty about the long-term viability of some interest rate benchmarks on specific hedge accounting requirements. They also required information about the extent to which an entity’s hedging relationships were within the scope of the exceptions. The NZASB considered that any PBEs subject to such uncertainty would also benefit from these temporary exceptions and should be required to disclose the extent to which they applied the exceptions. The NZASB therefore issued NZASB ED 2019-5 *PBE Interest Rate Benchmark Reform* in November 2019 and finalised these amendments in February 2020.

Part G – Effective Date

This Standard shall be applied for annual financial statements covering periods beginning on or after 1 January 2020. Earlier application is permitted.

In some cases where the amendments relate to standards that are not yet effective, the amendments are effective from 1 January 2020 or when an entity applies those standards, whichever comes first.



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 14 February 2020

To: Michele Embling, Chair External Reporting Board

From: Kimberley Crook, Chair NZASB

Subject: *PBE Interest Rate Benchmark Reform*

Introduction¹

1. In accordance with the protocols established by the XRB Board, the NZASB seeks your approval to issue *PBE Interest Rate Benchmark Reform*. This amending standard will amend:
 - (a) PBE IPSAS 41 *Financial Instruments*;
 - (b) PBE IFRS 9 *Financial Instruments*;
 - (c) PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*; and
 - (d) PBE IPSAS 30 *Financial Instruments: Disclosures*.
2. The proposed amendments are equivalent to the for-profit amending standard *Interest Rate Benchmark Reform*, which was issued in November 2019. The NZASB's reasons for proposing to amend PBE Standards prior to the IPSASB considering these amendments are discussed in more detail later in this memo. The key factor was that some PBEs could require the amendments and if they did, the need would be urgent. In addition, the amendments could avoid mixed group issues.

Background to IBOR reform

3. The background to the international reform of interest rate benchmarks, including interbank offer rates (IBORs), was set out in the signing memo for *Interest Rate Benchmark Reform*, dated 30 October 2019. Key points are as follows.
 - (a) International reforms have led to some interest rate benchmarks such as the London Inter-bank Offered Rate (LIBOR) being phased out, alternative risk free rates being established, and other benchmarks being strengthened.
 - (b) In response to these changes many entities, including banks, have had to update loan agreements and derivative contracts to refer to new replacement rates.
 - (c) Uncertainties regarding alternative benchmarks and when replacements occur could have resulted in the discontinuation of hedge accounting. The IASB issued *Interest Rate Benchmark Reform* in September 2019 to address this matter. The IASB's amendments

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

established mandatory exceptions to certain hedge accounting requirements. These amendments were then incorporated into NZ IFRS.

Amendments to NZ IFRS (November 2019)

4. The amendments to NZ IFRS avoid entities having to discontinue hedge accounting as a result of uncertainties related to the IBOR transition and, in particular, due to the inability to meet specific forward-looking hedge accounting requirements.
5. The amendments provide relief from the highly probable and prospective assessments required by NZ IFRS 9 *Financial Instruments* and NZ IAS 39 *Financial Instruments: Recognition and Measurement* insofar as these tests relate to hedging relationships that are affected by the uncertainties of the IBOR reform. The amendments also provide relief from the retrospective assessment under NZ IAS 39. The exceptions described in the amendments apply only to those hedging relationships directly affected by uncertainties of the IBOR reform including cross-currency interest rate swaps (for the interest component affected). The exceptions introduced by the amendments are mandatory for the period that the uncertainty exists.
6. The amendments issued in 2019 focused on pre-replacement issues. Phase II of the IASB's IBOR project is looking at replacement issues – being the issues that arise when an existing interest rate benchmark is replaced with an alternative interest rate. The IASB expects to issue an exposure draft in Q2 2020 to deal with these issues.

Amendments to PBE Standards (February 2020)

7. Although few PBEs are expected to experience the type of uncertainty addressed by the IASB's 2019 amendments, the NZASB decided to propose equivalent amendments to PBE Standards for the following reasons.
 - (a) Some PBEs might need the amendments.² The amendments need to be in place and available for immediate application by any such entities.
 - (b) Some large for-profit entities that form part of a mixed group might be required to use the mandatory exceptions in NZ IFRS. Having equivalent mandatory exceptions in PBE Standards means that any such for-profit entities do not have to consider the impact of differences in the two suites of standards on consolidation.
 - (c) The financial instrument standards in NZ IFRS and PBE Standards are closely aligned.³ Keeping the two sets of financial instrument standards aligned makes it easier for New Zealand entities to communicate the basis of accounting to international stakeholders.
8. Generally the NZASB waits for the IPSASB to consider amendments issued by the IASB before proposing to make equivalent amendments to PBE Standards. In this case the NZASB noted that (i) the amendments were urgent; (ii) it expected the IPSASB to consider the amendments

² Staff did not identify any specific PBEs that would require the amendments, but feedback from constituents indicated that some PBEs could be affected.

³ One difference between the two suites of standards is that there is an additional PBE Standard. PBE IFRS 9 was issued in 2017 as an interim standard, pending the development of IPSAS 41 *Financial Instruments* and PBE IPSAS 41.

in the near future; and (ii) the risk of creating differences with IPSAS was low or not a concern. The new mandatory exceptions will have limited impact – they will be applied by a small number of entities for a limited period. The amendments do not create new requirements for any entities other than those that require the exceptions created by the amendments.

Due process

9. The proposed amendments are based on amendments to NZ IFRS, which have already been through due process by the IASB and the NZASB.
10. Key dates in the IASB's due process were as follows.
 - (a) May 2019: The IASB issued Exposure Draft ED/2019/1 *Interest Rate Benchmark Reform*.
 - (b) June 2019: Comments were due to the IASB.
 - (c) July and August 2019: The IASB considered responses and due process steps.⁴
 - (d) September 2019: The IASB issued *Interest Rate Benchmark Reform*.
11. The IASB received 84 responses. Most respondents welcomed the IASB's timely response to pre-replacement issues and broadly supported the proposed amendments. The IASB made some changes to its proposals as a result of feedback received from constituents. These were in the nature of clarifications and improvements.
12. The NZASB consulted with New Zealand constituents on the IASB's proposals in ED/2019/1 concurrently with the IASB. The NZASB approved *Interest Rate Benchmark Reform* at its meeting on 30 October 2019 and it was issued in November 2019.
13. Early in November 2019 the NZASB issued NZASB Exposure Draft 2019-5 *PBE Interest Rate Benchmark Reform*. Comments were due to the NZASB by 14 January 2020. Although the 75-day comment period is shorter than the usual 90 days, this was longer than the IASB's comment period of 45 days and consistent with the urgency of the amendments. The NZASB did not receive any submissions on ED 2019-5 *PBE Interest Rate Benchmark Reform*.
14. The NZASB has approved *PBE Interest Rate Benchmark Reform*. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in the NZASB's view, meets the requirements of section 22 of the Financial Reporting Act 2013.
15. In accordance with section 22(2) of the Financial Reporting Act 2013 the NZASB has considered whether the amending standard is likely to require the disclosure of personal information. In the NZASB's view the amending standard does not include requirements that would result in the disclosure of personal information and therefore no consultation with the Privacy Commissioner is required.

⁴ A summary of the IASB's August 2019 IBOR deliberations is available at: [IASB Update August 2019](#). More detail on the IASB's due process is available in the signing memo that accompanied *Interest Rate Benchmark Reform*.

Consistency with XRB Financial Reporting Strategy

16. In implementing the Financial Reporting Strategy set out in the Accounting Standards Framework the NZASB usually waits for the IPSASB to complete its consideration of a new IFRS Standard before developing a new PBE Standard. The NZASB uses the *Policy Approach to Developing the Suite of PBE Standards* to guide its decisions on when and how to incorporate new international developments in PBE Standards. In deciding to issue these amendments before the IPSASB the NZASB has departed from its usual processes. However, the NZASB considers that the departure is justified because of the potential impact on any affected entities, the urgency of the issue, and the likelihood that the IPSASB will consider making equivalent amendments in the near future.

Effective date

17. The amending standard will be applicable for annual periods beginning on or after 1 January 2020, with early application permitted.

Other matters

18. There are no other matters relating to the issue of this amending standard that the NZASB considers to be pertinent or that should be drawn to your attention.

Recommendation

19. The NZASB recommends that you sign the attached Certificate of Determination on behalf of the XRB Board.

Attachments

PBE Interest Rate Benchmark Reform

Certificate of Determination

Kimberley Crook
Chair NZASB



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 31 January 2020
To: NZASB Members
From: Vanessa Sealy-Fisher
Subject: *IASB December 2019 editorial corrections*

Recommendation¹

1. We recommend that the Board APPROVES the editorial corrections published by the IASB in December 2019 that need to be incorporated in NZ IFRS.

Introduction

2. The IASB publishes editorial corrections to IFRS Standards as they are needed. Editorial corrections published by the IASB are not subject to due process.
3. The Board's process for dealing with these editorial corrections, as agreed in December 2014, is to table the corrections at a Board meeting for approval to issue.
4. Most of the editorial corrections issued in December 2019 are in response to a query raised by us in early 2019 regarding an inconsistency between terms in the Glossary of the IFRS Standards and the defined terms in the standards themselves.
5. The Glossary accompanying the 2018 IFRS Standards listed the term 'fair value less costs to sell' and stated that it is defined in paragraph 6 of IAS 36 *Impairment of Assets*. However, IAS 36 no longer defines that term. Rather, it defines the terms 'fair value' and 'costs of disposal'. The definition of 'fair value less costs to sell' shown in the 2018 Glossary is the pre-IFRS 13 *Fair Value Measurement* definition. IFRS 13 amended IAS 36 and replaced the term 'fair value less costs to sell' with 'fair value'. IASB staff considered this matter and, as a result, have issued the December 2019 editorial corrections.
6. We are taking this opportunity to seek approval of the editorial corrections to IFRS Standards issued in December 2019 that need to be included in NZ IFRS. The editorial corrections are listed in the Appendix to this memo. We are comfortable that the amendments are editorial in nature and need not be subject to due process.

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

7. The editorial corrections comprise:
 - (a) an amendment to the definition of recoverable amount in NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, NZ IAS 36 *Impairment of Assets* and the Glossary;
 - (b) an amendment to the reference to recoverable amount in paragraph 42 of NZ IAS 28 *Investments in Associates and Joint Ventures*; and
 - (c) deletion of the defined term 'fair value less costs to sell' from the Glossary.
8. Similar editorial corrections are not needed to PBE Standards because there is no PBE Standard equivalent to IFRS 13.

Next steps

9. We will incorporate the amendments into the relevant NZ IFRSs and the Glossary. We will also make the editorial corrections available on the website under 'recent approvals' and include their approval in an NZASB Update.

Appendix

Standard	Paragraph	Amendment
Definition of recoverable amount		
NZ IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	44H	NZ IFRS 13 <i>Fair Value Measurement</i> , issued in June 2011, amended the definition of fair value <u>and the definition of recoverable amount</u> in Appendix A. An entity shall apply that amendment <u>those amendments</u> when it applies NZ IFRS 13.
	Appendix A	recoverable amount The higher of an asset’s fair value less costs of disposal to sell and its value in use.
NZ IAS 16 <i>Property, Plant and Equipment</i>	6	Recoverable amount is the higher of an asset’s fair value less costs of disposal to sell and its value in use.
	81F	NZ IFRS 13, issued in June 2011, amended the definition of fair value <u>and the definition of recoverable amount</u> in paragraph 6, amended paragraphs 26, 35 and 77 and deleted paragraphs 32 and 33. An entity shall apply those amendments when it applies NZ IFRS 13.
Glossary		recoverable amount The higher of an asset’s (or cash-generating unit’s) fair value less costs <u>of disposal</u> to sell and its value in use.
Other amendments		
NZ IAS 28 <i>Investments in Associates and Joint Ventures</i>	42	Because goodwill ... Instead, the entire carrying amount of the investment is tested for impairment in accordance with NZ IAS 36 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs <u>of disposal</u> to sell) with its carrying amount, whenever application of paragraphs 41A–41C indicates that the investment may be impaired. ...
Glossary – delete the defined term ‘fair value less costs to sell’ and the corresponding definition and references:		
fair value less costs to sell	The amount obtainable from the sale of an asset or cash-generating unit in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.	NZ IAS 36.6



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 31 January 2020

To: NZASB Members

From: Anthony Heffernan and Gali Slyuzberg

Subject: Targeted Review of the ASF: Project Plan for Next Phase

Purpose¹

1. The purpose of this agenda item is to give the Board an opportunity to provide FEEDBACK on the following matters relating to the Targeted Review of the New Zealand Accounting Standards Framework (ASF):
 - (a) the proposed project plan for the next phase of the project (discussed within this memo); and
 - (b) the detailed analysis of submissions and staff recommendations for next steps (see agenda item 9.2).
2. These agenda papers will be considered by the XRB Board at its meeting in March 2020.

Background

3. The XRB issued the [Discussion Paper: Targeted Review of the New Zealand Accounting Standards Framework \(DP\)](#) for public consultation in July 2019, to seek feedback from constituents on the application of the ASF.
4. The DP noted:

The purpose of the Targeted Review is to “check in” with constituents on whether the ASF is functioning as anticipated and is achieving its original objectives. This feedback will assist the XRB Board to consider whether any refinements to the ASF are required.²
5. In addition to seeking general feedback on the application of the ASF, the DP also sought feedback on three specific matters for comment (SMCs). During the public consultation period, staff undertook various outreach activities in relation to this project.

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

² Paragraph 1.2 of the DP.

6. The public consultation period closed on 15 November 2019. Nineteen (19) submissions were received. Most submissions were included in the December 2019 agenda papers. All submissions are included in this agenda – see agenda item 9.5 (in supporting papers).³
7. At the Board’s last meeting on 6 December 2019, staff presented an overview of the informal feedback received during outreach activities and a high-level update on the submissions received. A similar update was provided to the XRB Board at its meeting on 11 December 2019.
8. Staff has now completed the detailed analysis of the submissions received – see agenda item 9.2. For each matter identified in the analysis of submissions, staff recommended whether further consideration is required and provided recommendations on the next steps. As explained below, we propose that the XRB establish a subcommittee to consider its response to certain matters identified for further consideration.
9. The remainder of this memo proposes a plan for the remaining steps of this project, including the respective roles of the XRB Board and the NZASB – see Appendix A for an overview of the next steps in the Targeted Review project as provided in the DP.

Proposed project plan for the next phase of the Targeted Review

Joint subcommittee

10. The first stage of the Targeted Review was largely run as a “dual Board” process.⁴ That is, papers were generally taken to the NZASB for discussion and recommendation, and then to the XRB Board for discussion and approval.
11. For the next stage of the Targeted Review of the ASF, we recommend setting up a joint subcommittee made up of members from both the XRB Board and the NZASB.⁵
12. The joint subcommittee would consider the matters identified by staff as requiring further consideration (agenda item 9.2), with a view to recommending to the XRB Board how these matters should be addressed.⁶
13. We consider that a joint subcommittee would be appropriate because it would be an efficient and effective way of undertaking the next stage of the project, while allowing for the consideration of issues from both a strategic and an operational perspective.

³ One confidential submission is included in agenda item 2.3.1

⁴ The first stage of the Targeted Review included the development of the DP (which involved establishing the scope and objectives of the project and the specific areas for which feedback was sought) and outreach plan for seeking constituent feedback.

⁵ The next stage of the Targeted Review will include the analysis of feedback received and consideration of next steps in response to matters identified.

⁶ The recommendations for addressing matters identified from analysis of DP feedback could include: No further action; conduct additional research; provide additional support/education; or consider potential amendments to the ASF and/or related documents (such as the PBE Policy Approach).

14. In recommending a joint subcommittee, rather than running a dual Board process as was done in the first part of this project, we took the following matters into account:
 - (a) The next stage of the project will be focused on specific issues raised by constituents.
 - (b) The use of a joint subcommittee to discuss issues will require less Board time, allowing each Board more time to discuss other pressing projects, and will streamline the process.
 - (c) Much of the work in the next phase will likely focus on possible changes to the PBE Policy Approach,⁷ which was originally developed by a joint subcommittee of the XRB Board and NZASB.

Proposal to issue a Feedback Statement

15. As noted in the DP, we propose to issue a Feedback Statement, including a summary of matters identified from public consultation and the proposed next steps. We anticipate this being issued shortly after completion of the joint subcommittee’s consideration of the next steps.

NZASB involvement in the next phase of the project

16. If the XRB Board agrees to the proposed process, we will keep the NZASB informed about the subcommittee’s progress. The subcommittee may also seek feedback from the NZASB on various issues. This is not expected to take up a lot of Board time.
17. We also note that for some of the matters arising from the analysis of submissions, staff recommended further consideration by the NZASB separately from the Targeted Review project. Such matters generally relate to standard-level considerations — see agenda item 9.2.

Indicative timetable

18. The following key milestones (with indicatives dates) are proposed for advancing consideration of matters identified in agenda item 9.2 for joint subcommittee consideration.

March 2020	XRB Board Meeting	Consideration of detailed analysis and staff recommendations for the next steps.
March/April 2020	Joint Subcommittee Meeting	Provide direction on the next steps for advancing key matters for further consideration (as set out in agenda item 9.2), including what additional information/research is needed to inform decisions.
April 2020	Joint Subcommittee Meeting	Consideration of any draft amendments to the PBE Policy Approach (and any proposed amendments to ASF), and staff recommendations to resolve other issues identified.

⁷ Formally named the [Policy Approach to Developing the Suite of PBE Standards](#)

May 2020	Joint Subcommittee Meeting	Agree on proposed recommendations to resolve matters identified through the Targeted Review of the ASF for XRB Board approval (will include any amendments to PBE Policy Approach or ASF and draft Feedback Statement).
17 June 2020	NZASB Meeting	Report back on joint subcommittee recommendations.
25 June 2020	XRB Board Meeting	Report back on joint subcommittee recommendations and approval of joint subcommittee recommendations (including any amendments to PBE Policy Approach or ASF and draft Feedback Statement).

19. The achievement of these milestones will largely be dependent on the nature of any additional information/research requested by the joint subcommittee.

Next steps

20. The agenda papers relating to this project will be presented to the XRB Board at its meeting on 5 March 2020. At that meeting, staff will ask whether the XRB Board:
- (a) approves the plan for the next phase of the Targeted Review project, including setting up a joint subcommittee and publishing a Feedback Statement;
 - (b) agrees with the staff preliminary assessment of which matters require further consideration (agenda item 9.2); and
 - (c) has any feedback on the proposed further actions recommended by staff in relation to each matter identified for further consideration (agenda item 9.2).
21. In addition, staff will seek confirmation from the XRB Board about the nature of the NZASB’s involvement in the next phase of the project.
22. Staff will update the NZASB about the XRB Board’s decisions at the next NZASB meeting on 25 March 2020.

Questions for the Board

Does the Board have any feedback on the proposed plan for the next phase of the Targeted Review project, including:

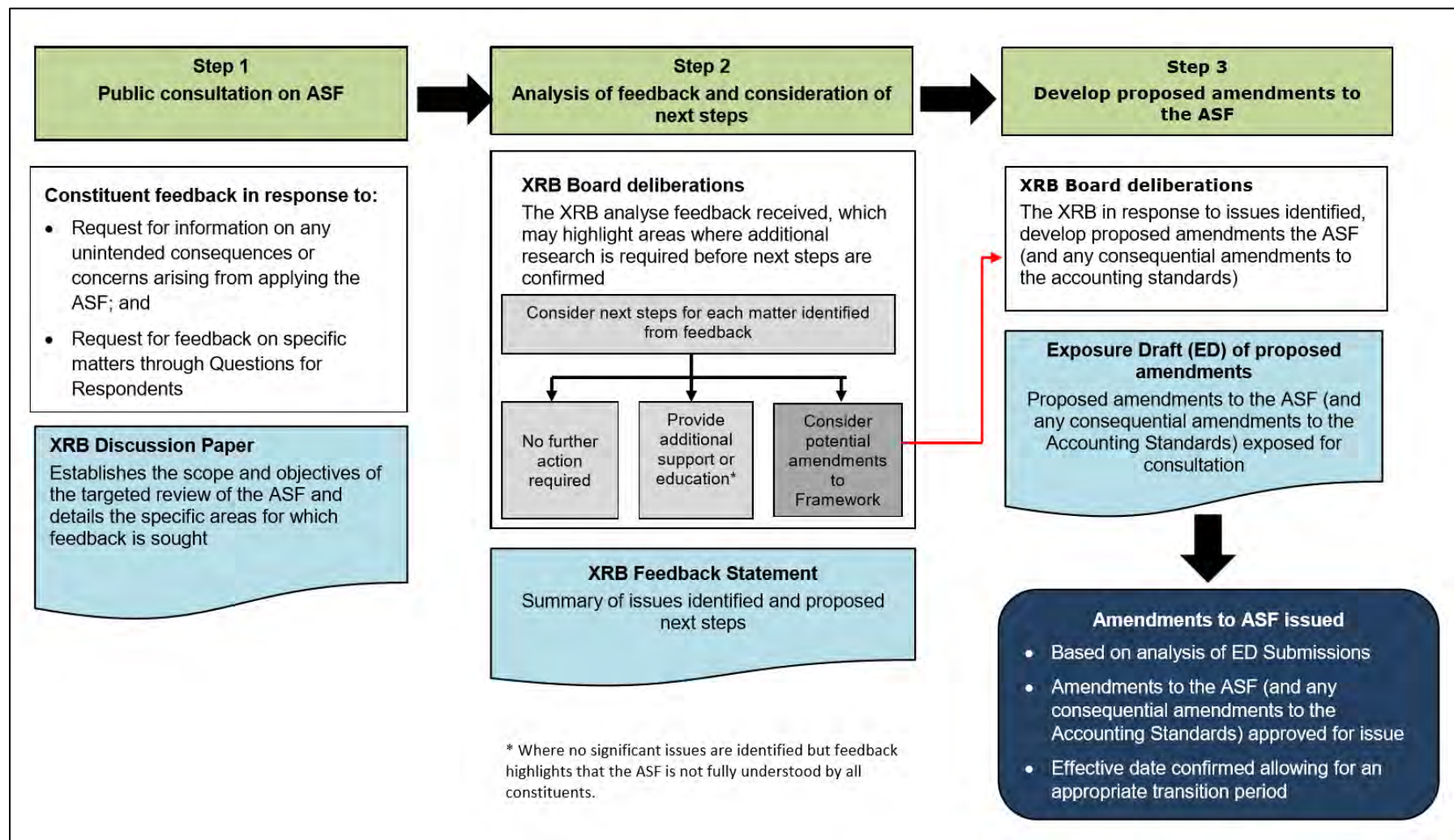
- 1. the formation of a joint subcommittee;
- 2. publishing a Feedback Statement on the Targeted Review; and
- 3. the indicative timetable for the consideration of key matters by the joint subcommittee?

Attachments

- Agenda item 9.2: Detailed analysis of submissions
- Agenda item 9.3: (Not used)
- Agenda item 9.4: *ASF Summary Document* (in supporting papers)
- Agenda item 9.5: Submissions received (in supporting papers)

Appendix A: Key steps in the Targeted Review of the ASF Project

Step 1 which involved the issuance and public consultation on the DP has been completed.





NZ ACCOUNTING
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Memorandum

Date: 31 January 2020

To: NZASB Members

From: Anthony Heffernan and Gali Slyuzberg

Subject: **Targeted Review of the ASF: Detailed analysis of submissions**

Purpose and introduction¹

1. This paper provides a detailed analysis of the feedback in the submissions received, and the staff view as to which matters require further consideration. Final decisions as to which matters will be considered further will be agreed with the XRB Board.
2. The purpose of this agenda item is to give the Board an opportunity to NOTE and provide FEEDBACK on the:
 - (a) detailed analysis of the submissions received on the XRB Discussion Paper *Targeted Review of the New Zealand Accounting Standards Framework (DP)*; and
 - (b) staff recommendations for next steps for each key matter identified from submissions received — i.e. no further action; further consideration by joint subcommittee; or future consideration by NZASB.
3. As noted in agenda item 9.1, staff recommend that the XRB Board establish a joint subcommittee comprising members of the XRB Board and the NZASB to consider matters arising from the submissions received on the DP. That subcommittee would consider whether the ASF and any associated documents (such as the PBE Policy Approach)² need to be updated and recommend any changes to the XRB Board.
4. For each matter identified in the detailed analysis as requiring further consideration, we have also provided some further discussion on how these matters could be taken forward by the joint subcommittee or the NZASB and/or XRB Board.

Structure of this memo

5. This memo is structured as follows:
 - (a) Respondents;
 - (b) Process used to analyse submissions;

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

² [Policy Approach to Developing the PBE Suite of Accounting Standards](#)

- (c) Summary of matters identified for future consideration, based on analysis of submissions; and
- (d) Detailed analysis of submissions received (including staff recommendations).

Respondents

- 6. In this section, we have provided information about the respondents who made submissions on the DP. The purpose is to provide an overview of the type of respondents which will provide context for the feedback received.
- 7. Table 1 lists all respondents. Although all online feedback forms have been treated as confidential, we have given a brief description of the respondents. The respondents are numbered R1–R19.

Table 1 — List of respondents

Formal submissions	
R1	Auckland Council
R2	BDO New Zealand (BDO)
R3	Chartered Accountants Australia and New Zealand (CA ANZ)
R4	Professor Carolyn Cordery
R5	Charities Services
R6	CPA Australia
R7	Confidential response (personal view)
R8	Grant Thornton New Zealand (Grant Thornton)
R9	KPMG
R10	Office of the Auditor General (OAG)
R11	PwC
R12	The Treasury
Online feedback forms	
R13	Prepares financial statements under PBE Standards (Tier 1) for an NFP organisation
R14	Accountant working in NFP sector, prepares financial statements under <i>PBE Simple Format Reporting – Accrual</i> (Tier 3)
R15	Prepares financial statements under NZ IFRS RDR (Tier 2) for a private sector for-profit entity that is a lender and has one or more Australian subsidiaries
R16	Accountant working in the public sector; prepares financial statements under PBE Standards (Tier 1)
R17	Funder to Māori organisations; operates two trusts that are NFPs and prepares financial statements under PBE Standards (Tier 1) and PBE Standards RDR (Tier 2) respectively
R18	Organisation is a Government ministry, which prepares financial statements under PBE Standards RDR (Tier 2)
R19	Chartered Accountant

8. Table 2 categorises these respondents by type. The term preparers includes both organisations and individuals who prepare financial statements. Staff acknowledge that the categorisation, including the naming of the categories, is subjective.

Table 2 — Respondents categorised by type

Respondent type	Number of respondents	Respondents
Accounting firms	5	R2 BDO, R8 Grant Thornton, R9 KPMG, R11 PwC – plus R7 (works for accounting firm)
Professional bodies	2	R3 CA ANZ, R6 CPA Australia
Regulatory/oversight bodies – public sector	2	R10 OAG, R12 Treasury
Regulatory/oversight bodies – NFP sector	1	R5 Charities Services
Preparers – PBE public sector	3	R1 Auckland Council, R16, R18 (Note: Auckland Council is a mixed group)
Preparers – PBE NFP sector	3	R13, R14, R17
Preparers – for-profit sector	1	R15
Academics	1	R4 Carolyn Cordery
Other	1	R19 (Chartered accountant – did not specify further)
Total	19	

Process used to analyse submissions

9. We collated all the responses to each question in the DP. We then analysed the responses by following the process below for each SMC and for the general questions on the ASF.
- We identified (where possible) the high-level direction of the responses.
 - We then identified common themes within the responses to each SMC and grouped the responses by theme.
 - For each response or group of similar responses, we have put forward a staff view as to whether the matter requires:
 - no further action at this time; or
 - further consideration by the joint subcommittee (to consider possible refinements to the ASF or related documents); or
 - ongoing consideration by the XRB Board based on future developments; or
 - further consideration by the NZASB.³

³ These are matters that relate to possible issues at an accounting standards level. Further action would include further research by staff before forming a view as to whether the matter should be added to the NZASB Work Plan.

- (d) We have also noted some comments which we feel are not directly related to the Targeted Review of the ASF, but which we thought should be brought to the attention of the XRB Board. We have referred to these matters as “other comments”. For each of these matters we have put forward a staff view as to whether the matter requires further consideration – as per (c) above.

Summary of key matters for further consideration

10. The following is a summary of the key matters arising from the submissions received, which staff have identified as requiring further consideration. This includes matters relating to the ASF (and related documents) for further consideration by the joint subcommittee, as well as other matters for consideration by the NZASB and/or the XRB Board (separately from the Targeted Review project).

<p>Matters for further consideration by the joint subcommittee</p>
<p><i>SMC 1: Importance of maintaining close alignment between PBE Standards and IPSAS</i></p> <ul style="list-style-type: none"> • The extent to which refinements are required to the PBE Policy Approach (being the approach for operationalising the development of PBE Standards) <p><i>SMC 3: Do the PBE tier size criteria need to be revisited?</i></p> <ul style="list-style-type: none"> • Whether an asset-based tier threshold(s) should be added to the ASF <p><i>General comments on the ASF:</i></p> <ul style="list-style-type: none"> • Date of the future comprehensive review of the ASF
<p>Matters for further consideration by the NZASB</p>
<p><i>SMC 2: Importance of harmonisation with Australia for Tier 2 for-profit disclosure requirements</i></p> <ul style="list-style-type: none"> • Matter to be discussed by the NZASB and XRB Board: Whether and how to respond to developments in Australia and internationally impacting the development of Tier 2 for-profit disclosure requirements; and the approach for developing Tier 2 For-profit Accounting Requirements (based on NZ IFRS with RDR). <p><i>SMC 3: Do the PBE tier size criteria need to be revisited?</i></p> <ul style="list-style-type: none"> • The tier criteria may need to be reconsidered in the future in light of proposed changes to incorporated societies legislation <p><i>General comments on the ASF:</i></p> <ul style="list-style-type: none"> • Changes in incorporated societies legislation (also noted with respect to SMC 3) • Recommendation for additional guidance on accounting for change in classification from PBE to for-profit or vice versa • Some small charities are struggling – support for Tier 3 and Tier 4 standards-level PIR (comments relating to the Tiers 3 and 4 standards were also raised under SMC 3) <p><i>Other comments</i></p> <ul style="list-style-type: none"> • Lack of accounting guidance for trusts • Lack of requirements for cryptocurrency • Proposal to develop a specific framework for Tier 2 PBE RDR concessions

Matters for ongoing consideration by the XRB Board based on future developments
<p><i>General comments on the ASF:</i></p> <ul style="list-style-type: none"> • Proposed amendments to the Public Finance Act 1989 to focus on wellbeing • Suggestion to refer to integrated reporting in the ASF

Detailed analysis of submissions received

11. The remainder of this memo provides detailed analysis of submissions received, grouped under the following sections (in accordance with questions for respondents raised in the DP).
- (a) General comments on the ASF
 - (b) SMC 1: The importance of maintaining close alignment between PBE Standards and IPSAS
 - (c) SMC 2: The importance of harmonisation with Australia for Tier 2 for-profit disclosures
 - (d) SMC 3: Do the PBE tier size criteria need to be revisited?
 - (e) Other comments for noting (not directly related to a question raised in the DP)

General comments on the ASF*DP questions*

12. This section analyses feedback received on the following DP questions in relation to the application of the ASF in general.

- | |
|--|
| <ol style="list-style-type: none"> (a) <i>Are you aware of any developments in the financial reporting environment (in addition to the ones described in this DP) or any unintended consequences that would require refinements to the ASF?</i> (b) <i>Do you have any other comments about the ASF?</i> |
|--|

High-level summary of responses

13. Sixteen (16) out of the 19 respondents provided feedback on DP questions above. In summary:
- (a) None of these respondents identified unintended consequences that would require refinements to the ASF.
 - (b) Most respondents (except for Grant Thornton and R16 – see below) did not identify any additional new developments in the financial reporting environment that would require refinements to the ASF.
 - (c) Furthermore, some of these respondents made positive comments about the ASF. CA ANZ and R15 specifically noted that the ASF is working well in general, Charities Services noted that the multi-standards, multi-tiered approach of the ASF is generally appropriate, and CPA Australia and PwC noted that the ASF is operating as intended.

- (d) However, some respondents who were not aware of unintended consequences or new developments nevertheless made some comments or recommendations in relation to the ASF or related guidance (including improvements to definitions and guidance that facilitate the application of the ASF).

- 14. While the DP did not specifically ask for feedback on the Targeted Review itself, four respondents (CA ANZ, Charities Services, CPA Australia and R15) expressed support for the timing and “check-in” nature of the Targeted Review.

Detailed analysis

- 15. Table 3 below summarises the feedback received on the DP questions that sought general comments on the ASF. For each comment or group of comments, staff have provided a recommendation on next steps.
- 16. This table excludes those comments that purely indicate that the ASF is operating as intended. These comments were briefly discussed in the high-level summary above. By their nature, such comments do not require further action. The table also excludes feedback relating to the SMCs that was reiterated in respondents’ general comments.

Table 3 — Analysis of matters raised in response to DP questions seeking general comments on the ASF

Summary of responses (by theme)	Staff recommendation on next steps
Matters relating to the application of the ASF in general	
<p>The ASF is complex (but working)</p> <ul style="list-style-type: none"> • CPA Australia and KPMG noted that the ASF is complex. However, CPA Australia noted that the ASF is functioning as anticipated, and KPMG did not identify unintended consequences or new developments (other than those raised in the DP) that would require refinements to the ASF. 	<p style="color: green;">No further action at this time</p> <ul style="list-style-type: none"> • We recommend no change to the ASF and no further consideration by the subcommittee. • While these respondents noted that the ASF is complex, they did not specify any resulting unintended consequences and did not recommend changes at this stage. • The ASF’s multi-sector, multi-tiered, multi-standard approach is inevitably more complex than, say, a sector-neutral framework. However, this approach was introduced to better meet user needs in multiple sectors and balance the costs and benefits of reporting for entities of various size and nature.
<p>Some small charities are struggling – support for Tier 3 and Tier 4 PiR</p> <ul style="list-style-type: none"> • Charities Services and R13 noted that some small charities are struggling with their financial reporting requirements and expressed support for the XRB’s upcoming post-implementation review (PIR) of the Tier 3 and Tier 4 standards. • Having said this, Charities Services specifically noted: “While several issues have been raised with us about the 	<p style="color: blue;">Further consideration by the NZASB</p> <ul style="list-style-type: none"> • We recommend no change to the ASF and no further consideration by the joint subcommittee. • The NZASB agreed (December 2019) that staff should commence work on the Tier 3 and Tier 4 PIR. Any changes resulting from this PIR will be at the standards level, rather than the ASF.

Summary of responses (by theme)	Staff recommendation on next steps
<p>specific content of the Tier 3 and Tier 4 standards, none of them have been about use of the multi-tier approach in general.”</p>	
<p>New developments that may affect the ASF</p>	
<p>Proposed amendments to the Public Finance Act 1989 to focus on wellbeing</p> <ul style="list-style-type: none"> R16 wondered “how or if proposed amendments to the Public Finance Act [1989] to provide for an increased focus on wellbeing and inter-generational sustainability may impact accounting standards development and financial reporting requirements for PBEs”. 	<p>For ongoing consideration of XRB Board based on future developments</p> <p>Recommendations:</p> <ul style="list-style-type: none"> Staff consider that this matter does not currently require a change to the ASF, not until the impact of related developments are considered further. We feel that this matter relates to broader XRB strategic questions and should continue to be separately considered by the XRB Board. We note this matter has close linkages to ongoing discussions and work in relation to the XRB Board’s project on Extended External Reporting (EER). <p>Basis for recommendations:</p> <ul style="list-style-type: none"> We note the increased focus on wellbeing, which is related to environmental, social, and governance accountability reporting in both the private and public sector. Therefore, we feel this matter warrants ongoing consideration by the XRB Board. Given the ongoing developments in EER and the Government’s focus on wellbeing, we understand the XRB Board will continue to assess what this means for its responsibility for establishing and maintaining New Zealand’s financial reporting strategy. Any future changes in the statutory reporting requirements in the public sector concerning wellbeing and/or a decision by the XRB Board to develop accounting standard/guidance in the EER space, may result in amendments to the ASF being required – to establish a strategy/framework for the development of standards addressing a broader scope of non-financial information (in addition to current service performance reporting requirements).

Summary of responses (by theme)	Staff recommendation on next steps
<p>Suggestion to refer to integrated reporting in the ASF</p> <ul style="list-style-type: none"> Grant Thornton queried whether the ASF should refer to integrated reporting. “Integrated reporting <IR> is recognised in the Financial Reporting Act 2013, so should its relationship to financial reporting now be made more explicit in the ASF? There may be a great deal of development work to be done here (i.e. the mandate is there, but nothing yet has been delivered) but in looking to future proof financial reporting, our view is that some reference to <IR> in the ASF should be considered.” 	<p>For ongoing consideration of XRB Board based on future developments</p> <p>Recommendations:</p> <ul style="list-style-type: none"> Staff consider that this matter does not currently require a change to the ASF, not until the impact of related developments are considered further. We feel that this matter relates to broader XRB strategic questions and should continue to be separately considered by the XRB Board. We note this matter has close linkages to ongoing discussions and work in relation to the XRB Board’s project on Extended External Reporting (EER). <p>Basis for recommendations:</p> <ul style="list-style-type: none"> We note the increased focus on environmental, social, and governance accountability reporting in both the private and public sector. Therefore, we feel this matter warrants ongoing consideration by the XRB Board. Given the ongoing developments in EER, we understand the XRB Board will continue to assess what this means for its responsibility for establishing and maintaining New Zealand’s financial reporting strategy. Any future changes in the statutory reporting requirements in the for-profit sector concerning EER and/or a decision by the XRB Board to develop accounting standard/guidance in the EER space, may result in amendments to the ASF being required – to establish a strategy/framework for the development of standards addressing a broader scope of non-financial information.

Summary of responses (by theme)	Staff recommendation on next steps
<p>Changes in incorporated societies legislation</p> <p>Grant Thornton noted the upcoming legislative reforms for incorporated societies, expressing a preference to delay any changes to the ASF “until this legislation has been passed because there are many entities that potentially will be affected”. In Grant Thornton’s view, “it would be good to see the consequences of these legislative changes reflected in the updated ASF”.</p>	<p>Further consideration by the NZASB</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • No changes to the ASF and no further consideration by the subcommittee at this time. • The impact of legislative reforms for incorporated societies (including impact on the PBE tier size criteria and the accounting standards) be considered by the NZASB once the legislation is closer to being enacted. • Once legislation is passed, we will discuss with the XRB Board whether any amendments to the ASF are required. <p>Basis for recommendation:</p> <ul style="list-style-type: none"> • The NZASB has a specific action in its current Strategic Action Plan on monitoring the development of new legislation for incorporated societies • Based on past research,⁴ it does not appear that incorporated societies and their users have significantly different needs as compared to the existing population of entities to which the ASF applies. • However, once the new legislation for incorporated societies has been enacted, we recommend the NZASB assess whether additional guidance for incorporated societies is required is specific standards, and whether the new legislation impacts the PBE tier size criteria (see also SMC 3 below). .

⁴ The 2016 research report *Typical Transactions of Incorporated Societies* found transactions entered into by incorporated societies are generally similar to those entered into by registered charities.

Summary of responses (by theme)	Staff recommendation on next steps
Responses suggesting improvements to the definitions in the ASF and related guidance for applying these definitions	
<p>Improvements to the definition of “public accountability”</p> <ul style="list-style-type: none"> R17 noted that the definition of public accountability (for the purpose of identifying a Tier 1 entity) in XRB A1 <i>Application of the Accounting Standards Framework</i> (and in the ASF) seems to be “aimed at specific organisations and institutions” and was not easy to apply to R17’s organisation – an NFP trust. While R17 was able to make a case that the trust has public accountability due to holding funds in a fiduciary capacity for a broad group of outsiders, R17 found the definition of public accountability to be “a bit scant” in this regard and noted that it “should have been clearer for the Trustees to rely on”. 	<p>No further action at this time</p> <p>Recommendation:</p> <ul style="list-style-type: none"> We recommend no change to the ASF and no further consideration by the joint subcommittee. <p>Basis for recommendation:</p> <ul style="list-style-type: none"> Applying the ASF’s definition of public accountability may be more clear-cut for some entities than others. For example, since the definition specifically refers to “FMC reporting entities”, it may be easier for such entities to determine whether they are publicly accountable, whereas other entities may need to exercise more judgement. However, the key benefit of the current definition is that it reflects both the IASB’s internationally accepted definition of public accountability and New Zealand legislation, including the Government’s decisions as to which entities have a “higher level of public accountability”. We also note that paragraph 12 of XRB A1 contains guidance specifically for trusts on the application of the definition of public accountability, specifically, the part of the definition that deals with holding assets in a fiduciary capacity for a broad group of outsiders. We note no other constituents raised concerns regarding this matter, although we appreciate for certain entities the determination of “public accountability” for the purpose of determining their reporting tier may require a high degree of judgement. For these reasons, we do not think the definition of public accountability in XRB A1 and the reference to public accountability in the ASF requires amendment.

Summary of responses (by theme)	Staff recommendation on next steps
<p>Proposed improvements to the PBE vs for-profit classification</p> <ul style="list-style-type: none"> Grant Thornton noted the following: “[The] ASF says a for profit entity is anything that is not a PBE. When working with clients on determining whether [...] they are a PBE or not, the observation has been made that it would be really helpful for the ASF to also provide direction on what a for profit entity is (i.e. a “positive” definition saying what a for profit entity is, rather than what it is not)”. 	<p>No further action at this time</p> <p>Recommendation:</p> <ul style="list-style-type: none"> We recommend no change to the ASF and no further consideration by the joint subcommittee. The “negative” definition of for-profit entities in the ASF (and in XRB A1) is deliberate. As noted in a 2018 Board paper, “two positive definitions would be problematic technically, as it allows for the possibility that an entity might fall in between the two definitions. Therefore, in XRB A1, the definitions are structured to result in a residual category, with the for-profit definition expressed as a negative of the PBE definition: a for-profit entity is an entity that is not a PBE. This ensures that the definitions are mutually exclusive and exhaustive – an entity must be classified either as a PBE or a for-profit entity, but it cannot be both or neither”.⁵ We consider that this rationale for having a “positive” definition for PBEs and a “negative” definition for for-profit entities is still applicable. In addition, the recent amending standard <i>2019 Amendments to XRB A1 Appendix A</i> clarified the guidance on the definition of a PBE.
<p>Recommendation for additional guidance on accounting for change in classification from PBE to for-profit or vice versa</p> <p>Grant Thornton also commented on changes in an entity’s classification. Grant Thornton:</p> <ul style="list-style-type: none"> recommended “more guidance of what to do when the status of the entity changes from [PBE] to for-profit or vice versa”; queried the timing of when classification should be determined – for example, could this be done during the year?; and queried whether a likely change in classification in the next reporting period should be disclosed. 	<p>Further consideration by the NZASB</p> <p>Recommendations:</p> <ul style="list-style-type: none"> No change to the ASF and no further consideration by the joint subcommittee. Staff to consider the matters raised and whether additional disclosure requirements and/or guidance is needed at a standards level. <p>Basis for recommendations:</p> <p>The matters raised seem to relate to guidance and requirements at a standards level.</p> <p>We note the accounting standards already include some guidance in relation to the matters raised, but staff will consider whether additional requirements/guidance is required.</p>

⁵ Agenda item 4.1 (Guidance on PBE Definition), presented to the NZASB at its meeting on 3 May 2018. The paper discussed proposals to amend Appendix A of XRB A1 to clarify guidance on whether an entity is a PBE or a for-profit entity.

Summary of responses (by theme)	Staff recommendation on next steps
Future comprehensive review of the ASF (to be conducted once the ASF has been effective for 10–15 years)	
<p>Date of the future comprehensive review of the ASF</p> <p>The DP explained that the Targeted Review is intended to check that the ASF is operating as intended – it is not a first-principles review of the fundamental elements of the ASF. The DP also stated that a comprehensive review of the ASF will be carried out once the ASF has been effective for at least 10–15 years.</p> <p>Grant Thornton commented: “The date for the fundamental revisit of the entire Framework (currently out of scope of this Targeted Review) should be announced when the outcomes of this review are known. We believe that exercise should take place no later than 2025, but earlier than this if, in the opinion of the XRB, there has been a fundamental change to underlying legislation affecting PBEs or for-profit entities”.</p>	<p>Further consideration by the joint subcommittee</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Staff recommend the joint subcommittee consider what messages (if any) should be provided in relation to the date of a future comprehensive review of the ASF — this could be communicated in the Feedback Statement. • Options could include no later than 2025 (as suggested by Grant Thornton), or a later date such as 2030 (when the ASF will have been effective for 15 years), or a decision that now is not the time to commit to a date for a future comprehensive review. • In the staff view, we feel communications regarding a future comprehensive review of the ASF should not commit the XRB to a fixed time period. Instead, the Feedback Statement would reiterate the intention of the XRB to conduct a comprehensive review in the future when an appropriate time period has passed (yet to be determined and will be somewhat dependent on future events that cannot be currently estimated with any certainty). It is still important that the current ASF be allowed time to be bedded in before a full comprehensive review is conducted. Also, developments in EER (as discussed earlier) may impact on the timing of a comprehensive review of the ASF.
<p>Proposal to assess costs vs benefits of multi-sector approach to inform the direction of the comprehensive review</p> <p>CPA Australia commented: “The XRB should consider undertaking a study to determine whether the costs of maintaining a dedicated PBE reporting framework is justified by the benefits arising from a tailored approach to meet the specific user-needs of PBEs. Such a study may better inform the future direction the XRB wishes to take when it undertakes a fundamental review of the ASF after 10 to 15 years of its operation.”</p>	<p>No further action at this time</p> <p>We appreciate these comments and the challenges that arise in practice. However, we recommend:</p> <ul style="list-style-type: none"> • no change to the ASF or further consideration by joint subcommittee at this time; and • research on this matter be considered in the future as part of a comprehensive review of the ASF. <p>We are currently not aware of any significant issues arising from the ASF’s multi-sector approach, and one of the reasons for introducing the current ASF was concerns around the appropriateness of the previous sector-neutral approach.</p> <p>However, the XRB Board may wish to undertake research as recommended by CPA Australia as part of undertaking the comprehensive review of the ASF.</p> <p>We feel the decision on whether to undertake this study can be made at a future period, not necessarily as part of this Targeted Review project.</p>

SMC 1: The importance of maintaining close alignment between PBE Standards and IPSAS

DP questions

17. This section analyses feedback received from submissions on the following DP questions in relation to SMC 1.

- (a) *Moving forward, should the XRB's policy for developing PBE Standards prioritise local considerations to ensure that PBE Standards are "fit for purpose" for the New Zealand environment? Or, is maintaining close alignment with IPSAS more important?*
- (b) *If you think close alignment between PBE Standards and IPSAS is important, for whom is this important and why?*
- (c) *If you think prioritising local considerations is more important, should the PBE Policy Approach be amended to provide more flexibility in how IPSAS is used as the base for PBE Standards?*
- (d) *Do you have any other comments on the way IPSAS are used as the base for PBE Standards?*

High-level summary of responses

18. Eighteen (18) out of the 19 respondents commented on question in relation to SMC 1.
19. In summary, we have received mixed feedback on SMC 1:
- (a) The majority of respondents considered the prioritisation of local considerations to be more important than maintaining close alignment between PBE Standards and IPSAS and supported a more flexible approach to the development of PBE Standards.
 - (b) There was some support for maintaining the current strategy of close alignment between PBE Standards.
20. We feel it important to highlight that some respondents who supported a more flexible approach, also noted the importance of alignment with IPSAS in general and where appropriate.
21. The submissions on SMC 1 questions are broadly categorised in Table 4 below.

Table 4 – Broad categorisation of comments on SMC 1

Type of view	Respondents
Support for maintaining close alignment between PBE Standards and IPSAS	Six (6) respondents: Grant Thornton (for the public sector only), Carolyn Cordery, KPMG, OAG, PwC, R13.
Support for prioritising local considerations and more flexibility in the development of PBE Standards	Eleven (11) respondents: Grant Thornton (for NFPs only), Auckland Council, BDO, CA ANZ, Charities Services, R7, R14, R15, R16, R17, R18 – plus CPA Australia (who did not refer directly to more flexibility – see explanation below).
Support for current PBE Policy Approach with flexibility to decide, on a case-by-case basis, whether prioritising local considerations is more important than maintaining close alignment with IPSAS	One (1) respondent: The Treasury. See further discussion below.
No view expressed	One (1) respondent: R19

22. The classification of responses from CPA Australia and the Treasury required judgement. We have explained the matters considered in classifying these responses.
23. CPA Australia noted that the XRB's approach already prioritises local considerations and should continue to do so. The response did not refer directly to the need for more flexibility but it noted the challenges of close alignment with IPSAS and seemed to favour alignment with IFRS Standards. This is consistent with the feedback of respondents who favoured a more flexible approach. Therefore, in this section of the memo, CPA Australia's comments have been grouped with those in favour of prioritising local considerations and more flexibility.
24. The Treasury expressed the following key views.
- (a) There is only a subtle difference between maintaining close alignment with IPSAS and adopting a more flexible approach to developing PBE Standards based on IPSAS – both are different ways of operationalising the existing PBE Policy Approach.
 - (b) The current PBE Policy Approach is appropriate, but Treasury is open to more frequent rebuttal of the presumptions in that approach, where appropriate.
 - (c) The Treasury supports a strategy of aligning PBE Standards with IPSAS as closely as possible where appropriate, but notes that there should be sufficient flexibility for the XRB to decide, on a case-by-case basis, whether prioritising local considerations is more important than maintaining close alignment with IPSAS.

Due to the nature of this feedback, comments from the Treasury's submission are included both in the analysis of feedback in favour of more flexibility and in the analysis of feedback in favour of close alignment with IPSAS.

Detailed analysis

25. The detailed analysis of responses to questions under SMC 1 is provided in this section of the memo as follows:
 - (a) Table 5 – Responses in support of a more flexible approach to developing PBE Standards and the prioritisation of local considerations over close alignment with IPSAS
 - (b) Table 6 – Responses in support of maintaining close alignment between PBE Standards and IPSAS
26. We consider that the responses to SMC 1, taken together, give rise to a single matter for **further consideration by the joint subcommittee**. We recommend the joint subcommittee consider further the extent to which refinements are required to the PBE Policy Approach (being the approach for operationalising the development of PBE Standards), in response to feedback received.
27. Further comments on next steps are provided at the end of this section.

Table 5 — Responses in support of a more flexible approach to developing PBE Standards and the prioritisation of local considerations over close alignment with IPSAS

Theme	Details
<p>Enhanced ability to address “mixed group” issues in a timely manner and maintain “transaction neutrality”</p>	<p>Auckland Council, BDO, CA ANZ, R7 and Grant Thornton supported more flexibility to address the mixed group issues that results from the time lag between IPSAS and IFRS Standards.</p> <ul style="list-style-type: none"> • Auckland Council, BDO and R7 noted this time lag causes increased consolidation costs and efforts for mixed groups. • Additionally, R7 noted that for transactions that are similar across the for-profit and PBE sectors, this time lag delays the ability to provide PBEs with a more robust set of accounting standards that reflects the IASB’s latest thinking. • CA ANZ noted that this time lag is producing issues locally, which stakeholders would like to be addressed in a timely manner. • Grant Thornton expressed concern with the lack of progress on PBE lease accounting. <p>In addition, the following respondents expressed concern about unnecessary differences between IPSAS and IFRS Standards, whether due to time lag in the IPSASB’s IFRS alignment projects, or due to the IPSASB reaching a different conclusion to the IASB.</p> <ul style="list-style-type: none"> • Auckland Council expressed a general preference for close alignment between PBE Standards and NZ IFRS for transactions of similar substance, i.e. “transaction neutrality”, and noted that more flexibility would help achieve this. As a mixed group that issues debt instruments, transaction neutrality would simplify the Council’s consolidation process and allow it to provide investors with financial information prepared on a basis not too different to IFRS Standards, with which investors are familiar. • BDO also expressed a general preference for PBE Standards to be aligned with NZ IFRS as closely as possible, noting that this will enable NFPs to utilise IFRS-related guidance for complex transactions and avoid significant divergence in practice among PBEs, given there tends to be less guidance for IPSAS. • The Treasury (which considered that the relative importance of prioritising local considerations or maintaining close alignment with IPSAS should be determined on a case-by-case basis) expressed concerns about the increasing volume of unnecessary differences between IPSAS and IFRS Standards. • CPA Australia (which did not specifically recommend more flexibility) also expressed concern about the differences between IPSAS and IFRS Standards and noted that these differences were among the reasons for its recommendation to the AASB to continue developing public sector standards based on IFRS Standards, with reference to IPSAS where relevant.

Theme	Details
<p>Improved timeliness of addressing local issues</p>	<ul style="list-style-type: none"> • Charities Services received some comments that expressed dissatisfaction with the length of time it takes to address some local concerns – for example, the difficulties in applying PBE IPSAS 23. • R17 noted that the IPSASB’s progress was slow, and preferred to prioritise local reporting needs, noting that collaboration with Australia in that regard could be beneficial. • R18 noted that if a change to a PBE Standard has been identified as beneficial, it seems counterproductive to delay its adoption because of events outside New Zealand (i.e. the IPSASB still working on the project).
<p>Enhanced relevance of PBE Standards to the New Zealand environment and New Zealand constituents – given IPSAS are developed for a wide range of jurisdictions</p>	<ul style="list-style-type: none"> • Auckland Council and R7 noted that IPSAS are developed for a wide range of jurisdictions, and that New Zealand PBEs are relatively more sophisticated than many IPSASB constituents in terms of financial reporting. Therefore, there is a risk that new IPSAS may not be suitable for New Zealand PBEs. • Auckland Council noted that under a more flexible approach, the XRB would be able to incorporate the requirements of a new IPSAS into PBE Standards to the extent that this improves the quality of PBE financial reporting and benefits New Zealand PBEs, but at the same time could avoid including requirements that are not relevant for New Zealand PBEs, or ones that New Zealand PBEs fundamentally disagree with. • R7 noted that while the adoption of IPSAS 40 <i>Public Sector Combinations</i> into PBE Standards is useful for New Zealand PBEs, the extent of modifications made by the XRB to the requirements of this IPSAS highlights the importance of being able to diverge from IPSAS when this benefits New Zealand entities. • Similarly, R15 and R18 noted that new requirements in IPSAS that are relevant to other countries in the IPSASB’s constituency may not be relevant to New Zealand. R15 noted that adopting such requirements into PBE Standards could negatively affect the understandability of PBE financial statements for New Zealand users. R18 noted that under a more flexible approach, such requirements need not be adopted – and this will decrease compliance costs. • R18 also noted that the requirements of new IPSAS could cause unwanted consequences in New Zealand due to interplay with local legislation (as an example, the respondent noted that the IPSASB’s proposals on leases would require the Minister to approve all leases), and a more flexible approach could mitigate that risk. • Charities Services has heard some concerns that certain standards may not have been sufficiently tailored to the needs of New Zealand charities, and noted that formalising a more flexible approach to developing PBE Standards could help address these concerns in the future. • R16 noted that local responsiveness assists with relevance, engagement and the uptake of standards in New Zealand.

Theme	Details
<p>Enhanced ability to decrease compliance costs where appropriate and achieve a better cost/benefit balance</p>	<ul style="list-style-type: none"> • Auckland Council and R15 noted that ensuring that the compliance costs arising from new IPSAS requirements do not outweigh the benefits of these requirements for users in New Zealand is particularly important in the PBE sector. Auckland Council noted that PBEs need to manage funds provided by taxpayers, ratepayers or donors prudently, avoiding unnecessary costs. R15 noted that compliance costs that result in little benefit detract from NFPs’ ability to achieve their charitable purpose. • Auckland Council noted that a more flexible approach to developing PBE Standards would help avoid situations where the costs to comply with new IPSAS-based requirements outweigh the benefits for users of New Zealand PBE financial statements. As an example, the Council referred to a recent IPSASB proposal to account for concessionary leases at fair value, noting that adopting this proposal into PBE Standards would have resulted in significant implementation costs for PBEs, with little benefits to users. • In a similar vein, R14 noted that local considerations should be taken into account where strict compliance with the requirements of IPSAS would lead to significant financial or logistical hardship for New Zealand PBEs.
<p>Many New Zealand charities have a local focus</p>	<ul style="list-style-type: none"> • Grant Thornton noted that it is not aware of significant New Zealand-based charities with significant international connections, therefore it supports more flexibility to diverge from IPSAS to better meet the needs of New Zealand NFPs. (However, Grant Thornton supported close alignment with IPSAS for the public sector. We note that it is difficult to accommodate both sentiments in a single suite of PBE Standards.)
<p>Enhanced ability to innovate and provide leadership in international standard setting</p>	<ul style="list-style-type: none"> • R16 noted that the status quo of maintaining close alignment with IPSAS “severely reduces the opportunity for innovation” and limits the XRB’s ability to respond to local conditions. The respondent noted New Zealand’s experience with developing and implementing new approaches has allowed New Zealand to contribute at an international level. • R17 noted that New Zealand tends to “punch above its weight” in terms of its contribution to standard setting, and this contribution should be fostered and continued. • Auckland Council noted that in some cases, moving ahead of the IPSASB by developing a PBE Standard based on an IFRS Standard would allow the XRB to provide useful, practical recommendations to the IPSASB.
<p>IPSAS will still be part of the standard-setting process, therefore the benefits of using IPSAS will continue</p>	<ul style="list-style-type: none"> • Auckland Council noted that under a more flexible approach, the XRB would still have the opportunity to incorporate as much of a new IPSAS as possible where the outcomes benefit New Zealand and improve the quality of PBE reporting. • R18 assumed that a more flexible approach would not result in major deviations from IPSAS. • R16 was of the view that a more flexible approach would not compromise the strength of New Zealand’s support of the IPSASB’s work programme.

Theme	Details
IPSAS are aimed at the public sector, not for NFPs	<ul style="list-style-type: none"> • BDO noted that IPSAS are developed for the public sector, but not for NFPs, and that in some cases the requirements of IFRS Standards may be more suitable for NFPs as compared to IPSAS. Therefore, more flexibility to move away from IPSAS when developing PBE Standards for NFPs would be beneficial. Charities Services also mentioned receiving questions from their constituents as to why IPSAS was used as a base for certain standards. • We note that a number of large international public sector organisations which are similar in nature to NFPs apply IPSAS and provide input to the IPSASB's standard-setting process.

28. It should be noted that some respondents who supported more flexibility specifically mentioned the importance of continuing to include IPSAS in the approach for developing PBE Standards. Specifically:
- (a) R7 supported a more flexible approach to the development of PBE Standards, but noted that IPSAS should still be considered as part of the standard-setting process, and there should still be a broad objective of maintaining alignment with IPSAS where possible.
 - (b) R15 noted that when developing PBE Standards, IPSAS should be used as guidance to ensure that New Zealand reporting remains world-class (but should not be the “definitive voice” for addressing local considerations).
 - (c) While R17 ultimately supported more flexibility, this respondent also noted a number of reasons why alignment with IPSAS is important (including New Zealand being increasingly regarded as “New Zealand Inc.”, and international comparability for overseas investors), and noted that IPSAS still need to form the foundation of PBE Standards (but this should not hold the XRB back in terms of being up-to-date with the latest standards).
 - (d) Although the Treasury noted that, on a case-by-case basis, the XRB may decide that prioritising local considerations is more important than maintaining close alignment with IPSAS, it still supported maintaining close alignment with IPSAS to the extent appropriate when developing PBE Standards for the New Zealand environment.
 - (e) Auckland Council and R18 also noted the importance of continuing to use IPSAS within a more flexible approach, and R16 expected that more flexibility would not compromise the XRB’s support of the IPSASB.
29. Other caveats noted by respondents who supported a more flexible approach (or in the Treasury’s case, supported determining whether local considerations should be prioritised over close alignment with IPSAS on a case-by-case basis) included the following.
- (a) R15 noted that under a more flexible approach, it would be important that divergence from the requirements of IPSAS be clearly explained to constituents. In a similar vein, the Treasury noted that it is important for the XRB to clearly articulate to constituents what factors in the PBE Policy Approach were given more weight in developing a new or amended PBE Standards (whether it is closely aligned with IPSAS or not).

- (b) CA ANZ noted that under a more flexible approach, when deciding to develop a PBE Standard ahead of the IPSASB, the XRB should carefully consider the timing of the second round of changes that may be needed when the relevant IPSAS is eventually issued, to determine whether the benefits of moving ahead of the IPSASB outweigh the costs for preparers of financial statements and for the XRB.

Table 6 – Responses in support of maintaining close alignment between PBE Standards and IPSAS

Theme	Details
Existing “high hurdles” are appropriate, existing flexibility is sufficient	<ul style="list-style-type: none"> • Carolyn Cordery, KPMG and the OAG specifically referred to the “high hurdles” for rebutting the presumptions in the PBE Policy Approach (i.e. the presumptions that the XRB will not move ahead of the IPSASB and will adopt the requirements of a new IPSAS), and considered these high hurdles to be appropriate. These respondents, together with R13, also noted that the degree of flexibility in the existing PBE Policy Approach is sufficient. Grant Thornton also noted that for the public sector, the current approach is working well. • Furthermore, the OAG specifically noted that the description in the DP of what a more flexible approach could look like amounted to an unwarranted level of flexibility.
Recent developments and associated challenges are not so significant as to warrant a change in approach	<ul style="list-style-type: none"> • Carolyn Cordery, KPMG and the OAG noted that the recent developments regarding IPSAS and the challenges that they present (e.g. the “time lag” between IPSAS and IFRS Standards, which leads to mixed group issues in New Zealand) are not so significant as to require a change to the approach for developing PBE Standards based on IPSAS. Furthermore, Carolyn Cordery and the OAG noted that there have been recent positive developments in relation to IPSAS – including the development of the IPSASB conceptual framework and the development of new IPSASs.
IPSAS are targeted to public sector user needs	<ul style="list-style-type: none"> • KPMG and the OAG noted that IPSAS are developed specifically to meet user needs in the public sector, therefore PBE Standards that are closely aligned with IPSAS should meet user needs and be fit-for-purpose for users in the New Zealand public sector. Similarly, Carolyn Cordery noted that the original reason for introducing PBE Standards that are closely aligned with IPSAS was to meet the needs of users in the PBE sector.
Benefits of international due process	<ul style="list-style-type: none"> • PwC noted that close alignment with IPSAS helps maintain an international reference point for New Zealand financial reporting requirements for PBEs and allows New Zealand to benefit from the international due process followed by the IPSASB. The OAG also noted that under close alignment with PBE Standards, users can be confident that the financial statements of PBEs are based on internationally-accepted standards.

Theme	Details
<p>Enhanced international comparability, understandability and transparency for PBEs</p>	<ul style="list-style-type: none"> • This theme was present in the submissions of KPMG, the OAG, PwC and R13. • KPMG and the OAG noted that close alignment with IPSAS enhances international comparability and international understandability of the financial statements of the New Zealand Government and public sector. • KMPG noted that while international comparability may not be as important for the public sector as it is for for-profit entities, it is still important because the financial statements of governments are compared to an extent – for example, by statisticians, credit rating agencies, public interest groups and certain international organisations. • The OAG noted that the enhanced international comparability resulting from close alignment with IPSAS can lead to economic benefits for New Zealand as a country, including lower cost of capital and increased international investment into New Zealand. The OAG also noted that the adoption of IPSAS (and accrual accounting) by governments around the world is increasing. • PwC noted the possibility of a future demand for international alignment in public sector financial reporting as a reason for supporting close alignment with IPSAS. • R13 noted that for an NFP entity with international connections, close alignment with IPSAS enhances international comparability, transparency and accountability. • In a similar vein, the Treasury noted that alignment between PBE Standards and international standards provides additional credibility for the New Zealand Government’s Financial Statements, because those statements cannot be criticised as being prepared with New Zealand special preferences.
<p>Enhanced international reputation and credibility for New Zealand and its PBEs</p>	<ul style="list-style-type: none"> • The OAG noted that close alignment with IPSAS brings a reputational advantage to New Zealand as a country and enhances the credibility of the financial statements of New Zealand PBEs, as it means that New Zealand accounting standards in both the PBE and for-profit sectors are based on international standards. For example, New Zealand is often ranked highly by international researchers and analysts that compare countries using metrics such as budget transparency and strength of reporting standards. • The OAG also noted that close alignment with IPSAS allows the XRB to continue contributing to the development of international standards for the public sector, which enhances New Zealand’s international influence and reputation.
<p>Importance of supporting the IPSASB</p>	<ul style="list-style-type: none"> • KPMG expressed concern that the potential decrease in alignment between PBE Standards and IPSAS under a more flexible approach to developing PBE Standard poses the risk of severing New Zealand’s ties with the IPSASB. In KPMG’s view, it is important for New Zealand to support the IPSASB’s international standard-setting efforts. • Carolyn Cordery mentioned that one of the original reasons for introducing PBE Standards based on IPSAS is to be part of the international effort towards harmonised accounting standards for the public sector.

Theme	Details
Risk of overly frequent changes in PBE Standards under more flexibility	<ul style="list-style-type: none"> Carolyn Cordery and KPMG noted that under more flexibility to develop a PBE Standard ahead of the IPSASB, there would be a risk that a new domestically-developed PBE Standard would need to be changed once the IPSAS on the same topic is issued, if the IPSAS differed from the PBE Standard. This could lead to overly frequent changes in PBE Standards, a situation that is largely avoided by maintaining close alignment with IPSAS.
Close alignment with IPSAS is cost-effective	<ul style="list-style-type: none"> PwC and the OAG noted that maintaining close alignment between PBE Standards and IPSAS is more cost-effective than developing standards locally. In addition, the Treasury also noted New Zealand’s small economy and limited resources as a reason for supporting as close an alignment as possible between PBE Standards and IPSAS, where appropriate (albeit the Treasury also considered that in some circumstances, it may be more appropriate to prioritise addressing mixed group issues by using IFRS Standards as a starting point).
Timeliness is not just an IPSASB issue, IPSAS do not always need to keep up with IFRS Standards	<ul style="list-style-type: none"> The OAG noted that while recent IPSASB projects have been taking a long time to complete, the same could be said about some of the IASB’s projects, such as IFRS 16 <i>Leases</i> and IFRS 17 <i>Insurance Contracts</i>. Furthermore, the OAG advised against presuming that IPSAS always need to keep up with IFRS Standards, or that the latest thinking in IFRS Standards is also the best option for PBEs.
Close alignment with IPSAS enhances the coherence of PBE Standards	<ul style="list-style-type: none"> The OAG noted that maintaining close alignment with IPSAS helps maintain the coherence of the PBE Standards suite – not just among the individual standards but also with the PBE Conceptual Framework.
More flexibility may worsen timeliness of PBE Standards	<ul style="list-style-type: none"> The OAG noted that a more flexible approach with a lower threshold for modifying the requirements of IPSAS could lead to delays in the issuing of PBE Standards based on IPSAS, due to the time it takes to make such modifications. For example, in the OAG’s view, the XRB’s modification of the requirements of IPSAS 40 <i>Public Sector Combinations</i> unnecessarily delayed the issue of PBE IPSAS 40 <i>PBE Combinations</i>.

30. It should be noted that some respondents who supported maintaining close alignment with IPSAS still noted the importance of ensuring the PBE Standards are fit-for-purpose for New Zealand, but considered that the existing degree of flexibility is sufficient to achieve this. This was the case for the OAG and PwC. Furthermore, the OAG and KPMG considered that close alignment with IPSAS should result in PBE Standards being fit-for-purpose for New Zealand public sector PBEs as IPSAS are developed specifically to meet public sector user needs.

31. It should also be noted that some of the respondents who supported close alignment with IPSAS acknowledged the challenges associated with the current strategy and provided the following suggested improvements.
- (a) While the OAG response supported maintaining close alignment with IPSAS and considered the existing level of flexibility in the PBE Policy Approach to be sufficient, it suggested that this existing level of flexibility could be made clearer in the PBE Policy Approach. Specifically, the OAG suggested setting out clearly the circumstances in which it is appropriate to make modifications to an IPSAS, or not to adopt an IPSAS. The OAG noted that such clarification would enhance the robustness and transparency of the development process for PBE Standards.
 - (b) R13, who supported close alignment with IPSAS, suggested considering how to streamline the process for modifying IPSAS when such modifications are required.
 - (c) While the Treasury doubted that the PBE Policy Approach and its presumptions need to change, it expressed openness to seeing the XRB rebutting the presumptions more often, where appropriate. The Treasury noted that as part of operationalising the existing PBE Policy Approach, the XRB should have enough flexibility to decide, on a case-by-case basis, whether local considerations (such as mixed group issues) should be prioritised over the importance of close alignment with IPSAS. It is important to explain to constituents which factors in the PBE Policy Approach were given more weight in developing new or amended PBE Standards (whether closely aligned with IPSAS or not).
32. Furthermore, both KPMG (which supported close alignment with IPSAS) and the Treasury (which did not think the existing PBE Policy Approach needs to change but noted that prioritising local considerations over close alignment with IPSAS may be more appropriate in some cases) noted that if the XRB decides to take a more flexible approach to the development of PBE Standards, it is important to ensure that PBE Standards are aligned with international standards (either IPSAS or, in some cases, IFRS Standards) as much as possible..

Staff comments and recommendations on next steps

33. The majority of respondents tended towards a more flexible approach to the development of PBE Standards and the prioritisation of local considerations. However, several respondents supporting close alignment between PBE Standards and IPSAS. Furthermore, some of the respondents that supported a more flexible approach still noted the importance of alignment with IPSAS in general and where appropriate. Also, some respondents that preferred close alignment with IPSAS (or thought the current PBE Policy Approach is appropriate as it is) acknowledged the challenges arising from the current strategy of close alignment with IPSAS and suggested improvements.
34. As earlier noted, staff recommend all comments made in response to SMC 1 be considered collectively by the joint subcommittee.

35. Based on the analysis above, we do not feel a change in the ASF is required — IPSAS will continue to be used as a basis for developing PBE Standards (to the extent appropriate). Instead, in response to the feedback on SMC 1 we suggest the joint subcommittee consider the extent to which refinements are required to the PBE Policy Approach (being the approach for operationalising the development of PBE Standards).
36. The DP outlined in high-level terms what a more flexible approach might look like. The ASF subcommittee could consider, based on the comments received, the extent to which these proposals, as described in the DP, are included in the proposed updates to the PBE Policy Approach.

SMC 2: The importance of harmonisation with Australia for Tier 2 for-profit disclosures

DP questions

37. This section analyses feedback received from submissions on the following DP questions in relation to SMC 2.

- (a) *How important is it to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements?*
- (b) *If you think it is important to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements, for whom is this important and why?*
- (c) *Do you have any other comments about the harmonisation with Australia for Tier 2 for-profit disclosure requirements?*

38. Constituents’ feedback on SMC 2 was sought because, while the ASF’s approach of developing Tier 2 for-profit standards that are harmonised with Australia seems to be operating as intended, recent developments regarding Australia’s policy for developing Tier 2 for-profit disclosure requirements may affect this position. In addition, there are developments at the international level that could result in the IASB developing an approach that would be suitable for Tier 2 for-profit disclosures for both New Zealand and Australia – allowing both countries to adopt an international approach.
39. The XRB therefore sought feedback on this matter through the Targeted Review of the ASF, to help inform future XRB (and NZASB) considerations of whether and how to respond to developments in Australia and internationally.

High-level summary

40. Thirteen (13) out of 19 respondents commented on questions in relation to SMC 2.
41. Of the respondents who expressed a view, most considered harmonisation with Australia for Tier 2 for profit disclosures to be important, as shown in the Table 7 below.

Table 7 — Broad categorisation of feedback on SMC 2

Type of view	Respondents
Harmonisation with Australia for Tier 2 for-profit disclosures is important	Nine (9) respondents: Auckland Council, CPA Australia, Grant Thornton, KPMG, OAG, R13, R14, R17 – plus R15 (who noted that some divergence is acceptable as long as measurement and recognition policies are clear to users)
Harmonisation with Australia for Tier 2 for-profit disclosures is important, but short-term divergence from Australia’s RDR reforms may be acceptable, given the IASB’s work on an international reduced disclosure regime	Two (2) respondents: CA ANZ and R7
Harmonisation with Australia for Tier 2 for-profit disclosures is <u>not</u> very important	Two (2) respondents: BDO and PwC
No view expressed	Six (6) respondents: Carolyn Cordery, Charities Services, the Treasury, R16, R18, R19

Detailed analysis

42. Table 8 below summarises the responses received on SMC 2.
43. We consider that the responses to SMC 2 in Table 8, taken together, give rise to a single matter for [further consideration by the NZASB and XRB](#).
44. Staff consider that the submissions on SMC 2 will help support future NZASB and XRB Board discussions on:
 - (a) whether and how to respond to developments in Australia and internationally impacting the development of Tier 2 for-profit disclosure requirements; and
 - (b) the approach for developing Tier 2 For-profit Accounting Requirements (based on NZ IFRS with RDR).
45. Further comments on next steps is provided at the end of this section.

Table 8 — Analysis of feedback on SMC 2

Theme	Details
Harmonisation with Australia for Tier 2 for-profit disclosures is important	
<p>There are close economic ties between New Zealand and Australia, with a number of organisations operating across the Tasman</p>	<p>Several respondents commented on the close economic ties between New Zealand and Australia.</p> <ul style="list-style-type: none"> • Auckland Council noted that Australia is one of New Zealand’s largest trading partners. • Grant Thornton noted that Australia consumes approximately 30% of New Zealand’s GDP, and that Australian banks make up over 80% of the New Zealand retail market. • R15 noted that New Zealand and Australia have always had close trading ties. • R17 referred to the “intertwined economic reality that is New Zealand and Australia”, noting that the two countries form one economic block. <p>Respondents further commented on the number of entities that have trans-Tasman operations.</p> <ul style="list-style-type: none"> • R15 said that many Australian and New Zealand companies trade in both countries. • KPMG noted that a “significant number of New Zealand for-profit entities applying Tier 2 accounting standards are subsidiaries of Australian parent entities”. • R13 believed there is a “fair amount” of companies in Tier 2 that operate across the Tasman. • Auckland Council noted that more than 90% of New Zealand companies are SMEs, and of those companies some report in Tier 2 and have trans-Tasman operations.
<p>For entities that operate across the Tasman, harmonisation with Australia for Tier 2 for-profit disclosures is important</p>	<ul style="list-style-type: none"> • Auckland Council, R13 and R14 noted that maintaining harmonisation with Australia for Tier 2 for-profit disclosures is important for entities that operate across the Tasman. • Similarly, Grant Thornton noted that such harmonisation is important for Australian entities operating in New Zealand through branches and subsidiaries. • KPMG noted that harmonisation is important for “New Zealand entities that are Australian subsidiary entities currently reporting under Tier 2”, and R17 noted that harmonisation is important for entities that require trans-Tasman consolidation and subsidiaries of overseas companies. • CPA Australia noted that, based on anecdotal evidence, there would be some Tier 2 for-profit entities that would be affected by a loss of harmonisation with Australia for disclosure requirements.

Theme	Details
<p>Reasons harmonisation is important for entities that operate across the Tasman: easier and more efficient consolidation for trans-Tasman groups, and general efficiency and cost savings for entities that operate across the Tasman</p>	<p>Reasons why harmonisation with Australia for Tier 2 disclosures is important for entities that operate across the Tasman included the following.</p> <ul style="list-style-type: none"> • <u>Cheaper and more efficient consolidation process</u>: KPMG and R17 noted that harmonised Tier 2 disclosure requirements make the consolidation process easier and cheaper for for-profit entities that are part of a trans-Tasman group. KPMG noted that without harmonisation with Australia, New Zealand Tier 2 subsidiaries of Australian entities will have to comply with “two separate sets of reporting requirements – one to meet New Zealand requirements, and a second to provide the necessary information to their Australian parent entity” – which would “result in increased costs and preparation time with no discernible return to New Zealand entities”. R17 also noted that harmonisation would make such consolidation more accurate. <p>R15 also mentioned consolidation, but under a slightly different lens, noting that harmonisation is important to “for profit entities where investments and funding are based off consolidated reporting”.</p> <ul style="list-style-type: none"> • <u>Efficiency and decreased costs for entities that operate across the Tasman in general (without specific reference to a consolidated group)</u>: R13 noted that harmonised disclosure requirements would be easier and cheaper for entities that operate across the Tasman, and R14 noted that such entities will be able to produce “only one set of accounts”, rather than two, under harmonised disclosure requirements. R13 noted that if having to maintain different disclosure formats for different entities (presumably within a group) becomes too hard or too expensive, it may become a barrier to trade.
<p>Other parties for whom harmonisation is important – stakeholders/users and accounting professionals</p>	<ul style="list-style-type: none"> • <u>Stakeholders/users</u>: R14 and R15 noted that harmonisation of Tier 2 for-profit disclosures is also important for the stakeholders of entities that operate across the Tasman. The reason provided was enhanced comparability for stakeholders/users of Tier 2 entities’ financial statements. While Auckland Council did not specifically refer to stakeholders, it also referred to comparability as an importance reason for harmonised Tier 2 disclosure requirements. • <u>Accounting professionals</u>: R13 noted that harmonisation is important to professionals operating across the Tasman. In a similar vein, R17 noted that another reason for aligning Tier 2 for-profit disclosure requirements is that CA ANZ is a trans-Tasman organisation.
<p>Original reasons for harmonised Tier 2 disclosures still stand</p>	<ul style="list-style-type: none"> • CPA Australia noted that the original reasons for the strategy of harmonising Tier 2 for-profit disclosures with Australia still stand.
<p>IASB’s project on reduced disclosures is several years away from completion</p>	<ul style="list-style-type: none"> • KPMG expressed awareness of the IASB’s project on <i>SMEs that are Subsidiaries</i>, but noted that this project may take the IASB several years to complete, and preferred to maintain harmonisation with Australia in the meantime. KPMG also recommended that the XRB should monitor and seek involvement in the AASB’s Tier 2 reform projects, to ensure that it is able to amend the New Zealand Tier 2 disclosures in a timely manner.

Theme	Details
<p>Caveat: Proposal to delay the Australian Tier 2 reforms by two years</p>	<ul style="list-style-type: none"> • CPA Australia noted its intention to make a joint submission with CA ANZ to the AASB, proposing to delay the application of the proposed new Tier 2 disclosure requirements in Australia for two years. CPA Australia explained that “this delay will allow the AASB and the XRB to obtain a better understanding of the impact of the AASB’s. proposed changes on for-profit entities that undertake Trans-Tasman economic activities.” • CPA Australia recommended the following: “During this time, we suggest the XRB should work with the AASB to establish specific details around the number of entities that are likely to be affected by, and the extent of the impact arising from, the AASB’s proposed change.” • However, while CA ANZ express the view that a short-term divergence from Australian Tier 2 disclosure requirements would be acceptable, CPA Australia did not express such a view.
<p>Caveat: Some divergence in disclosures is acceptable, as long as this does not impede users’ understanding of recognition and measurement policies applied</p>	<p>R15 noted that, while it is important to keep disclosures aligned between Australia and New Zealand, some mis-alignment in disclosure can be tolerated, as long as “the disclosure departures do not impede the ability to understand that recognition and measurement applied, and therefore companies remain comparable to investors”. R15 also noted the following</p> <ul style="list-style-type: none"> • “It is important that the users of financial statements are protected. If the proposed harmonisation is detrimental to the user’s understanding of the financial reporting, then it may be necessary to depart from the harmonization.” • “While harmonisation is important from a trading and investment point, NZ should have the flexibility to depart from some concepts that it believed would not be beneficial to users.”
<p>Caveat: Manner of showing RDR concessions in the standards need not be consistent with Australia</p>	<ul style="list-style-type: none"> • Grant Thornton’s preference was to continue identifying Tier 2 disclosure concessions by way of an asterisk within the relevant standards, rather than publishing all RDR guidance as a separate standard, as proposed by the AASB.
<p>Harmonisation with Australia for Tier 2 for-profit disclosures is important, but short-term divergence from Australia’s RDR reforms may be acceptable, given the IASB’s work may result in an international solution</p>	
<p>Harmonisation with Australia for Tier 2 for-profit disclosures is generally important</p>	<ul style="list-style-type: none"> • CA ANZ and R7 considered harmonisation with Australia for Tier 2 for profit disclosures to be important. • Like CPA Australia, CA ANZ expressed the view that the original reasons for the strategy of harmonisation with Australia for Tier 2 for-profit disclosures still stand. CA ANZ noted that this strategy “was designed to increase the ease with which both businesses and people can operate across the Tasman for this group of entities. This is in keeping with the Single Economic Market (SEM) agenda (which builds on the foundation of the Closer Economic Relations (CER) agreement) to create a seamless trans-Tasman business environment.” • R7 noted that there is “a number of New Zealand entities that have either a parent in Australia, or invest into Australia”. In R7’s view, continued harmonisation with Australia for Tier 2 for-profit disclosures “ensures a smooth process for these entities in terms of gathering information for disclosures. It should also make the process more efficient and cost effective.”

Theme	Details
<p>But: short-term divergence from Australia’s RDR reforms may be acceptable, given the IASB’s work on an international reduced disclosure regime</p>	<ul style="list-style-type: none"> • Despite the above, CA ANZ did not think that the XRB should “immediately respond to the pending changes to the Tier 2 regime in Australia”, stating that “Our aim is to avoid existing Tier 2 entities in either country needing to make multiple structural changes to their disclosure framework.” • CA ANZ noted that the AASB “expects that its work will inform the IASB project and that only in the longer term will its outcomes replace the AASB’s current Tier 2 proposals in the interests of international harmonisation. Therefore, we do not consider that the benefits of following the AASB in the interim then adopting the IASB solution will exceed that of waiting for the IASB solution for existing Tier 2 entities”. • Also, as noted above, CA ANZ and CPA Australia made a joint submission to the AASB to propose delaying the changes in the Australian Tier 2 regime by two years. • Similarly, R7 noted that short-term divergence from Australia would be preferable if the new Tier 2 regime in Australia results in significant changes. R7 believed that in this situation, making significant changes to the Tier 2 regime in New Zealand to harmonise with Australia and then making another change based on the IASB’s work would result in “little benefit but possibly significant cost to Tier 2 entities”. <p>Therefore, R7 recommended retaining the current strategy of harmonisation with Australia for Tier 2 for-profit disclosures, but to reconsider this strategy if the Australian Tier 2 reforms result in significant changes.</p>
<p>Harmonisation with Australia for Tier 2 for-profit disclosures is <u>not</u> very important</p>	
<p>General: Harmonisation with Australia for Tier 2 for-profit disclosures is not very important</p>	<ul style="list-style-type: none"> • BDO did not consider it “vitaly important to retain harmonisation with Australia for Tier 2 for-profit entity disclosure requirements”. BDO noted that “there is very little overlap between Tier 2 entities in New Zealand and Australia in relation to group reporting requirements” and that “if there are Trans-Tasman reporting requirements, entities tend to issue group reporting packages which detail the required disclosures for the parent entity, which often exceed what is required by Tier 2 entities.” • Similarly, PwC did not consider harmonisation with Australia for Tier 2 for-profit disclosures to be essential, but noted the importance of harmonisation for for-profit measurement and recognition requirements.
<p>Australian reforms and the IASB project: Better to wait for the IASB’s international reduced disclosure regime, than to change the New Zealand Tier 2 for-profit disclosure requirements twice</p>	<ul style="list-style-type: none"> • BDO noted that it would be “very hesitant in requiring entities to harmonise with the (to be) updated Australian requirements in a few years and then requiring them to change again in a few years after that to comply with the (future) IASB requirements (if these are considered suitable).” • PwC considered it would be beneficial to await the outcome of the IASB’s project on <i>Subsidiaries that are SMEs</i>, and “decide at that time whether it is more beneficial to align with the Australian requirements or the IASB requirements”. • PwC noted: “In the meantime, we consider that there is unlikely to be any significant disadvantages arising if Tier 2 for-profit disclosure requirements in New Zealand are not aligned with those in Australia. This will also avoid the undesirable possible outcome of making changes to the current Tier 2 requirements to align with changes made by Australia and then a subsequent change to align with IASB SME requirements when issued”.

46. While the majority of the respondents were of the view that continued harmonisation with Australia for Tier 2 for-profit disclosures is important, we note the following.
- (a) Among the respondents that are preparers, only one respondent (R15) identified as a for-profit preparer within a group that contains Australian entities. While that respondent was of the view that harmonisation with Australia is important, the respondent also noted that some divergence in disclosure requirements can be acceptable.
 - (b) Among the accounting firms and professional accounting bodies (whose clients/constituents include Tier 2 for-profit entities) there were mixed views as to the importance of harmonisation with Australia for Tier 2 for-profit disclosures and as to whether the XRB should wait for the IASB to finalise its project in this area.
 - (c) Many of the respondents who considered continued alignment with Australia to be important did not specifically refer to the upcoming changes in the Australian Tier 2 regime or to the IASB's work on a reduced disclosure requirements regime, and therefore might not have considered these developments.

Staff comments and recommendations on next steps

47. Staff recommend no change to the ASF and no further consideration by the joint subcommittee at this time in response to feedback received on SMC 2.
48. Instead, we recommend that the feedback in response to SMC 2 be [considered by the NZASB and XRB](#) to help support future discussions on:
- (a) whether and how to respond to developments in Australia and internationally impacting the development of Tier 2 for-profit disclosure requirements; and
 - (b) the approach for developing Tier 2 For-profit Accounting Requirements (based on NZ IFRS RDR).
49. Once there is more certainty concerning RDR related developments in Australia, we recommend that staff assess the extent of the differences between the current New Zealand Tier 2 disclosure requirements and the proposed new Australian Tier 2 disclosure requirements.
50. Staff will then assess the approach for the future development of RDR for for-profit entities in New Zealand. The options could include retaining the status quo, using the new Australian Tier 2 disclosure requirements, or an approach based on requirements established by the IASB. Analysis and recommendations will be brought to the NZASB and XRB for consideration (this will include a discussion on the impact of these options on the current ASF strategy of trans-Tasman harmonisation).
51. There is some urgency in considering this matter, given the AASB's Tier 2 reforms project is moving at pace, with the proposed effective date being 2020.

SMC 3: Do the PBE tier size criteria need to be revisited?*DP questions*

52. This section analyses feedback received from submissions on the following DP questions in relation to SMC 3.

- (a) *Are you aware of any unintended consequences of the application of the PBE tier size criteria, or any recent developments in the reporting environment, which would suggest that the PBE tier size criteria need to be revisited?*
- (b) *If you believe the PBE tier size criteria should be revisited, which of the four PBE tier size threshold do you think should be changed (noting the XRB limitations in amending PBE Tier 4, which is determined by the Government)?*
- (c) *Do you have any other comments on the tier size criteria for PBEs?*

High-level summary

53. Seventeen (17) out of 19 respondents commented on questions in relation to SMC 3.

54. In summary:

- (a) The majority of respondents did not identify specific unintended consequences or new developments that would require refinements to the PBE tier size thresholds.
- (b) Three respondents thought that the PBE tier size criteria (specifically, the \$2 million expenses threshold between Tier 3 and Tier 2) should be changed.
- (c) A further three respondents did not recommend changing the current expenditure-based PBE tier size threshold, but recommended adding an asset-based threshold.
- (d) Some of the respondents that did not recommend specific changes to the PBE tier size criteria and were not aware of unintended consequences arising from the existing tier thresholds nevertheless provided some comment and recommendations regarding the PBE tier size criteria.

55. Table 9 below provides a broad categorisation of the responses received.

Table 9 — Broad categorisation of responses to SMC 3

Type of view	Respondents
Recommended increasing the \$2 million threshold between Tier 3 and Tier 2	Three (3) respondents: KPMG, R13 and R19
Did not recommend changes to the current expenditure-based PBE tier size criteria, but recommended adding an asset-based threshold	Three (3) respondents: CA ANZ, R7 and Grant Thornton
Did not recommend specific changes to the current expenditure-based PBE tier size criteria, but made other comments and recommendations in this area (other than/in addition to comments on an asset-based threshold)	Nine (9) respondents: Charities Services, CPA Australia, R7, Grant Thornton, OAG, PwC, R14, R15, R17
Did not recommend specific changes to the PBE tier size criteria, and did not make additional recommendation in this area	One (1) respondent: R18
No view expressed	Two (2) respondents: Treasury and R16 (R16 noted insufficient familiarity with this matter to express a view, but expressed general support for more disclosure and reporting, rather than less)

Detailed analysis

56. The detailed analysis of responses to questions under SMC 3 is provided in this section of the memo as follows:
- (a) responses indicating that there is no need to change in the current PBE tier size criteria;
 - (b) responses recommending an increase in the \$2 million threshold between Tier 3 and Tier 2;
 - (c) responses proposing an adding an asset-based threshold to the PBE tier size criteria; and
 - (d) other matters raised with respect to SMC 3.

Comments indicating that there is no need to change in the current PBE tier size criteria

57. Respondents who indicated that the current PBE tier size criteria need not be changed provided the following reasons.
- (a) Auckland Council, BDO, Carolyn Cordery, PwC, R14, R17 and R18 noted that they are not aware of reasons that would require changing the existing PBE tier size thresholds.
 - (b) Carolyn Cordery noted that “anecdotal evidence suggests that a number of charities choose to use higher tiers of reporting than they are required to”.
 - (c) Charities Services and CPA Australia noted that changing the \$2million expenses threshold between Tier 2 and Tier 3 would not have a significant impact on the distribution of charities among the tiers.

- (d) Grant Thornton and R7 noted that changes in the CPI/inflation since the ASF was introduced have not been significant enough to warrant a change in the PBE tier size criteria.
 - (e) R7 noted that the existing thresholds of “\$30m expenses for Tier 1 and \$2m for Tier 2 captures an appropriate level of entities”.
 - (f) R14 noted that the “majority of entities are compliant” with the requirements of their respective tiers and the tier criteria “allow comparison”.
58. Furthermore, Carolyn Cordery and Charities Services both commented on the continued suitability of using expenditure-based tier size criteria. Carolyn Cordery referred to research that supports the superiority of expenditure-based thresholds over revenue-based ones. Charities Services rejected the idea of an additional asset-based tier size criteria, as the benefits of doing so are unlikely to outweigh the cost (asset-based thresholds are discussed further below).

Staff comments and recommendation

59. Given the nature of the comments above, staff’s recommendation is that **no further action is required at this time.**

Responses recommending an increase in the \$2 million threshold between Tier 3 and Tier 2

60. Three respondents (KPMG, R13 and R19) thought the \$2 million threshold should be increased. KPMG said it was aware, based on informal feedback, that “many PBE entities believe that the \$2 million annual expenses threshold from Tier 3 to Tier 2 is too low”. Similarly, R19 considered that “too many organisations are having to prepare Tier 2 [financial statements] due to the operating expenditure of their group being \$2m.”
61. These respondents expressed concern about the compliance costs of Tier 2 reporting relative to the resources of some of the entities in that tier and/or the benefits resulting from Tier 2 reporting:
- (a) KPMG said: “The current threshold captures a significant number of charitable entities which exist for a specific cause and do not necessarily have the capacity or resources to comply with Tier 2 reporting requirements. Such entities become encumbered with a regulatory reporting burden and their resources are diverted in order to achieve compliance. Furthermore, we believe Tier 3 reporting requirements are likely to satisfy the information needs of users of these financial statements.”
 - (b) R13 recommended increasing the \$2 million threshold to \$5 million, “to acknowledge some smaller charities that might be struggling with compliance cost in the Tier 2 category”.
 - (c) R19 said: “\$2m operating expenses is not of a significant size in today's terms and the complexity and compliance costs of meeting these standards far outweigh the benefits to readers”.

62. In addition, R19 noted the following: “We have a number of Māori organisations that are required to prepare financial statements in accordance with generally accepted accounting practices (due to legislation) and have to report under Tier 2 for the group and Tier 3 for all of the individual entities. It is unnecessarily complicated and confuses the readers with terminology, disclosures and measurements.”
63. Consequently, the respondents recommended increasing the \$2 million threshold. KPMG recommended a significant increase – for example, to \$10 million. R13 recommended increasing the threshold to \$5 million, and R19 to \$4 million.

Staff comments and recommendations

64. In relation to the comments above, staff’s recommendation is **no further action is required at this time**. That is, we recommend no change to the ASF and suggest no further consideration by the joint subcommittee.
65. Specifically, we recommend no change to the PBE tier size thresholds based on the comments above. Our reasoning is as follows.
- (a) As a general point, we note that as mentioned in the DP, only about 4% of registered charities currently fall into Tier 2 based on expenditure. This proportion has remained stable since the ASF was first introduced.
- (b) R19 notes that expenses of \$2 million does not constitute a significant size in today’s terms. This comment could suggest that due to inflation, growth in the charities sector or other factors, the \$2 million threshold between Tier 3 and Tier 2 is no longer appropriate. However, as mentioned in the DP, the spread of registered charities across the PBE tiers has not changed significantly since the ASF was introduced. This is consistent with Charities Services’ comment that “there has been a slight upward drift in terms of the number of entities reporting at Tier 3 and Tier 2 from 3% to 4%”. Therefore, it does not seem that inflation or other factors have pushed many charities from Tier 3 to Tier 2 since the ASF was first introduced. From this perspective, assuming \$2 million was an appropriate threshold when the ASF was first introduced, it would seem that this threshold is still appropriate in today’s terms.
- (c) We also note that, based on our “sensitivity analysis” in the DP (showing how a change in the \$2 million threshold would affect the percentage of registered charities in each tier), the quantum of increase in the \$2 million threshold recommended by the respondents seems unlikely to significantly increase the percentage of charities that would qualify for Tier 3 instead of Tier 2. KPMG, R13 and R19 recommended increasing the threshold to \$10 million, \$5 million and \$4 million respectively. However, based on our analysis in the DP:
- increasing the threshold to \$5 million would increase the percentage of charities eligible for Tier 3 from about 24% to about 26% – and decrease the percentage of charities in Tier 2 from about 4% to about 2%; and

- increasing the threshold to \$10 million would increase the percentage of charities in Tier 3 from about 24% to about 27% – and decrease the percentage of charities in Tier 2 from about 4% to about 1%.

This is consistent with Charities Services' submission, which noted: "Based on our data, moving the threshold would not have a significant impact on the number of entities which are eligible for Tier 3. For example, based on 2018 annual returns, moving the expenditure threshold from \$2m to \$10m would increase the percentage of entities which qualify for Tier 3 by approximately 3%."

66. It could be argued that when analysing the impact of a change in the \$2 million threshold, we should be looking at changes in the absolute number of charities in Tiers 2 and 3, rather than changes in the percentages of charities in these tiers. For example, based on our analysis in the DP, increasing the \$2 million threshold to \$10 million (as recommended by KPMG) would decrease the number of charities in Tier 2 from 946 to 160, allowing 786 charities to move down to Tier 3. While this is a relatively small number compared to a total of about 24,000 registered charities, it could be argued that in absolute terms, this is a significant reduction in the number of charities that need to report under Tier 2. However, we note that the current PBE tier size criteria were established based on the percentage of charities in each tier – that is, it was based on a distribution of charities among the tiers that was considered appropriate, rather than being based on a target number of charities within each tier. Therefore, it seems more appropriate to analyse the effect of moving the \$2 million threshold in terms of changes in the percentage of charities within each tier.
67. Regarding R19's comment about the unnecessary complexity and confusion arising from having to prepare group financial statements under Tier 2 and individual entities' financial statements under Tier 3: We think this challenge seems to stem from statutory reporting requirements, rather than from the ASF's tier criteria. That is, it seems that the organisation mentioned by R19 prepares financial statements for individual entities (under Tier 3) in addition to consolidated group accounts (under Tier 2) due to a legislative requirement for these individual entities to prepare GAAP-compliant financial statements. However, the accounting standards themselves do not require the preparation of individual financial statements for entities within a group. We note that in certain circumstances, under the Charities Act 2005 group of charities can prepare only consolidated group financial statements, without also preparing individual ones. However, this may not be the case for other legislation applicable to certain PBEs. We do not know the extent of the impact of such legislation, and do not have the remit to change such legislation. However, we could possibly mention this matter to the Ministry of Business, Innovation and Employment (MBIE).

Responses proposing to consider adding an asset-based threshold to the PBE tier size criteria

68. Three respondents (CA ANZ, R7 and Grant Thornton) suggested considering the addition of an asset-based threshold to the PBE tier size criteria.

69. R7 noted that the current expenditure-based PBE tier size criteria enable some entities with large asset holdings to report in the lower tiers of the ASF. R7 was of the view that “there is a responsibility for entities that have control over large asset positions to report on their management of these assets” – therefore an asset-based threshold should be considered.
70. R7 did not think that adding an asset-based threshold would increase complexity. Furthermore, R7 suggested that introducing such a threshold need not necessarily impact Tier 4 entities (whose tier size threshold is based on legislation), “but could ensure any entity that has expenses over \$125,000 (i.e. Tier 3 and over) would be required to prepare Tier 2 financial statements if assets were over a certain threshold.” R7 recommended that the asset-based threshold be aligned with the statutory reporting requirement for companies – “\$60m assets if held locally”.
71. Grant Thornton recommended adding an asset-based threshold to the PBE tier size criteria, noting that their research on Tier 4 indicated that “the “top 100 entities” in this category control more than \$810m of assets which is not what one would expect when a “small” expenditure threshold is the only basis for assessment”.
72. CA ANZ suggested adding an asset-based size threshold “to avoid additional complexity in the financial reporting framework that may arise if potential asset-based changes to relevant legislative thresholds proceed”. CA ANZ noted that such asset-based thresholds could potentially be added to the Charities Act 2005 and discussed the following potential legislative thresholds.
- (a) The Government’s recent review of the Charities Act 2005 included consideration of a new “micro-entity” tier for charities with operating payments below \$10,000, whereby such charities would be exempt from preparing general purpose financial reports. CA ANZ noted that some submitters “raised the possibility of a dual-test that includes an asset-based measure. This is because there are a few entities that have very low levels of operating payments but own assets of significant value, and there is a view that using cash accounting does not provide adequate information to users on the stewardship around such assets”. (Note: while mentioned in a different context, this rationale seems consistent with the point raised by R7 and Grant Thornton in the paragraph above).
 - (b) In the forthcoming Incorporated Societies Bill, one of the criteria for determining whether an incorporated society must prepare general purpose financial reports is expected to be an asset-based threshold.
73. CA ANZ thought it was important to ensure conceptual alignment between legislation and the PBE tier size criteria in the ASF. CA ANZ noted that “If an asset-based threshold is introduced to determine which charities and/or incorporated societies need to prepare GPFR, then we recommend that, in the interests of consistency and simplicity, the same approach be taken for the PBE tier criteria in the ASF.”
74. Charities Services indicated that it was aware of some concerns about charities with large assets being able to report under Tier 4. However, Charities Services did not recommend introducing an asset-based threshold into the PBE tier size criteria for the following reasons.

- (a) “The rationale presented in the discussion paper that supports this view [no asset-based threshold] is persuasive. In particular, we agree that due to the nature of the assets held by these entities (generally endowment funds and heritage assets), introduction of an asset-based threshold would not present a useful benchmark for the size of an entity’s operations.”
- (b) “We also do not consider that the benefits of additional transparency by these entities reporting under a higher Tier outweighs the costs to the charitable sector of the additional complexity and compliance burden it would introduce. An asset-based threshold could force small entities with significant but passive assets into preparing Tier 2 financial statements in situations that would be overly burdensome.”
- (c) “Beyond the complexity of measuring against two thresholds, one of the most common challenges faced by registered charities is determining the value of heritage assets or specialised assets such as church buildings. Having an asset threshold would either require them to estimate the value, use rateable value which may not be appropriate, or obtain an independent valuation which is often costly.”

Staff recommendations for next steps

- 75. Based on the feedback above, we recommend the following matter for **further consideration by the joint subcommittee**: whether an asset-based tier threshold(s) should be added to the ASF.
- 76. We think further consideration of this matter is required in order to:
 - (a) evaluate the arguments given by some respondents for introducing an asset-based threshold, and the counter-arguments presented by Charities Services and noted in the DP;
 - (b) form a view as to how an asset-based threshold should be given effect. Options include adding an asset-based threshold to Tier 4 or adding an asset-based threshold to Tiers 1–3 (as suggested by one respondent). Any changes to Tier 4 criteria would require changes to legislation;
 - (c) determine the appropriate size of the asset-based threshold, if any; and
 - (d) determine whether only one asset-based threshold should be added, or whether each tier should have a dual threshold of expenditure and assets.
- 77. We recommend staff undertake research to understand the extent in which charities with large asset holdings are currently reporting under Tiers 3 and 4 PBE Simple Format Reporting Requirements – this could include ascertaining the approximate number and types of such charities.
- 78. This research will help inform the joint subcommittee’s views as to whether an asset-based threshold(s) should be added to the PBE tier size criteria, and if so, to which tiers.

Other matters raised with respect to SMC 3

Table 10 — Analysis of other matters raised with respect to SMC 3

Comments (by theme)	Staff recommendation
<p>Importance of reviewing the PBE tier size criteria considering inflation and other factors</p> <ul style="list-style-type: none"> • Charities Services noted: “If it is assumed that the tier distribution as it stands is appropriate, then it would be reasonable to introduce adjustments considered on a regular basis to reflect the growth of the sector over time.” While not recommending a change in the current thresholds, Charities Services noted that since the ASF was introduced, there has been “a slight upward drift” in the number of entities reporting at Tier 2 “from 3% to 4%.” • R15 noted the following: <ul style="list-style-type: none"> ○ “Tier sizes should always be regularly reviewed considering growing inflation and changes in the regulatory and operating environment. This would mean that entities that were previously in one tier automatically grow into the next tier from an accounting perspective.” ○ “The application of new accounting standards, depending on the requirements might inadvertently see entities jumping tiers as well, placing additional scrutiny and compliance costs without any change to the scale of the operations.” ○ The \$2million threshold between Tier 2 and Tier 3 may need to be periodically reviewed and potentially increased to reflect the effects of “inflation and consequences of applying new accounting standards”. • R17 noted: “movements in expenditure quantum[sic] need to be regularly revisited. This will assess the stats to reflect the intentions of the reporting regimes accurately over time.” • OAG noted: “We agree that size criteria in the ASF should be reviewed at regular intervals. In our view, any change to the size criteria in the ASF needs to be carried out in conjunction with the statutory review of size criteria for reporting and assurance requirements.” <p>Please also refer to the comments below on the importance of keeping the PBE tier size criteria consistent with legislative reporting thresholds.</p>	<p>Further consideration by the NZASB</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • We recommend no change to the ASF and no further consideration by the joint subcommittee at this time. • Staff will continue to monitor legislative developments regarding size thresholds (in particular noting any inflation adjustments) and will consider whether amendments to the PBE tier size thresholds in the ASF and XRB A1 should be proposed. • Although we recommend no change to the ASF at this time, it may be appropriate to consider whether to explain in XRB A1 that the PBE tier size thresholds would be reviewed not just for inflation but also for legislative changes, growth in the relevant sectors and other factors— this could be considered further by the NZASB and done through amendments to XRB A1 (with ultimate approval from the XRB Board). <p>Basis for recommendations:</p> <ul style="list-style-type: none"> • We are not aware of significant increases in inflation. We also note, as shown in the DP, that the distribution of charities among the four PBE tiers has not changed significantly. This suggests that neither inflation nor other factors have been pushing a significant number of charities to higher tiers since the ASF was first introduced. • However, we acknowledge that inflation, sector growth, changes in legislation and other factors mentioned by respondents could push charities (and other PBEs) into higher tiers – and if a significant number of charities is pushed to higher tiers, it is important to check that the PBE tier size criteria remain appropriate. • The Basis for Conclusions on XRB A1, paragraph BC33, already states: “The Board will keep under review all size-based tier criteria and adjust the size thresholds for inflation periodically.” • However, the other factors noted by respondents (e.g. legislative change) do not seem to be mentioned in that standard.

Comments (by theme)	Staff recommendation
<p>It is important that the PBE tier size criteria are consistent with legislative criteria</p>	<p>No further action at this time</p>
<ul style="list-style-type: none"> • R7 noted: “if the Government intends to adjust the legislative requirements then the XRB should consider alignment with those thresholds.” • The OAG noted: “In our view, any change to the size criteria in the ASF needs to be carried out in conjunction with the statutory review of size criteria for reporting and assurance requirements. We consider it important to ensure that the tier structure is consistent across both for-profit entities and PBEs to avoid complexity and potential reporting arbitrage. <p>The current tier structure in the ASF together with legislative size criteria for financial statement preparation and assurance presents a complex picture. We encourage the XRB not to make any modifications to the ASF tier structure without considering the legislative framework for reporting and assurance.</p> <p>We note that the Financial Reporting Act 2013 allows for the size criteria to be reviewed in 2022. We encourage the XRB to work with policy makers at the Ministry of Business, Innovation and Employment (MBIE) to promote a sensible and simpler legislative framework that takes into account any size criteria arising from the Charities Act review and requirements for reporting by incorporated societies.”</p>	<p>We recommend:</p> <ul style="list-style-type: none"> • no change to the ASF and no further consideration by the joint subcommittee at this time; and • staff to continuing monitoring changes to statutory reporting thresholds and assessing the impact of such changes on the PBE tier size criteria. <p>Basis for recommendations:</p> <ul style="list-style-type: none"> • As noted in the XRB’s Strategic Plan, maintaining an ASF that is “consistent with NZ’s legislative frameworks” and “responsive to legislative changes” is one of the ways in which the XRB ensures that accounting standards are fit for purpose. • Specifically, we recommend monitoring any changes to statutory thresholds that may arise from the review of the Charities Act 2005 and the review of the thresholds in the Financial Reporting Act 2013 – as well as the forthcoming incorporated societies legislation. • If the Government increases the \$125,000 Tier 4 threshold, the description of Tier 4 of the ASF in XRB A1 would need to be updated to reflect this. • Also, if as part of the review of the statutory reporting thresholds in the Financial Reporting Act 2013, the Government decides to change the threshold of \$30 million revenue (which applies to certain for-profit entities such as companies), it may be beneficial to consider a corresponding adjustment to the Tier 1 PBE threshold in the ASF (currently \$30 million expenses).

Comments (by theme)	Staff recommendation
<p>The tier criteria may need to be reconsidered in the future in light of proposed changes to incorporated societies legislation</p> <ul style="list-style-type: none"> PwC noted: “Given the proposals for Incorporated Societies to apply accounting standards issued by the XRB and the difficulties Registered Charities appeared to experience in adopting PBE Standards, it may be necessary to consider whether the size criteria give rise to an appropriate outcome for Incorporated Societies.” Grant Thornton also referred to the upcoming new legislation for incorporated societies when discussing new developments that may require changes to the ASF in general (see the General Feedback at the start of this paper). Grant Thornton preferred to delay any changes to the ASF “until this legislation has been passed because there are many entities that potentially will be affected”. In Grant Thornton’s view, “it would be good to see the consequences of these legislative changes reflected in the updated ASF”. 	<p>Further consideration by the NZASB</p> <p>We recommend:</p> <ul style="list-style-type: none"> no change to the ASF and no further consideration by the joint subcommittee at this time; and. staff to consider the impact of the incorporated societies legislation on the PBE tier size criteria once the legislation is closer to being enacted. <p>Please refer to the discussion on the legislative reforms for incorporated societies under the section “General comments on the ASF”.</p>
<p>Proposal to consider “public interest” in addition to expenses when determining whether an entity is in Tier 2 or Tier 3</p> <ul style="list-style-type: none"> R15 noted: “The tier sizes should have due consideration to the users of the financial statements and the nature of the organisation. The key is who are the users and what are they using the financial statement for. If the users are largely members of the public and widespread, then you may require more defined accounting principles. If the users are a few members contributing to a cause, there may not be significant public scrutiny”. On this basis, the respondent considered that perhaps the threshold between Tier 2 and Tier 3 should be determined not just by reference to a dollar amount, but also by reference to “public interest in the organisation”. 	<p>No further action at this time</p> <p>We recommend no change to the ASF and no further consideration by the joint subcommittee.</p> <p>Basis for recommendation:</p> <ul style="list-style-type: none"> We consider that public accountability and the tier size criteria sufficiently cover the matter of public interest in an entity and the nature and needs of the entity’s users, as recommended by R15. By requiring publicly accountable PBEs to report in Tier 1, the ASF takes into account the fact that such PBEs are likely to have many users, and/or users that are otherwise unrelated to each other and to the entity. Furthermore, as was explained in the original ASF document (issued in 2012), an entity’s size is a useful cost-benefit proxy “because the smaller the entity the smaller the likely number of users, and therefore the fewer the benefits that are likely to accrue from general purpose financial reporting.” While public accountability and size may not always perfectly correlate to the level of public interest in an entity, we believe that in general they are sufficient proxies.

Comments (by theme)	Staff recommendation
<p>More education and support for small entities would be helpful</p> <ul style="list-style-type: none"> R14 noted: “more education and support for small entities would be helpful in increasing the compliance levels. Those organisations having compliance issues generally have wider systemic issues within their organisations - this could be an indication for Charities Services that assistance is needed by those organisations on a wider basis than just reporting compliance.” 	<p>No further action at this time</p> <ul style="list-style-type: none"> We recommend no change to the ASF and no further consideration by the joint subcommittee. <p>Basis for recommendation:</p> <ul style="list-style-type: none"> This comment does not recommend any changes to the ASF. However, we can pass this comment on to Charities Services. It should be noted that Charities Services already provides a lot of guidance for charities on its website. In addition, staff will reflect on this comment as part of the Tier 3 and Tier 4 PIR.
<p>Proposal to streamline the tiers</p> <ul style="list-style-type: none"> Grant Thornton noted: “Consideration should be given to further streamlining and perhaps reducing the current tiers as it adds more complexity in the financial reporting environment.” 	<p>No further action at this time</p> <ul style="list-style-type: none"> We recommend no change to ASF and no further consideration by the joint subcommittee. <p>Basis for recommendation:</p> <ul style="list-style-type: none"> We do not consider that there have been significant changes in the reporting environment since the ASF was introduced to require a decrease in the number of tiers. We also consider that decreasing the number of tiers could worsen the ASF’s ability to balance the costs and benefits of reporting in a way that accommodates the significant size variability that exists among PBEs that must prepare GPFR. We note no other concerns were raised regarding the number of tiers through both formal and informal comments received during outreach activities on the ASF.

Comments (by theme)	Staff recommendation
<p>Comments relating specifically to the Tier 3 and Tier 4 standards</p> <ul style="list-style-type: none"> • CPA Australia suggested that “the Tier 3 and 4 Standards and associated guidance could be simplified to reflect the level of transparency and accountability required from these segments of the charities sector”. • Grant Thornton noted that in their experience, some Tier 3 and Tier 4 entities “include non-financial information in their performance reports that is frequently of little use or relevance to users” and tend to provide “minimalist” disclosures on service performance. Grant Thornton recommended that the XRB conduct research on why this situation exists. • R14 noted that some entities that are eligible for Tier 4 opt up to Tier 3 because of the ability to depreciate fixed assets and noted that if depreciation was allowed in Tier 4, “this might simplify things for many small entities.” 	<p>Further consideration by the NZASB</p> <ul style="list-style-type: none"> • We recommend no change to ASF and no further consideration by the joint subcommittee. • These comments relate specifically to Tier 3 and Tier 4 standards, rather than the ASF itself. • However, this feedback will be considered as part of the Tier 3 and Tier 4 PIR.

Other comments raised in submissions

79. The comments in Table 11 were raised under one of the three SMCs. However, in staff’s view, these comments do not directly relate to the SMCs under which they were raised and do not necessarily relate to the ASF itself (except the comment on PBE Standards RDR). The comments and staff recommendations are set out in the table.

Table 11 — Other comments for noting

Comment	Staff recommendation
<p>Lack of accounting guidance for trusts</p> <ul style="list-style-type: none"> Grant Thornton noted the following under SMC 1: “There is currently no guidance on trusts, yet we understand there are more than 300,000 trusts currently operating in New Zealand. Failing to bring clarity as to whether settlement of a trust is a capital or revenue transaction should be addressed and considered for inclusion in the ASF because the diversity of accounting treatment that currently exists, in our opinion, does not reflect well on the accounting profession in New Zealand.” 	<p>Possible future consideration by the NZASB</p> <ul style="list-style-type: none"> We recommend no change to ASF and no further consideration by the joint subcommittee at this time. This <u>may</u> be a matter that could be added to the NZASB Work Plan for future consideration (first stage being additional research as to whether additional guidance is needed). <p>Basis for recommendations:</p> <ul style="list-style-type: none"> This comment relates to requirements on a specific topic (accounting by trusts), therefore no change to the ASF itself is needed). Before the XRB was established, the Financial Reporting Standards Board (FRSB) had a project on accounting for trusts. In 2003, the FRSB issued <i>Exposure Draft Guidance Notes for the Application of Generally Accepted Accounting Practice by Trusts</i>. A total of 115 submissions were received, with divergent views. The diversity of views indicated a need for further research and policy development in some areas of financial reporting by trusts. Consequently, in 2006 the exposure draft was withdrawn. <p>In its communique in 2006, the FRSB noted that while it was aware of divergent practice in respect of trust accounting for distributions to beneficiaries, it did not consider that amendments to accounting standards were required.</p> <ul style="list-style-type: none"> We also note that only specific types of trusts are currently required to prepare GPFR. The Trusts Act 2019 does not require the preparation of GPFR – however, such a requirement exists for community trusts and for trusts that are registered charities. While Grant Thornton mentions that 300,000 trusts currently operate in New Zealand, we are not sure how many of these trusts are required, or choose to, prepare GPFR. Therefore, we are not sure of the extent of the need to add trust-specific guidance into accounting standards.

Comment	Staff recommendation
<p>Lack of requirements on cryptocurrency</p> <ul style="list-style-type: none"> Grant Thornton noted the following under SMC 2: “The ASF does not currently recognise the presence of digital currencies (i.e. cryptocurrencies). We would like to see some direction of this being included in the ASF as well as in any specific standards that are subsequently issued on this phenomenon.” We note that another respondent, R17, also mentioned cryptocurrency (albeit in the context of being an area where the XRB could develop a standard ahead of the IPSASB). 	<p>Possible future consideration by the NZASB</p> <ul style="list-style-type: none"> We recommend no change to ASF and no further consideration by the joint subcommittee at this time. This matter <u>may</u> in the future be added to the NZASB Work Plan, based on annual discussions concerning strategic priorities. <p>Basis for recommendations:</p> <ul style="list-style-type: none"> This comment relates to accounting requirements on a specific topic, therefore no change to the ASF itself is needed. The International Financial Reporting Standards Interpretation Committee (IFRS IC) published an agenda decision in June 2019 on holding cryptocurrency. However, the IASB does not have a current standard-setting project on cryptocurrency. While we do not know the extent of cryptocurrency usage in New Zealand, we are aware that cryptocurrency continues to be a topical issue. We note that the AASB published a paper on cryptocurrency in 2016: <i>Digital currency – A case for standard setting activity</i>. If it is decided that domestic guidance on cryptocurrency would be beneficial, this could potentially be developed in conjunction with the AASB.
<p>Proposal to develop a specific framework for Tier 2 PBE RDR concessions</p> <ul style="list-style-type: none"> The OAG noted the following under SMC 2: “PBE Tier 2 requirements should not be driven by New Zealand-Australian harmonisation in the for-profit sector. We note that there is no separate framework for determining reduced disclosure requirements for Tier 2 PBEs. We consider it desirable to have a separate framework for Tier 2 PBEs that is de-coupled from the for-profit sector, focused on what are appropriate reduced disclosures for users of PBE financial statements. It is also important that RDR disclosures are aligned across public sector entities and not for-profit entities for consistency and simplicity.” 	<p>Future consideration by the NZASB</p> <ul style="list-style-type: none"> We recommend no change to ASF and no further consideration by the joint subcommittee at this time. This matter continues to be monitored by staff. <p>The NZASB’s PBE RDR project was put on hold pending the finalisation of the joint NZASB and AASB project on the RDR framework for for-profit entities (which was in turn put on hold pending the finalisation of the Tier 2 reforms in Australia).</p>

Questions for the Board

1. Does the Board have any feedback on the staff recommendations for next steps for each key matter identified from submissions received (i.e. no further action at this time; further consideration by joint subcommittee; or future consideration by NZASB and/or XRB Board)?
2. For issues identified for further consideration by joint subcommittee, does the Board have any feedback on the staff recommendations for next steps?
3. Does the Board have any other feedback of the detailed analysis of the submissions received?



NZ ACCOUNTING
STANDARDS
BOARD

Memorandum

Date: 31 January 2020

To: NZASB Members

From: Lisa Kelsey and Joanne Scott

Subject: **Project plan PIR of Tier 3 and Tier 4 Standards**

Recommendations¹

1. The Board is asked to
 - (a) CONSIDER and provide FEEDBACK on the proposed timeline for the post-implementation review (PIR) of the Tier 3 and Tier 4 standards; and
 - (b) CONSIDER and provide FEEDBACK on proposed outreach.

Background

2. At its meeting in December 2019 the Board noted that it has committed to undertake a PIR of the Tier 3 and Tier 4 standards (as per Action 1.9 of the NZASB's Strategic Action Plan for 2019–2024). The objective of the PIR is to assess whether the standards, guidance and templates are working as intended and achieving their objectives.
3. The Board agreed that staff should commence work on the PIR of the Tier 3 and Tier 4 standards, as resources permit, and requested that staff develop a project plan for consideration at a future meeting.
4. The Board noted that the PIR will consist of the following steps.
 - (a) Step 1: Initial assessment of issues
 - (b) Step 2: Outreach with consultative network
 - (c) Step 3: Request for Information and outreach plan
 - (d) Step 4: Analysis of comments
 - (e) Step 5: Determine next steps
 - (f) Step 6: Feedback statement
5. The Board had a preliminary discussion about matters to be included in the Request for Information (RFI). The Board proposed that the RFI seek feedback from constituents on the

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significance and prevalence of issues. The RFI should give examples of some issues but should not indicate any possible courses of action.

6. We are now seeking feedback on the proposed timeline and proposed outreach.

Structure of this memo

7. The remaining sections in this memo are as follows.
- (a) Proposed timeline
 - (b) Proposed outreach for public consultation
 - (c) Questions for the Board

Proposed timeline

8. Table 1 sets out the proposed timeline for the PIR of the Tier 3 and Tier 4 standards, including the steps leading up to the development of the RFI. We have made a number of suggestions for targeted outreach on the RFI. Within each step we have identified the work required to prepare for that step and what Board engagement (if any) is required.

Table 1 Proposed timeline

Activity	Timing
Step 1: Initial assessment of issues	
<p><i>Preparation</i></p> <ul style="list-style-type: none"> • Analyse queries received and issues raised, but not yet addressed (information gathering) • Identify key issues (to inform discussions with consultative network and to draft RFI) 	<p>December 2019 – February 2020</p>
Step 2: Consult with consultative network	
<p>The consultative network will be made up of representatives from key stakeholder groups. We propose that it consist of Charities Services, Audit New Zealand, the TRG and CA ANZ.² We are planning to use a draft RFI as the basis for discussion with the consultative network.</p> <p><i>Preparation</i></p> <ul style="list-style-type: none"> • Draft RFI, including drafting descriptions of key issues identified in step 1 above • Seek feedback from NZASB subcommittee on draft RFI • Monitor Incorporated Societies Bill³ • Monitor the Department of Internal Affairs project on Modernising the Charities Act⁴ 	<p>February 2020 – April 2020</p>

² We plan to consult with the TRG as part of both steps 2 and 3. We think this is appropriate as TRG members have previously raised issues about the standards. We will also consult with XRAP and the NZAuASB as part of step 3.

³ The Incorporated Societies Bill is expected to be introduced to Parliament this year.

⁴ At this stage there is no target date for Cabinet approval or the drafting of legislation to amend the Charities Act. Source: Department of Internal Affairs website, accessed 6 December 2019. <https://www.dia.govt.nz/charitiesact#Background-to-review>

Activity	Timing
<p><i>Board engagement</i></p> <ul style="list-style-type: none"> • Feedback from Board on draft RFI • Seek approval to use the draft RFI in discussions with the NZASB's consultative network 	<p>7 May 2020 NZASB meeting</p>
<p><i>Consult with consultative network</i></p> <ul style="list-style-type: none"> • Organise one-on-one meetings with Charities Services, Audit NZ, CA ANZ on issues encountered, the draft RFI and proposed outreach • Seek feedback from TRG on issues encountered, the draft RFI and proposed outreach • If needed, contact additional stakeholders (taking account of feedback from consultative network) 	<p>June 2020 – August 2020</p>
Step 3: Issue the RFI	
<p><i>Board engagement</i></p> <ul style="list-style-type: none"> • Update on feedback from consultative network • Update on modernising the Charities Act and Incorporated Societies Bill • Update on proposed outreach • Seek approval to issue the RFI 	<p>10 September 2020 NZASB meeting</p>
<ul style="list-style-type: none"> • Issue the RFI • Appropriate communications 	<p>September 2020</p>
<p><i>Public consultation</i></p> <ul style="list-style-type: none"> • 6-month comment period • Proposed outreach is discussed later in this memo 	<p>September 2020 – March 2021</p>
Step 4: Analysis of public comments and feedback from outreach activities	
<p><i>Preparation</i></p> <ul style="list-style-type: none"> • Analyse comments and feedback <p><i>Board engagement</i></p> <ul style="list-style-type: none"> • Consider comments and feedback 	<p>H1 2021</p>
Step 5: Determine next steps	
<p><i>Preparation</i></p> <ul style="list-style-type: none"> • Identify possible next steps <ul style="list-style-type: none"> ○ No action ○ Standard setting/guidance ○ Education <p><i>Board engagement</i></p> <ul style="list-style-type: none"> • Seek Board feedback on next steps • Update Board on Incorporated Societies Bill and modernising the Charities Act 	<p>H1 2021</p>
Step 6: Issue feedback statement	
<p><i>Preparation</i></p> <ul style="list-style-type: none"> • Draft feedback statement 	<p>H2 2021</p>
<p><i>Board engagement</i></p> <ul style="list-style-type: none"> • Seek approval to issue feedback statement 	<p>H2 2021</p>

Activity	Timing
<p><i>Conclusion of PIR</i></p> <ul style="list-style-type: none"> • Issue feedback statement • Report back to consultative network 	<p>H2 2021</p>

9. We anticipate that standard-setting activity (including amending guidance and templates) will be required in relation to some issues. At the completion of the project the Board will need to decide which issues should be addressed by way of standard-setting activity and decide the timing and scope of any new project.

Proposed outreach for public consultation

10. We have grouped the proposed outreach for public consultation into three categories: awareness raising, general outreach and targeted outreach. We welcome further suggestions on each category.

Awareness raising

11. We would like to give people advance notice of the PIR so that they have more time to prepare, both in terms of thinking about issues and organising meetings. Awareness raising before the RFI is issued might consist of one slide at the end of a presentation or a brief mention at a meeting. Awareness raising after the RFI is issued would include details of how to access the RFI and how to provide feedback.

12. We have identified the following opportunities to raise awareness of the PIR.
- XRB NFP Updates (periodic)
 - Conferenz NFP (24 February 2020)
 - Charity Law, Accounting and Regulation Conference 2020 (30 April to 01 May 2020)
 - CA ANZ NFP and Public Sector SIGS (liaise with coordinators for dates and opportunities)
 - CA ANZ and CPA newsletters
 - InterChurch Bureau (ICB) meetings attended by XRB staff (periodic)
 - Charities Services (liaise to identify opportunities, e.g. newsletters, the annual meeting which is usually held in September or October)
 - Audit New Zealand (liaise to identify opportunities, possibly via its Updates)
 - Feedback Statement on the Targeted Review of the ASF (if a Feedback Statement is prepared)
 - XRAP meeting (May 2020)

General outreach

13. Once the RFI has been issued we plan to:
- (a) advise constituents using our normal channels (NZASB Updates, website and social media);⁵

⁵ As at 13 December 2019 we had 400 followers on LinkedIn, up from 87 last year.

- (b) hold a webinar;
- (c) work with Charities Services to identify the best way to seek feedback from registered charities, work with Audit New Zealand to identify the best way to seek feedback from public sector PBEs, and work with CA ANZ and CPA to identify the best way to seek feedback from their members;
- (d) create an online survey; and
- (e) hold roundtables in major locations (Auckland, Wellington, Christchurch). Invite a selection of users, preparers, auditors and advisors.

Targeted outreach

- 14. We see targeted outreach as an important way of gathering feedback from groups and individuals that have a good understanding of Tier 3 and Tier 4 entities and the issues that they encounter in reporting in accordance with XRB standards. Targeted outreach could range from emails and phone calls to one-on-one meetings.
- 15. When the standards were first developed XRB staff and Charities Services ran a series of nationwide roadshows to give registered charities an overview of the new requirements. We have considered whether roadshows would be appropriate for the PIR. The pros and cons that we have identified for using roadshows are set out below.

Roadshow pros	Roadshow cons
<ul style="list-style-type: none"> • Wide geographic reach • More opportunity for some entities (especially those that are not affiliated with other entities) to provide feedback 	<ul style="list-style-type: none"> • Time consuming • Expensive to organise and run • Would have to pull in additional staff members (both technical and administrative) to assist with the roadshows • Tend to get a high number of attendees that are there to receive information, rather than to provide feedback

- 16. On balance, we think that targeted outreach is a better way of getting feedback and a more efficient use of XRB resources. Targeted outreach and roundtables will involve some travel but much less than earlier roadshows.
- 17. Targeted outreach will include seeking feedback from the TRG and XRAP. We will also consult with NZAuASB staff in the first instance and, depending on their feedback, may seek feedback from NZAuASB members.
- 18. See Appendix 1 for an indicative list of other targeted outreach. Appendix 1 categories include:
 - (a) Accounting and auditing providers
 - (b) Funders such as community trusts and foundations (i.e. users that see a lot of reports)

- (c) NFP entities and representative bodies. We plan to use the Charities Register to identify similar types of charities with a representative or umbrella body, ascertain whether those entities use the Tier 3 and Tier 4 standards, and make contact with that representative body
- (d) Public sector entities
- (e) Previous contributors. This group includes those who contributed to the development of the Tier 3 and Tier 4 standards, those who submitted on the draft Tier 3 and Tier 4 standards, those who submitted on the *Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements* and those who have raised issues with staff or the NZASB.

19. Some people or organisations might feature in more than one category in Appendix 1.

Questions for the Board

- Q1. Does the Board agree the proposed timeline for the PIR of the Tier 3 and Tier 4 standards?
- Q2. Does the Board have any feedback on the proposed outreach, including additional suggestions?

Appendix 1 Targeted outreach

The suggestions in each category should be regarded as indicative. Additional suggestions and contact details are welcome. We plan to contact a selection of the entities listed here and will seek feedback from the consultative network on how best to reach a range of entities.

Table 2: Targeted outreach
Accounting and auditing providers
<ul style="list-style-type: none"> • BDO • CATAS • Community Accounting Programmes, e.g. <ul style="list-style-type: none"> ○ Accounting for Charities Trust ○ Auckland Community Accounting ○ Christchurch Community Accounting ○ Community Accounting Aotearoa • Cotton Kelly • Grant Thornton • Integrity Audit • Martin Wakefield • MOORE Markhams • PKF Hamilton • RSM • Baker Tilly Staples Rodway • Trusts Investment Management Limited • UHY Haines Norton • William Buck
Funders
<p>Community Trusts of New Zealand consist of:</p> <ul style="list-style-type: none"> • Bay Trust • Community Trust South • Eastern and Central Community Trust • Foundation North • New Zealand Community Trust (NZCT) • Otago Community Trust • Rata Foundation • The Community Trust of Mid and South Canterbury • Trust Waikato • TSB Trust • Wellington Community Trust • West Coast Community Trust <hr style="border-top: 1px dashed black;"/> <p>Community Foundations of New Zealand</p> <ul style="list-style-type: none"> • Acorn Foundation • Advance Ashburton Community Foundation

Table 2: Targeted outreach

- Aoraki Foundation
- Auckland Foundation
- Clutha Foundation
- Eastern Bay Community Foundation
- First Light Community Foundation
- Geyser Community Foundation
- Hawke's Bay Foundation
- Momentum Waikato Community Foundation
- Nikau Foundation
- Northland Community Foundation
- Sunrise Foundation
- Te Awa Community Foundation
- Te Karaka Foundation
- The Christchurch Foundation
- The Trusts Community Foundation Ltd
- Top of the South Community Foundation
- Wakatipu Community Foundation

Other Funders

- ANZ Staff Foundation
- Creative New Zealand
- DV Bryant Trust Board
- Harcourts Foundation
- Hugh Green Foundation
- JR McKenzie Trust
- Len Reynolds Trust
- Lottery Grants Board
- Next Foundation
- Public Trust
- Sport New Zealand
- The Warehouse Group Foundation
- Tindall Foundation
- Todd Foundation
- Vodafone Foundation
- Wayne Francis Charitable Trust
- Working Together More Fund

Crown-funded schemes

- Community Internship Programme
- Community Leadership Fund
- Community Led Development Programme (currently at capacity)
- Community Organisations Grants Scheme (COGS) (grants are available only to entities with less than \$2million annual operating expenditure)

Table 2: Targeted outreach

- Disarmament Education United Nations Implementation Fund (DEUNIF) \$200,000 available as grants
- Racing Safety Development Fund (\$1 million available for grants each year)
- Support for Volunteer Fund (around \$1 million available for grants)
- Youth Worker Training Scheme (small grants to meet informal training needs of youth workers \$200,000 available)

NFP entities and representative bodies

We plan to expand this list by looking for similar types of entities on the charities register and then looking for representative bodies for those groups. For each representative body we need to check whether there are any entities using the Tier 3 or Tier 4 standards.

The Tier 4 NFP standard applies for the purposes of the following enactments:

- Section 42A of the Charities Act 2005;
 - Section 63 of the Friendly Societies and Credit Unions Act 1982; and
 - Section 12 of the Agricultural and Pastoral Societies Act 1908.
-
- Community Net Aotearoa
 - Hui E! Community Aotearoa
 - Social Sector Innovation WBOP Charitable Trust (SocialLink)
 - New Zealand Council of Social Services
 - Wellington Council of Social Services
 - Philanthropy New Zealand (members include trusts, foundations, community groups, individuals, investors, local government and iwi)
 - Volunteering New Zealand (VNZ) (around 20 volunteering centres)
 - Citizens Advice Bureaux New Zealand Incorporated (member bodies in more than 80 locations)
 - Clubs New Zealand Inc (represents more than 300 clubs around the country including chartered clubs, community clubs, cosmopolitan clubs, workingmen's clubs, sports clubs and RSAs, reports in accordance with Tier 3 NFP)
 - Foodbank New Zealand
 - Some foodbanks are separate entities while others are run by organisations such as the Salvation Army
 - Lions Clubs New Zealand
 - Lions clubs and District Cabinets produce financial statements for two separate entities: (1) For club or District administration in accordance with the requirements stated in the club or District constitutions, and (2) For club or District “project activities” in accordance with the requirements stated in the Charitable Trust deed
 - Māori organisations
 - Liaise with Ngā Kaitatau Māori o Aotearoa – National Māori Accountants Network
 - New Zealand Kindergartens Incorporated. Some kindergarten associations say they consolidate constituent kindergartens – others do not. Examples of associations:
 - Auckland Kindergarten Association (117)
 - Dunedin Kindergarten Association Inc (24)
 - Napier Free Kindergarten Association Inc (16)
 - South Canterbury Kindergartens (12)

Table 2: Targeted outreach

- Parent and Teacher Associations
- The Museums of New Zealand Incorporated
- Toy Libraries
- InterChurch Bureau
 - Acts Churches New Zealand
 - Alliance Churches of New Zealand
 - Arise Churches
 - Assemblies of God in New Zealand
 - Baptist Union of New Zealand
 - C3 Churches Christian Churches New Zealand (formerly the Churches of Christ in New Zealand)
 - Church of the Nazarene
 - Church Unlimited
 - City Impact Church New Zealand
 - Elim Church of New Zealand
 - Four Square Gospel Churches
 - Gateway Christian Trust
 - Grace Presbyterian Churches
 - Greenlane Christian Centre
 - Hope Centre Network Interserve Aotearoa New Zealand
 - Life
 - Lutheran Church of New Zealand
 - Missions Interlink New Zealand
 - New Life Churches New Zealand
 - New Zealand Christian Network
 - New Zealand Council of Christian Social Services
 - New Zealand Pacific Union Conference of the Seventh-Day Adventist Church
 - Open Brethren Assemblies of New Zealand
 - Presbyterian Support New Zealand
 - Presbyterian Synod of Otago and Southland
 - Scripture Union New Zealand
 - The Anglican Church in Aotearoa, New Zealand and Polynesia, Te Hāhi Mihinare ki Aotearoa, ki Nui Tirenui, ki ngā Moutere o Te Moana Nui a Kiwa
 - The Catholic Church in Aotearoa New Zealand
 - The Congregational Union of New Zealand
 - The Methodist Church of New Zealand, Te Hāhi Weteriana o Aotearoa
 - The Presbyterian Church of Aotearoa New Zealand
 - The Religious Society of Friends (Quakers), Aotearoa New Zealand, Te Hāhi Tūhauwiri
 - The Salvation Army, Te Ope Whakaora
 - The Wesleyan Methodist Church of New Zealand
 - Uniting Congregations of Aotearoa New Zealand
 - Vineyard Churches Aotearoa New Zealand

Table 2: Targeted outreach**Public sector entities (Tier 3 and Tier 4)**

Examples (numbers will include some Tier 1 and Tier 2 entities)

- Cemetery trusts (91, some are also registered charities)
- Council-controlled organisations (various trusts and companies including around 30 exempt council-controlled organisations)
- Fish and game councils (12, New Zealand Fish and Game Council)
- Māori Purposes Fund Board
- Administering bodies and reserve boards (37) including
 - Hall boards
 - Racecourse trustees
 - Reserve boards, Domain boards
 - Registration boards
- Rural education activities programmes (14)

The Tier 4 PS standard applies for the purposes of the following enactments:

- Section 29A of the Burial and Cremation Act 1964;
- Section 6 of the Māori Purposes Fund Act 1934-35;
- Section 40A of the Patriotic and Canteen Funds Act 1947;
- Section 39B and section 88 of the Reserves Act 1977; and
- Section 10 of the Reserves and Other Lands Disposal Act 1995.

Previous contributors

Some entities/groups have changed their names or restructured since these consultations

Pre-consultation on the Tier 3 and Tier 4 standards (August and September 2012)

- ANGOA – the Association of NGOs of Aotearoa
- Charities Commission
- Wellington Council of Social Services/New Zealand Council of Social Services
- Philanthropy New Zealand
- Ministry of Education

Submitters on the draft Tier 3 and Tier 4 standards (Public sector submissions closed 28 March 2013 and were considered by the NZASB in May 2013)

- BDO
- NZICA (now CA ANZ)
- KPMG
- OAG and Audit New Zealand

Submitters on the draft Tier 3 and Tier 4 standards (NFP submissions closed 28 June 2013 and were considered by the NZASB in July 2013)

- Steven Duxfield – Preparer
- Pipe Charitable Youth Workers Trust Fund – Preparer
- Smiles For Seniors – Preparer
- Lock & Partners Ltd – Accountancy Firm
- Roy Glass – Auditor and Treasurer
- Murray King

Table 2: Targeted outreach

- John Corban – Preparer
- Mr J Dekker
- Ta Taiwhenua o Heretaunga – Preparer
- Arthur Bartlett – Auditor
- Manawatu Alternatives to Violence Inc – Preparer
- Phillip Trounson – Auditor
- Campbells Bay Community Association – Preparer
- Te Ara Tika Trust – Preparer
- Ian Brown – Preparer
- Hassan Wong – Preparer
- Accounting 4 U Ltd – Accountancy Firm
- Bryndwr Chapel – Accountant
- Joanne Holt – Accountant
- McKenzie Centre Trust – Preparer
- James Hill
- Andrew Bishop – Accountant
- Diane Robinson – Auditor, Preparer
- Miller Gale & Winter – Auditor
- Community Accounts Mentoring Trust – Accountant
- Martin Paltridge – Accountant
- Graeme Parr
- Stewart Donaldson – User
- Citizens Advice Bureau Hastings – Preparer
- Alzheimers NZ – Preparer
- International Student Ministries of NZ [ISMNZ] – Preparer
- Haynes Knight – Accountancy Firm
- Roger Cole – Preparer
- CCS Disability Action – Preparer
- Mercy Mission NZ Trust Board – Preparer
- Dr Michael Gousmett
- Gavin Hampton
- NZ Kindergartens Inc – Umbrella body
- Dunedin Community Law Centre
- Social Development Partners – Member body
- Lions Club – Preparer
- NZICA – Professional body
- InterChurch Working Party – Member body
- ANGOA – Umbrella body
- NZICA Manawatu Technical and Legislation SIG
- Judith Batt – Accountant
- Parkinsonism Society of NZ Inc. (PSNZ) – Preparer
- The Retirement Villages Association of NZ Inc [RVA] – Umbrella body

Table 2: Targeted outreach

- KPMG – Accountancy Firm
- Christchurch Community Accounting – Accountancy Firm

Submitters on the *Omnibus Amendments to Tier 3 and Tier 4 PBE Accounting Requirements*

- BDO
- Carolyn Cordery
- Methodist Church of New Zealand

Organisations or individuals that have raised issues with staff or the NZASB. For example:

- Freemasons Foundation – re accounting by the donor for multi-year donations