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Project	Primary Financial Statements	
Topic	Outreach information	
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This document has been prepared for the purpose of targeted outreach on selected tentative decisions of the International Accounting Standards Board (IASB) to amend aspects of the Exposure Draft *General Presentation and Disclosure*. This document does not represent the views of the IASB or any individual IASB member. Any comments in the document do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB's technical decisions are made in public and are reported in IASB® *Update*

This document was originally sent by email to ASAF members on 22 August 2022. It has been updated to reflect the IASB's tentative decisions about the proposals for unusual income and expenses in the Exposure Draft *General Presentation and Disclosures* made at its September 2022 meeting. Paragraph 32 and Question 4 of the original document have been removed and replaced with paragraphs 32–35 and Question 4 of this document. No other changes have been made.

Background

1. The IASB published the Exposure Draft *General Presentation and Disclosures* ('the Exposure Draft') in December 2019 with a comment period ending September 2020. The proposals aim to improve how information is communicated in the financial statements, with a focus on information about performance in the statement of profit or loss. The Exposure Draft proposed:

   (a) requiring presentation of new defined subtotals in the statement of profit or loss;

   (b) requiring disclosure of information about some performance measures specified by management (defined as management performance measures); and

(c) strengthening the requirements for disaggregating information.

2. The IASB discussed a summary of the feedback received at its December 2020 and January 2021 meetings. The IASB has since been redeliberating the proposals in the Exposure Draft and has made tentative decisions on key aspects of the proposals in response to the feedback received. Some of these decisions result in changes from the proposals in the Exposure Draft, with the objective to either make the proposals easier to apply or to reduce the cost of application for preparers. A summary of the proposals in the Exposure Draft, feedback received and tentative decisions made by the IASB is included in the Appendix to this document.

3. Given the key aspects of the proposals have been redeliberated, the IASB is conducting outreach on a targeted selection of its tentative decisions through roundtable discussions in coordination with National Standard Setters.

4. The accompanying slide deck provides an overview of the proposals in the Exposure Draft updated for the IASB's tentative decisions to date. This slide deck is intended to provide the wider context for understanding the selected topics for discussion.

Objective of the targeted outreach

5. The topics selected for outreach are those where the IASB's tentative decisions change the proposals in the Exposure Draft. The objective of the targeted outreach is to receive feedback from a range of stakeholders that will help the IASB to assess whether the selected tentative decisions will function as intended and achieve the intended balance of costs and benefits. The information obtained in the outreach will help the IASB in completing its due process on the proposals in the Exposure Draft and will be used to:

(a) explore some issues further as part of considering comments received on the Exposure Draft;

(b) understand the likely effects of the proposals that will be summarised in an effect analysis report; and consequently

(c) support the IASB's decision on whether to re-expose any of the proposals before issuing the final IFRS Accounting Standard.

6. To facilitate this objective this document includes specific questions the IASB would like participants to discuss.

Outreach questions

7. The IASB is seeking feedback on the following topics:

   (a) Subtotals in the statement of profit or loss—change in approach for classifying income and expenses within the financing category and aspects of the proposals for entities with specified main business activities[1];

   (b) Management performance measures—rebuttable presumption that a subtotal of income and expenses included in public communications outside financial statements represents management's view of an aspect of the entity's financial performance applying the definition and simplified method of calculating the tax effect for reconciling items;

   (c) Disclosure of operating expenses by nature; and

   (d) Unusual income and expenses.

8. This document provides a brief background to each of the tentative decisions selected for the targeted outreach and a list of questions for discussion during the outreach events.

Subtotals in the statement of profit or loss

Change in approach for classifying income and expenses within the financing category

9. The Exposure Draft proposed to introduce a financing category to facilitate an analysis of an entity's performance independently of how it is financed. It proposed that an entity classify income and expenses on liabilities from financing activities and

[1] Entities that invest as a main business activity in assets that generate a return individually and largely independently of the other resources held by the entity (referred to as 'entities that invest as a main business activity') or provide financing to customers as a main business activity.

interest income and expenses on other liabilities in the financing category[2]. Financing activities were proposed to be defined as activities 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.

10. The IASB received feedback that some aspects of the definition of financing activities were unclear. In response the IASB has tentatively decided to revise the proposals such that an entity would be required to classify in the financing category:

(a) all income and expenses from liabilities that arise from transactions that involve only the raising of finance; and

(b) specified income and expenses from other liabilities.

11. The IASB tentatively decided to:

(a) describe transactions that involve only the raising of finance as transactions that involve:

(i) the receipt by the entity of cash, an entity's own equity instruments or a reduction in a financial liability; and

(ii) the return by the entity of cash or an entity's own equity instruments; and

(b) describe specified income and expenses from other liabilities as interest expense and the effect of changes in interest rates on liabilities that arise from transactions that do not involve only the raising of finance when such amounts are identified applying the requirements of IFRS Accounting Standards.

12. The change in approach to classifying income and expenses within the financing category tentatively agreed by the IASB in paragraphs 10 and 11 is intended to make the proposals in the Exposure Draft easier to apply. It is not expected to result in a

[2] The Exposure Draft also proposed that an entity classify income and expenses from cash and cash equivalents in the financing category. In the redeliberations, the IASB has tentatively decided that an entity classify income and expenses from cash and cash equivalents in the investing category.

change in the income and expenses that would be classified in the financing category applying the proposals in the Exposure Draft. The only expected change in outcome from the Exposure Draft is that interest expenses on lease liabilities and amounts payable for goods and services received were captured by 'income and expenses on liabilities arising from financing activities' in the Exposure Draft but are now captured by 'specified income and expenses from other liabilities'.

Aspects of the proposals for entities with specified main business activities

13. The Exposure Draft proposed to provide an accounting policy choice for entities that provide financing to customers as a main business activity to classify in the operating category, either:

    (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.

14. The Exposure Draft also proposed to classify in the operating category income and expenses from cash and cash equivalents if an 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.

15. In response to feedback received on these proposals, the IASB has tentatively decided to:

    (a) confirm the accounting policy choice for an entity that provides financing to customers to classify in the operating category, either all income and expenses from transactions that involve only the raising of financing or the portion related to providing financing to customers;

    (b) confirm that the accounting policy choice is not applied to specified income and expenses from other liabilities. As a result, interest expenses on lease liabilities and amounts payable for goods and services are no longer subject to the accounting policy choice as proposed in the Exposure Draft; and

(c) require an entity to classify income and expenses from cash and cash equivalents in the operating category if it invests in financial assets that generate a return individually and largely independently of other resources held by the entity as a main business activity (referred to as 'entities that invest in financial assets as a main business activity').

16. The IASB decided to explore withdrawing the accounting policy choice for classifying income and expenses from cash and cash equivalents proposed for entities that provide financing to customers as a main business activity because it expects that many entities that provide financing to customers as a main business activity will also invest in financial assets as a main business activity. For such entities the requirement to classify in the operating category all income and expenses from cash and cash equivalents would be triggered by their investments in financial assets and no requirement in relation to providing financing to customers as a main business activity would be needed. If the IASB decides to withdraw the accounting policy choice, entities that provide financing to customers as a main business activity that do not also invest in financial assets as a main business activity would classify income and expenses from cash and cash equivalents in the investing category.

Question 1—Subtotals in the statement of profit or loss
The IASB seeks feedback on the following questions: (a) Is the revised proposal for classifying income and expenses within the financing category clearer and easier to apply than the proposal in the Exposure Draft? (b) Are you aware of any issues that may arise from the expected change in outcome from the Exposure Draft for lease liabilities and amounts payable for goods and services received discussed in paragraphs 12 and 15(b)? (c) Does the revised proposal for classifying income and expenses in the financing category result in a change from the proposals in the Exposure

Draft for the classification of any income and expenses from liabilities other than lease liabilities and amounts payable for goods and services received?

(d) Are you aware of any entities that provide financing to customers as a main business activity that do not also invest in financial assets as a main business activity that would be impacted by the possible change to the Exposure Draft explained in paragraph 16?

Management performance measures

Rebuttable presumption

17. The Exposure Draft proposed disclosure requirements for management performance measures which it defined as subtotals of income and expenses that:

    (a) are used in public communications outside financial statements;

    (b) complement totals or subtotals specified by IFRS Accounting Standards; and

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

18. The IASB received feedback that the requirement that a management performance measure communicate management's view of an aspect of an entity's financial performance may be too subjective to capture all of the measures intended by the proposals. The IASB also received feedback that it was unclear whether a measure that was used in public communications outside financial statements that did not reflect management's view would meet the definition. For example, some participants asked whether a subtotal required by local Accounting Standards would be a management performance measure.

19. In response the IASB has tentatively decided to establish a rebuttable presumption that a subtotal of income and expenses included in public communications outside financial statements represents management's view of an aspect of the entity's financial performance. The presumption could be rebutted with reasonable and supportable evidence that a subtotal of income and expenses published outside an

entity's financial statements prepared in accordance with IFRS Accounting Standards did not represent management's view of an aspect of its financial performance. For example, the existence of a regulatory requirement to publish a measure might be used to rebut the presumption that it represents management's view.

20. The rebuttable presumption is intended to reduce the subjectivity involved in identifying the subtotals of income and expense that represent management's view while permitting entities to both exclude subtotals that do not represent management's view and include subtotals that do represent management's view but overlap with other requirements to publish them.

Simplified method of calculating the tax effect for reconciling items

21. The Exposure Draft proposed an entity be required to reconcile each management performance measure to the most directly comparable subtotal or total specified in IFRS Accounting Standards. It also proposed an entity be required to disclose the tax effect and the effect on non-controlling interest for each item disclosed in the reconciliation. The tax effect was proposed to be determined 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.

22. The IASB received feedback that it may be complex and therefore costly to calculate the tax effects of individual reconciling items using the method proposed in the Exposure Draft. However, the IASB also received feedback that information about the tax effects was important to help users to analyse management performance measures. User feedback was that effects of reconciling items were important to understanding the measures because the tax effects can be materially different from those using the effective tax rate and the information was necessary for analysing the measures on a per share basis. Feedback from users was also that high-level information about the tax effects of reconciling items would meet their needs.

23. In response the IASB tentatively decided to revise the requirement specifying how to calculate the income tax effect. The revised requirement allows an entity to either:

(a) calculate the tax effects of the underlying transaction(s) at the statutory tax rate(s) applicable to the transaction(s) in the relevant jurisdiction(s); or

(b) calculate the tax effects as described in (a) and allocate any other tax effects related to the underlying transaction(s) based on a reasonable pro rata allocation of the current and deferred tax of the entity in the jurisdictions concerned, or other method that achieves a more appropriate allocation.

24. The revised requirement is intended to reduce the complexity of the proposal in the Exposure Draft by specifying a simplified calculation of the tax effects of reconciling items that an entity can choose when a full calculation would be too complex. As a simplified calculation, the information provided may be less than would be provided by a full calculation but is intended to respond to user feedback that high-level information on these tax effects would meet their needs. The proposed revision to the method of calculating the tax effects of reconciling items still allows an entity to use judgement to allocate additional tax effects if it chooses to perform a more complete calculation.

Question 2—management performance measures

The IASB seeks feedback on the following questions:

(a) Do you think that establishing the rebuttable presumption that a subtotal of income and expense included in public communications outside financial statements represents management's view of an aspect of the entity's financial performance will achieve the objectives described in paragraph 20? Why or why not?

(b) If not, what alternative approach would you suggest and why?

(c) Does the IASB's tentative decision to revise the method used to calculate the tax effect of individual reconciling items in paragraph 23 provide a better balance of costs and benefits than the proposal in the Exposure Draft?

Disclosure of operating expenses by nature

25. The Exposure Draft proposed requiring an entity that provides an analysis of its operating expenses using the function of expense method in the statement of profit or loss to disclose in a single note an analysis of total operating expenses using the nature of expense method.

26. The IASB received feedback that the proposed approach would be costly to apply, to the extent it would require an entity to provide additional information about expenses by nature that it is not currently disclosing. The evidence from practice suggests that while some entities already provide disclosure of all operating expenses by nature, many only provide those disclosures by nature specifically required by IFRS Accounting Standards (including depreciation, amortisation and employee benefits) and would have to incur significant costs to implement the proposals. The IASB also received feedback that information that helps users to understand how information about operating expenses already disclosed in the notes relate to the line items presented in the statement of profit or loss would provide more useful information than the disclosure requirement in the Exposure Draft, and would be less costly to provide.

27. In response the IASB has tentatively decided to withdraw the proposal to specifically require disclosure of all operating expenses by nature in the notes, for those that report by function. The IASB has proposed to require an entity to disclose the amounts included in each line item in the statement of profit or loss for depreciation, amortisation, and employee benefits.

28. The IASB is exploring:

    (a) whether this revised requirement should also include impairments and write-downs of inventory. The IASB received feedback that in addition to depreciation, amortisation and employee benefits, information on how the amounts of impairments and write-downs disclosed relate to the line items presented in the statement of profit or loss would also be useful to users and feasible for preparers to provide.

(b) whether an entity should also be required to disclose, for all other operating expenses disclosed in the notes, the amounts included in each line item in the statement of profit or loss unless doing so would require undue cost or effort. This approach builds on the existing disclosure requirements in IFRS Accounting Standards—for example, paragraph 126 of IAS 36 *Impairment of Assets* requires the disclosure of the amount of impairment losses recognised in profit or loss and the line item(s) in which those impairment losses are included.

Question 3—Disclosure of operating expenses by nature

The IASB seeks feedback on the following questions:

(a) Does the IASB's tentative decision to disclose the amounts of depreciation, amortisation and employee benefits included in each line item in the statement of profit or loss provide a better balance of costs and benefits than the proposal in the Exposure Draft?

(b) Do you think the list of line items in the requirement in question 3(a) should also include impairments and write-downs of inventories? Why or why not?

(c) Do you think requiring an entity to disclose, for all other operating expenses disclosed in the notes, the amounts included in each line item in the statement of profit or loss would provide a similar balance between costs and benefits as the revised proposal described in question 3(a)? Why or why not?

(d) Do you think an undue cost or effort relief to the proposed requirement in question 3(c) is required to achieve the right balance between improving disclosures provided by entities and ensuring that entities do not incur excessive costs to provide the information? Why or why not?

Unusual income and expenses

29. The Exposure Draft proposed introducing a definition of 'unusual income and expenses' and requiring all entities to disclose information about unusual income and expenses in a single note.

30. The IASB received feedback that it should define unusual income and expenses because:

    (a) users want to identify recurring or normalised earnings but currently have to rely on voluntary disclosures to do so; and

    (b) a definition would provide discipline and reduce opportunistic classification of income and expenses as unusual.

31. However, the IASB also received feedback that the definition of unusual income and expenses proposed in the Exposure Draft was subjective, required more application guidance, and included income and expenses that some did not view as unusual.

32. Continued discussions with stakeholders and the IASB have indicated that rather than defining unusual income and expenses solely in terms of recurrence, a definition should focus on whether income or expenses have another characteristic that make them 'unusual'. However, developing such a definition, which is different to that proposed in the Exposure Draft, is unlikely to be successful on a timely basis.

33. Given the feedback from stakeholders that other aspects of this project should be finalised as quickly as possible, the IASB has tentatively decided not to proceed with any specific requirements for unusual income and expenses as part of this project.

34. Not proceeding with the proposals on unusual income and expenses will result in the loss of some information compared to the outcome of the proposals in the Exposure Draft had a consensus on the definition emerged.

35. However, requirements for disclosures relating to management performance measures and the general requirement to disaggregate amounts when information about the disaggregated amounts is material is expected result in improvements in current practice for the disclosures relating to unusual income and expenses and provide some

of the information intended to be provided by the proposals for unusual income and expenses in the Exposure Draft.

Question 4—unusual income and expense
Do you have any comments on the IASB tentative decision to withdraw the proposals for unusual income and expenses?