COMMENT LETTER
BY THE PUBLIC OVERSIGHT
ACCOUNTING AND AUDITING STANDARDS AUTHORITY
ON THE EXPOSURE DRAFT
GENERAL PRESENTATION AND DISCLOSURE

Dear Board Members and Staff,

The Public Oversight Authority of Turkey (POA) appreciates the opportunity to comment on the IASB's December 2019 Exposure Draft: General Presentation and Disclosures (Primary Financial Statements). The POA sets and issues accounting, auditing and related professional practice standards to strengthen the reliability of financial statements and audits of the financial statements for investors and other related parties in Turkey. The POA issues Turkey Financial Reporting Standards in fully compliance with the IFRSs.

We support and appreciate IASB's valuable efforts to improve how information about entities' performance and financial position is presented in financial statements. We believe that these efforts will enhance its goal, improving quality and comparability of financial statements.

We are pleased to contribute due process of IASB with our comments on Exposure Draft (ED). We aimed to compose our comments in which all our stakeholders are involved. In order to do that we requested stakeholders' comments on ED and summarize them on our comment letter. Accordingly, the comments of our main stakeholders, Capital Market Board of Turkey (CMB), Banking Regulation and Supervision Agency (BRSA), The Bank Association of Turkey, Insurance Association of Turkey, users of financial statements, audit firms and academicians, are included in our comment letter.

The attached appendix details our and stakeholders' responses to the questions in the ED.

If you would like to discuss our comments further, please do not hesitate to contact Ela Kaya at ela.kaya@kgk.gov.tr or Ali Utku Doganoglu at utku.doganoglu@kgk.gov.tr .

Yours sincerely,

RÇelen.

Rıza Çelen

Chairman

Appendix - POA’s Comments to the Proposals Made in the ED

Structure of the Statement of Profit or Loss

Question 1 - Operating Profit or Loss
Paragraph 60(a) of the ED 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?
POA’s Comments:
We support the proposal that all entities present in the statement of profit or loss separately a subtotal for operating profit or loss in accordance with paragraph 60(a) of the ED. As it was stated in the *Conceptual Framework for Financial Reporting*, users of financial statements need financial statements in order to be able to assess the amount, timing and uncertainty of future cash flows of the entity and management’s stewardship of the entity’s economic resources. In this respect, it is thought that the users of financial statements attach more significance to profit or loss arising from the main business activities of entities, while making projections as to the entity’s future performance. Main business activities are the main operations of the entity, and the income or expenses from these operations have a continuity and therefore provide data that the users can use in analyzing the performance trend of the entity. Furthermore, presenting the operating profit or loss as a separate subtotal will ensure presenting the income arising and the expenses incurred as a result of the main operations of all entities, increasing comparability among entities. Therefore, we believe that it would be appropriate if entities presented a subtotal for operating profit or loss in the statement of profit or loss since it would be useful for the assessment of entities’ future performance and contribute to the understandability of the statement of profit or loss.
Stakeholders’ Comments:
All of our stakeholders support the proposal in the ED that all entities present in the statement of profit or loss a subtotal for operating profit or loss, stating that users of

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financial statements attach greater importance to the profit or loss arising from the main business activities when predicting the future cash flows and performance of the entity.

Some of our stakeholders highlight that it is important to disclose in the notes details of income and expenses that compose operating profit or loss (especially disclosing operating expenses according to nature of expenses method, breaking down of amortization and depreciation expenses to functions of the entities and elements of cost of sales).They also note that incidental incomes in operating category should be included in an item other than revenue.

Question 2 - The Operating Category

Paragraph 46 of the ED 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?

POA’s Comments:

In paragraph 46 of the ED, it is stated that the operating category includes information about income and expenses from an entity’s main business activities. However, an exact definition or guidance on the notion “an entity’s main business activities” is not provided. As far as entities with more than one main business activity (holdings in particular) are concerned, this will lead entities use of judgement in determining the income and expenses from main business activities, which will make it harder to ensure the relevance and comparability aimed by the ED.

Thus, considering the significance of the operating category, we believe that it would be beneficial if IASB made a clear definition or gave guidance on the notion “an entity’s main business activities”.

Stakeholders’ Comments:

Our stakeholders agree with our comments on operating category. Accordingly, most of them claim that this new standard should clearly identify main business activity that determines income and expenses to be included in operating category. Therefore, they demand either that operating category should be an identified category rather than a default or residual category or investing and financing categories should be dealt with more clearly and detailed.

Moreover, stakeholders generally recommend IASB to provide more comprehensive guidance on determining the main operating activity especially for companies with more than one main operating activity, such as holding companies.

Our insurance companies stakeholder group, demands the operating category to be dealt with in a way that includes the details of the income and expenses arising from the activities of the insurance companies and harmonized with IFRS 17 Insurance Contracts.

The preparers stakeholder group, notes that a clarification of the classification of income and expenses arising from impairment under IFRS 9 will be beneficial. In addition, considering that the operating category includes unusual income and expenses as specified in paragraph BC56 of the Basis for Conclusions, it is recommended to have an explanatory requirement on how to classify expenses incurred in extraordinary situations such as in the COVID19 period.

In addition, one of our stakeholders, who is an academician, notes that gains or losses from impairment, valuation and exchange differences of trade receivables and trade payables may be presented either after gross profit in the operating category or in the financing category in terms of eliminating the problem that entities report gains or losses from trade receivables and trade payables under different categories. Moreover, in case agricultural activities are measured at fair value, it is recommended to provide an explanation as to whether the valuation differences is reported before gross profit or after gross profit.

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 ED 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?

POA’s Comments:
In terms of improving the relevance and comparability of the information presented by entities, we believe that it is necessary to classify income and expenses from investments made in the course of an entity’s main business activities in the operating category. Furthermore, we think that paragraph B27 of the ED provides useful guidance as to the investments of which entities can be assessed in the scope of main business activities. In our view, such guidance will contribute as to the judgements in considering whether the returns on the investments made by entities are in the scope of main business activities. However, we are of the opinion that a clear and sufficient guidance has not been provided for entities other than those specified in paragraph B27. In this case, from the point of the entities with more than one main business activity, assessing whether the returns on investments are within the scope of main business activities may lead to difficulties in terms of such entities. Therefore, it is suggested that the expression “in the course of their main business activities” in paragraph 48 be elaborated or a guidance provided for entities to refer to while implementing this requirement. Furthermore, as we suggested in the previous question, we believe that a clear definition of “main business activity” comprising operational profit or loss would be useful in terms of facilitating the judgement to be made by entities in determining in which case investment returns will be classified in main business activities or investment activities
Stakeholders’ Comments:
Most of our stakeholders agree with our comments on Question 3. Our stakeholders also believe that it would be beneficial to make a definition of the main business activity in order to make it easier for entites to separate their investment and operating activities in terms of preparing financial statements. They also note that it would be beneficial to provide additional guidance on separating investments made in the course of an entity’s main business activities from investment activities (for example, a guidance that enables the separation of income or expense arising from an investment related to both the main activity of the entity and the main business activity that it will start as a result of a new investment). While most of our stakeholders state that separating the income and expenses arising from the investments made in the course of entity’s main business activities and other investments and classifying them as operating or investment activities would not be costly for entities, some of preparer stakeholders state that this separation would be costly.

In accordance with IFRS 17 *Insurance Contracts*, which companies engaged in insurance and reinsurance activities will have to comply with, it is required that income and expenses related to investment activities will be presented separately from the result of insurance activities. In such situation, for these companies, our stakeholders consider that inclusion of investment income that meet the definition of main business activity in the operating category may create a conflict.

CMB (Capital Market Board of Turkey), one of our regulatory stakeholders, considers that it would be more appropriate to determine the investment income or expenses to be included in the operating category on basis of investments in the nature or scope of the main business activities rather than the investments made in the course of its main business activities. In addition, CMB states that it will be important to determine boundaries of the investment activity accurately and clearly and to provide guidance with illustrative examples, especially if there are more than one main business activity and one of these activities include investment activities.

Question 4 - The Operating Category: An Entity that Provides Financing to Customers as a Main Business Activity

Paragraph 51 of the ED 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?

POA's Comments:

We think that the accounting policy choice in the ED regarding classifying the income and expenses from financing activities under the operating category will reduce comparability by allowing entities to choose different accounting policy. On the other hand, classifying all financing income and expenses in the operating category will cause the financing income and expenses that are not part of the entity's main business activities to be classified in this category, and cause the operating profit, which is a significant elements for users, to include financing activity elements as well.

Furthermore, applying paragraph 51(b) of the ED will cause entities that provide financing to customers as a main business activity to present all financing income and expenses in the operating category. This will diminish the relevancy of the operating profit or loss particularly for such entities.

Thus, in our view, entities that provide financing to customers as a main business activity should be required to classify the financing income and expenses arising in relation to the provision of financing to customers in the operating category as specified in paragraph 51(a) of the ED as a general principle, and allowed to apply paragraph 51(b) of the ED as an exception only when such classification would cause entities to bear undue cost or effort.

Stakeholders' Comments:

CMB states that the requirement in paragraph 51 (b) may lead to the manipulation of operating profit or loss by combining the income and expenses generated in the main business activities, which are particularly continuous in nature, with infrequent financial income and expenses. In addition, CMB considers that this approach will cause significant problems in terms of the reliability and accuracy of the decisions taken by financial statement users, especially in cash flow estimates although information will be provided in the notes. In addition, CMB notes that it is anticipated that this accounting policy choice may be widely applied by businesses as it is particularly easy and affects the operating income and expenses. Therefore, CMB believes that it would be beneficial to remove the requirement in paragraph 51 (b) from the ED.

BRSA (Banking Regulation and Supervision Agency), states that if the accounting policy choice in paragraphs 51(a) and 51(b) is implemented, the comparability of the financial statements of entities operating in the same sector and preferring different accounting policies will decrease.

For requirement in paragraph 51(a), some of entities operating in finance sector note that it may be costly and difficult for entities which provide financing to customers as a main business activity to distinguish income and expenses from financing activities, and from cash and cash equivalents that relate to the provision of financing to customers from those that do not.

Stakeholders from different groups (academicians, financial statement preparers and auditors) state that since operating pofit or loss is an important indicator for the performance of entities, presenting the amounts related to financing in the operating category as stated in paragraph 51(b) may create the risk of misleading users of financial statements in terms of understanding and comparing financial statements.

However, a stakeholder who is an independent audit firm supports the implementation of paragraph 51 by financial institutions. This is because it is anticipated that most of the financial institutions will choose to apply in paragraph 51(b), and this will result in a sectoral implementation consistency. Nonetheless, the stakeholder notes that it is possible for entities which have high cash amounts and therefore net income from financing activities to choose the application in paragraph 51(b) with the motivation to increase their operating profit. Therefore, it is considered that requirement in paragraph 51(b) may pose a problem in terms of the fair presentation of financial statements and sectoral comparability.

Some stakeholders note that in general entities provide financing to customers through sales on term or installment sales, and request clarification of the category in which the costs or discounts arising from these transactions will be classified.

Question 5 - The Investing Category

Paragraphs 47–48 of the ED 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?

POA's Comments:

We support the presentation of income and expenses related to investment activities as a separate category in the statement of profit or loss; yet, we do not agree with the proposal to classify all income and expense elements arising from assets (tangible and intangible fixed assets) used in the entity's main business activities as specified in the ED in the operating category instead of investing category.

We agree on the classification of the depreciation or amortization expenses arising from the assets an entity uses in its main business activities in the operating category. Since such assets will be used in the main operating cycle of an entity, the depreciation or amortization expenses arising as a result of using such assets should be classified in the operating category. However, classifying the gains or losses arising from the disposal of such assets in the operating category instead of investing category will not be appropriate for the purposes of the operating category. The disposal of such assets is not directly related to the entity's main business activities, so we suggest that such gains or losses should be classified in the investing category instead of the operating category. Gains or losses resulting from such sale transactions arise individually and independently of other resources held by the entity; therefore classifying these earnings or losses in the investing category will be consistent with the presentation of cash flows from investing activities in the statement of cash flows.

The classification of income and expenses from investing activities in the ED is based on assets in the nature of an investment (assets that generate a return individually and largely independently of other resources held by the entity). Accordingly, income and expenses from investing activities include all income and expenses from such assets but the nature of these income and expenses is not taken into consideration. This causes the income and expenses from the assets used in an entity's main business activities (tangible and intangible assets) to be classified directly in the operating profit or loss without being distinguished into main business activities or investing activities; therefore leading the income and expenses arising from the disposal of assets used in the main business activities to be classified in the operating category even though such income and expenses are mostly related to investment activities. On the other hand, this proposal will also cause the expenses incurred for reasons such as impairment of property, plant and equipment or downsizing branches or offices to be presented in the operating profit or loss. However, although these expenses relate to main business activities, they are fundementally investment decisions regarding the continuity of the entities.

As a result, in our view, in the classification of income and expenses from investing activities, the nature of the income and expenses from such assets should be taken into account rather than the nature of the assets considered as "investment"; and the classification should be made in the investing category or the operating category in accordance with the category to which the income and expenses from such assets belong. Accordingly, instead of classifying all income or expenses arising from tangible or intangible assets held by a production entity in the operating category, it will be ensured that the expenses such as depreciation and amortization are classified as operating expenses (i.e. the use of such assets serves the entity's main business activities and therefore will be reflected on the main operating cycle), whereas the gains or losses arising from the disposal of such assets are classified in the investing category (since the entity's main/major business activity is not related to the sales of these assets).

In this context, we would like to emphasize and remind once more the need to clearly define the notion of "an entity's main business activity", which is not defined in the ED, in a way that will allow distinguishing of income and expenses from assets considered

in the scope of investment activity between the “operating category” and the “investing category”.
Stakeholders’ Comments:
Our stakeholders support the proposal 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. However, academicians stakeholder group argues that the profit or loss related to the disposal of tangible and intangible assets should be included in investment activities because it is not related to the main activities. On the contrary the CMB considers that the income or expenses arising from the use of tangible and intangible assets (such as amortization and depreciation expenses) and the gains or losses from the disposal of these assets should be reported in the operating category since these gains or losses are also related to main business activity. Therefore, CMB supports the approach in the ED that gains or losses arising from the disposal of tangible and intangible assets are presented in the operating category. In addition, some stakeholders note that it will be appropriate to clearly outline the main activities and investment activities. They argue that since some income and expenses may relate to both operating and investment activity due to the complexity or uncertainty of business activities, it will be useful to more clearly define the principles applied to such cases.

Question 6 - Profit or Loss before Financing and Income Tax And the Financing Category
(a) Paragraphs 60(c) and 64 of the ED propose that all entities, except for some specified entities (see paragraph 64 of the ED), present a profit or loss before financing and income tax subtotal in the statement of profit or loss. (b) Paragraph 49 of the ED 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?
POA's Comments:
Profit or Loss Before Financing and Income Tax: We support the proposal to present a profit or loss before financing and income tax subtotal in the statement of profit or loss. As specified in paragraph BC33 of the Basis for Conclusions, regardless of the income entities obtain from their main business activities, users want to have information about how the resources that lay the basis for this economic benefit are financed. Accordingly, it will be useful to present separately the income and expenses from operating and investing activities before the financing activity. However, as specified in paragraph 64 of the ED, as a result of applying paragraph 51(b), when all financing income and expenses, and income and expenses from cash and cash equivalents are classified in the operating category, a separate subtotal will not be presented as to the profit or loss before financing and income tax. We think that this will reduce comparability since it will eliminate the users' ability to compare and understand the operating performance of entities before financing income or expenses. We reaffirm our comment we presented for Question 5 on this matter. *The Financing Category:* Paragraph 49(b) of the ED requires an entity to classify income and expenses on liabilities arising from financing activities in the financing category, and paragraph B35 specifies that trade payables are considered as a liability arising as a result of financing activities. In this context, the interest expenses that will arise as a result of amortizing trade payables by using the effective interest method will be classified in the financing category. However, in paragraph B33 of the ED, it is proposed that interest revenue from trade receivables to be classified in the operating category. Accordingly, we

suggest that interest expense from trade payables to be classified in the operating category just like the interest revenue from trade receivables. Given that trade payables are part of an entity's main business activity, we evaluate that such classification would be more consistent and useful for the users.

Furthermore, ED requires income or expenses from cash and cash equivalents to be classified in the financing category, except for the income and expenses arising from investments in financial assets that are cash and cash equivalents in the scope of main business activities. In the ED, it is assumed that the portion of cash and cash equivalents that exceeds the amount necessary for the entities' main business activities are related to the entity's debt management and therefore it is proposed to classify such amounts in the financing category. However, it is suggested that the approach in the ED to be revised by considering that the excess amount of cash is more closely related to the entity's investment activities rather than its financing activities

Stakeholders' Comments:

All our stakeholders consider that it will be helpful for users of financial statements that entities present a profit or loss before financing and income tax subtotal in the statement of profit or loss.

However, our preparers stakeholder group, in general, requests more detailed guidance regarding the distinguishing of income or expense arising from cash and cash equivalents related to operating activities from financing activities (for example for applying paragraph 52(a), guidance on how to determine income and expenses from cash and cash equivalents invested in financial assets in the course of main business activity). Moreover, these stakeholders suggest that the excess cash amounts that are not related to operating activities are related to the investment activity rather than the debt management, and therefore suggest that the income or expenses from excess cash amounts should be reported in the investment activities.

CMB, one of our regulatory stakeholders, notes that trade receivables arise when the entity provides financing to customers; trade payables arise when suppliers provide financing to the business. Therefore, it is considered that it will be more appropriate to include interest income and expenses from trade receivables and trade payables into financing activities. CMB also highlights the importance of embracing the similar approach for income and expenses arising from trade receivables and trade payables.

In addition, an academician stakeholder states that there is no consistency of practice on which category is used for income from trade receivables measured at amortised cost, investments on financial assets, bank deposits, and cash and cash equivalents. The stakeholder requests to include requirements that will ensure consistency of implementation regarding these incomes. Moreover, the stakeholder recommends that

the valuation differences arising from trade receivables and trade payables should be presented together either in operating category or the financing category instead of presenting them in different categories.

Integral and Non-Integral Associates and Joint Ventures

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 ED 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 ED, 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?
POA's Comments:
We support the proposal to require entities to present separately a subtotal for the income and expenses from integral associates and joint ventures after the operating profit or loss. Such a distinction, in our view, will be useful for users to understand the synergy between entity and the entities it invests. Nevertheless, we think that a separate guidance needs to be provided in relation to associates and joint ventures accounted for using methods other than the equity method in separate financial statements. For instance, we think an explanation would be useful as to whether an associate accounted for using the cost method could be distinguished as "integral – non-integral" and whether a reporting would be made in the separate statement of financial positon or in the statement of profit or loss in accordance with this distinction.

In addition, as it is the case with associates and joint ventures, there is a need to clarify whether investments in subsidiaries presented in separate financial statements can be classified as "integral or non-integral" both in the ED and in the relevant Standards. If such a classification is made, a guidance will be required as to how subsidiaries accounted for using methods other than the equity method will be presented in the separately statement of financial position and statement of profit or loss.

On the other hand, integral associates and joint ventures are defined in IFRS 12, as it is stated. However, it is considered that the guidance provided in paragraph 20D of IFRS 12 is not sufficiently clear and is open to the judgement of entities. Considering the lack of comparability to be caused by this situation, we conclude that the scope of the guidance provided in paragraph 20D should be expanded, and the guidance should be reworded taking into account the different facts and circumstances entities are in.

Stakeholders' Comments:

CMB, one of our regulatory stakeholders, states that providing a distinction between integral and non-integral associates and joint ventures and presenting and classifying information in relation to these items separately in the financial statements will be difficult especially for the entities that have more than one main business activities and notes that users will have difficulties in understanding and using the items to be presented separately. From this perspective, it is considered that presenting associates and joint ventures accounted for using the equity method as a single item, as previously, without making the proposed distinction will be more appropriate. At this point, as in our country practices, it is thought that presenting income and expenses from associates and joint ventures accounted for using the equity method as a single line item under the investment category in the statement of profit or loss and disclosing information regarding the integral or non-integral characteristics of these associates and joint ventures in the notes will be more useful. Indeed, in the paragraph BC8 of Basis for Conclusions it is stated that this proposal arises due to the fact that the share of profit or loss of associates and joint ventures accounted for using the equity method is presented under different locations in the statement of profit or loss and also, in the paragraph BC78 of the Basis for Conclusions it is noted that IASB considers requiring entities to present their share of the profit or loss of associates and joint ventures as a separate item under the investing category in the statement of profit or loss. Furthermore, the classification of associates and joint ventures as integral and non-integral will affect both statement of financial position and statement of profit or loss as additional line items will be needed. Similarly, it is believed that creation of items for the associates and joint ventures accounted for using the equity method as IASB's proposal may cause difficulties in terms of both comparability and understandability for financial statement users.

Our independent auditing firms stakeholder group states that uncertainties may arise as to how the distinction between “integral” and “non-integral” will be implemented in practice and requests further guidance on distinction between “integral and non integral associates and joint ventures”.

Roles of Financial Statements, Aggregation and Disaggregation

Question 8 - Roles of the Primary Financial Statements and the Notes, Aggregation And Disaggregation
(a) Paragraphs 20–21 of the ED 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 ED 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?
POA’s Comments:
Roles of the Primary Financial Statements and the Notes: As proposed in the paragraphs 20-21 of the ED, it is deemed useful to emphasize that financial statements are addressed separately from the notes and the notes are a statement that presents additional and complementary information for enabling users to understand the nature and limits of financial statements and notes. However, instead of emphasizing the elements of financial statements in paragraph 20(a), we think it would be more appropriate to specify that financial statements provide users of financial statements with a view of the entity’s financial position, financial performance and cash flows. *Aggregation and Disaggregation:* In our opinion, the additional requirements proposed in the ED regarding the aggregation and disaggregation of the line items presented in financial statements and the additional guidance provided on this issue in paragraphs B5-B15 will improve the relevancy of the information presented in financial statements. Particularly the requirements in paragraph 27 to aggregate immaterial items and describe the group of aggregated items in a manner that faithfully represents the characteristics of the

aggregated items, and the requirement in paragraph 28 to disclose information about the aggregated immaterial items in the notes will help users to understand the immaterial items.

Stakeholders' Comments:

Roles of the Primary Financial Statements and the Notes:

Our stakeholders support the emphasis that financial statements are treated separately from notes and the notes is a statement that provides additional and complementary information to the financial statements.

In addition, CMB, one of our regulatory stakeholders, believes that it would be beneficial to emphasize that notes are an integral part of primary financial statements.

Aggregation and Disaggregation:

Our stakeholders agree with the proposed additional requirements regarding the aggregation and disaggregation of financial statement items.

An academician stakeholder states that, due to the proposals in the ED more relevant, understandable and comparable information will be presented. In this direction, it is considered that while aggregation of immaterial items will prevent presentation of many non-relevant information, disaggregation of items with different characteristics will help providing information that is more relevant to users and preclude obscuring significant information. Furthermore, this stakeholder emphasizes that the consistent definition and reporting of these aggregation and disaggregation of items are important considerations, especially in terms of comparability.

Question 9 - Analysis Of Operating Expenses

Paragraphs 68 and B45 of the ED 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 ED 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?

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POA's Comments:
We support the requirements in the ED to present the operating expenses by classifying them based on nature or function. As specified in paragraph BC110 of the Basis for Conclusions, classifying the operating expenses according to the nature of expense method contributes to the users' analysis of the operating expenses in detail, thereby making projections related to these expenses for future periods. Classifying the operating expenses by the function of expense method, on the other hand, ensures easy calculation of some performance measures. Nevertheless, in paragraph 68 of the ED, it is stated that entities will use the classification that provides the most reliable and relevant information in their analysis of the operating expenses. In this context, we think included indicators, in paragraph B45, which entities can take into account when deciding on which analysis to provide reliable and relevant information will be beneficial for entities in terms of their judgment. On the other hand, we support the view that when operating expenses are presented according to the function of expense method, such expenses also need to be analyzed in the notes based on their nature. As specified in paragraph BC111 of the Basis for Conclusions, analyzing expenses by the function of expense method may lead to the negligence of information that the users need, since it allows gathering the expenses, which can also change parallel to the changing economic conditions, under a single function. This, in turn, makes it harder for users to make a prediction regarding future operating expenses. However, paragraph B48 requires that total expenses are disclosed based on nature without breaking them to their function when operating expenses are disclosed in the notes based on nature. Considering that operating expenses are presented in financial statements based on their function and disclosed in the notes based on their nature, it should not create an overdue cost to breakdown operating expenses to the entity's functions based on their nature and to disclose them in the notes pursuant to paragraph 72. Therefore, within the scope of paragraph 72, we suggest that operating expenses to be disclosed in the notes based on their nature by braking down to the entity's functions.
Stakeholders' Comments:
Our academicians stakeholder group states that presenting operating expenses choosing either the nature of expense method or the function of expense method may undermine the comparability especially at the global level for the users and noted that the entities in our country are currently reporting operating expenses as proposed in the ED. On the other hand, they stated that if the choice right is continued, it would be more appropriate to include an analysis made according to the function of expense method

in the notes of the entities that prepare statement of the profit or loss according to the nature of expense method.

Some of the insurance companies find useful to complement the operating expenses analysis according to the function of expense method in the notes when the expenses are analyzed by the nature of expense method in the statement of profit or loss; while some of them state that this analyze in the notes would bring additional burden and cost. On the other hand, One of insurance companies states that it should be mandatory for insurance companies and similar financial institutions to classify the operating expenses according to the function of expense method and suggests that for such entities this classification would be more useful in respect to the users when compared to the nature of expense method.

CMB states that most of the entities in our country use the function of expense method however, the investment funds report according to the nature of expense method. From this point of view, CMB suggests that it will be more appropriate to continue the basis of presentation in IAS 1, as the proposals in the ED will be costly especially in terms of investment funds.

The preparers stakeholder group considers that it must be clearly stated that the cost of sales should be presented in both presentation preferences. These stakeholders also state that the presentation style in IAS 1 should be continued and in cases where the nature of expense method is adopted, it would be appropriate to explain the expenses according to the function of expense method in the notes in order to increase the understandability.

Question 10 - Unusual Income and Expenses

(a) Paragraph 100 of the ED introduces a definition of ‘unusual income and expenses’.

(b) Paragraph 101 of the ED proposes to require all entities to disclose unusual income and expenses in a single note.

(c) Paragraphs B67–B75 of the ED propose application guidance to help an entity to identify its unusual income and expenses.

(d) Paragraphs 101(a)–101(d) of the ED 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?
POA's Comments:
We believe that the requirements in the ED regarding the definition and disclosure of unusual income and expenses will help users of financial statements to develop reliable predictions about the entity's future income and expenses, and thereby increase the predictive value of the information presented in financial statements. However, the determination of unusual income and expenses in the ED is based on the expectation that these income and expenses will not be occured in the next several reporting periods of the entity. Accordingly, the income and expenses that have already arisen and will not continue after several future periods cannot be classified as unusual. For instance, expenses from restructurings expected to last more than one year will not be treated as unusual expenses. In this context, we suggest the redefinition of unusual income and expenses which will allow expenses resulting from such transactions and events also to be considered as unusual. With the ED paragraph 87 of IAS 1, which prohibits the presentation of extraordinary income and expenses in statement of profit or loss, will be abolished. Moreover, there is no requirement in the ED regarding extraordinary income and expenses. Therefore, in order to eliminate the possible hesitation of the financial statements preparers as to whether the requirements on unusual income and expenses will be applied to extraordinary items, we consider that it would be useful to clarify that extraordinary items and unusual items are two different things. On the other hand, the English words "unusual" and "extraordinary", as well as their equivalents in Turkish are very similar to each other, so it is assessed that distinguishing between the two concepts may be confusing. In this framework, we think it would be more useful for entities and users if these income and expenses with low predictability (unusual income and expenses) are denoted by using another term which underlines this characteristic (e.g. unpredictable income and expenses).
Stakeholders' Comments:
The academicians stakeholder group welcomes the proposals related to the unusual income and expenses in the ED. While CMB agrees that it will not be useful to disclose the unusual income or expenses, which will not be presented as a separate line item in the profit or loss statement, in the notes.

Some of the preparers stakeholder group agrees with our comments on this question. They consider that the criteria in the definition of unusual income and expenses should be based on the past events rather than the probability of occurrence of events in the future. Rather than requiring disclosure of these income and expenses in the notes, this stakeholder group also believes that information regarding unsusal income and expenses should be disclosed in cases when necessary to increase the understandability of financial statements.

A stakeholder who is an independent audit firm also believes that auditors will have difficulty in forming an opinion on the information in relation to the unusual income and expenses. Because the assessment as to whether 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 requires a high level of judgment and cannot be based on verifiable information.

Management Performance Measures

Question 11 - Management Performance Measures

(a) Paragraph 103 of the ED proposes a definition of 'management performance measures'.

(b) Paragraph 106 of the ED proposes requiring an entity to disclose in a single note information about its management performance measures.

(c) Paragraphs 106(a)–106(d) of the ED 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?

POA's Comments:

We support the amendment proposed in the ED to provide guidance on the management performance measures (MPMs) not calculated according to IFRSs and to require the disclosure of the measures in the notes when such measures are not included in the financial statements. Managements generally include in their annual reports amounts that are not calculated according to IFRSs in the analysis of their financial position, performance and cash flows which the users of financial statements find useful in assessing the business activities and financial performance of entities. In this context, the inclusion of these measures in the financial statements and the disclosure of such measures in the notes will improve the transparency and consistency in the financial statements.

On the other hand, our opinions and assessments regarding the proposed amendment are summarized as follows:

1) Some hesitation has emerged as to whether IASB will require the disclosure of MPMs which are not included in the financial statements and to which IFRS requirements are not applied, or whether there is a need for the introduction of such a requirement.

2) MPMs are defined as subtotals comprised only of income and expense items in the ED. Therefore, defining MPMs only in terms of income and expense subtotals will cause the MPMs disclosed by entities in their financial statements to be limited and thereby prevent the MPMs related to the entities' financial position and cash flows from being disclosed in the financial statements. Accordingly, we suggest that the definition of MPM in paragraph 103 of the ED be expanded so as to eliminate this limitation.

3) In reconciling the MPM and the amount presented in financial statements that is most comparable to the MPM as specified in the paragraph 106(c) of the ED, it is considered that disclosing the income tax effect and the effect on non-controlling interests for each item included in the reconciliation will create difficulty for the financial statement preparers. Therefore, while making the reconciliation, we suggest that the income tax effect and the effect on non-controlling interests be reflected for the total amount of reconciliation, rather than for each item included in the reconciliation.

Stakeholders' Comments:

Our academicians stakeholder group finds it useful for the users that the MPMs will be disclosed in the notes of the financial statements, however they consider that if some adjustments regarding these measures are calculated by using accounting policies that do not comply with IFRSs, some difficulties may be encountered with during their audit.

Insurance companies states that in order to increase consistency in practice, the MPMs should be pre-determined or clearly defined in advance and suggest that the MPMs should be limited to the subtotals specified in paragraph 103 of the ED, otherwise the calculation and disclosure of these measures will cause additional costs. On the other hand, these stakeholders think that MPMs that are not prepared in accordance with IFRSs will increase the expectations of audit firms from the entities about gathering correct information and making calculations with correct information. In addition, when taking into consideration the efforts of audit firms regarding the MPMs, it is believed that the audit of financial statements will be more difficult and costly. Furthermore, these stakeholders also agree with our comments and it is thought that the reconciliation process proposed in paragraph 106(c) of the ED will be difficult and costly.

CMB believes that the disclosure of MPMs should not be required, but if it will, the MPMs to be disclosed in the notes should be limited to the information and amounts presented in the financial statements. On the other hand, it is considered that if simple and clear methods for calculations to be made in the reconciliations between the MPMs and the information and amounts in the financial statements are defined and if these methods do not include the views and assumptions of the management, the disclosure of MPMs will have no effect on the audit or if it does, it will be limited. Therefore, the CMB believes that if the mentioned simple and understandable methods are defined, the reconciliation process proposed in paragraph 106 (c) of the ED will not cause a significant cost and argues that the proposed reconciliation process will have a sliding effect on the subjective methods and data which are used while developing MPMs.

The majority of the preparers stakeholder group agrees with our comments that the reconciliation process proposed in paragraph 106(c) of the ED will be difficult and costly. Some of this stakeholder group does not support the proposal to include MPMs as a note in the financial statements due to the wide variety of MPMs and differences in their calculation and definitions and the lack of clarification on which MPMs disclosed to the public will be included in the notes. Rest of these stekaholders states that most of the companies prepare MPMs by using the financial information and financial statement items included in the notes for reasons such as management reporting, operating segments or performance tracking or loan commitments, and it is seen that some entities already include MPMs in the notes of the financial statements. Therefore, for the companies applying IFRSs it is considered that this information can be included in the notes.

The majority of independent auditing firms stakeholder group is of the opinion that the disclosure of the MPMs in the notes will create difficulties in terms of audit and cause confusion by adding the evaluation of the entity's performance to the expectations of the users from the auditor. Some of this stakeholder group states that MPMs are among the financial information obtained from the entities during the audit or used by audit teams for risk assessment purposes, even at the planning stage, and notes that in the banking sector MPMs are subjest to attestation engagements. Accordingly, it is considered that if the calculations and reconciliations made by the entities regarding the MPMs are presented, this issue will not have a significant effect in terms of audit.

EBITDA

Question 12 - EBITDA
Paragraphs BC172–BC173 of the Basis for Conclusions explain why the Board has not proposed requirements relating to EBITDA.
POA's Comments:
As specified in paragraph BC173 of Basis for Conclusions, EBITDA is a measure specific to an entity, and its calculation will vary among entities, so we support the view that EBITDA should not be defined, as it is stated in the ED. Furthermore, EBITDA is used as the starting point for a range of financial analyses. In this context, we think that defining EBITDA as a management performance measure and requiring entities to present the disclosures specified in paragraph 106 will help users of financial statements understand the management's view of the entity's financial performance, and to use different approaches in the analysis they will make.
Stakeholders' Comments:
Our stakeholders support the view that EBITDA should not be defined as specified in the Basis for Conclusions, because it is an entity-specific criteria and the way it is calculated will differ between enterprises.

Statement of Cash Flows

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?

POA's Comments:

Using Operating Profit as the Starting Point for the Indirect Method of Reporting Cash Flows from Operating Activities:

We are of the opinion that the proposed amendment to paragraph 18(b) of IAS 7 regarding using the operating profit or loss as the starting point in the indirect method of presenting the cash flows from operating activities instead of the profit or loss for the period will be useful.

Using the operating profit or loss as the starting point in the indirect method of reporting the cash flows from operating activities will reveal the difference between the items that are converted into cash and that are accrued in terms of operating activities, which will be useful for the users of financial statements to understand how the operating profit or loss is converted into a cash flow.

Furthermore, the proposed amendment as specified in the mentioned paragraph will prevent items not related to the operating activities of entities from being included in the adjustment required by the indirect method, ensuring that only income and expenses classified in operating activities are taken into account, which will eliminate the difficulties entities face in reporting the cash flows from operating activities.

Classification of Interest and Dividends in the Statement of Cash Flows:

We support the classification of interest and dividends in the statement of cash flows in one of the operating, investing or financing category in accordance with paragraph 34A of the IAS 7 ED, removing the choice provided by IAS 7. Specifying in which part of the statement of cash flows the entity will present interest and dividend will improve comparability between entities and ensure a more fair representation of the nature of the cash flows.

Furthermore, we support the idea that the entities specified in paragraph 34B to classify the interest and dividends in the statement of cash flows based on the classification categories in the statement of profit or loss. This application will create a link between the entities' statements of profit or loss and statements of cash flows, which will be useful for both preparers and users of financial statements. Users of financial statements will have the opportunity to compare the cash flows from operating, investment and financing activities with the income and expenses from such activities, and will be able to analyze how much of the income accrued due to such activities is converted into cash.

Nevertheless, if the entities specified in paragraph 34B of IAS 7 report income and expenses under more than one category in the statement of profit or loss, they are required to report the cash flows from interest and dividends in the corresponding category in the statement of cash flows as a choice of accounting policy. However, the mentioned paragraph does not provide guidance as to how the entities will proceed if the category in which interest and dividends are classified is changed. Therefore, we believe it is necessary to provide guidance on whether a retrospective restatement is necessary in the statement of cash flows of such entities upon the first transition, since the classification is a change in accounting policy.
Stakeholders' Comments:
Our stakeholders supports our comments for the proposals regarding indirect method and classification of interests and dividends in the statement of cash flows. An academician stakeholder states that the direct method should be emphasized in IAS 7. On the other hand, another academician stakeholder thinks that if dividends and interests are classified under more than one category in the statement of profit or loss, the choice given to entities under paragraph 34B may adversely affect comparability. For this reason, it is considered that it is necessary to draw attention to the fact that reporting in the statement of profit or loss and statement of cash flows should be aligned. An insurer company states that classification of cash flows arising from interest and dividends in relation to the categories in the statement of profit or loss will require retrospective adjustment of the classification of cash flows, and for this reason finds it useful to anticipate additional time on this issue. Nevertheless, one of stakeholders finds the proposed classification in the statemen of cash flows reasonable in terms of users, and states that when the practice is taken into consideration, the cash flows from interests and dividends should be classified under either investing or financing category by emphasizing the items "dividend received" or "interest received" are related to investing activity in substance. The preparers stakeholder group thinks that additional illustrative examples and guidance are needed as to make this distinguishment reliable and to prevent diversity in applications for financial institutions.

Other

Question 14 - Other Comments
Do you have any other comments on the proposals in the ED, including the analysis of the effects (paragraphs BC232–BC312 of the Basis for Conclusions, including Appendix) and Illustrative Examples accompanying the ED?
POA's Comments:
Our opinions regarding the proposed amendments in other IAS/IFRSs in relation to the Illustrative Examples and the ED, including the Analysis of the Effects provided in paragraphs BC232-BC312 of the Basis for Conclusions, are summarized below: *Analysis of the Effects:* IASB shares its opinions and expectations as a standard setting authority on the possible benefit and cost that will arise as a result of the implementation of the new requirements proposed by the Board in the ED in the documents it opens for comment. We believe that this will contribute to improving the transparency of the standard setting process and help national standard setting authorities to evaluate current practices and develop a prediction. *IAS 7 Statement of Cash Flows:* In addition to the revision of the presentation of the statement of profit or loss, we believe it is necessary for IASB to conduct a study on the alignment of the statement of profit or loss and the statement of cash flows in a separate project. As is known, in the ED, income obtained and expenses incurred by entities are classified in terms of operating, investing or financing activities in the statement of profit or loss. Accordingly, an alignment with the statement of cash flows will be more useful for users to understand how income and expenses classified under each category are converted into cash flows, given that users of financial statements need financial statements for predicting the future cash flows of entities. On the other hand, in our view; the existence of three categories with different definitions both in the statement of profit or loss and the statement of cash flows (namely, operating activities, investment activities and financing activities), and the fact that the proposed requirements of IAS 7 are based on the categories in the statement of profit or loss will lead to confusion in implementation. In this context, a project to be conducted on the alignment between the statement of cash flows and the statement of profit or loss will be useful both in terms of consistency and the readability of financial statements. *IAS 33 Earnings per Share:*

We support the proposed amendments as to allowing the earnings per share to be calculated based on the subtotals specified in paragraph 104 or the MPMs specified in paragraph 106 of the ED, and the amount resulting from these calculations to be disclosed in the notes with the same priority as the earnings per share calculated applying IAS 33.

IAS 34 Interim Financial Reporting:

Given that interim reports provide the most up-to-date historical financial information about entities, we believe that it will be useful to make a disclosure in the notes to the interim financial statements regarding unusual items and MPMs. Because, as specified in paragraph BC222 of the Basis for Conclusions, although the reconciliation between the MPMs and the subtotals required by the ED is costly; disclosing these measures in the notes to annual financial statements without disclosing them in interim financial reports will weaken the link between these measures from period to period, diminishing the benefit of the disclosures about MPMs. Therefore, we believe that the planned amendment in IAS 34 will be useful.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and IFRS 7 Financial Instruments: Disclosures:

The Board proposed amendments by including some requirements of IAS 1 in IAS 8 and IFRS 7. Considering that the requirements proposed to be amended are mostly related to IAS 8 and IFRS 7, we believe that the amendments ensure the targeted integrity.

Stakeholders’ Comments:

As a comment regarding overall of the ED, the CMB states that due to the nature of the activities of investment funds, the formats for financial statements differ from those of other entities, and states that these formats are not in line with the current ED. For this reason, CMB suggests making an exception in the ED, especially for investment funds that have different operating structures.

On the other hand, while stakeholders support the changes proposed by ED to other standards, they have expressed their views mostly on the proposals regarding the disclosure of the MPMs in the interim financial statements.

In this context, insurance companies stakeholder group supports disclosing the MPMs in the interim financial statements however, it is considered that reconciliation of MPMs in the interim period as proposed paragraph 106(c) will be difficult and costly because the tax effect of some items (such as incurred but not reported) cannot be determined.

As stated in the comment of 11th question, CMB, thinks that if a clear and simple method is defined, the reconciliation process for MPMs will not be costly.

The preparers stakeholder group also considers disclosing MPMs in the notes in the interim period is useful, but they think that entities that make interim reporting voluntarily may be exempted from this proposal. An audit firm in this stakeholder group thinks that the inclusion of these MMPs in interim financial statements poses a risk of misleading readers, especially for companies affected by periodicity. On the other hand, reconciliation of MPMs with financial statement items in the interim period is also found difficult and costly by these stakeholders.