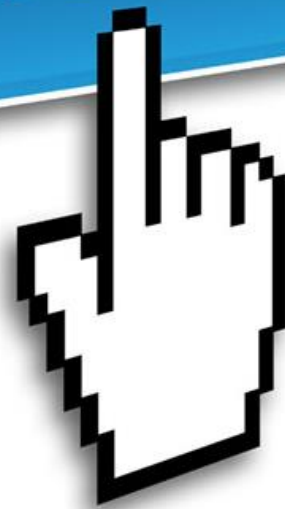

IASB ED2019/7 General Presentation and Disclosures

What we have heard ...





Comment



Operating category – residual approach and definitions

- Generally support the residual approach
 - will prevent the possibility of companies creating ‘other category’ for items that do not fit into any categories

- However, if operating profit or loss were to be referred as a residual category, definitions or descriptions in other categories may have to be reviewed.
 - definition of ‘financing activities’ is not consistent with IAS 7
 - suggest consistent definition to be used and similar to the rationale provided in paragraph BC40 of the Exposure Draft relating to ‘cash and cash equivalents’, using existing definitions that are well understood helps to ensure consistent application and comparable amounts in the financing category.
 - definition of ‘financing activities’ to be reviewed to ensure consistency in the new Standard with that of IAS 7 if they are meant to be similar;
 - or if they are meant to be different, the new Standard to use a different labelling instead of the label, ‘financing activities’

Operating category – definitions

□ ... definitions or descriptions in other categories may have to be reviewed (*cont.*)

■ an example

- paragraph 49(c) relating to ‘*An entity shall classify in the financing category (c) interest income and expenses on other liabilities (see paragraph 37)*’ [and explanation in para BC43]
- some entities, such as power/energy producers, expressed concerns that expenses such as the unwinding of interest of long-term provision for restoration costs forms part of their main business activities (operating activities as it relates to their nature of business)

consequently, in their view classifying the interest expense from the long-term provision in the financing category would inaccurately describe their operating profit or loss (though they noted paragraph BC44).

[Paragraph 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.]

Operating category – definitions

- ... definitions or descriptions in other categories may have to be reviewed (*cont.*)
 - proposed solution
 - applying paragraph 49(c) might result in a rule-based approach, and not reflecting the nature of the entity's business.
 - IASB to consider providing an exception related to paragraph 49(c) and/or B37 for entities that can justify the income and expenses on other liabilities that forms part of their main operating activities, due to the nature of businesses, to classify them in operating category, rather than financing.
 - clarification by way of additional explanation to paragraph B37 that an entity shall present the required line item in paragraph 49(c) even though such item may be operating based on the entity's nature of business, the entity could address the varying treatments by disclosing the adjusted operating profit or loss as a management performance measure and reconcile the figure to the most directly comparable subtotal specified by IFRS Standards.

Operating category – terminologies

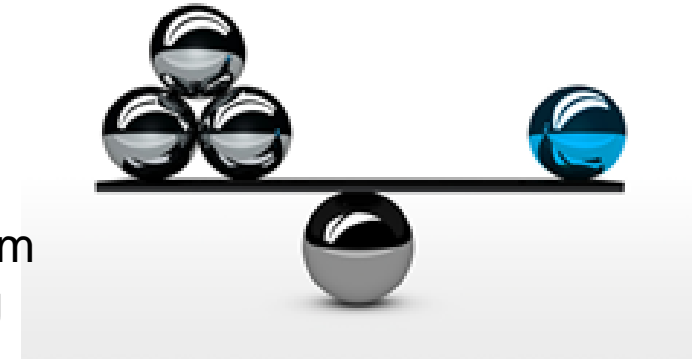
- Definition of ‘the course of the entity’s main business activities’ / ‘main business activities’ in paragraph 48 (and the whole Exposure Draft) may have to be reviewed to improve consistency in the application of the Standard.
 - The different terminologies being used in different IFRS Standards, albeit suggesting almost similar contexts, has the potential to open up to various interpretations.
 - For example, the ‘main business activities’ in this Exposure Draft may be confused with ‘principle revenue-producing activities’ in paragraph 6 of IAS 7, and ‘arising in the course of an entity’s ordinary activities’ in Appendix A of IFRS 15 *Revenue from Contracts with Customers*.
 - To use similar terminology to reflect ‘the course of the entity’s main business activities’ / ‘main business activities’ by aligning to those in other existing standards; or
 - To provide a clear guidance of the term ‘the course of the entity’s main business activities’ / ‘main business activities’ in the proposed IFRS Standard

Operating category – option

Operating category: an entity that provides financing to customers as a main business activity

Differing views

- Supportive of accounting policy choice, between classifying in the operating activities
 - Option (a): income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or
 - Option (b): all income and expenses from financing activities and all income and expenses from cash and cash equivalents.



to cater for the variations in business models, for example a car dealer with business activity that involves provision of financing to its customers to purchase of car.

The car dealer, depending on its ability to allocate the income and expenses between those related to the provision of financing and those which are not, is permitted to choose between Option (a) or (b).

Operating category – option

Operating category: an entity that provides financing to customers as a main business activity

Differing views

■ No accounting policy choice and only to provide

- Option (a): income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or

accounting policy choice would impede the objective of enhancing comparability of the financial statements.

- in practice, the allocation of income and expenses for businesses with more than one business activity, if applicable, may not always be on an arbitrary basis.
- E.g., interest expense from a financing that is secured for the whole business may not be easily allocated between those related to the provision of financing and those which are not.

Investing category

General support

However, the phrase “largely independently of other resources” is inexplicit.

- there is limited guidance provided in the proposal to illustrate how an entity classify its asset that generate a return individually and largely independently of other resources held by the entity.
- further guidance on “largely independently of other resources” is required in order to avoid any accounting arbitrage

(e.g. an entity might classify a loss-making investment as largely independent of other resources held by the entity, whilst a profit-making investment would be considered as part and parcel of the entity’s main business activity and not largely independent of other resources.)

Unusual items

□ Unusual items

- possibility of divergent in the interpretation / definition of unusual items
 - (it was a big issue during the extraordinary items era)
- will there be a risk that preparers' may use this note to sway readers as to a certain view on their financial information
- IAS 1 currently prohibits the presentation or disclosure of extraordinary items. This prohibition is not included in the ED, although the Basis for Conclusions indicates that extraordinary items are still prohibited.

