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25 September 2020

EFRAG's Draft Comment Letter on the IASB's Exposure Draft ED/2019/7, General Presentation and Disclosures

The Danish Accounting Standards Committee ("DASC") set up by FSR - Danish Auditors is pleased to respond to EFRAG's Draft Comment Letter (DCL) on the IASB's Exposure Draft (ED) on General Presentation and Disclosures.

Our detailed response to the questions in the DCL is included on the following pages. We have included below some more overall and general observations.

DASC appreciates the ED as a step in the right direction. Comments provided by the participants in the joint online outreach event held on 14 May 2020 by EFRAG in collaboration with the FSR - Danish Auditors, the Confederation of Danish Industry and the International Accounting Standards Board indicate that, despite great efforts by the IASB, the ED will not solve all of the issues that it aims to solve. For the comments provided by participants at the outreach event we refer to the Summary Report on the Joint Online Outreach Event held on 14 May 2020 on the IASB Exposure Draft General Presentation and Disclosures on EFRAG's website.

DASC encourages the IASB to consider including guidance for the parent standalone financial statements. This based on experience from our jurisdiction, where many entities also apply IFRS in the standalone financial statement in the parent of a group. To mention one area of difficulty, the application of the equity method in the parent standalone financial statements often give rise to difficulties because of diversity in the perception of the equity method; is the equity method is a consolidation method or is it a method for measuring investments in subsidiaries and associates in the parent standalone financial statements.

The ED includes two general approaches, which IASB tries to solve at the same time. Firstly, a common theme of standardization and comparability, e.g. mandatory subtotals and categorisation of the income statement. Secondly, several other changes aiming at enforcing tailored or entity-specific information, such as disclosure of unusual items and management performance measures (MPMs). We generally agree with standardization as it improves consistency over time and comparability across entities. Similarly, we generally agree that entity-specific information is more useful than more generic and boilerplate-type information, but we do see some challenges by trying to solve both of these issues at the same time. DASC has provided comments to the ED on a question-by-question basis and therefore, we like to point out that our comments to a specific

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question could be different, if another area in the ED is changed accordingly. Therefore, it is important to note that the challenges the ED aims to solve and the questions raised are highly coherent.

If you have any questions or comments, please do not hesitate to contact us.

Kind regards

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DASC Chairman

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Question 1 – Operating profit or loss

Paragraph 60(a) of the Exposure Draft proposes that all entities present in the statement of profit or loss a subtotal for operating profit or loss. Paragraph BC53 of the Basis for Conclusions describes the Board’s reasons for this proposal. Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

DASC’s response

DASC generally agrees with EFRAG’s response and comments listed in the DCL.

On balance, DASC has sympathy for having an operating profit category in the statement of financial performance but if we were to choose between the proposed formats with the categories and changes to the requirement for segment reporting, we have some sympathy for the latter.

DASC notes that one of the key objectives of the project will be achieved only if the composition of the proposed operating category is well defined. We do acknowledge however, that this is a trade-off between more detailed provisions (“rules”) versus principles.

DASC also supports the requirement for all entities to present a subtotal for profit or loss in the income statement for the reasons stated in the Basis for Conclusions. Entities in our jurisdiction frequently present the subtotal and imposing its presentation will facilitate the comparison of this key metric between entities.

DASC further supports EFRAG’s comment about the importance of a clear conceptual basis for new structure and need for explaining why there is no alignment between the three categories (operating, investing and financing) in the income statement and the cash flow statement - which we think both is potentially confusing and will add unnecessary complexity.

Question 2 – the operating category

Paragraph 46 of the Exposure Draft proposes that entities classify in the operating category all income and expenses not classified in the other categories, such as the investing category or the financing category. Paragraphs BC54–BC57 of the Basis for Conclusions describe the Board’s reasons for this proposal. Do you agree with this proposal? Why or why not? If not, what alternative approach would you suggest and why?

DASC’s response

DASC generally agrees with EFRAG’s response and comments listed in the DCL.

We acknowledge the potential difficulties to arrive at a single and easy understandable definition of the three categories proposed for the statement of financial performance. To that end, DASC agrees it is easier to define the investing and financing categories with the operating category remain the residual category; but we encourage the IASB to explain in particular the concept of the investing and financing categories better. In our view, it require more explanation of the concept of the investing and financing categories to arrive at the desired end result that the operating category is comprised of

all income and expenses of an entity except for those that belong in the narrowly defined other categories.

In DASC's view, the expression "main business activity" may stimulate discussion whether it captures certain kind of revenue by a positive definition of operating activities; for example, where an entity sells goods to customers and at the same time offer financing to customers. In such scenario, DASC would think that income (revenue) earned from both categories of performance obligations (sale of goods and financing) would be included in operating activities because it neither meet the definition of investing or financing activities. We suggest that IASB consider either dropping the use of the expression "main business activity" or clarifies that operating activities are comprised of all income and expenses except those that meet the narrow definition of investing and financing categories.

If the IASB keeps use of the expression "main business activity", it should explain more clearly why it is important to identify an entity's "main business activities" (because it is then needed as part of the narrow definition of investing and financing activities) and preferably also add guidance illustrating how an entity determines its main business activities.

In DASC's view, it is better to maintain segmentation of activities as part of the IFRS 8 segment disclosure.

Question 3 – the operating category: income and expenses from investments made in the course of an entity's main business activities

Paragraph 48 of the Exposure Draft proposes that an entity classifies in the operating category income and expenses from investments made in the course of the entity's main business activities. Paragraphs BC58–BC61 of the Basis for Conclusions describe the Board's reasons for this proposal. Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

DASC's response

DASC generally agrees with EFRAG's response and comments listed in the DCL.

As per our response to Question 2, in order for operating profit or loss to provide useful information (a key objective as explained in the ED paragraph BC59) DASC thinks it necessary to provide guidance on what constitutes a "main business activity" if that expression remains in the final standard. If so, guidance on when an entity is permitted - or even required - to reassess what constitutes its main business activities is also required.

We find guidance in this area essential because of the judgement required to determine what constitutes a main business activity. This judgement will determine whether certain types of income and expenses are included in operating activities rather than in investing or financing activities.

For some entities, "main activities" may not necessarily comprise the same as the entity's "primary activities". Some entities will have activities other than "main activities", but rather than implementing segmentation into the statement of financial

performance as proposed, DASC favours to maintain segmentation in the notes. Maybe the guidance of IFRS 8:B31 should be expanded as it currently notes that if applying IFRS 8, and the entity reports a segment that constitute as single business activity, this may indicate that an activity is a main business activity. IFRS 8 does not provide further indication why it may or may not be the case. Information provided when applying IFRS 15:114 (on disaggregation of revenue) may also be relevant in identifying what are the entities main business activities.

Question to constituents

32 *For those in a regulated industry, would the IASB proposals in paragraph 48, for entities that invest in the course of the entity's main business activities, result in significant changes in practice that would be in conflict with regulation in your industry? Do you expect any additional challenges or significant costs?*

33 *Do you consider that separating returns from investments made in the course of an entity's main business activities from those that are not will be difficult to make in practice? Please explain.*

DASC's response

32: We do not expect this to result in significant changes or conflicts in Denmark, where the number of non-financial IFRS issuers in regulated industries is limited. Entities in the financial industry must follow fixed format schedules in the parent only financial statement and is therefore already familiar with concept of allocating certain income and expense in the fixed format schedules.

33: It will most likely give rise to some debate, not where an entity invests in a single asset and generates returns from investment but more likely where an entity invests in investment property and shall determine whether investments in investment properties is part of entity's main business activities.

Question 4 – The operating category: an entity that provides financing to customers as a main business activity

Paragraph 51 of the Exposure Draft proposes that an entity that provides financing to customers as a main business activity classify in the operating category either:

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

Paragraphs BC62–BC69 of the Basis for Conclusions describe the Board's reasons for the proposals.

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

DASC's response

DASC generally agrees with EFRAG's response and comments listed in the DCL.

DASC is also not in favour of an accounting policy choice. We favour allowing entities that provide financing to customers as a main business activity to classify in the

operating category income and expenses from financing activities, and from cash and cash equivalents that relate to the provision of financing to customers. In our view, it would not be appropriate to include in operating activities all income and expenses from financing activities and from cash and cash equivalents. It brings up again the issue of judgement required determining the categorization and to isolate items belonging to operating category; i.e. those items that clearly does not fit into either the financing or investing category.

Should an entity be unable to distinguish its financing activities related to providing financing to customers, DASC believes the entity should include all income and expenses related to its financing activities as part of financing activities and all income and expenses from cash and cash equivalent in investing activities.

Question to constituents

42 Do you consider that it is difficult or costly to allocate income and expenses from financing activities and from cash and cash equivalents to those that do or do not relate to the provision of financing to customers? Please explain.

43 For those that provide financing to customers as a main business activity and are in a regulated industry, would the IASB's proposals in paragraph 51 of the ED be in conflict with regulation in your industry? Do you expect any additional challenges or significant costs?

DASC's response

42: In the experience of DASC, we would not think it more difficult or more costly to allocate income and expenses from financing activities and from cash and cash equivalents to those that do or do not relate to the provision of financing to customers. Today, entities have to do similar exercise allocating borrowing costs to qualifying asset under IAS 23. In our experience, entities do not experience major problems in this regard.

43: Referring to our response to Question to constituents # 32 we do not expect this to result in significant changes or conflicts in our jurisdiction, where the number of non-financial IFRS issuers in regulated industries is very limited. Entities in the financial industry must follow fixed format schedules in the parent only financial statement and is therefore already familiar with concept of allocating certain income and expense in the fixed format schedules.

Question 5 – The investing category

Paragraphs 47–48 of the Exposure Draft propose that an entity classifies in the investing category income and expenses (including related incremental expenses) from assets that generate a return individually and largely independently of other resources held by the entity, unless they are investments made in the course of the entity's main business activities. Paragraphs BC48–BC52 of the Basis for Conclusions describe the Board's reasons for the proposal. Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

DASC's response

DASC generally agrees with EFRAG's response and comments listed in the DCL.

Our comments in response to Question 2 and 3 related to the need for providing clearer guidance on what constitutes a main business activity are also relevant here.

DASC debated the issue of income and expenses that arise from cash and cash equivalents related to the entity's financing. DASC has sympathy for EFRAG's suggestion of an approach where the financing category is linked to the management of liabilities that arise from financing activities (as described in IAS 7) and the investing category is linked to the management of investments in assets. DASC, however, notes that companies focusing on net-interest bearing debt may not see a need for such an approach.

Question to constituents

57 Do you consider income and expenses from cash and cash equivalents (i.e. short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value) as part of the entity's financing (paragraph 54 above) or investing activities (paragraph 55 above)? Please explain.

63 How costly would it be to track whether exchange differences relate to the entity's main business activities, investing activities or financing activities? Please explain.

DASC's response

57: DASC debated the issue. Intuitively, we consider it investing but acknowledge there are arguments for presentation as financing. One view is that income and expenses from cash and cash equivalents has the most direct link to the entity's financing activity. Therefore, it should be included in the financing category. Another view is that cash and cash equivalents is part of the entity's overall cash-management strategy. For instance, whether to keep surplus cash in a bank account or place it in short-term, highly liquid investments to obtain better yield would seem an investment decision.

63: DASC considers that entities in general has a good capture of data in place and at the same time use modern it-systems. Therefore, DASC would not expect entities experiencing such a requirement as being excessively costly but admittedly, entities is in a better situation to respond to this. DASC did discuss if presentation of e.g. foreign exchange rate differences and adjustments resulting from application of hedge accounting be presented in a single line in the statement of financial performance. Given the complexity that could potentially arise taking into consideration where (i.e. which category) such adjustments should be included, we think IASB should providing further guidance for instance on the interaction with the chosen presentation of operating expenses (by nature or by function).

Question 6 – profit or loss before financing and income tax and the financing category

(a) Paragraphs 60(c) and 64 of the Exposure Draft propose that all entities, except for some specified entities (see paragraph 64 of the Exposure Draft), present a profit or loss before financing and income tax subtotal in the statement of profit or loss.

(b) Paragraph 49 of the Exposure Draft proposes which income and expenses an entity classifies in the financing category.

Paragraphs BC33–BC45 of the Basis for Conclusions describe the Board's reasons for the proposals.

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

DASC's response

DASC generally agrees with EFRAG's response and comments listed in the DCL.

DASC considers this proposal a necessary step in achieving the key objective of more comparability across entities. Therefore, we agree with the proposal to require entities (with limited exceptions) to present a profit or loss before financing and income tax subtotal in the statement of profit or loss providing a useful basis for comparing the performance of entities no matter how financed.

Rather than the proposal in paragraph 49(a) that income and expenses from cash and cash equivalents should generally be included in financing activities we favour EFRAG's suggestion (as mentioned in question 5) that income and expenses from cash and cash equivalents is linked to the management of liabilities arising from financing activities and management of investments in assets respectively. Because cash and cash equivalents are generally assets, we believe that EFRAG's suggestion would simplify the understanding of financing activities (income and expenses related to an entity's liabilities) and investing activities (income and expenses related to an entity's financial assets).

DASC also believes that including income and expenses from cash and cash equivalent as part of investing activities has the merit of including in the same category income and expenses from cash equivalents and from other very liquid investments that share many characteristics with, but fail the narrow definition of, cash equivalents.

Question to constituents

76 Do you consider income and expenses that reflect the effect of the time value of money on liabilities that do not arise from financing activities (as in paragraph B47 of the ED) as part of the entity's financing or operating activities? Please explain.

DASC's response

76: DASC debated this issue and were in doubt; members have mixed views. Most members lean towards financing, with some seeing merit of including it in operating. It can be a difficult judgement. As an example, DASC considered provisions for restoration, where it seems arguable that the time value of money is more akin to the operating than the financing activity. Arguments for financing activity DASC would argue relate to provisions where an entity could choose to settle the provision now, but has the option to defer it. In such cases, it seems arguable that the time value of money is more akin to the financing than the operating activity.

Question 7 – Integral and non-integral associates and joint ventures

(a) The proposed new paragraphs 20A–20D of IFRS 12 would define 'integral associates and joint ventures' and 'non-integral associates and joint ventures'; and require an entity to identify them.

(b) Paragraph 60(b) of the Exposure Draft proposes to require that an entity present in the statement of profit or loss a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures.

(c) Paragraphs 53, 75(a) and 82(g)-82(h) of the Exposure Draft, the proposed new paragraph 38A of IAS 7 and the proposed new paragraph 20E of IFRS 12 would require an entity to provide information about integral associates and joint ventures separately from non-integral associates and joint ventures.

Paragraphs BC77–BC89 and BC205–BC213 of the Basis for Conclusions describe the Board’s reasons for these proposals and discuss approaches that were considered but rejected by the Board.

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

DASC’s response

While DASC has sympathy with EFRAG’s response and comments listed in the DCL we do not support the proposals to require entities to distinguish “integral associates and joint ventures” and “non-integral associates and joint ventures”.

In our view, this proposal gets too much attention in the ED. It may well be because it is more widespread in other jurisdictions. In our jurisdiction, we note that this is not a big issue.

We doubt that the application of the definition will produce relevant information and agree that the change in presentation will involve significant judgements because the concept of “integral” vs “non-integral” proposed in the ED is not clearly defined and as a result, the classification will be highly judgmental. What is determining the classification; the nature of the activities of the investees or the interdependence of returns.

The proposal runs the risk of being counterproductive to the overall purpose of improving comparability in the presentation, and subtotals in the statement of performance by adding a layer of complexity and may result in producing information that is not relevant to the users of financial statements because of the significant judgement involved.

In our view, it would also be difficult to identify a single set of criteria that would apply to joint ventures and associates because they are different. Joint ventures are characterized by the entity having joint control and being involved in the management of the operations making them more akin to activities of subsidiaries. Associates are characterized by the entity having significant influence which, in comparison to joint control, presumes a more limited influence over an entity’s associates making them more akin to the investment in a financial asset.

DASC questions whether the proposal in the ED is the most relevant basis to distinguish different types of equity method investees. Both for joint ventures and associates there are exceptions to the nature of their activities and, therefore, we do not believe that it would be appropriate to require all joint ventures to be classified within operating activities and all associates within investing activities. Also, change in the relationship between the activities of the entity and those of its joint ventures and associates may change over time resulting in lack of comparability of performance over time.

Our preference would be to have all equity accounted investments presented within one line in the statement of financial performance because, as a net number, the share of profit or loss from equity method investments combines income and expenses that arise from the operating, investing and financing activities of the joint ventures and associates.

Should the support for the proposed concept of “integral” vs “non-integral” gain widespread support, DASC suggests that the split between “integral” and “non-integral” is provided in the notes to the financial statements. This will result in the information still being there; just not on the face of primary statement.

Question to constituents

93 Do you consider that the IASB needs to expand the new paragraph 20D of IFRS 12, for example to include additional indicators, to reduce the level of judgement involved when making a distinction between integral and non-integral entities? Please explain.

94 Considering that the IASB is proposing the subtotal “profit before financing and income tax”, which includes the result of associates and joint-ventures on a net basis, do you consider that it would be useful to separately present or disclose the income tax related to associates and joint-ventures accounted for under the equity method?

DASC's response

93: DASC has no immediate suggestions for expanding the proposed paragraph 20D as we are not in favour of a split between integral and non-intergral associates and joint ventures.

94: Given the number of challenges making the distinction between integral and non-integral entities and the fact that a net number presentation conflicts with the proposed categorization in the statement of financial performance, DASC favours presentation in a single line and disclosure if income tax related to associates and joint-ventures accounted for under the equity method in the notes.

Question 8 – Roles of the primary financial statements and the notes, aggregation and disaggregation

(a) Paragraphs 20-21 of the Exposure Draft set out the proposed description of the roles of the primary financial statements and the notes.

(b) Paragraphs 25-28 and B5-B15 of the Exposure Draft set out proposals for principles and general requirements on the aggregation and disaggregation of information.

Paragraphs BC19–BC27 of the Basis for Conclusions describe the Board's reasons for these proposals.

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

DASC's response

DASC has mixed views. Some members generally agree with EFRAG's response and comments listed in the DCL and welcome principles in this area noting that these principles may also require the exercise of judgement. Others questions the need for more guidance in this area based on observations that companies in our jurisdiction

generally does not seem to struggle significantly with these issues in their financial statements.

However, DASC acknowledges that a difficulty could be illustrated using paragraph B15 of the ED on disaggregation in the statement(s) of financial performance. The paragraph appears to include requirements that are inconsistent with the proposals on unusual items in paragraph 100, which does not explain why separate presentation of items in paragraph 100 of the ED is required. Some of the examples listed in paragraph B15 arguably appear of a recurring nature (for instance, inventory write-downs). Others may appear to have non-recurring characteristics (such as impairments and restructurings). In addition, disclosure of the items in paragraph B15 of the ED seems to be incompatible with a presentation by function and therefore contributes to the problem of mixed presentation that the ED is attempting to address in the project.

Question 9 – Analysis of operating expenses

Paragraphs 68 and B45 of the Exposure Draft propose requirements and application guidance to help an entity to decide whether to present its operating expenses using the nature of expense method or the function of expense method of analysis.

Paragraph 72 of the Exposure Draft proposes requiring an entity that provides an analysis of its operating expenses by function in the statement of profit or loss to provide an analysis using the nature of expense method in the notes.

Paragraphs BC109–BC114 of the Basis for Conclusions describe the Board’s reasons for the proposals.

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

DASC’s response

While DASC has sympathy with EFRAG’s response and comments listed in EFRAG’s DCL we note that we prefer the option of presenting a mixed format combined with either the by-function or by-nature presentation in the notes be retained.

According to the ED, the entity shall present the analysis using the method that provides the most useful information to users of their financial statements (paragraph 68). It seems strange to us that the ED then, in the subsequent paragraph 72 mandates companies that have selected the function of expense method - the method that provides the most useful information to users of their financial statements - to also disclose in a single note an analysis of its total operating expenses using the nature of expense method.

The ED itself is not clear in some places. For instance, paragraph B47 of the ED specifies that the lines required by paragraph 65 of the ED be presented in the statement of profit or loss regardless of the method of analysis of expenses used. One of these line items is “cost of sales” (ED paragraph 65(a)(vii); an expense characterized by its nature). Paragraph 71 of the ED seems to suggest that an entity is required to presented separately “cost of sales” when applying the function of expense method. We think the IASB should clarify when the presentation of “cost of sales” is required. In DASC’s view, this should be the case only if an entity presents an analysis of expenses applying the function of expense method.

Another example is paragraph B15 of the ED requiring an entity to either present separately on the statement of financial performance or disclose in the notes certain items of income and expenses (e.g. write-down of inventories or plant and equipment, restructuring, etc.). The separate presentation of these items is only compatible with an analysis of expenses applying the nature of expense method (e.g. when applying the function of expense method, write-down of inventories would be included in cost of sales). These items are not included as part of the exception to the mixed presentation of expenses in paragraph B47.

In DASC's view, the IASB should clarify whether an entity that presents an analysis of expenses applying the function of expense method is permitted to present separately the line items (that is characterized by their nature) in paragraph B15 of the ED (DASC preference). Alternatively, whether such entities is permitted only to present the items in paragraph B15 of the ED in the notes to the financial statements.

Question to constituents

121 Do you consider that it is useful to have disclosures by nature in single note when an entity presents its expenses within operating profit or loss by function (i.e. when an entity assesses that presentation by function provides the most useful information)? Do you anticipate that such information will be costly to provide? Please explain.

122 Do you consider that it is useful to have in the statement of profit or loss:

(a) a strict presentation either by nature or by function (no mix);

(b) a general presentation by nature or by function together with limited additional requirements as suggested in the ED by the IASB; or

(c) a mix presentation basis (no restrictions). Please specify why.

DASC's response

121: Favouring that the possibility of mixed format with disclosure of by nature or by function in the notes we consider such disclosures useful. We do not expect such information to be over costly to provide because 1) many entities already include the disclosure today and 2) use of modern IT systems has either been set up to provide the information or can be set up without incurring excessive costs.

122: As explained in our response to question 9, DASC prefers option (c) combined with a requirement to specify by nature or by function in the notes (i.e. the possibility currently in IAS 1) because it provides the same information as if presented on the face of the statement of financial performance. In addition, it will allow entities to continue presenting the frequently used subtotal "EBITDA" on the face of the statement of financial performance.

Question 10 - Unusual income and expenses

(a) Paragraph 100 of the Exposure Draft introduces a definition of 'unusual income and expenses'.

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

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

(d) Paragraphs 101(a)–101(d) of the Exposure Draft propose what information should be disclosed relating to unusual income and expenses.

Paragraphs BC122–BC144 of the Basis for Conclusions describe the Board’s reasons for the proposals and discuss approaches that were considered but rejected by the Board.

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

DASC’s response

DASC generally agrees with EFRAG’s response and comments listed in the DCL.

We welcome principles in this area and agree that an entity should not be allowed to present items as being unusual on the face of the income statement unless the criteria for disaggregation in paragraphs 25-28 are met.

The assessment of whether it is reasonable that an item will not arise for several future annual periods is highly judgmental. It is important that proposals of the ED does not leave users with the impression that the resulting information provides a reliable measure of “normalized” profit to be expected in the future.

DASC discussed whether the notion of unusual items could be clarified. For instance, whether an entity is required to actively search for unusual items when preparing financial statements or meant to capture only those unusual items that turn up during the entity’s established reporting routines. To achieve one of the implicit objectives of this project (further discipline on disclosure of unusual items) we suggest the IASB provides more guidance on identification of unusual items or events and when disclosure is required (when relevant to ensure understanding of the financial statements).

Question 11 – Management performance measures

(a) Paragraph 103 of the Exposure Draft proposes a definition of ‘management performance measures’.

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

(c) Paragraphs 106(a)–106(d) of the Exposure Draft propose what information an entity would be required to disclose about its management performance measures.

Paragraphs BC145–BC180 of the Basis for Conclusions describe the Board’s reasons for the proposals and discuss approaches that were considered but rejected by the Board.

Do you agree that information about management performance measures as defined by the Board should be included in the financial statements? Why or why not?

Do you agree with the proposed disclosure requirements for management performance measures? Why or why not? If not, what alternative disclosures would you suggest and why?

DASC’s response

DASC generally agrees with EFRAG’s response and comments listed in the DCL.

Being part of the organization FSR - Danish Auditors we strongly emphasize that the proposed definition of MPMs in the ED is too wide. In DASC's view, it seems a topic that should be addressed by the regulators.

If MPMs include any subtotals of income and expenses referred to in any public communications outside the financial statements (presumably capturing all analysts' presentations, press releases or any other public communications) that complements totals or subtotals specified in IFRS Standards there would be a significant risk. The risk also includes an audit risk, that is difficult (if not impossible) to operationalize in regards of ensuring completeness of the MPMs. It is very difficult for us to see how to achieve this. We strongly encourage the IASB to reconsider the definition of MPMs proposed in ED. Guidelines developed by the IOSCO could provide a relevant basis that the IASB could refer to in developing revised proposals.

We also fear a widening of the expectation gap between the role of auditors and the expectation of users of the financial statements because APMs that meet the definition of an MPM would be subject to audit by virtue of being included in the financial statements. APMs that does not meet the definition of an MPM (and therefore placed in the management report) would in our - and many other European jurisdictions - be subject only to review procedures.

Questions to constituents

185 What is your assessment of the overall costs and benefits of the IASB's proposal on the calculation of the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation as required by paragraph 106(b)?

186 What is your assessment on number of MPMs that will need to be disclosed by entities under the IASB's proposals? Please indicate which MPMs you have identified.

187 What is your assessment on the relevance of the MPMs identified (is it too much? too little? which additional ones?)

188 Do you agree with the scope of the IASB's proposals? If not, which alternative (Alternative 1 or Alternative 2 above) would you prefer so that financial statements remain relevant?

189 Do you agree with EFRAG's suggestion to apply the MPM requirements also to the non-GAAP performance measures, presented within financial statements, that may not satisfy the proposed criteria of MPMs (e.g. adjusted revenues and ratios)?

190 The ED is introducing more structure in the presentation requirements, including a requirement to present on the face of the income statement a new subtotal named "operating profit or loss", which will become an IFRS defined measure. Entities that currently use a performing measure labelled "operating profit or loss" on the face or in the notes will be forced to either (i) change the label for their performing measure and continue to use both the old measure and the new IFRS defined "operating profit", or to (ii) discontinue the pre-existing performance measure, replacing its use with the new IFRS defined "operating profit or loss".

In the context described above, do you believe that the IASB's proposals on the structure and content of the statement of profit or loss will lead to an increased number of MPMs?

DASC's response

185: In DASC's view, the level of detail here is very deep given we have not come across request of such depth of disclosure in this area. We assess that it is potentially burdensome and we think the benefits of providing the disclosure be outweigh by the cost of providing it.

186-190: DASC did not discuss these questions.

Question 12 – EBITDA

Paragraphs BC172–BC173 of the Basis for Conclusions explain why the Board has not proposed requirements relating to EBITDA.

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

DASC's response

DASC has sympathy with EFRAG's response and comments listed in the DCL. We see merits in the IASB defining EBITDA because the ED is proposing to eliminate the mixed format presentation of expenses. Arguments against defining EBITDA includes the fact that EBITDA serves no clear purposes in the context of IFRS Standards, so why should the IASB take over defining it.

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 operating 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?

DASC's response

DASC generally agrees with EFRAG's response and comments listed in the DCL.

Even though the composition of operating activities in the statement of financial performance does not align with the statement of cash flows, using operating income as a starting point will reduce the number of adjustments required and thereby improve the clarity of the statement of cash flows. Furthermore, it will also improve comparability between entities.

We agree with EFRAG's that IAS 7 is an elderly standard in need of a major overhaul, particularly in the light of new forms of financing such as supply chain financing and reverse financing.

Question 14 – Other comments

Do you have any other comments on the proposals in the Exposure Draft, including the analysis of the effects (paragraphs BC232–BC312 of the Basis for Conclusions, including Appendix) and Illustrative Examples accompanying the Exposure Draft?

DASC's response

DASC has no further comments.

Question to Constituents

250 Do you agree that the IASB should consider providing more guidance for the presentation of revenues and costs when they are allocated to different business activities on the face of the statement of profit or loss, including consistency with IFRS 8 and disclosure on judgement applied in the allocation process?

DASC's response

DASC did not discuss this question.