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Dear Mr Hoogervorst

Exposure Draft "General Presentation and Disclosure"

GlaxoSmithKline is a major multi-national pharmaceutical group with a primary listing on the London Stock Exchange and a secondary listing on the New York Stock Exchange. We prepare our financial statements under IFRS as endorsed by the European Union and are grateful for the opportunity to comment on this Exposure Draft.

We support the majority of the aims of the exposure draft as well as many of the detailed proposals. However, we have concerns over several of the proposals, the two most significant of which relate to the disclosure of expenses both by function and by nature and the requirement to include the explanation and reconciliation of management performance measures within the notes to the financial statements.

For those entities such as GSK that currently report operating expenses by function, the new requirement also to report all expenses by nature is a significant additional burden. For GSK, this would require a major system change project that is estimated to take a year and could cost up to £2 million. We do not believe that sufficient benefit would be obtained from these additional disclosures to outweigh this cost.

GSK does not present alternative performance measures within its IFRS financial statements, although it does utilise them (fully explained and reconciled) elsewhere in its annual report and in other communications with investors and analysts. The proposals as drafted would require GSK to add all of the details on management performance measures into the financial statement notes, serving only to create additional clutter and detract from the clean IFRS accounts. Where entities do not currently present alternative measures in their financial statements, we do not believe that they should be required to do so.

Our responses to the detailed questions raised in the Exposure Draft are attached. If you have any follow-up questions on our comments, please contact Chris Buckley (chris.j.buckley@gsk.com), Ciara Lynch (ciara.x.lynch@gsk.com) or me (adam.x.walker@gsk.com).

Yours sincerely

/s/ A Walker

A Walker
Group Financial Controller

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?

We support this proposal. GSK already presents an operating profit subtotal in the statement of profit or loss.

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?

We agree that operating income and expenses should arise from the entity's main business activities and that it is generally easier to identify and specify income and expenses to be reported within the financing or investing categories than those within the operating category. We therefore support the proposal to adopt a residual basis for the reporting of operating income and expenses.

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?

We agree that this is an appropriate approach.

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?

We have no comments on this proposal.

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?

We agree with this proposal.

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?

We have no objections to this proposal.

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?

We are not convinced that there is a clear technical justification for the split of associates and joint ventures between those that are "integral" and those that are not. The accounting for the results of an investee entity as a subsidiary, joint venture, associate or equity investment in consolidated accounts is driven by control and/or influence and this proposal does not easily fit as part of that approach.

Given that the determination of whether or not an associate is integral would be management's judgement, we believe that there is a high risk of both increasing diversity of presentation in practice, even within the same industry, and reducing the clarity of presentation in the income statement, contrary to the key aims of the Exposure Draft.

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?

We have no objections to the proposed description of the roles of the primary financial statements and the notes.

We agree with the principles of aggregation and disaggregation set out in paragraphs 25 and 26 of the Exposure Draft. However, we believe that the interpretation of these principles in the form of the requirements set out in paragraphs 27 and 28 are unworkable in practice, particularly in respect of analyses of items reported in consolidated accounts.

In many cases, the items reported in an "other" line do not share similar characteristics and so paragraph 27(b) would apply. In a consolidated group of over 400 reporting entities, a very long list of the items that have been aggregated is likely to be required to comply with that paragraph. Given that this long list is specifically of immaterial items, we believe that this requirement will serve only to add clutter to the financial statements and increase the risk of important information being obscured.

Paragraph 28 will either also add unnecessary clutter (the same result could be achieved simply by an entity choosing to disclose the largest item in the "other" category as a separate item in the analysis table) or be easily circumvented by aggregating an item previously disclosed separately into the "other" category and then providing the narrative description of the item and its amount.

In our view, for those entities that currently do not provide sufficient disaggregation, paragraphs 27 and 28 will not result in any more meaningful information being presented, whereas for those entities that currently do provide a meaningful level of disaggregation in the notes to the accounts, these requirements will simply lead to unnecessary clutter.

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?

Paragraph 68 of the Exposure Draft brings forward from IAS 1 the choice for entities to present operating expenses either by nature or function: "The entity shall present the analysis using the method that provides the most useful information to users of their financial statements." Paragraph 104 of IAS 1 requires entities that present expenses by function also to disclose depreciation and amortisation expense and employee benefits expense. Paragraph 72 of the Exposure Draft is referenced as bringing forward this paragraph from IAS 1, but has been changed from requiring three items of expense by nature to be presented to requiring a full analysis of all operating expenses. This is a fundamental change for those entities that report operating expenses by function in the income statement and that have set up their accounting systems to report operating expenses in that way. This change, therefore, has the potential to require significant accounting systems changes for some reporting entities and could be particularly acute for those large groups that have multiple different underlying accounting systems in operation at their subsidiaries.

GSK operates a single ERP system that covers the vast majority of the Group's operating entities. Our high-level estimate of the work needed to amend this one system to collect and report a full analysis of expenses by nature in addition to retaining the current reporting by function would result in a project of approximately 12 months in duration costing close to £2 million. Many multinational groups operate multiple systems or versions of systems and we would expect similar costs to have to be incurred to amend each individual system or version.

Paragraph 72 also effectively contradicts paragraph 68. Those entities that believe that presenting operating expenses analysed by function “provides the most useful information to users of their financial statements” are told by paragraph 72 that this is not the case, as they are also required to present operating expenses analysed by nature. This doubling-up of expense analysis is not required on a reciprocal basis of entities that choose to present operating expenses by nature.

This area of expense reporting seems to include a number of other inconsistencies. For example, the list of line items required by paragraph 65 to be presented on the face of the income statement includes cost of sales. This is clearly not possible for an entity that presents operating expenses by nature without mixing approaches, something prohibited by paragraph 68. However, this requirement is confirmed by paragraph B47: “An entity shall present in the statement of profit or loss the line items required by paragraph 65 regardless of the method of analysis of expenses used.” Similarly, impairment losses on trade receivables (paragraph 65(b)(ii)) could be shown as a line item in an income statement presented by nature, but not in an income statement presented by function.

Given the confused and contradictory proposals in the Exposure Draft in this area, we strongly recommend returning to the approach adopted by IAS 1. Entities should have a free choice of how they present operating expenses, by function or by nature, but with no mixing of the approaches and then be required to give certain other limited disclosures depending on the method chosen – depreciation and amortisation expense and employee benefits expense if by function, and cost of sales if by nature.

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?

The aim of paragraph 100 in defining unusual income and expense appears to be to limit the items entities might want to disclose as “unusual” or “exceptional” to those that meet the definition. Paragraph 101 then requires a minimum set of disclosures about those items. We support these aims.

However, we do have a concern that the requirement to disclose items that meet the definition of unusual income or expenses may create confusion with the proposals on management performance measures (MPMs). Some significant items could meet both definitions, but others might meet the definition of unusual, but not be treated as an MPM adjustment, or be treated as an MPM adjustment but not be unusual.

More importantly, the current drafting of paragraphs 100 and 101 requires an entity to disclose all items that meet the definition of unusual income and expenses. Rather than limiting the items an entity may wish to highlight as unusual to those that meet the definition, the implication is that entities will have to search for all items that meet the definition for disclosure. While items that are clearly immaterial would not have to be disclosed, in a multinational group there could be many items that meet the definition and are not immaterial but would not be sufficiently material to affect the decisions of a user of the accounts.

We suggest that the definition should be amended to include the requirement that an item of unusual income or expense should also be sufficiently material in size or effect as to be relevant in a user's consideration of the performance or financial position of the entity. This should limit the number of items an entity is required to disclose to the one or two that are clearly important rather than a long list where much insignificant detail could obscure the important information.

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?

Many large IFRS reporters are already subject to reporting requirements in relation to alternative performance measures (APMs) issued by ESMA, the SEC or similar regulatory organisations. The definitions of APMs to which these requirements apply are broadly consistent with each other and we do not understand the rationale for the Board choosing a significantly narrower definition of MPMs. We are concerned that the narrow definition of MPMs, excluding alternative asset and cash flow measures, will potentially create confusion for users, where entities utilise APMs that fall outside of the narrow definition of MPMs in the exposure draft.

We do not support the blanket requirement to include reconciling and explanatory information around MPMs within the financial statements in all cases. While GSK utilises APMs in its management commentary, they are not presented within the financial statements or notes. If introduced, this proposal would require GSK to introduce MPMs into the financial statement notes, creating unnecessary clutter and potentially detracting from the full IFRS financial results.

We would propose that if an entity presents MPMs within its financial statements or notes, it should be required also to include the relevant explanations and reconciliations in the notes as proposed. However, if MPMs are included in the document that contains audited accounts but not in the accounts or notes themselves, then the explanations and reconciliations should be included in the wider document, but not necessarily within the audited accounts. If considered necessary, the reconciliations could be made subject to audit wherever they are presented in the document.

Question 12 – EBITDA

Paragraphs BC172-173 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?

GSK does not report an EBITDA measure and so we have no comment to make on this.

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?

We support both the proposal for operating profit to be the starting point for the indirect method of reporting cash flows from operating activities and the proposed classification of interest and dividend cash flows.

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?

We have no further comments.