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Submitted via website

Brussels, 28 July 2020

Subject: Exposure Draft—General Presentation and Disclosures (Primary Financial Statements) Accountancy Europe comment letter

Dear Mr. Hoogervorst, Mr. Gauzès,

We are pleased to respond to the International Accounting Standards Board (IASB or the Board) Exposure Draft (ED) – General Presentation and Disclosures (Primary Financial Statements) and EFRAG's Draft Comment Letter (DCL) thereon.

Accountancy Europe welcomes the ED General Presentation and Disclosures (Primary Financial Statements) as it answers stakeholders' calls to improve how information is communicated in the financial statements.

As the ED is part of a series of IASB projects under the common theme *Better Communication in Financial Reporting*, we refer to our Core & More work[1, 2, 3] which aims to present corporate reporting in a smarter way, organising financial and non-financial information based on the interests of the users. Considering that this project has gained a wide support among stakeholders, we suggest the IASB to consider these ideas in its upcoming projects.

[1] Accountancy Europe (2015), *The Future of Corporate Reporting,* see: https://www.accountancyeurope.eu/publications/future-corp-rep/
[2] Accountancy Europe (2017), *Core & More: An Opportunity for Smarter Corporate Reporting*, see: https://www.accountancyeurope.eu/publications/core-more-smarter-corporate-reporting/
[3] Accountancy Europe (2018), *Core & More in practice*, see: https://www.accountancyeurope.eu/publications/core-more-in-practice/

We believe that the proposals of the ED will improve comparability, especially in the statement of profit or loss, and promote a more disciplined and transparent approach to reporting management-defined performance measures. Therefore, we support replacing IAS 1 *Presentation of Financial Statements* (IAS 1) with a new standard building from IAS 1 and the proposals of the ED, as well as the targeted improvements on other IFRS standards.

We generally agree with most of the amendments proposed in the ED. However, we believe that some points we describe hereinafter, merit further consideration by the IASB.

Subtotals and categories in the statement of profit or loss

Accountancy Europe supports the IASB's proposal to present three new subtotals in the statement of profit or loss: (i) operating profit of loss, (ii) operating profit or loss and income and expenses from integral associates and joint ventures, (iii) profit or loss before financing and income tax. These subtotals will reduce diversity in practice and improve comparability.

In addition, we also support the four categories of the statement of profit or loss: (i) operating, (ii) integral associates and joint ventures, (iii) investing and (iv) financing as it will give users relevant information on items classified in each of these categories.

However, some of our members have expressed reservations on the introduction of the investing category because it will create implementation complexities and result in diversity in practice (e.g. by exercising judgement in classifying items between investing-operating and investing-financing as noted also by EFRAG in its questions to constituents).

Furthermore, we suggest the Board to consider feedback from users and preparers on deciding whether to go forward with the proposals on integral and non-integral associates and joint ventures. Assuming the proposals will be broadly supported by these groups, we note that the definition of the terms may be too narrow and might need to be expanded beyond the circumstances where there are interdependencies between the investee and the other assets of the entity.

Finally, we understand that defining the operating category as a residual category is simpler. However, in order to meet the Board's objective for such category to encompass income and expenses from the main business activities, we suggest the Board to define and provide more guidance on the term (please refer to our arguments below).

Main business activity

The term 'main business activity' is used broadly in the ED, however we wonder whether it is sufficiently defined.

We note that other terms similar to 'main business activity' are used in other IFRSs such as 'ordinary activity' or 'business activities', potentially resulting in confusion.

In addition, the ED does not clarify whether 'main business activity' assessment should be done at a segment level or lower. Therefore, we suggest the Board to better articulate the link between the ED and IFRS 8 *Operating Segments*.

Separate financial statements

Accountancy Europe suggests the IASB to provide specific guidance for separate financial statements, especially with respect to classification of returns from investments in subsidiaries and equity accounted investments.

Unusual income and expenses

Accountancy Europe welcomes the IASB's efforts to define 'unusual income and expenses' as it would improve consistency in the market. We support disclosing these items in a single note and not include them as a separate line item in the statement of profit or loss.

However, we suggest the Board to reconsider its guidance on what should be considered 'several reporting periods' and 'similar in type and amount' in determining whether an item is unusual or not. In our opinion, the 'unusual' nature of the expense should depend on its recurring nature, regardless of whether it spans several reporting periods or not.

Management performance measures

Accountancy Europe welcomes the guidance on management performance measures (MPMs) as well as disclosing MPMs in a single note as we believe it will improve transparency, clarity and consistency.

However, we suggest the IASB to reconsider the scope of 'public communication' (part of the MPMs definition) as it is considered as too wide. For example, 'public communication' may be limited to regulatory information or to the examples provided in paragraph B79 of the ED.

Furthermore, we suggest that financial ratios, measures of growth and measures of liquidity or cash flows when calculated on a basis different from revenues as reported in the financial statements be included within the scope of MPM.

Finally, we recommend the IASB to explain how MPMs relate to IFRS 8 disclosures in order to avoid confusion and potential contradictions.

Other comments

Accountancy Europe also suggests the IASB to consider the timing of first application (e.g. insurance companies with IFRS 17 entering in force), to define 'cost of sales' and to align the proposals of the ED in regards to goodwill in the statement of financial position (i.e. presenting it as a separate line item) with the proposals in Discussion Paper *Goodwill and Impairment* (i.e. presenting 'total equity excluding goodwill).

* * *

We kindly refer to the annexes to this letter (i.e. Annex 1 and Annex 2) for our detailed responses.

Please do not hesitate to contact Jona Basha (jona@accountancyeurope.eu) in case of any additional questions or remarks.

Sincerely,

Olivier Boutellis-Taft
Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 51 professional organisations from 35 countries that represent close to 1 million professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

ANNEX 1: IASB ED – QUESTIONS FOR RESPONDENTS

We are pleased to provide below our detailed responses to the questions.

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?

(1) Accountancy Europe welcomes the IASB requirement to present a subtotal for operating profit or loss in the statement of profit or loss as it would reduce diversity in practice and improve comparability.

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?

(2) Accountancy Europe understands that the IASB's proposal to define the operating category as a residual category as it appears simpler and easier to apply for preparers. Although a residual category, the objective of the operating category is to include information about income and expenses from an entity's main business activities.

(3) However, we consider that the term 'main business activity' is not sufficiently defined in the ED, even though it comes up 51 times. Other terms similar to 'main business activity' are used in other IFRSs such as 'ordinary activity' (IFRS 15 *Revenue from Contracts with Customers*, IFRS 3 *Business Combinations*) or 'business activities' (IFRS 8 *Operating Segments*). Therefore, we encourage more clarifications, for example by linking the notion of 'main business activity' with IFRS 8 *Operating Segments* (IFRS 8).

(4) Building on the example in paragraph B26 of the ED: on one hand, a car manufacturer that also provides financing to customers, discloses its financing in a separate segment, as it judges that it is an important performance indicator; on the other hand, a telecommunications company providing financing (e.g. when including products equipment in offerings), does not disclose a separate financing segment. These entities would also judge whether they have a customer-finance 'main business activity' as the ED does not clarify whether 'main business

activity' assessment should be done at a segment level or lower. Therefore, we suggest the Board to better articulate the link between the ED and IFRS 8.

(5) Furthermore, Accountancy Europe suggests the IASB to provide guidance (e.g. on category classification) on investments in subsidiaries accounted for under IAS 27 *Separate Financial Statements*. For example, when using the equity method on subsidiaries in the separate financial statements, the IASB could clarify whether the parent company should classify the share of profit or loss from subsidiaries in the operating or investing category.

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?

(6) Accountancy Europe agrees that income and expenses from investments made in the course of the entity's main business activities be classified in the operating category as this category and the subtotal 'operating profit or loss' would be faithfully represented for these entities.

(7) However, an entity will need to determine what constitutes a 'main business activity', a term which is currently not defined in the ED (please refer to paragraphs 3 and 4 of our response).

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?

(8) Accountancy Europe understands that providing an accounting policy choice may be a practical expedient for entities concerned by such activities. However, we point out that this choice may hinder comparability and therefore do not support a free policy choice.

(9) We suggest that as a general rule, an entity providing financing to customers as a main business activity classifies in the operating category income and expenses, including from cash and cash equivalents, deriving from such activity (i.e. that relate to the provision of financing to customers). An entity may be allowed to classify all income and expenses from financing activities and all income and expenses from cash and cash equivalents in the

operating category, **only if** it is unable to do such an allocation on anything other than an arbitrary basis, or the costs would be too high to do so.

(10) We welcome specifications of IASB in paragraphs 50 and B29 of the ED on the 'entity that provides financing to customer as a main business activity'. However, we note that this filter will be dependent on how the term 'main business activity' is defined (please refer to paragraphs 3 and 4 of our response).

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?

(11) Accountancy Europe recognises the benefits of introducing an investing category and classifying income and expenses (including related incremental expenses) from assets that generate a return individually and largely independently of other resources in this category as it could give users relevant information about such items. In addition, such proposals would support the IASB's approach not to define the operating category and consider it as a residual category.

(12) However, some of our members have expressed some reservations on the introduction of this category:

- It may create some additional implementation complexity as the difference between investing and operating or the difference between investing and financing might at times require some significant judgement, which might result in diversity in practice and/or in arbitrary allocation.
- The amounts classified within this category are rarely expected to be significant on a recurring basis, hence limiting its value relevance. Otherwise, this would be an indicator that these could be operating by nature.
- This category gives the false impression that it is mirroring the investing category of the statement of cash flows, while the underlying transactions are not the same (e.g. the acquisition of property, plant and equipment are classified within the investing category in the statement of cash flows but the related amortisation expenses are recorded within the operating category in the statement of profit and loss).

(13) We welcome the explanation provided in paragraph BC50 of the Basis for Conclusions on incremental expenses. However, we note that current practices in determining what is incremental or not as per other IFRS/IAS standards (e.g. IFRS 16, IFRS 15, IFRS 9/IAS 32) have resulted in inconsistent or inadequate reporting disclosures. This is the case also for equity transactions where the interpretation of incremental costs (which in the case of an initial public offering would be significant) is subjective and is not used consistently.

Therefore, we advise the Board to limit the interpretation of this item and to provide more guidance.

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?

(14) Accountancy Europe supports the IASB's proposal to require entities to present a separate financing category and a 'profit or loss before financing and income tax' subtotal (a concept close to EBIT) in the statement of profit or loss as it responds to preparers' and users' call for improved consistency.

(15) In addition, we support the Board's proposals to have a financing category on the statement of profit or loss.

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?

(16) Accountancy Europe supports the IASB's proposals in making a distinction between 'integral associates and joint ventures' and 'non-integral associates and joint ventures' as some associates and joint ventures are different from others in terms of how linked they are to the main business activity of the entity. However, this distinction will be contingent on how the term 'main business activity' is defined (please refer to paragraphs 3 and 4 of our response).

(17) However, Accountancy Europe believes that the proposed definition of 'integral' may be too narrow. Based on the proposal, there needs to be an interdependency between the investee and the other assets of the entity. However, there might be circumstances where it would appear relevant to consider that an investee is 'integral' to the main business activities, without such interdependencies.

(18) For example, an international retail group might act as an investor of a local retail company in a foreign country exercising either significant influence or joint control. This local retail company operates under a local brand and generates returns that are largely independent of those of the rest of the international retail group. However, the local retail company may be considered part of the main business activities of the international retail group (please refer to our comments in paragraphs 3 and 4 on the term 'main business activity'). Hence, the international retail group considers the investment as an integral associate or joint venture even though it generates largely independent returns.

(19) Therefore, we suggest the Board to remove the second part of the definition of integral and non-integral associates and joint ventures '*and hence do (not) generate a return individually and largely independently of the other assets of the entity*'. Paragraph 20D of IFRS 12 would have to be reconsidered accordingly.

(20) The above suggestion might result in a more faithful presentation of associates and joint ventures for example, in industries such as oil and gas or construction that may be integral to the main business, but also generate returns individually and independently from other assets of the entity.

(21) As noted in paragraph BC 87 of the Basis for Conclusions of the ED, some users would not use the subtotal 'operating profit or loss and income and expenses from integral associates and joint ventures' because they conduct separate analysis between the operating profit and the result from joint ventures and associates. In addition, as noted in Table 1 of paragraph BC 237 of the Basis for Conclusions of the ED, these proposals would be new to all preparers, and would result in additional costs.

(22) Therefore, we suggest the Board assesses the feedback received from users' and preparers' comment letters on whether they deem these proposals useful. Nonetheless, below we provide our comments assuming both groups would support these proposals.

(23) We support the Board's proposals to present 'operating profit or loss and income and expenses from integral associates and joint ventures' as a subtotal in the statement of profit or loss (unless the entity has no such integral associates and joint ventures). This would provide clarity to users and consistency between preparers, especially when this subtotal is analysed in conjunction with subtotal 'operating profit or loss'.

(24) Resultantly, we also support the 'integral associates and joint ventures' category.

(25) Accountancy Europe also agrees with the Board's proposals to present 'integral associates and joint ventures' and 'non-integral associates and joint ventures' as separate line items in the statement of profit or loss, statement of financial position and statement of cash flows as it would improve communication between these statements on these items. We also agree with disclosing information separately on the notes for these items.

(26) However, we note that based on paragraph 38A of IAS 7 in the ED, separate line items would have to be presented in the statement of cash flows within the investing activities. This presentation would not be consistent with the presentation of separate lines within the statement of profit or loss, when the share of profit/losses of integral associates and joint

ventures are presented in a separate category (i.e. outside the investing category), whereas non-integral associates and joint ventures are presented within the investing category.

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?

(27) Accountancy Europe welcomes the proposals of the Board and agrees with the description of the roles of the primary financial statements and the notes, as they will help preparers decide where to provide information.

(28) We also welcome the Board's proposals on aggregation and disaggregation.

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?

(29) Accountancy Europe supports the IASB's proposal to continue requiring entities to present an analysis of expense using either by-function or by-nature method and welcomes the IASB's guidance to help entities to decide upon such presentation.

(30) In addition, we agree that when the statement of profit or loss is presented as per the function method, disclosing in a single note the total operating expenses using the nature of expense method provides more comprehensive information as well as helps users in making forecasts and calculating EBITDA.

(31) However, such requirement could result in additional costs for preparers using the by-function method as they do not necessarily have the adequate IT systems in place to readily provide a by-nature analysis of operating expenses as required in the ED.

(32) Finally, we note that paragraph 65(a)(vii) could be read as requiring a disclosure of cost of sales on the face of the statement of profit or loss, even when a by nature presentation is used. We suggest combining this requirement with paragraph 71 to make it clear that it is only when a by function is used that a cost of sales line item is required.

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?

(33) Accountancy Europe welcomes the IASB's efforts to define 'unusual income and expenses' as it would improve consistency in the market.

(34) We suggest the Board to reconsider its guidance in paragraph B71 on what entails 'several reporting periods' and 'similar in type and amount' in determining whether an item is unusual or not. We understand from paragraph B71 that if a single restructuring programme is spanning several reporting periods, this could not be presented as unusual items, even if the entity does not expect such costs to be recurring. We do not agree with such guidance because the 'unusual' nature of the expense would not depend on its recurring nature but rather on whether it spans several reporting periods or not.

(35) We support disclosing unusual items in a single note and not include them as a separate line item in the statement of profit or loss. The presentation of items in the statement of profit or loss should adhere either to the nature or function of expenses method (i.e. not the predictability value of items). This proposal would also avoid repeating the past situation of 'extraordinary items' on the face of the statement of profit or loss, abolished by the IASB in 2002.

(36) We note that as per the current wording in paragraph 101 of the ED, entities shall disclose in a single note information about **all** unusual income and expenses. This may result in immaterial information being disclosed as a result. Therefore, we advise rephrasing paragraph 101 of the ED so that the information provided on the note on unusual incomes and expenses adheres to the materiality principle.

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?

(37) Accountancy Europe welcomes the guidance on management performance measures (MPMs) as we believe it will improve transparency, clarity and consistency.

(38) However, we note that the notion of 'public communication' is wide; we are concerned that the cost (including auditing costs) of trying to address the whole public domain might outweigh the benefits of the approach. We would recommend that the IASB reconsiders the scope of the 'public communications', for example by limiting to regulatory information or the examples provided in paragraph B79 of the ED. This would limit the potential for MPMs proliferation.

(39) In addition, as MPMs relate by definition to information provided outside financial statements, it raises the question of the timing of publication. For example, would it be possible for an entity to report on an MPMs subsequent to the issuance of financial statements if such MPM has not previously been defined in the financial statements?

(40) Furthermore, we suggest expanding the scope of the MPMs further to meet the IASB's objectives. For example, we support that financial ratios (currently excluded from the list of MPM in B80(c)), measures of growth (B80(d)) and measures of liquidity or cash flows (for example free cash flow) (B80(e)) when calculated on a basis different from revenues as reported in the financial statements should be included within the scope of MPM.

(41) We wonder how the notion of MPM interacts with the notion of performance as described in the segment disclosures as required by IFRS 8. Both intend to present a measure of performance based on management's view. We are wondering to a certain extent whether there wouldn't not be a risk of creating confusion to the users by developing MPMs that could potentially contradict the vision of management as described in the IFRS 8 disclosures. We recommend the IASB to address this risk by explaining how MPMs relate to IFRS 8 disclosures.

(42) Finally, even though we support disclosing MPM information in a single note, we point out that the requirements in item c) and d) of paragraph 106 of the ED may be too costly for preparers and might outweigh the benefits.

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?

(43) Accountancy Europe understands the challenges in providing a definition relating to EBITDA. However, we note that in addition to the call from users to define EBITDA, it is also one of the most commonly used performance measures by users (i.e. investors).

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?

(44) Accountancy Europe welcomes the proposal of the IASB to require the operating profit or loss to be the starting point for the indirect method of reporting cash flows from operating activities. This proposal will improve comparability in the market and will standardise to an extent the adjustments made to the operating profit or loss in the operating cash flow category. As a result, the statement of cash flows and the statement of profit or loss will be better aligned, enabling users to understand how the operating profit or loss is converted to operating cash flows.

(45) We note that 'investing category' and 'financing category' are consistent labels in both the statement of profit or loss and in the statement of cash flows, however, they are inconsistent in terms of definition and composition. There is also inconsistency in the classification of 'non-integral associates and joint ventures' and 'integral associates and joint ventures' between these two statements, as noted in paragraph 26 of our response.

(46) Therefore, we strongly advise the Board to consider undertaking a separate project on IAS 7 *Statement of Cash Flows* to address such matters as well as others (including reverse factoring).

(47) Finally, we also agree with removing the classification options for interest and dividend cash flows as it would improve comparability and would better match these cash flows to the entity's activities.

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?

(48) Accountancy Europe suggests the IASB to consider the timing of first application of the standard replacing IAS 1 for certain industries. For example, insurance companies need to understand what to do with IFRS 17 that will enter into force before the PFS project so that there are no duplications.

(49) We also suggest IASB to define 'cost of sales' as there is a certain degree of diversity in practice on what the line item encompasses.

(50) Finally, we note that paragraph 82 of the ED requires to present goodwill as a separate line item in the statement of financial position, whereas Discussion Paper on *Goodwill and Impairment* suggests presenting total equity before and after goodwill. We believe the combined requirements of those two projects provide excessive prominence to the goodwill

amount. We recommend the IASB to determine which of the two requirements is the most relevant. To this end, Accountancy Europe believes that presenting goodwill on a separate line within non-current assets is useful and can be justified by the unique nature of this item.

ANNEX 2: EFRAG'S DRAFT COMMENT LETTER – QUESTIONS FOR RESPONDENTS

Hereinafter, we are pleased to provide our detailed responses to the questions posed by EFRAG. Notwithstanding the fact that the following responses are related to specific EFRAG questions, we invite the IASB to consider these in preparation of the final standard.

Question A (Paragraph 32) – The operating category: income and expenses from investments made in the course of an entity's main business activities (IASB Question 3)

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?

(51) No comment provided.

Question B (Paragraph 33) – The operating category: income and expenses from investments made in the course of an entity's main business activities (IASB Question 3)

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.

(52) As provided in paragraphs 3 and 4 of our response, additional guidance on the term 'main business activity' may help entities in making this separation.

Question C (Paragraph 42) – The operating category: an entity that provides financing to customers as a main business activity (IASB Question 4)

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.

(53) No comment provided.

Question D (Paragraph 43) – The operating category: an entity that provides financing to customers as a main business activity (IASB Question 4)

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?

(54) No comment provided.

Question E (Paragraph 57) – The investing category (IASB Question 5)

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.*

(55) Accountancy Europe considers income and expenses from cash and cash equivalents as part of the entity's financing activities as the reconciliation net debt as well as the cost of the net debt would be easier.

Question F (Paragraph 63) – The investing category (IASB Question 5)

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.

(56) We understand that some users expect costs of tracking the exchanges differences relating to operating, investing and financing activities, deriving mainly from changing IT systems and workflows.

Question G (Paragraph 76) – Profit or loss before financing and income tax and the financing (IASB Question 6)

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.

(57) Accountancy Europe considers income and expenses that reflect the effect of the time value of money on liabilities that do not arise from financing activities to be part of the financing category to the extent that such items do not arise from an entity's main business activity.

Question H (Paragraph 93) – Integral and non-integral associates and joint ventures (IASB Question 7)

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.

(58) Please refer to paragraphs 17-20 of our response.

Question I (Paragraph 94) – Integral and non-integral associates and joint ventures (IASB Question 7)

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?

(59) We do not agree to present a separate line item for income tax related to associates and joint ventures in the statement of profit or loss as such taxes do not derive from taxable income or taxable losses of the entity/group. In addition, such presentation would cause additional complexities between IFRS and local tax accounting rules and would diverge from the principles in IAS 28 Investments in Associates and Joint Ventures.

Question J (Paragraph 121) – Analysis of operating expenses (IASB Question 9)

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.*

(60) Please refer to paragraphs 30 – 32 of our response.

Question K (Paragraph 122) – Analysis of operating expenses (IASB Question 9)

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.

(61) Accountancy Europe believes that presentation of expenses in the statement or profit or loss should be either by nature of by function method only. Allowing for a mix of the two methods impairs comparability and transparency in the market.

Question L (Paragraph 250) – Other comments (IASB Question 14)

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?

(62) Please refer to paragraphs 3 and 4 of our response.