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Hans Hoogervorst
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Dear Mr Hoogervorst

Re: Exposure Draft ED2019/7 General Presentation and Disclosures

We welcome the opportunity to comment on the General Presentation and Disclosures Exposure Draft (ED).

Aviva is the leading insurer in the UK serving one in every four households and has strong businesses in selected markets in Europe, Asia and Canada. We provide life insurance, general insurance, health insurance and asset management to 33 million customers worldwide and in 2019 paid £33.2 billion in claims and benefits. Our shares are listed on the London Stock Exchange and we are a member of the FTSE100 index.

Below we provide a summary of our comments on the ED with more detail, including responses to the specific questions posed by the ED, provided in the appendix to this letter.

Areas where we support the changes recommended

We support the IASB's work to continue to improve communication in financial reporting and, in particular, to improve performance reporting, however we believe the proposals need further consideration and amendment to deal effectively with performance reporting of insurance entities. In addition, we have some more general concerns around the reporting of management performance measures and unusual items.

Operating category

- **Comparability** – the existing definition of the operating category reduces the comparability of insurance companies' results depending on the accounting policy choices that they make under IFRS 9 and IFRS 17. Two identical insurers could report significantly different operating profits, the Insurer who reports FVTPL under IFRS 9 and IFRS 17 (general market practice in the UK, Australian and Canada) would experience a significantly more volatile operating profit with limited options to present an appropriate disaggregation to explain the performance in the period compared to an Insurer who reports FVOCI under IFRS 9 and IFRS 17. Further work is needed here to ensure the objective of improved comparability is achieved.

- **Understandability** - For insurers who make extensive use of the fair value through profit or loss ('FVTPL') approach for valuing financial assets under IFRS 9 and insurance liabilities under IFRS 17. The ED's definition of operating profit would not be a fair reflection of performance in the period. In our view, disaggregating the fair value investment variances and economic assumption changes, which are often large and not predictive of performance, is necessary to gain an understanding of the operating performance in the period and reflect our buy and hold investment model. In addition, our internal measure, Group Adjusted Operating Profit, which excludes fair value investment variances and economic assumption changes is a key metric that is essential for management's decision making and internal performance management of our operating segments. We do not believe that the ED meets the objective of providing relevant financial information such that the users of the financial statements can assess "management's stewardship of the entity's resources" without this disaggregation. Further details are provided in the response to Question 2 below.

- **Management Performance Measures ('MPM')** – The scope of MPMs should be restricted to only MPMs which are publicly disclosed in interim or annual reports alongside financial statements., as these should be sufficient to provide "useful insight into management's view of performance and its management of the business." Otherwise, we consider it would be unduly onerous with little additional benefit for management to ensure completeness of the disclosure and for auditors to audit the note. From a practical perspective, it would not be possible to disclose the reconciliations required by the ED unless a full SoPL is produced.

- **Unusual income and expenses –** We support the principal of identifying non-recurring income and expenses. However, we note that there is a contradiction in the ED which requires entities to disclose the nature and amount of the largest item included in a group of immaterial balances. This requirement is contrary to materiality and thus we encourage the IASB to clarify the position.

- **Effective date** - We suggest that the Board considers an effective date of the standard to align with IFRS 17 to avoid having to restructure systems to report the categories proposed by this ED using the existing IFRS 4 presentation and then amending this presentation once IFRS 17 becomes effective.

In the appendix to this letter we set out our responses to the specific questions in the ED and provide more detail on our concerns and recommended solutions to address the issues identified.

We are at your service to answer any further questions you may have and work collaboratively with your staff to develop solutions to the issues that remain unresolved.

Yours sincerely

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Aviva Response to ED/2019/7 General Presentation and Disclosure Exposure Draft - Appendix

Responses to specific 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?

Aviva Response

Whilst we recognise the need for an improvement in performance reporting, we have concerns about how the operating profit is defined in the ED for insurance entities. As currently drafted the proposals would reduce comparability between insurance entities according to accounting policy decisions under IFRS 17 & 9 and does not facilitate a presentation that improves understanding of the financial performance in the period. More detail is provided in response to Question 2.

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?

Aviva Response

Fair representation of financial performance

We note that the operating category is used to present income and expenses related to the main business activities of an entity, as well as being the default category for residual income and expenses that are not classified elsewhere. The subtotal of this section i.e. operating profit is an important measure for analysts and investors. However, we are concerned about the implications of the proposal on the UK insurance industry who typically apply a fair value through profit or loss ('FVTPL') approach in the valuation of insurance liabilities under IFRS 17 and financial assets under IFRS 9. Paragraph 52(c) requires insurance finance income and expenses (which includes the change in discount rate of insurance liabilities) to be presented in operating profit.

At present, the insurers who make extensive use of fair value accounting define their non-GAAP operating profit on an expected return basis, based on the expected long term investment return on assets; with the impact of investment variances, economic assumption changes and short term market fluctuations in return on investments recognised outside of operating profit. This is known at Aviva as Group adjusted operating profit ('GAOP'). The Group focuses on GAOP, as a non-GAAP alternative performance measure and this is essential for management's decision making and internal performance management of our operating segments. It enables us to understand the underlying profitability of a business without distortions caused by economic volatility that would be otherwise included in the ED's definition of operating profit. This is evident from the table below which presents our GAOP over the past three years:

	FY19	**FY18**	**FY17**
Investment variances, short-term fluctuations and economic assumption changes	767	(674)	(318)
Profit before tax	**3,374**	**2,129**	**2,003**

Therefore, we believe that operating profit as defined by the ED without disaggregation of fair value investment variances would not be a fair reflection of our financial performance in a given period. Thus additional non-GAAP disclosures will be necessary to enable users of the accounts to understand our underlying profitability.

Comparability of financial results

The existing definition of the operating category reduces the comparability of insurance companies' results i.e. the operating profit could vary significantly depending on whether an entity chooses to apply FVTPL options within IFRS 9 and IFRS 17. UK insurers who choose FVTPL would experience a significantly more volatile operating profit (as demonstrated by the financial results in the table on P4), but the ED offers limited options for preparers to disaggregate the operating profit subtotal to enable understanding of the performance in the period.

Operating profit as the default category

In addition, unusual income and expenses that do not relate to financing and investing must be included in operating, which means that operating profit could include non-recurring items that would typically be excluded from an operating profit type measure e.g. disposal of a subsidiary (where the sale does not meet the criteria for discontinued operations under IFRS 5). At present, items that relate to merger and acquisition activity (which we view as strategic in nature and has limited predictability) are excluded from GAOP, our internal measure of financial performance.

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?

Aviva Response

We understand that income and expenses from investments made in the course of the entity's main business activities are relevant when considering the operating category. However, as noted in the response to Question 2, the proposals do not work when combined with the accounting policy choices in IFRS 17, hence we have concerns about the lack of comparability this proposal introduces for insurance companies depending on the approach they adopt for valuing insurance liabilities under IFRS 17 and financial assets under IFRS 9.

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?

Aviva Response

We understand the desire to include income and expenses from financing activities within the operating category if the entity provides financing to customers as a main business activity and that insurance finance income and expenses as defined by IFRS 17 relates to the main business activities of an insurer.

However further consideration of this is needed for the insurance industry due to the interaction with IFRS 17 and IFRS 9 accounting policy choices and the fact that the ED's proposals do not enable sufficient disaggregation of the impact on performance to enable the objectives of the ED to be met. As currently drafted the proposals reduces comparability between insurance entities and introduce issues regarding understandability of the operating profit line for insurers adopting a FVTPL approach.

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?

Aviva Response

We have no comments regarding this section.

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?

Aviva Response

We support the principle of presenting a profit or loss before financing and income tax subtotal in the statement of profit or loss; however, until the issues for insurance companies that include insurance finance expenses within the operating category is resolved, this section is unlikely to meet the objective of providing a useful basis for comparing an entity's performance independently of how that entity is financed.

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?

Aviva Response

We support the requirement that entities should identify 'integral associates and joint ventures' and 'non-integral associates and joint ventures' but we disagree with the proposal to require presentation of a subtotal for integral associates and joint ventures in the SoPL. Whilst Aviva Group has integral associates and joint ventures that meet the proposed definition in IFRS 12, we do not believe that it forms a material part of our business to require separate disclosure on the face of the SoPL.

We support an alternative approach whereby additional disclosures will be required in the notes, focusing on whether management see associates and joint ventures as an integral part of the business model rather than the existing proposal with the separate section on the face of the SoPL and guidance provided in IFRS 12. This approach is more pragmatic in that it minimises the cost of system developments whilst still providing useful information in the disclosures to the readers of the accounts i.e. whether an entity has integral associates or joint ventures and the rationale for the assessment.

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?

Aviva Response

We are supportive of the general principles around aggregation and disaggregation. However, we believe there is a need for further work in this area to enable a comparable and understandable presentation of an operating result which includes FVTPL movements on operating assets and where the value of liabilities is impacted by economic assumption changes.

As noted in the response to Question 10, the requirement in paragraph 28 to disclose the nature and amount of the largest item included in a group of immaterial items that do not share a descriptive label appears contradictory to the concept of materiality and could lead to the obscuring of relevant information in the financial statements.

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?

Aviva Response

We have no comments regarding this section.

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?

Aviva Response

We are supportive of the Board's proposal to separate items of limited predictive value; however, we believe that the proposed terminology of 'unusual income and expenses' is confusing and we would support the further explanation of this category to better describe items that are non-predictive as a consequence of their amount or nature, not their frequency – for example Covid-19 related claims, impact of changes to the Ogden rate, impairment of intangible assets and economic variances.

The proposal prohibits the use of the term 'other' to group certain items together without further disclosure. By nature, these items typically wouldn't have any shared characteristics and hence it would be difficult to use a descriptive label besides 'other' to describe them. Furthermore, where several immaterial items have been aggregated but it is not possible to provide a descriptive label, the proposal requires entities to disclose the nature and amount of the largest item included. This seems contrary to the concept of materiality described i.e. "an entity need not provide a specific presentation or disclosure required by an IFRS Standard if the information resulting from that presentation or disclosure is not material. This is the case even if the IFRS Standard contains a list of specific requirements or describes them as minimum requirements."

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?

Aviva Response

We disagree with the scope of management performance measures as it covers all published information that meets the definition. We would support an amendment to the definition in paragraph 103(a) to include only information presented in annual or interim reports where financial statements are prepared e.g. "Management performance measures are subtotals of income and expenses that are (a) publicly disclosed in annual or interim reports alongside IFRS financial statements." This would exclude quarterly results announcements where a full SoPL is not produced. Without this amendment, it would not be possible to disclose the reconciliations to the most relevant line items as required by the ED.

In addition, without an amendment to the definition of MPMs, there may be information published throughout the year which fits the definition. This could create a challenge for entities to ensure completeness of this disclosure e.g. quarterly results announcements, analyst reports, results presentations, and would also make auditing of the MPM note difficult. The restriction of MPMs to the interim and annual reports should still provide users of the accounts with sufficient information about the financial performance of a company.

As noted in the response to Question 14, we encourage you to reconsider the use of columns to present management performance measures in the statement(s) of financial performance which is currently prohibited by paragraph 110, as we believe that this presentation could be useful to the users of the accounts. Paragraph 110 prohibits entities from using a columnar format to present management performance measures in the statement(s) of financial performance. We believe that there is merit in retaining the flexibility for entities to use columns to explain their financial results. There may be instances where the columnar format aids the disaggregation of relevant information thus improving the understandability of the financial statements.

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?

Aviva Response

We have no comments regarding this section.

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?

Aviva Response

The statement of cash flows is widely recognised as being of no use for insurance entities. We believe that more fundamental change is needed here.

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?

Aviva Response

Paragraph 110 prohibits entities from using a columnar format to present management performance measures in the statement(s) of financial performance. We believe that there is merit in retaining the flexibility for entities to use columns to explain their financial results. There may be instances where the columnar format aids the disaggregation of relevant information and hence improves the understandability of the financial statements.

We suggest that the Board considers an effective date of the standard to align with IFRS 17 to avoid having to restructure systems to report the categories proposed by this ED using the existing IFRS 4 presentation and then amending this presentation once IFRS 17 becomes effective. In our view, the definition of the unusual items also works better under IFRS 17 because the contractual service margin mechanism reduces the number of items which would be unusual in amount e.g. demographic assumption changes.