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International Accounting Standards Board

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Cc
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Exposure Draft ED/2020/2

General Presentation and Disclosures

Thank you for the opportunity to respond to the ED. The Swedish Enterprise Accounting Group supports the Board's ambition to increase comparability and improve reporting of performance in the statement of profit or loss. However, according to our experience there is limited demand on the Swedish market for some of the new requirements suggested by the Board. We also believe that a principle-based method to define operating profit would have been more straight forward than the residual approach suggested by the Board.

We are also concerned with the proposed new disclosures regarding unusual items and management performance measures. We do not believe that these requirements would create the intended reporting discipline or reduce disclosures of adjusted performance measures outside the financial statements. Instead, adding two new concepts in addition to the already recognised alternative performance measures introduced by ESMA would create confusion and a significant risk of misperceptions regarding the use of the concepts and their interdependence.

Further, we are not convinced by the arguments behind the proposal to introduce a separate investing category in the statement of profit or loss. We are not aware of any reporting entity that currently choses to present the profit or loss statement in this way, albeit possible under the current IAS 1. We fear that the definition of investing would give rise to challenging assessments, without necessarily adding to the information usefulness for the users of financial statements. We also believe it is problematic to use the same terms in the statement of profit or loss and the statements of cash flows when the definitions of these concepts for the purposes of these statements differ.

Specific comments to the questions posed by the Board in the ED is attached in the appendix below.

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Kind regards,

CONFEDERATION OF SWEDISH ENTERPRISE

Sofia Bildstein-Hagberg

The Swedish Enterprise Accounting Group (SEAG) represents more than 40 international industrial and commercial groups, most of them listed. The largest SEAG companies are active through sales or production in more than 100 countries.

1. 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 do not object to the proposal to require presentation of an operating profit or loss subtotal. In our view, such a requirement would not be a major change as most companies already present operating profit in the statement of profit or loss. To increase comparability, the definition of operating profit or loss is the critical issue.

2. 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 do not believe that the definition of operating profit proposed by the Board will lead to increased comparability, as the residual approach will fail to create a category that embrace income and expenses from the main business activities for all entities. The essence of the comparability will lie in the items that are not included, rather than the figure itself. If many preparers find the residual figure misleading, the proposed definition is likely to be a driver for presenting alternative measures outside the financial statements and thus not lead to the desired comparability.

We agree with the basis for conclusions that the proposed definition would be easy for entities to comply with and we are aware that previous attempts have proven it to be difficult to find a direct definition of operating profit. Nevertheless, despite these challenges we believe that a principle based common definition is the right way forward. The concept of "main business activities" is a good foundation for such a definition but need to be elaborated upon further to be operable in practice.

3. 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?

As expressed above, we do believe that the concept of main business activities can be used as a starting point for a definition of operating profit and loss. However, it needs to be further described and illustrated with practical examples. It should also be made clear that entities can have several main business activities and that main business activities may alter over time.

4.
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 agree that income and expenses from financing to customers should be presented within the operating category if it is a main business activity. However, as we understand the proposed policy choice, non-financial entities would have an option to present all income and expense from financing activities within the operating category. In practice, such a policy choice would allow entities that provide financing to customers the free choice whether or not to present a financing category at all. As this would miss the aim of the ED we suggest that the option to present income and expense from financing activities in the operating category is restricted to financial institutions.

If the Board decides to retain presentation of financing activities as a policy choice, it could be argued that an option to present financing to customers within the financing category would be equally defensible for non-financial entities. If the aim is to promote comparability, however, we believe that non-financial entities should be required to single out customer financing from other financial activities (if customer financing is a main business activity) and present it within the operating category.

5.
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 fear that it will be a challenge for reporting entities to assess which assets that generate an individual and independent return that should be reported in the investing category. As income and expense from such assets is likely to be immaterial for many entities it can also be questioned whether its meaningful to introduce an independent category for these items.

If such a category is introduced, we believe that the definition will give rise to questions in practice. We therefore suggest that the Board carefully considers potential misperceptions of the definition and evaluates the consequences of such confusion. One potential query is the evolvement of the investing category over time, as assets may gradually integrate within main business *activities and vice versa. Entities may also in certain cases attempt to apply the investing category to clear operating profit or loss from unwanted items. In addition, we have noted that the definition of income and expenses that should be presented in the investing category is similar to the definition of a cash generating unit which may also be a source of some confusion. Finally, we believe that it is unfortunate that the label investing is used for this category, as the term will have divergent meanings in the statement of profit and loss and the statement of cash flows To avoid confusion from users of financial statements, we strongly advice that separate language is used if the intention is different meanings.*

6.
(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 do not object to the requirement to present a profit or loss before financing and income tax in the statement of profit or loss.

As stated under question 5, we believe that there are arguments against the introduction of an investing category. The final definition of the financing category will be partly dependent upon whether the Board decides to go through with this proposal not. If the investment category is not introduced, we believe that returns from financial investments belong within the financing category.

7.
(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 believe that it is questionable if the expected benefits of the requirement to identify associates and joint ventures as integral or non-integral in terms of increased transparency or comparability outweigh the reporting burden it will put on entities In practice, the distinction between integral and non-integral associates and joint ventures will lead to many questions.

One such question is the difference between an integral associate/joint venture and the concept of control as defined in IFRS 10. Even if the assessment of control is based on different criteria, it may be difficult to argue that an associate that an entity lacks control over is an integrated part of that entities main business activities. The classification of integral/non-integral may also change over time and will be particularly challenging in connection to acquisitions and sales of associates and joint ventures for example when entering a new line of business of strategic reasons. It is also not evident weather a joint venture that for example holds a trademark and to which royalties are paid should be classified as integrated or not. We acknowledge that many users of financial statements have requested more information about the nature of income from associates and joint ventures. However, as the proposed definition give plenty of room for interpretation the desired convergence will be difficult to reach in practice. Therefore, we believe that the information needs of users is better fulfilled by qualitative disclosures about the purpose of investments in associates and joint ventures than by hard definitions and by separating income and expenses from integral and non-integral associates and joint ventures in the statement of profit or loss.

8.
(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 don’t have any comments to these proposals.

9.
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?

We agree with the proposal to keep the choice to present expenses by nature or by function. However, for entities that have concluded that a presentation *by function is more useful, we cannot see the need for the additional requirement to disclose an analysis using the nature of expense method in the notes. These disclosures are connected with essential costs for many preparers as not all ERP systems are set up to allow for more than one approach to classify costs. These system limitations may also be a source of impaired information quality.*

10.
(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?

We do not agree with the proposal to require disclosure of unusual income and expenses in a single note. We do not think that the introduction of such a note will have the desired effect of preventing adjustments outside the financial statements. Instead, the new concept of management performance measures in combination with the rather rigid definition of unusual items is most likely to add to the current confusion around performance measurement and may be a cause of impaired confidence in financial reports.

11.
(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?

From a European perspective, we believe that the guidelines on alternative performance measures issued by ESMA have improved the clarity and consistency of performance measures that previously have been demanded by users of financial statements. As sufficient guidance is already in place, there is no need for standard setting in this area.

We are aware that the guidelines from ESMA only have relevance for European companies. However, we are convinced that this issue can be solved by for example reuse of the same terms and definitions that are already established on the European market alternatively making them an option for entities. From a preparer perspective it would be unfortunate if this issue became a matter of status between the Board and the European authority.

12.
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?

EBITDA is widely recognised measure that is frequently used and referred to by investors. We believe that it would have been very helpful for the common understanding of this concept if the Board had managed to find a workable definition in line with current practice.

13.
(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 welcome a common starting point for the statement of cash flows. Currently, there are some divergence in practice in this area and we believe it would be an improvement if all entities that use the indirect method for reporting cash flows started with operating profit or loss. However, it can be questioned if the requirement will result in actual increase in comparability as operating profit or loss is defined as a residual and not directly.

Regarding classification of interest and dividend cash flows we believe that the current policy choice works well and should remain unchanged.

14.
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?

No