VOLKSWAGEN

AKTIENGESELLSCHAFT

VOLKSWAGEN AKTIENGESELLSCHAFT 38436 WOLFSBURG DEUTSCHLAND

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

IHRE ZEICHEN
IHRE NACHRICHT
UNSERE ZEICHEN
DURCHWAHL - 23059
TELEFAX - 72226
E-MAIL Ingrun-Ulla.Bartoelke@Volkswagen.de
DATUM 14. August 2020

**Exposure Draft ED/2019/7 General Presentation and Disclosures**

Dear Sir/Madam,

Thank you for the opportunity to comment on your Exposure Draft ED/2019/7 General Presentation and Disclosures published in December 2019. The Volkswagen Group is one of the world's leading automobile manufacturers and the biggest carmaker in Europe. The Group operates 124 production plants in 20 European countries and a further 11 countries in the Americas, Asia and Africa. 671,205 employees worldwide produce vehicles, and work in vehicle-related services or other fields of business. The Volkswagen Group sells its vehicles in 153 countries. On behalf of Volkswagen AG, Wolfsburg, we are pleased to provide you with the requested remarks to the proposed Exposure Draft in response to your invitation to comment.

On the following pages we will address the issues which are of special relevance to us.

VOLKSWAGEN AKTIENGESELLSCHAFT
38436 WOLFSBURG
DEUTSCHLAND
TELEFON +49 5361 9-0
TELEFAX +49 5361 9-28282
VW@VOLKSWAGEN.DE

VORSITZENDER DES AUFSICHTSRATS:
HANS DIETER PÖTSCH

VORSTAND:
HERBERT DIESS –
VORSITZENDER

OLIVER BLUME
MARKUS DUESMANN
GUNNAR KILIAN
HILTRUD D. WERNER
FRANK WITTER

VOLKSWAGEN AKTIENGESELLSCHAFT
SITZ: WOLFSBURG
AMTSGERICHT BRAUNSCHWEIG
HRB 100484

Before we start we want to emphasize that the IASB's proposals regarding the definition of operating profit – which is as a key performance measure of our group and our main concern regarding the statement of profit or loss – meets our understanding of today. We also appreciate that the IASB has made a clear statement regarding companies with more than one main activity which is a major topic in our industry.

However, we have to state that

a) we do not agree that the **costs of the necessary changes to our data model** will justify the benefits of an additional **presentation by all nature of expenses** especially as there is a multitude of possible interpretations.

b) we do not understand why the **separate presentation of interest income of cash and cash equivalents should be of any relevance** to our users or how these amounts should ever get material and therefore how the additional **cost of a separate recognition** for each of our subsidiaries **could be justified**;

c) we **miss** clear statements regarding the **line items within the operating result while** the board seems to give **"hindsights" of an interpretation through the backdoor of non-mandatory implementation guidance**;

d) we do not understand the **overburdening reporting requirements outside of the operating result**;

e) we do not agree with the underlying ideas of the differentiation between investing and financing as it will **not result in a fair presentation of our business model**; we also reject the **term "main business"** in the meaning used by the IASB, as it is unnecessary and misleading;

f) we do not agree that there is **more than one line item revenue** in the statement of profit or loss;

g) we reject that the IASB again formulates **substantial changes to the statement of cash flow without a separate revision** of the existing presentation requirements;

h) we disagree with the proposed regulations about **unusual items**, as the guidance is **ambiguous**, leaving room for a broad range of interpretations from virtually never (earthquake in a non-earthquake region) to every unexpected event (simple fire at a factory). Furthermore, it **duplicates information from the management report** and is no real improvement as users still have to read the notes to understand the impact of an unusual event on the line items effected;

i) we reject the proposed examples for a presentation in the implementation guidance as misleading;

j) regarding the proposed principals of aggregation we miss a clear statement that line items proposed by IAS 1 or another standard must always be presented at the face of the primary statement only if they are relevant. We also miss a clear threshold of materiality;

k) the discussion where to present goodwill to us is another clear proof of the missing use of the notes in practice. But in the end, regarding the upcoming use of information technology, the whole discussion seems to be outdated;

Overall, the wording of the proposed standard is **complex and ambiguous**, setting preparers at a high r**isk of misstatements** and **hindering comparability** between companies.

About the **additional disclosures** proposed, it seems to be a running gag that we are told on the one hand that we have too many and the wrong disclosures, while our own experience shows that a lot of users concentrate on the management report, using – if at all – notes for selected information only. But on the other hand, nearly every new standard brings more disclosures and the notes get even more extensive. **We do not disagree with new disclosures in general, but we miss a binding concept on how the problem of information overload should be solved.** The situation reminds us – without personal insult – of a fashion addict, promising to buy only things really needed, but after going shopping with our credit card, us having to add another door to the closet. And certainly, there is still nothing that fits. So, if the problem is that we have too many disclosures which are not useful and the IASB brings up something new, then something old must go – and there should be plenty alternatives. Hence we ask the IASB to also make a proposal **which disclosures may be less relevant instead of the proposed and may therefore be abandoned**.

---

**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?*

1.1 We **agree** with the **overall outcome of the definition** of operating profit.
1.2 We **do not agree** with the **definition** of operating profit itself, as
 1.2.1 the term **"main business**" activities is **misleading**; and
 1.2.2 the definition is **circular, hard to read** and **ambiguous.**
1.3 We **do not agree** that there is **no definition of the line items** within the operating profit, but the board instead seems to give **"hindsights" of an interpretation via the non-mandatory implementation guidance** which is not addressed in the IFRS itself and leave a lot of questions unsolved.
1.4 We **do not agree** that **new terms** are introduced to the statement of profit or loss, that are **similar to existing terms in the statement of cash flows** but that have completely different meanings.
1.5 We do not understand the **overburdening reporting requirements outside of the operating result.**

*If not, what **alternative approach** would you suggest and why?*

We would prefer to divide the income before tax in two parts:
a) Main activities and
b) Financing the main activities.

The latter one covers necessary activities supporting the purpose (or purposes) of a company by providing the funds needed, while itself being no main activity. It should also include income and expense from currently unused funds irrespective if the investment is in financial or other assets and third party borrowings (if this is not part of the main activities (like at banks, leasing companies)).

Main activities should be separated in operating income, which is the income of main activities gained by fully consolidated companies and income from investments where the investments are directly connected to the main activities (excluding providing financing by income and expenses from unused funds). Further, we would prefer, if the IASB defines the line items within.

We would also suggest a further project to structure the statement of cash flows in a similar way, showing the net cash flow (free cash flow), which should be separated in cash flow from main activities and investments in main activities, and cash flow from financing activities, which should include cash flows from investments in unused funds as a separate line item.

**Ad (1.2.1): Term “main business” activities is misleading**
For the consistent classification of income and expenses to the operating category we need a **clear definition of a main business activity**. Especially the regulations in 48 and 51 require a uniform treatment of the companies. As stated above, we fully agree with the outcome of the definition of operating income and in particular to the exclusion of the share of profit or loss of associates and joint ventures, as an inclusion would jeopardize the operating margin. However, we **disagree**, that our **joint ventures and associates** as well as our other investments in other companies **are not part of our “main activities”** and therefore think the term itself is misleading.

For Volkswagen e.g. China is our biggest single market over the past years. We only jointly control with local partners most of our Chinese investments. In 2019 Volkswagens share in profit or loss of equity accounted investments was 3.3 billion €, predominantly from China, which makes up nearly 20% of our income before tax. However, as our revenue does not include revenue of our equity accounted investments we also did not include our share in their after tax profit to our operating result, as it would have distorted our operating margin. But the business in China is certainly part of our main business activity and is treated within our organization like an own brand.

Furthermore, it is **not in line with the purpose of our company** according to the articles of association **to do any “investing activities” that are not directly connected to our main activities** beside short-term investments of currently unused funds. Hence, e.g. investments in other companies always follow strategic reasons to support our main activities and are therefore connected with the other resources held by our company.

Therefore labeling major parts of our financial result as of today in future as “investing” outside our activities would be misleading, too.

**We therefore suggest that the term main activities is not limited to the “operating income”.**

Ad (1.2.2): **Definition of operating income is circular, hard to read and ambiguous**
Again, we have to state, that we agree with the overall outcome of the definition of operating profit (at least according to our understanding), but the **definition** itself **is circular, hard to read and ambiguous,** which gives opportunity to misstatements and at least hinders the comparability between companies.

In BC.55 the IASBs argues the residual way of defining operating income would inter alia be simpler and more consistent to apply. However, we have to state, that the definition, which is scattered over different paragraphs of the standard is **very complex** to follow. The definition is **circular**. The IASB does not define “main activities”, but states it is operating, when it’s not inter alia investing or financing, but it’s not investing or financing, if it’s part of the main activities, what is a matter of judgement, what can be interesting without knowing what main activity means.

The definition is **ambiguous,** especially as it depends on whether you read the standard either in a rules based or principle based way. E.g. para. B32 can be understood in a way, that income from investment property (beside para. B27) does always fulfill the definition of income and expenses from investing; or it can be understood that it is only investing, if it fulfills the general definition of investing activities of Appendix A. This term can also be read in very different ways especially if your company in principle has no “investing activities”.

Ad (1.3): **Line items within operating profit**
We really appreciate that the IASB proposes to define the operating result and we fully agree with the overall outcome of the definition. However, **why does the IASB fail to define the mandatory line items within operating result?** Why does the IASB require for example all companies to provide “cost of sales”, but does not provide a definition to ensure comparability? On the other side, the IASB proposes in the non-mandatory Implementation Guidance to IAS 1 a presentation by the function of costs method which seems to follow a certain interpretation of cost of sales (or “cost of goods sold”, which is the term used in the IG), which is at least not in line with our understanding of today, but leaves many questions unanswered.

Today Volkswagen (in line with the majority opinion in Germany regarding the interpretation for the costs of sales method according to Regulation 2013/34/EU) understands cost of sales as total cost of production, which also includes cost of revenues of previous or past periods. Hence, for example all development costs of the current period (development costs not capitalized and cost of amortization / impairment of development costs capitalized) as well as costs of impairments of tangible assets or additions to the warranty costs are included. This interpretation also fits to the requirement of IFRS 15 to present changes to the revenues of previous periods in the line item revenues.

Now, the IASB has included the line item research and development expenses as an item of its own. What is the content of this new item? Only costs not capitalized or also costs of amortization or impairment? What does this mean to the general definition of costs of sales? Are there any other costs effected and where should they be presented? What other items should be presented when applying the function of expense method?

**For the avoidance of doubt, we prefer a broader, less complex definition of cost of sales that comprises all cost of production regardless of whether they are attributable to past, current or future sales**. For example excluding non-capitalized development costs, but including amortization of development costs will result a distortion between companies capitalizing and companies not capitalizing. **However, first and foremost we would appreciate if the IASB drafts a clear definition within the standards, not ambiguous hindsights through the backdoor of non-mandatory examples.**

Costs of litigations is for us a typical example for other operating expenses. This is because they are by nature highly variable, with no direct connection to the development of the business itself. Further, they can be connected to different functions like costs of sales (e.g. law suit with a supplier) or selling expenses (e.g. law suit with a retailer). However, we have to learn, that the IASB would add them to the costs of general administration, while in the illustrative examples there are no other operating expenses at all. We disagree, for the reasons stated above. We also wonder, what this means to the definition of administration costs in general. **We would appreciate if the IASB drafts a clear definition within the standards, not ambiguous hindsights through the backdoor of non-mandatory examples.**

With respect to the nature of expense method (which Volkswagen would only be only able to provide as notes with undue costs and efforts), we also miss a complete definition of line items and what they should comprise.

Ad. (1.5): **Overburdening presentation requirements outside of the operating result**
While we miss in respect of the aim of achieving a better comparability between the companies, more guidelines according to the presentation of operating income, we do not understand the introduction of that overburdening presentation requirements outside of the operating result. In our understanding **the primary financial statements should concentrate on the items in the main focus of the investor, what is the operating income and the share of the result of equity accounted investments, only.** In contrary, the "other financial result" was in the last decades of limited interest to our investors. All the additional line items and subtotals are of limited materiality and have the ability to obscure other financial information.

---

**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 **refer to our answer to question 1 especially 1.2.2**. The **Definition** of operating income is **circular**, **hard to read and ambiguous**. We understand the reasons behind the way the definition works, but for a principle based interpretation of a standard, a clear definition within the standard is required.

**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 **refer to our answer to question 1 especially 1.2.2**.

**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 agree**, that companies providing finance to customers should show their income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers in the operating result. **We do not understand**, why the IASB cares about income and expenses from **cash and cash equivalents**, at all (see also our answer to question 5). In our understanding a bank, leasing company or other entity providing financing to customers should be allowed not to differentiate its income from cash and cash equivalents. We agree with that.

However, the definition in Para 51 applies to the **(whole) entity**, not only to the part (e.g. segment) of the company which provides financing to customers as a main business. What does that mean? That Volkswagen can use the accounting policy choice for our financial service business only, if we classify all income and expenses from cash and cash equivalents of all divisions to the operating result?

We suggest, the IASB should state **more clearly**, that **when a company has more than one main business, rules only apply to the specific parts of the company**.

**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?*

**We do not agree.** As already stated in our answer to Question 1, it is not in line with the purpose of our company according to the articles of association to do any "investing activities" that are not directly connected to our main activities beside short-term investments of currently unused funds. Hence, e.g. investments in other companies always follow strategic reasons to support our main activities and are therefore connected with the other resources held by our company.

Therefore labeling major parts of our financial result as of today in future as "investing" outside our activities would be misleading, too.

Beside our general critique, **we do not agree with the separation of income and expenses from cash and cash equivalents from other interest income and expense**. We understand the theoretical underpinning, but we cannot believe that a separation of interest income from cash and cash equivalents from e.g. time deposits with a maturity of more than three months of the date of acquisition is of any relevance for the users of financial statements. And relevance of the information should be the primary concern.

Further, we cannot believe that, as cash equivalents must be subject to an insignificant risk of changes in value only by definition, even given much higher interest rates than as of today, there is a chance for any significant amounts of interest income of cash and cash equivalents that may justify the high cost of a separation within accounting. E.g. Volkswagen Group had in 2019 average cash/cash equivalents of approx. 25 billion € (most within our banking business which is not relevant for this discussion) with a total revenue of 250 billion €. If we consider a threshold of only 1% of revenue (which is far too low), we would need an interest rate of 10% p.a. on time deposits with a maturity of three months at acquisition to fulfill that threshold (considering that all cash/cash equivalents have that maturity). When did this ever happen? And, would it still fulfill the definition of cash/cash equivalents in IAS 7?

**Therefore we have to urge, that the IASB does not set rules for the separation of items that are obviously without any relevance for the users nor have any chance to be of any materiality for most of the preparers**.

Overall, regarding the limited attention the financial result has had by our users in the past, we do not understand the overburdening reporting requirements outside of the operating result.

*If not, what alternative approach would you suggest and why?*
See our suggestion to Question 1.

---

**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?*

(a) **We do not agree** that this line item is of any substantial use. See our proposal to question 1.
(b) For our **critique regarding the differentiation between interest income from cash and cash equivalents** from other interest income see question 5.

---

**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 do not agree.**

First and foremost we see **no value added** by the new differentiation especially with regard to the existing disclosure requirements of IFRS 12 making the differentiation **totally hypothetical and arbitrary**.

The proposed definition is **ambiguous**, giving broad room for different interpretation and **hindering comparability** between companies. Overall, it seems to focus mostly on the importance of the investee for the reporting group, which means – as a tendency – that predominantly only large (and profitable) companies will be classified as integral while small (and – at least today – not as profitable) companies will be excluded. At the end, the proposal **adds complexity** to our accounts, **increases our costs** and puts us at the **risk of misstatements**, while **users will assume window dressing and ignore it**.

For Volkswagen – as parent company of several subgroups publishing own IFRS Reports – focusing on the importance for the "reporting entity" may add additional complexity if the classification differs between the parent company and the subgroups, increasing again our cost and preventing the differentiation to be of any use for steering purposes.

---

**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?*

(a) **We agree** with the **proposed description of the roles of the primary financial statements** and the notes. However, for the reasons described in Q1 we do not see that the goal of comparability can be reached without a detailed set of unambiguous, clearly definition of the items to be presented.

(b) **We do not agree** with the proposed **principles and general requirements of the aggregation** and disaggregation, as we **miss** a clear assumption of a **threshold of materiality** as well as clearly defined rules for the rare circumstances in which this threshold may not be appropriate. Without it, there we will be no common understanding in practice.

**There should be – in line with the general principles – a clear statement that relevance should be always the overriding principle, irrespective if there is a reporting requirement within a standard**. IFRS X.65 together with B7 and B9 could be read, that a company must present e.g. interest revenue calculated using the effective interest method and insurance revenue always as separate line item within the statement of profit or loss, irrespective of how important those items are for an understanding of the performance of a company. **If so, we would disagree, as the question of aggregation and disaggregation should be based on the relevance of a line item, only.**

**There should be also a clear statement on consistency.** Especially Note 1 in the illustrative examples could be read so that presentation should change every year depending on the relevance of an item. We fully reject that, as this will decrease comparability between the years by increasing costs of preparation (we do not just use MS Excel!).

See also our comment to question 14 about the presentation of goodwill.

---

**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?*

(a) We **do not agree** with the requirement to **provide an additional analysis using the nature of expense method** in the notes, as this would not only require an expensive renewal of our group consolidation system, but would also require very **expensive and time consuming redesigns to the underlying accounting systems at several of our companies.**

To our experience, a simultaneous presentation by nature and function of expenses in a faithful way, is not possible without undue costs and effort unless you have both information in your profit and loss, already. The "analysis" of operating expenses is not just a choice of presentation, but can have substantial influence on the design of your underlying accounting processes. Especially accounting under the function of expense method can be done in very different ways. It can be done either in a similar way to the nature of expense method, recognizing the costs e.g. of a car already in the moment the car is built, just dividing every expense like personal costs, depreciation etc. by their function and correcting the costs-of-goods-sold by the change in inventory. Or it can be done in the "storage"-way, where you directly recognize the costs of the car when it is built to the inventories until that specific car is sold. Both ways are evenly viable for IFRS-purposes as of today. Within Volkswagen Group – with our history of large acquisitions in the last decades – we find both methods at our subsidiaries. We refused the idea to unify methods in either way, as this would mean to significantly change important subsystems at several companies at very high costs, while the aggregated group reporting and controlling is not affected.

For that reason, to do a second analysis by nature we cannot "simply" redesign the data model of the group as well as our consolidation system (for which itself we incur significant cost), we have to redesign all those accounting processes and the supporting subsystems at several of our companies, which will be highly expensive and time consuming. So, if the IASB agrees, that it is not possible without undue costs and efforts to require companies that use the nature of expense method to classify all their expenses by functions also (which we fully understand by our own experience having acquired subgroups using at the date of acquisition the nature of expense method), it must also agree that the other way around is not possible too, for the same reasons. **But even if we would be able to do so – which we are not – we would reject the approach,** as it would **duplicate several information already provided**, **increase complexity** (e.g. as there would be different "other operating expenses") as well as cause **information overload** and **without clear definitions** of the line items **relevance for the users would be strictly limited** (see also our comments to Question 14 regarding Note 1).

(b) We also **reject** the requirements the IASB proposes to **decide which method a company should use**, as we cannot agree that such **ambiguous** guidance will become an adopted standard, meeting demands  of judicial enforcement. Inter alia:

- What does it mean, when the IASB says that the function of expense method provides the most useful information for retailers while nature of expenses provides the most useful information to service entities? That they generally have to use the corresponding method, even if some of the other criteria do not apply. If so, please make a clear statement. Or is it just an unbinding example? In that case please make a clear statement too.  What does it mean for mixed companies,  as most of our retail companies also provide services. Do they never the less fall under your label of retail companies? Is there any clear hierarchy between the arguments?
- Volkswagen has changed a long time ago to the function of expense method as it is – thanks to the SEC – the most common method within our industry. Hence, in our point of view, it provides for the reason of comparability the most useful information. However, do we also need to have a discussion about which method provides the most useful information about the key components or drivers of our profitability?
- How about subsidiaries, obliged to prepare a IFRS separate financial statement (or local equivalent)? The user of most of those subsidiaries is Volkswagen as there sole investor, and hence we can clearly say, what to us is the most useful information – the information fitting to our group data model. However, will a local enforcer accept this explanation for e.g. a service company?
- What does lit. d) mean at all? How can the allocation to functions not be arbitrary if the IASB neither defines which functions to use and which content they should have.

**We suggest** to keep the existing wording, maybe supplemented by examples about which factors a company may inter alia consider. Please delete lit. d).

**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?*

(a) We do not agree with the proposed definition. The **legal terms** used in the standard are **ambiguous and can be read in very different ways**. Please consider the more or less identical discussion about the definition of extraordinary items and how it ended. In addition the proposed **guidance** is not useful but **misleading**.

Our understanding of the board's intention from the Basis for Conclusion is that unusual items should be limited to rare circumstances. We would agree with that understanding. However you can read the examples in the standard itself that every unexpected event is unusual (see (c) below). This view is supported by illustrative examples with a company having several unusual events per fiscal year. We disagree.

But, what will be the proposed standard change if we assume / do not assume something with a significant effect as an unusual item? We will go on commenting every significant change to major line items by nature in the management report, irrespective if it is "unusual" by the IASB, or due to e.g. currency changes or hedge accounting. We will do the same in the notes to the line items, if there is something relevant to mention. And as we are free to present management performance measures within the management report, we can continue showing operating result e.g. before special items, irrespective if this is an unusual item according to IFRS or not.

Overall, **nothing will really change compared to our presentation** as of today, beside that we may **duplicate content** of the management report to the notes (see below), while putting us in **permanent danger of misstatements**, because of the unambiguous legal terms used in the standard.

However, at least the disclosure requirement should explicitly be **limited to effects that are material for themselves**, as the occurrence of minor unexpected unusual events is part of normal business. E.g. we do not expect to have a fire at a factory, but due to our life experience our planning always has some reserves for unknown risks. A "survey" of all unusual events at our over 900 subsidiaries to decide whether the total of non-material unusual events reach the materiality threshold is not practicable especially as the CFO of a subsidiary will be unable to decide if an unusual event for him is unusual for the group.

(b) **We do not agree with the proposed disclosure in a single note.** To our understanding it is necessary to comment on every important development within every major line item of the financial statements, irrespective if this change is e.g. due to unusual items, currency changes, derivatives or deviations in the usual business. However, this discussion of an entity's financial performance, cash flow and financial position is **content of the management discussion and analysis within the management report and therefore outside the scope of the IFRS**. The note will only **duplicate** parts of the MD&A, but it is **misleading** due to ambiguous terms and as other important parts for the understanding of deviations in the cash flows are missing.

We have to admit, that for users analyzing line items of the financial statement in detail, a general explanation in the MD&A is not sufficient. For that reason, we also add explanations specifically covering special items to every note of a line item affected. However, our extensive experience especially with special items shows that many users do not read the general notes containing all explanations, very likely due to the limited time they have per annual statement. **An additional note will not help** them with that issue (even as we will insert a link to it for every item affected). In order to reach a practical improvement for users, the IASB should – **clearly limited to rare circumstances** (earthquake in non-earthquake region) – r**einvent the extraordinary item.**

(c) **We do not agree**, that the application guidance to help an entity identify its unusual income and expenses is helpful. As already stated above the definition is **ambiguous.** In addition the proposed **guidance** is not useful but **misleading**.

As an example of extraordinary items, the Board in the non-mandatory **Basis for Conclusions** uses "earthquake in a non-earthquake region". Experts frequently translated this as "**virtually never**". And even then, we have to learn, that this is from the point of view of the IASB not unusual if the earthquake will lead to increased cost in several (whatever that means) future periods. E.g. Volkswagen has had a long tradition of not showing any unusual item, but had to change this with the Diesel emissions issue in 2015. As a consequence, since then we are presenting "special items" within our management report explaining the effect to the different line items within the notes. Hopefully most people will agree, that the Diesel emissions issue is indeed an ongoing unusual item, especially given the significance of related amounts to profit or loss per year. However, depending on how you understand the legal terms, would we be still allowed to show it? On the other side, in the **Standard** itself, the IASB states that for example "an impairment loss resulting from a fire at an entity's factory is normally an unusual type of expense". But if a simple fire destroying some fixed assets in one of our several factories already qualifies as "unusual", **what unexpected event will not fulfill the definition**.

The example of the litigation hold is also up for a wide spread of interpretations as there is **no clear range of deviations to be expected as usual**. Litigations are normally up to broader variance, but without a clear threshold it is unclear when a variance is out of the range. The guidance is also unclear which items are unusual.
**Must every effect on a single line item (or even notes) be analyzed, even if there is no major net effect e.g. on operating income?** While an earthquake will normally result inter alia in an impairment according to the Basis of Conclusion an earthquake will be no unusual event, when it is expected that there will be increased costs in several (whatever that means) future periods. As it would be curious if we would expect impairments for the next periods, also, the earthquake example indicates that we have only to consider net effects. At Volkswagen we had in the past all sorts of accidents and natural disasters like hail storms, floods and explosions destroying large number of stock, but not even mentioned them in the management report, as none of them had a major impact on profit thanks to our insurance. However, as you would expect a company to be compensated for impairment by the fire insurance, does that mean that every line item must be treated for itself.

**What line items should be considered?** Only directly clearly attributable income or expenses (whatever that means), or also opportunity costs (e.g. if there is a loss in revenue, because items produced in the factory destroyed by an earthquake will not be sold in the future)? According to B73, an entity does “not classify related income or expenses as unusual unless those related income and expenses are themselves unusual”. We agree with this, though this is also up to a widespread range of interpretations. E.g., while one would expect that tax effect normally must not be considered, the illustrative example may be understood that the calculation of tax effects is mandatory. And that the calculation of the share of minority interests is mandatory (see also our answer to Question 11).

Last but not least, **what reporting would the IASB expect to the current corona crisis.** Is corona an unusual event? Clearly. Are there costs directly attributable to the crisis? Certainly, however this would be calculated. Should we present all those costs then? And everything else went well? Or should we just duplicate our total statement of profit or loss? Based on what proof? To our experience with systemic crisis scenarios (e.g. supreme market, dot com etc.) and unsystemic events like the Diesel emissions issue, the administration of a company, especially at the begin of a crisis, has better things to do than establish a reporting system to crisis-related costs.

(d) We do not agree. See our comment to question 9.

*If not, what alternative approach would you suggest and why?*

For the reasons stated above, we would **suggest:**
(a) To **clarify that the definition** of unusual items applies to rare circumstances only (earthquake in a non-earthquake region)
(b) To clarify **which items should be considered** (only net-effect on operating result);
(c) To **transfer the disclosure to the non-mandatory management report**;
(d) To **reconsider the reinvention of the extraordinary income line-item** (under the condition that it is limited to rare circumstances).

**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?*

(a) We **agree with the idea** of presenting information about management performance measures (at least how we understand the proposal), but would ask the board to **add more guidance to the legal terms used** in para. 103 to avoid having a too broad interpretation of the terms.

- Who is that **management** which view is communicated to the users of financial statement? We believe that this should be limited to the CFO and the chief operating decision maker of the reporting entity according to IFRS 8, as the term management itself can have a very broad meaning. Even if that may not have an impact on reporting itself, we have to make sure that we are aware of any relevant communication. And the narrower the definition, the lower are the costs of administration.
- What does "**complement totals or subtotals**" mean? E.g. within our management report we aggregate our reporting segments into two divisions (automotive and finance). We also provide key financial figures like operating profit by brands. In our understanding this is no complement to those subtotals, as we do not alter the definitions of the subtotals themselves, but clarification would be appreciated.
- What does "**communicate to users of financial statements**" mean?

(b) **We agree.**

(c) W**e disagree that the disclosure requirements should outrun the requirements about e.g. operating profit.** We therefore disagree about the presentation of tax effects or the share of non-controlling interest. We accept that this information may be interesting to some users, but **interesting does not justify costs and does not prevent us from disclosure overload**. In our understanding we are not required to present this information e.g. to operating income or other important line items (and this is good as it is). So why should we start doing it for management performance measures? Will a more or less accurate calculation of the tax effect normally leads to a deviation compared to group tax rate of such extent that this will warrant the next table in the notes users will ignore? Who is interested in non-controlling interests anyway? We already have those overburdening disclosure requirements about non-controlling interests within the other comprehensive income and nobody asked about that during the last decade. Why should we add another?

See also our answer to Question 14 to the illustrative example of management performance measures. The example together with the additional disclosure requirements about tax effects and share of non-controlling interest may be understood as a requirement to provide an adjusted income after tax and an adjusted share in income of the parent company's shareholders. We strongly disagree with a requirement based on the idea to invent additional measurers not used by management. We are also concerned that the voluntary combination with the notes of unusual items could be misunderstood in a way that the disclosure requirements of unusual items are also mandatory for management performance measurers et vice versa. Please clarify.

(d) While we agree with the idea of a reconsolidation of e.g. an adjusted operating income used in external communication to the operating income according to IFRS, **we disagree that the IASB creates additional adjusted amounts like an adjusted income after tax.** The presentation of different items not used in external communication will confuse the users and the created information overload will obscure relevant information.

---

**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?*

**We agree.**

---

**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 reject**, that the IASB again formulates substantial changes to the statement of cash flow without a separate revision of the existing presentation requirements; in particular we still miss a gross cashflow, change in working capital, net/free cashflow; **see our answer to Question 1.**

Regarding para. 34B ff. we do not understand, why the treatment does not **follow the treatment within profit or loss**. Along the lines of our comment to para. 51 of IFRS X, we wonder if the rules should apply to companies in total or only to the part providing e.g. financing. We suggest, the IASB should specify **more clearly the application for companies having more than one main business.**

---

**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?*

**(1) More than one line revenue**
**We do not agree** that there is more than one line item revenue. Beside operating profit, revenue is the most important line item of the statement of profit and loss. It is important not to confuse users by having not only a single number revenue but to scatter it through the statement of profit or loss. What does it mean, when the IASB presents interest revenue from cash and cash equivalents within income from financing? Is there also interest revenue within the income from other investments? And some revenue within other operating income? And the notes to revenues should put all the pieces together? How should a revenue based margin be calculated?

There should be no virtual complexity added by principal, but things should be kept as simple as possible. **We therefore suggest, that there is only one line item revenue which is the topline of every statement of profit or loss.** Please clarify.

**(2) Non-mandatory Illustrative Examples**
**We disagree with the concept of non-mandatory illustrative examples**, as it has not worked out well in practice and puts us in permanent danger of misstatements as their role as interpretative guidance within the judicial enforcement is nebulous. The IASB states that the illustrative examples should "illustrate aspects of IFRS X but are not intended to provide interpretative guidance". But what should that mean?

By interpreting standards, people tend to explore the "intention of the legislator". That the IASB is formally neither the legislator in Europe nor that this form of interpretation is not in line with the normal approach of the European Court of Justice has not really helped in past. We were several times confronted by interpretations e.g. of our auditor referring to the illustrative examples or the basis for conclusions which should demonstrate "the clear will of the Board" to do this or that. And how a court will treat unbinding illustrative examples is total unclear.

We have already stated in our answer to question 1 that we do not agree that the IASB gives drafts no clear definition of the line items within operating result, **but gives ambiguous hindsights through the backdoor of non-mandatory examples.** We refer to our remark 1.3.

**We suggest**, that the IASB do not propose non-mandatory illustrative examples but work out mandatory default models for different types of industries, and with a clear set of rules about when it is allowed to deviate, comprising clear materiality thresholds for aggregation and a "divergent local law" exemption.

At least, there should be an explanation and discussion about every single example, not just a "do you have other comments".

**(3) Illustrative Examples in particular**

As stated above, we fully disagree with the concept of non-mandatory illustrative examples as to our past experience e.g. auditors refer to it as binding and it is at least open how judicial enforcers may treat it. **We therefore cannot accept that examples are added that we would disagree to follow in practice**.

*IE II-4 Illustrative Example of a company with two main business activities (page 22)*

Especially we have to reject IE II-4 Illustrative Example of a company with two main business activities, as in our opinion it only adds complexity, duplicates information already to be found elsewhere, is not feasible and far too simple. Inter alia:

(1) As already stated, we fully disagree having more than one line revenue, but the users have to look into the notes to find out about the correct revenue of the company. What is the correct revenue in your example anyway: 509.500, 509.499 or 509.501? What is the basis for the calculation of the operating margin, which is more important than the gross margin?

(2) What is it good for having just one information "on the face of the statement of profit or loss", but for all other information you still have to go to the more detailed ones in the segment reporting or the management report?

(3) How did you treat consolidation and group functions? How will the presentation fit to your segment reporting/reporting of revenues according to IFRS 15 where you have to show consolidation and group functions separately?

(4) How would the presentation look like for a company like Volkswagen having four different reporting segments?

(5) Why should we duplicate parts of the information we already show in the management report in more detail?

In our opinion, if you have more than one major business activity with completely different key performance measures like automotive and financial services, it is important to provide your users with detailed information as basis for a comprehensible management discussion and analysis, not only two line items. We do so already in the management report by presenting condensed statement of profit or loss, cashflow statement and balance sheet fully split up into automotive and finance and some key measurers for passenger cars, truck & bus and power engineering. We would dislike to duplicate the information again in the annual report.

**The presentation proposed by the IASB would not be adequate to explain our business. It adds no new information, but only complexity. We therefore suggest to waive the example.**

For further critiques on the example see also our remarks to the general example to the statement of profit or loss by functions below.

*Line items of the statement of profit or loss by functions (page 6)*
We have stated in remark 1.3 to your Question 1 already why we are averse to the separate line item research and development expenses, as it is not in line with our understanding of the definition of the costs of goods sold.

Other operating expense in the example is only 1.1%. In note a) the board remarks, that analysis in the notes is mandatory. However, we wonder how such note should look like regarding the limited relevance of that item. The same applies to all other examples, where a note is demanded but no example is provided.

Further we miss a **line item other operating expense** and a clear definition which items should be included. Especially as there are other miscellaneous expenses in note 1.

In return we **disagree** with the **separate presentation of the line item impairment losses** on trade receivables, as it could be misunderstood as

(a) the line item is mandatory; we disagree and would add it normally to the line item other operating expenses; or
(b) the materiality threshold for aggregation is below 1.3% of revenue.

For the same reasons we **disagree** with the **separate presentation of the share of profit or loss of non-integral associates and joint ventures** and **dividend income** as well as the separate presentation of **expenses from financing activities** and **unwinding of discount on provisions**.

*Note 1 - Analysis of operating expenses by nature*
As stated already in our answer to question 9 we fully disagree with the obligation for an additional analysis of operating expenses by nature. However, we bother especially because of possible “hindsights” to **materiality** or interactions or to the definitions of the **items by function** through interaction. E.g. with an operating expense of more than 300.000 CU, would the IASB expect the separate presentation of a line item of 2.000 CU which is less than 1% of total costs really as relevant? Why should the company then present a line item litigation costs? Is it because of the unusual item in the last year? But even then it was below 2% and for the reasons of consistency, we would not change our presentation every year especially for an unusual increase, but would either make a note or a footnote.

We reject the presentation of the line item reversal of inventory write-downs. In addition to the reasons above, a faithful calculation of such an item without undue costs and effort is impossible for a large fully integrated group like Volkswagen due to intercompany elimination. Further we wonder due to the example, why the reversal is zero in year 20X2 while in year 20X1 it seems to be exactly the amount of the unusual item in note 2. We would expect such an item to be non-relevant, but normally not zero. Does the IASB suppose that a company can – if the amounts in general cannot be determined with undue costs and efforts – is allowed to present the unusual item, only? In that case, we would assume the presentation without additional remark is misleading. However, we fully agree that the presentation of reversals of impairments of inventories is normally non-relevant and not possible without undue costs and efforts at least at groups with high intercompany eliminations. **We would therefore appreciate if the IASB revises the disclosure requirements of IAS 2.**

We also **disagree** with the **detailed disaggregation into amortization, depreciation and impairment**. Traditionally we provide a detailed split up in the table of assets, providing also a split up by different types of tangible and intangible assets. In addition, due to IAS 36 we provide a note of all impairments included in the profit or loss by the year, explaining the main reasons (irrespective if this is unusual or not). Why should we duplicate the information? If we would provide such a detailed split up as a separate table, is there still a need for the other disclosures?

We are **confused** as there is a line item **raw material,** but **no line item for received services**. In practice a differentiation between both items requires certain judgment as beside traditional raw materials like steel coils and acquired services there are a lot of mixed items like prefabricated components,  warranty costs or development costs, which contain on a different level raw material and services received. However, we do not see any hindsight in IFRS X on the line item received services. Does the IASB not differentiate? In that case the term raw material is misleading. If there should be a differentiation, please provide a definition.

***Note 2—Management performance measures and unusual income and expenses***
We already stated in our answer to Questions 10 and 11 our disagreement with the presentation regarding unusual expenses as well as our disagreement with parts of the disclosure requirements regarding  management performance measures.

The illustrative example for performance measures makes a good match to the proposed reporting requirements as the example company uses **three management performance measures**, ‘adjusted operating profit’, ‘adjusted net profit’ and ‘**adjusted equity holders’ profit of parent**’. But what would be the outcome if there was only one performance measurer in use? People may understand the example that there is still the need to adjust all line items. As already stated in our answer to question 11 we disagree with the general requirement to show adjusted income tax or the share of non-controlling interest. **We** also **disagree that the IASB reinvents additional adjusted line items not used in the external reporting, as this will only confuse users and obscure the relevant information.** E.g. as a consequence of the overburdening information provided in the example, a comparison of the effects per year was made difficult.

In our understanding it is a choice in presentation of the companies whether or not they want to combine both information about performance measures and unusual income and expenses. Therefore it would be also possible e.g.

- to do a simple transition of e.g. adjusted operating profit and operating profit, labeling the reasons for the adjustment without telling the different subline-items affected;

- to explain unusual income and expenses in a separate note without classifying taxes or share of non-controlling interest as unusual if they are not themselves unusual.

However, people may misunderstand the illustrative example that all this information provided is mandatory, especially as there are no alternative examples of a separate disclosure. We therefore suggest to include at least an explanation that an option is exercised to combine both information and which information for management performance measurers is non-mandatory.

Regarding the examples for unusual items, the fact that it seems to be usual to have at least two unusual events per year indicates that unusual events are not that rare.

**(4) Goodwill**

We **do not agree** with the separate line item goodwill at the face of the balance sheet **at least based on the arguments provided by the board**. We certainly realize, that goodwill has a special importance to users (which it had already before the change to the impairment only approach). And their desire to show it on the face of the balance sheet is to save time and not have to look to the tables of assets (which is just one click away). But if users do not normally have time to look into the table of assets for such an important information, **what is the IASB's consequence for all the other less important and far less understandable notes** we have to prepare and have not received any questions about for years?

However, **we cannot agree with the boards argumentation** "that the characteristics of goodwill are sufficiently different from those of intangible assets to warrant separate presentation". So Goodwill may be residual in that it cannot be measured directly. But is there beside the way of initial calculation such a big difference to the other intangible assets also only recognizable in case of a business combination, which also have an unidentifiable useful life and are therefore subject to the same level of impairment tests as goodwill? Only because an "established calculation method" was applied to calculate a target company's brand name sometime in the past in a "somehow objective way", which then directly impacted the value of the goodwill, does in our opinion not justify a different presentation. **Setting the focus solely on goodwill but leaving the other assets with similar characteristics in their current valuation aside would be in our opinion misleading.**

However, if it is too complicated for the IASB to explain to the users that you cannot pay special attention to e.g. a 19 billion goodwill but forget about a 14 billion brand name acquired within the same transaction (as well as 4 billion deferred taxes), **the IASB should revise its requirements for the purchase price allocation** so we can directly post 29 billion goodwill.

At least, as goodwill is still an intangible asset, we would expect that by a separate presentation the term other intangible assets for the line item in the balance sheet would be more applicable.

**(5) First time application**

The proposed time of 18 to 24 month for a retrospective first time application is not sufficient. Retrospective application normally starts one year before the first fiscal year of adoption, when we already recognize the postings on new accounts. Therefore we will have only one year or less left for concept, alignment, roll-out and worldwide implementation. This will be not possible even if there are only minor technical changes especially as we do not have the necessary IT Resources on standby. Also alignment with the auditor was a crucial factor in past projects, especially if guidelines are ambiguous. The time needed for implementation is therefore depending on the final outcome, but we guess that we need at least 18 - 24 month before the previous period starts, on the condition that there is no substantial change to the subsystems.

Best Regards,

Dr. Ingrun-Ulla Bartölke

(Head of Group Accounting and External Reporting)