afme/
Finance for Europe

Jean-Paul Gauzes
President of the EFRAG Board
European Financial Reporting Advisory Group
Square de Meeûs 35/5th floor
1000 Bruxelles
Belgium

29 September 2020

Dear Mr Gauzes,

Response to a public consultation by the International Accounting Standards Board on Exposure Draft ED/2019/7 *General Presentation and Disclosures*

The Association for Financial Markets in Europe (AFME) has commented on the **Exposure Draft ED/2019/7 *General Presentation and Disclosures*** issued by the International Accounting Standards Board. We would like to share our comment letter with EFRAG for consideration.

We stand ready to answer any questions or provide any additional comments if necessary.

Yours faithfully,

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About AFME

AFME (Association for Financial Markets in Europe) advocates for deep and integrated European capital markets which serve the needs of companies and investors, supporting economic growth and benefiting society. AFME is the voice of all Europe's wholesale financial markets, providing expertise across a broad range of regulatory and capital markets issues. AFME aims to act as a bridge between market participants and policy makers across Europe, drawing on its strong and long-standing relationships, its technical knowledge and fact-based work. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: www.afme.eu. Follow us on Twitter @AFME_EU

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Finance for Europe

Submitted electronically via **www.ifrs.org** website

29 September 2020

Dear Sir / Madam,

Response to a public consultation by the International Accounting Standards Board on Exposure Draft ED/2019/7 *General Presentation and Disclosures*

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the **Exposure Draft ED/2019/7 *General Presentation and Disclosures*** ('ED') issued by the International Accounting Standards Board (IASB or the Board).

We are supportive of the majority of the proposals made in the ED but would like to request the IASB to consider the following issues.

Based on our analysis of paragraphs 49 and 51, it appears that banks might be required to present the financing category as a separate line on the face of the statement of profit or loss even if such a line item would be immaterial, thus providing limited value to the users of financial statements. We therefore propose that preparers should have flexibility to include immaterial items from financing and investing activities within the operating category.

Regarding the proposals in relation to integral and non-integral associates and joint ventures, we think that instead of classifying an entity's interests as 'integral' and 'non-integral', it would be more appropriate and useful to users, if preparers provided additional information allowing the users to make their own decisions regarding the classification of an entity's interests in material associates and joint ventures. We think that income and expenses from associates and joint ventures accounted under the equity method can be presented either in a separate line item on the statement of profit or loss or a separate subtotal within operating profit or loss category.

AFME believes that the proposed definition of 'unusual income and expenses' is too prescriptive and would limit preparers in capturing decision useful information that would represent events outside of core business. We believe that firms should be able to exercise judgement, considering firm specific facts and circumstances when deciding on whether an item should be classified as 'unusual'. We thus propose that defining unusual items should be an accounting policy choice and described within 'Significant accounting estimates and judgements' section of the notes to financial statements. If the intention of the proposal is to provide the users of financial statements with clarity on which income and expenses would not be expected to recur in the future, we think that this requirement should be clearly stated in the ED without introducing the definition for unusual income and expenses.

With regard to the proposals around 'management performance measures' (MPMs), we note that banks are already required to report on non-GAAP measures according to rules by national or regional supervisory authorities (e.g. ESMA). Therefore, whilst AFME would generally prefer that the concept of management performance measures be removed from the new standard, we request the IASB to at least consider to what extent preparers of

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regulated non-GAAP information could be exempted from the new reporting requirements on MPMs to prevent any inconsistencies between the different sets of reporting frameworks. Additionally, if the proposals around MPMs were to be included in the final standard, we think that preparers should be granted a discretion as to whether to report MPMs in or outside the primary financial statements. Finally, we propose narrowing down the definition of 'public communications outside financial statements' to only include communications released alongside the official quarterly and annual reports to prevent unnecessary ambiguity around the type of information that may qualify as MPMs.

Finally, we would like to reiterate a long-standing industry position that the statement of historical cash flows for the banking industry might not convey useful and relevant information to the users. We think that information on cash flow projections that is already required by existing banking regulation is a better representation of the future cash flows. We thus suggest that banking institutions should at least be exempt from the new reporting requirements around the statement of cash flows given that preparers will have to bear the cost of recalibrating the systems and processes to reflect the changes that would not result in a tangible contribution towards improving financial information.

Further details of our position are outlined in **Appendix A** to this letter.

We thank the IASB for their work and stand ready to discuss the content of this letter and/or of the Appendix or to provide any further clarity with regard to the statements made.

Yours faithfully,

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About AFME

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

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?

AFME response:

AFME is generally supportive of the proposal. Please refer to our response to Question 4.

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?

AFME response:

No comment. Please refer to our response to Question 4.

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?

AFME response:

AFME generally agrees with the proposal.

However, we note that for a banking institution the vast majority of income and expenses will be presented in the operating category. This is due to the fact that income generated and expenses incurred by a bank, when providing financing to customers or making investments, represent the outcomes of the bank's main business activity. However, we understand that there are still certain income and expenses that would be explicitly required to be reported in the financing category as derived from the following analysis.

We note that Paragraph 49 defines information that an entity should include within the financing category:

The objective of the financing category is to communicate information about income and expenses from assets and liabilities related to an entity's financing. Except as required by paragraphs 51–52, an entity shall classify in the financing category:

(a) income and expenses from cash and cash equivalents (see paragraph B34);

(b) income and expenses on liabilities arising from financing activities (see paragraphs B35–B36); and

(c) interest income and expenses on other liabilities (see paragraph B37).

Item "C" includes interest income and expenses on other liabilities and specifically, according to B37:

Paragraph 49(c) requires an entity to classify interest income and expenses on liabilities not arising from financing activities in the financing category. Such income and expenses include:

(a) net interest expense (income) on a net defined benefit liability (asset) applying IAS 19 Employee Benefits;

(b) unwinding of the discount on a decommissioning, restoration or similar liability;

(c) unwinding of the discount on other long-term provisions, for example warranty provisions and deferred consideration for a business
combination; and

(d) increases in the present value of the costs to sell a non-current asset (or disposal group) held for sale that arise from the passage of time as discussed in paragraph 17 of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Paragraph 51 further states:

If an entity provides financing to customers as a main business activity, it shall make an accounting policy choice to not classify in the financing category either (see paragraphs B28–B29):

(a) income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or

(b) all income and expenses from financing activities and all income and expenses from cash and cash equivalents.

Such income and expenses are instead classified in the operating category.

Paragraph 51 does not include 'other interest income and expenses on other liabilities' in the same way as referred to in paragraph 49, meaning that this information would still be reflected in the financing category presented as a separate line on the face of the statement of profit or loss. For the majority of banks, the financing line item would be immaterial and thus would provide limited value to the users of financial statements. We therefore propose that preparers should have flexibility to include immaterial items from financing and investing activities in the operating category within 'other income and expenses' line item.

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?

AFME response:

No comment. Please refer to our response to Question 4.

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?

AFME response:

We note that classifying associates and joint ventures into "integral" and "non-integral", as proposed in the new paragraphs 20A–20D of IFRS 12, would require significant judgement and thus could result in different classification by different preparers. This could impede comparability of such information, which would be counterproductive to the overall objective of the ED to help standardise reporting practices and make reported information more comparable across entities. We note that IFRS 12 already requires disclosing comprehensive information on interests in joint arrangements and associates (paragraph 20) and specifically the nature, extent and financial effects of an entity's interests (both for material and immaterial) in joint arrangements and associates (paragraphs 21-22).

We think that instead of classifying an entity's interests as "integral" and "non-integral", it would be more appropriate and useful to users if preparers provided additional information (e.g. such as information on interdependencies between the reporting entity and its associates/joint ventures, as noted in the new paragraph 20D of the Exposure Draft) allowing the users to make their own decisions regarding the classification of an entity's interests in associates and joint ventures. We further think that such additional information should be provided for only material individual interests.

We think that income and expenses from associates and joint ventures accounted under the equity method can be presented either in a separate line item on the statement of profit or loss or a separate subtotal within operating profit or loss category.

Question 8—roles of the primary financial statements and the notes, aggregation and disaggregation

(a) Paragraphs 20–21 of the Exposure Draft set out the proposed description of the roles of the primary financial statements and the notes.

(b) Paragraphs 25–28 and B5–B15 of the Exposure Draft set out proposals for principles and general requirements on the aggregation and disaggregation of information.

Paragraphs BC19–BC27 of the Basis for Conclusions describe the Board's reasons for these proposals.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

AFME response:

AFME is generally supportive of the proposal.

We stress the importance of maintaining the requirement that only material items should be shown on the face of the financial statements – in reference to paragraph 24 of the ED (citing IAS 1.31), which states the following:

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.***

We support the aggregation approach for immaterial items as noted in paragraphs 27-28 of the ED.

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?

AFME response:

AFME believes that the proposed definition of 'unusual income and expenses' is too prescriptive and would limit preparers in capturing decision useful information that would represent events outside of core business. For example, there can be items that would be relevant to several reporting periods (e.g. income and expenses associated with major business restructuring, PPI provisions, etc.) that would not be considered ordinary in the context of a core business activity, however that would not meet the proposed definition of an unusual income or expense.

Furthermore, the forward-looking element of the definition (i.e. preparers would need to assess whether it is reasonable to expect that income or expenses that are similar in type and amount will not arise for several future annual reporting periods) would require the use of judgement. This fact risks resulting in a diversity in practice where the items of the same nature could be accounted for differently by different preparers. We understand that the objective underlying the ED proposal was to improve the consistency and comparability of reporting around unusual income and expenses, therefore we are concerned that the outcome might prove counterproductive. Additionally, it is not clear how the prior year information should be treated in situations when a) it was expected that an item would not recur and ultimately it does and b) in situations when an item has incurred for several consecutive years but would not be expected to occur in the foreseeable future again.

AFME thinks that firms should still be able to exercise judgement, considering firm specific facts and circumstances, when deciding on whether an item should be classified as 'unusual'. We thus propose that defining unusual items should be an accounting policy choice and described within 'Significant accounting estimates and judgements' section of the notes to financial statements.

If the intention of the proposal is to provide the users of financial statements with clarity on which income and expenses would not be expected to recur in the future, we think that this requirement should be clearly stated in the ED without introducing the definition for unusual income and expenses. This would promote better clarity to both preparers ad users on how to differentiate between items that are not part of a core activity but might still recur in the future and items that would not be expected to recur. For example, business restructurings, including those that involve redundancies, would generally be considered 'unusual' based on current practices. However, the expectation on whether this would be a recurring item would require a separate analysis and would depend on specific facts and circumstances. We would thus welcome some illustrative examples that would account for the points raised above.

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?

AFME response:

AFME would generally prefer that the concept of management performance measures (MPMs) be removed from the new standard. This is due to the fact that banks are already required to report on non-GAAP measures according to rules/guidelines by national or regional supervisory authorities. For example, European listed issuers are required to comply with ESMA Guidelines on Alternative Performance Measures, and therefore the proposed changes to IFRS can lead to conflicts/inconsistencies when applying different sets of such reporting requirements. Were the proposal to materialise in the final standard, we think that it should be considered to what extent preparers of regulated non-GAAP information could be exempted from the reporting requirements on management performance measures.

Additionally, banks report many non-GAAP measures outside of primary financial statements. Some of them would qualify as MPMs under the new definition and some of them would not. Therefore, a portion of such measures would be transferred to the primary financial statements and a portion would still be left outside, which in our view might be confusing to readers. Consequently, we think that it should not be mandatory to report the MPMs in the primary financial statements. Firms should be allowed to exercise judgment on when it is appropriate to report such measures in the notes or outside the financial statements.

Furthermore, the meaning of 'public communications outside financial statements' (paragraph 103(a)) is not clear. With the current wording, preparers might face a requirement to explain in their primary financial statements any metrics meeting the definition of an MPM that becomes publicly available. We therefore propose narrowing down the definition of 'public communications outside financial statements' to only include communications released alongside the official quarterly and annual reports (as well as earnings release statements, if different from the publication of financial reports).

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?

Do you agree? Why or why not? If not, what alternative approach would you suggest and why?

AFME response:

There has been a long-standing argument, that AFME is supportive of, that the statement of cash flows for the banking industry does not convey useful and relevant information to the users. We think that for the banking industry a statement of the historical cash flows is much less useful than information on cash flow projections with the latter being already required by existing banking regulation (e.g. LCR & NSFR forecasting under Basel III).

To this end, banks will have to calibrate their reporting systems and processes to reflect the changes proposed by the ED. From AFME members' perspectives, this would result in additional cost and operational burden that would be unnecessary given their limited value in terms of facilitating better reporting by banks specifically.

We therefore suggest that banking institutions should at least be exempt from these new requirements, if not from providing the statement of cash flows.