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Our  
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#### Structure of the statement of profit or loss

**Question 1—operating profit or loss**

**Paragraph 60(a) of the Exposure Draft proposes that all entities present in the statement of profit or loss a subtotal for operating profit or loss.**

**Paragraph BC53 of the Basis for Conclusions describes the Board’s reasons for this proposal.**

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

**European Insurers agree in principle with the proposed change that all entities present in the statement of profit or loss a subtotal for operating profit or loss. The proposed changes, given adequate guidance is provided, should increase comparability for entities’ reporting on the performance of their main business activities.**

**However, a subtotal for operating profit or loss will only provide relevant information if the investing and financing categories are well-defined and we disagree with the residual approach to the definition of the operating category proposed in the Exposure Draft.**

**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?**

**Insurance Europe and the CFO Forum agree that entities classify in the operating category all income and expenses from entities’ main business activities. However, we disagree with the residual approach to the definition of the operating category proposed in the Exposure Draft.**

**We recognise that it is challenging to define what “main business activities” are but we would suggest setting out a principle for their identification. A residual category approach works only**

*if the other categories are defined independently and workably, and it's not clear that they are in the Exposure Draft. For example:*

- *There is circularity in that BC 49 says that the objective of the investing category is to identify returns from investments that are not part of the entity's main business activities.*
- *It may be difficult in practice to distinguish between investments that are, and those that are not, made in the course of an entity's main business activities, If the result is arbitrary, it would not result in helpful information to the user.*

*We believe that a better, principal-based approach of the definition of operating category is possible: under this approach, operating profit or loss could be defined as profit or loss from the entity's main activity(-ies), where the entity defines its main activity(-ies) based on its business model.*

*So, for the insurance business, investment activity could be directly defined as the entity's main activity (alongside with the provision of insurance coverage) and the corresponding profits and losses should be presented in the operating category (the exception in §48 would not be necessary).*

*We note that applying the proposed categorisation requirements will involve significant judgment in practice, which we support as being an effective way in allowing insurance entities to portray their performance more accurately. Any further guidance and examples should be avoided.*

*Overall, insurers favour a principles-based approach to any prescription of line items in the profit and loss account. A principles-based approach should provide preparers with sufficient flexibility to present their performance in a way that reflects their business model.*

**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?**

*The insurance industry welcomes the inclusion in the operating category of insurers' returns from investments made in the course of their main business activities. We welcome in particular the exception to the principle set out in paragraph 47 of the Exposure Draft.*

*We consider that the objective (i.e. the inclusion in the operating category of insurers' return from investments made in the course of their main business activities) could be achieved by defining the operating profit or loss as profit or loss from the entity's main activity(-ies) as proposed in our response to Question 2 of this Exposure Draft.*

***Alternatively, within the approach proposed by the ED, we see a potential for improvement regarding the requirement in paragraph 48 of the Exposure Draft, namely "An entity shall not classify income and expenses from non-integral associates and joint ventures in the operating category." In our view, if such investments are made in the course of an entity's main business activities, they should also be displayed in the operating category. In particular, we believe that the categorization should not depend on the inclusion method but on the link to the reporting entity's business model.***

***Also, categorizing only income and expenses from this particular type of investments in the investment category hinders entities in displaying (the portion of) their investment business forming part of their main business activities in one category, reducing the information value of both the operating category and the investing category for users. In our view, an entity should categorize all income and expenses related to investments made in the course of its main business activities in the operating category, with income and expenses related to associates and joint ventures displayed separately in two line items (i.e. separately for integral vs. non-integral associates and joint ventures). We believe that this would more adequately display insurers' investment business while users would still be able to extract the respective information on income and expenses from associates and JVs from the separate line items.***

***Another more general issue with the proposed definition of operating profit is that for insurers who are users of the Fair Value through profit and loss option under IFRS 17 and IFRS 9, investment variances have typically been considered to be non-operating and presented below the operating profit metric. This split has long been used by management and users of insurance companies in a number of European jurisdictions to explain the on-going performance of insurance business and is well understood by analysts and investors. IFRS 17 allows for the recognition of variances generated by market movements arising from insurance contracts in Other Comprehensive Income. The issue would therefore be removed upfront for companies using this option (provided matching can be achieved with financial assets backing such insurance contracts in OCI), while for companies reflecting the results of their insurance and investment businesses entirely in P&L the proposal would affect operating profit. In certain cases, this would hinder comparability of results between insurers applying the OCI option in IFRS 17 and those choosing not to do so. We believe it would be a missed opportunity not addressing this issue in the proposal, and therefore suggest that the IASB should consider allowing a transfer of investment variance from operating to investing, with suitable disclosure of the approach applied, to facilitate a more useful and more comparable income statement presentation for insurers, and to avoid the propagation of additional performance measures.***

***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 welcome the inclusion in insurers' operating category of their insurance finance income/expense and of their returns from cash and cash equivalents. Our understanding is that paragraph 51 of the Exposure Draft does not apply to insurance entities, but that instead paragraph 52 allows insurers to exclude from the financing category and to classify in the operating category the following income and expenses:***

- (a) income and expenses from cash and cash equivalents if the entity, in the course of its main business activities, invests in financial assets that generate a return individually and largely independently of other resources held by the entity;***
- (b) income and expenses on liabilities arising from issued investment contracts with participation features recognised applying IFRS 9 Financial Instruments; and***
- (c) insurance finance income and expenses included in profit or loss applying IFRS 17 Insurance Contracts.***

***While we welcome the requirements under paragraph 52, we continue to believe that the objective could have been achieved by defining the operating category as proposed in our response in question 2.***

***Notwithstanding the comments above, we agree in principle with the proposed requirement in paragraph 51 of the ED.***

***Question 5—the investing category***

***Paragraphs 47–48 of the Exposure Draft propose that an entity classifies in the investing category income and expenses (including related incremental expenses) from assets that generate a return individually and largely independently of other resources held by the entity, unless they are investments made in the course of the entity's main business activities.***

***Paragraphs BC48–BC52 of the Basis for Conclusions describe the Board's reasons for the proposal.***

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

***We recognise that it may be difficult in practice to distinguish between investments that are, and those that are not, made in the course of an entity's main business activities. Ultimately, if the result is arbitrary it would not be helpful to the user community.***

***We would like to suggest that more consideration is given to nomenclature. The Exposure Draft's 'investment' category' seems largely to be about returns from financial instruments. This is not the same as 'investment' in the cash flow statement. Nor is it the same as 'investment' in, for example, intangibles which are now a hugely important contributor to a company's future performance. Another example is the notion of "assets that generate a return individually and largely independently of other resources held by the entity" which is unclear.***

**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?**

**We agree with these proposals.**

Integral and non-integral associates and joint ventures

**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 generally agree with the IASB proposal and generally support the requirement for entities to distinguish between integral and non-integral associates and joint ventures.**

**However, for an insurance entity, the proposed requirements regarding income and expenses from associates and joint ventures would result in a presentation that undermines the link between the investment return on its assets and its insurance finance income or expenses, as required by IFRS 17 Insurance Contracts. In addition, we believe that the assessments required to make the distinction would require a high degree of judgment and likely not be performed on a consistent basis within and across entities and that entities would often not come to the conclusion that an associate or joint ventures qualify as integral based on the indicators of the proposed paragraph 20D of IFRS 12 although the associate or joint venture and the reporting entity have the same main business activities.**

***We therefore suggest the IASB that for entities that, in the course of their main business activities (i.e. with the objective to generate investment returns to cover insurance claims) invest in associates and joint ventures, the presentation of income and expenses from these associates and joint ventures (usually done through investment vehicles holding financial instruments or real estate assets) follow the proposed general principle laid out in paragraph 48, i.e. classified in the operating category. These investments are primarily financed by premiums received from policyholders, considering they are part of the total investments backing insurance activities, income and expenses from these vehicles should even follow the same presentation principles as those applied to other investments that are not associates or joint ventures. A separate presentation in a separate aggregate would be meaningless.***

***Furthermore, we also believe that income and expenses from associates and joint ventures that have similar activities as the main activities (e.g. insurance) reflected in the consolidated financial statements of a reporting entity, should be considered as integral and presented in the subtotal for operating profit or loss and income and expenses from integral associates and joint ventures (Par 60 (b)).***

***It should be noted that also under this alternative approach the information about income and expenses from (integral and nonintegral) associates and joint ventures is directly available for users as the IASB is proposing two separate line items for the share of the profit or loss of associates and joint ventures in the statement of profit or loss.***

Roles of financial statements, aggregation and disaggregation

**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**
- c) 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?**

***While European insurers support the Exposure Draft’s description of the purposes of primary financial statements, we note that there is little explanation of the purposes of the individual primary statements and particularly of how those interlink – for example, how the Profit & Loss account interlinks with other comprehensive income, and how both of these interlink with the cash flow statement.***

**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?***

***We disagree with the IASB proposal to require entities to disclose an analysis of operating expenses by nature if an analysis of expenses by function is presented in the Profit and Loss statement as per paragraph 46 of the Exposure Draft.***

***We believe that significant cost and effort would be associated with this proposal, in particular for insurance entities operating across multiple jurisdictions and complex company structures resulting from regulatory requirements. As an entity would in any case be required to choose the method that provides the most useful information for the analysis in the statement of profit or loss in accordance with paragraph 68 of the ED, we expect that the incremental information value for users would not outweigh the costs.***

***We believe that no useful information is lost when entities use a mixture of both methods (by nature and by function) and the statement of profit and loss is more relevant when some items are isolated irrespective of the method used to classify operating expenses. The requirement, as proposed, in combination with IFRS 17, could force non-insurance activities within insurance companies to use a presentation model that would not provide useful information. We therefore call for the guidance to be more flexible.***

***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?***

***We do not agree with the Exposure Draft’s proposal because we believe that the proposed definition of ‘unusual income and expenses’ proposed in the Exposure Draft as we consider that this definition is too narrow:***

- *The proposed definition focuses on a pattern of future events as if the disclosure is essentially responding to users' somewhat different need to assess the prospects for future cash flows.*
- *The proposed definition also may not help users assess management's stewardship of the entity's economic resources. An example of disclosure which does help the user but would not be reported as 'unusual' is restructuring costs arising from a major one-off restructuring programme lasting for more than a year.*
- *It is not clear whether income and expenses would only qualify as unusual if they are not expected to recur in the future by type and amount (or either by type or amount).*
- *For large entities, in general, and for insurers, in particular, it will rarely be the case that an income / expense effect would be limited to a single reporting period only (e.g. large restructuring programs, claims from natural catastrophes). Paragraph 100 of the ED seems to exclude those items from the definition of "unusual".*
- *The definition of unusual expenses and income gives too much importance to the future. This definition should also consider past events to determine whether an item is unusual or not.*
- *even in English, 'unusual' usually means something wider, and translation might make this problem even worse in other languages. If 'non-recurring' defines 'unusual', then it's better to use the former.*

*Notwithstanding our disagreement with the proposed definition of 'unusual', we understand that users are concerned about variability in quality and comparability of disclosures that highlight particular events etc. We therefore support the requirement to disclose all unusual items in a single note in the financial statements. However, we believe that the solution is not to introduce better labelling of financial statement line items but instead to introduce stronger requirements for transparency and disaggregation so that users understand better the composition and significance of disclosures and can make adjustments they consider necessary.*

#### Management performance measures

##### **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?*

***We agree that entities should provide users of financial information reliable information about management performance measures (MPMs) and thus, understand the IASB's concerns in this respect. We also agree that the MPMs should faithfully represent aspects of the financial performance of the entity to users of financial statements and be described in a clear and understandable manner that does not mislead users.***

***However, we disagree in principle with the proposal in the IASB Exposure Draft. Financial statements are prepared and audited on a true and fair basis, irrespective of whether another communication may depend on or refer to the financial statements. If there is an issue with other communications, that is a matter for the regulators of these other communications.***

***The IASB's Management Commentary guidance already covers the critical performance measures and indicators that management uses to evaluate the entity's performance against stated objectives. Deficiencies in the guidance itself can be addressed by IASB in its current revision project. Improvements in the application of the guidance can be achieved through the IASB working with regulators. The ESMA's Guidelines on Alternative Performance Measures and national regulator enforcement have already secured substantial improvements in Europe.***

***Entities that perceive a benefit from audit assurance being provided for any management performance measures can choose to disclose these within the financial statements.***

***We are concerned about the scope of MPMs that seems very large and, by consequence, about the resources that may be needed to prepare and audit these MPMs. The ED does not take into account the existing regulations relating to MPMs, such as Transparency Directive, Market Abuse Regulation or the Prospectus Directive. By consequence, IFRS preparers located in the European Union would have to apply several different regulations on a similar subject and may have to duplicate information to meet the requirements in those regulations.***

***In practice, it may not be easy to identify which other public communications are involved and how far back or forward should entities look and what criteria should they use to identify such communications.***

***In addition, we are concerned about the information to be provided in the notes to the financial statement in relation to MPMs. For example, the requirement to calculate the effects of income tax and of non-controlling interests for adjustments made in calculating MPMs will be operationally complex.***

***As to the required reconciliations MPMs / Financial statement, even if such reconciliations provide useful information, we consider that applying the ESMA guidelines on APMs should assure the quality and the auditability of such indicators.***

***Further, in our view, the costs associated with requiring entities to calculate the income tax effect and the effect of non-controlling interests for adjustments made in calculating MPMs would be significant.***

***We suggest that it's better to consider only the annual reporting package as commonly understood, and we encourage that further work should be done with other regulators to achieve any improvements needed in the 'front half.***

**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?**

**No comment.**

Statement of cash flows

**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 generally agree with the IASB proposal.**

**However, we are disappointed that the IASB has not reviewed its requirements for the statement of cash flows, which is widely acknowledged to convey little information that is useful for users of life insurers’ financial statements.**

**Also, while we do not consider this a material issue for insurers, we are not supportive of the IASB’s approach to not seek to further align the classification of the statement of cash flows with the statement of profit and loss. Rather, under the current proposals, the proposed descriptions for the categories in the statement of profit and loss would be inconsistent with the descriptions as used for the statement of cash flows.**

Other

**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?**

**We expect the proposed changes regarding the structure of the statement of profit and loss – in particular on the classification of foreign exchange differences and fair value gains and losses on derivatives and hedging instruments – to lead to significant increases in costs and efforts.**

***It is also important for insurers to have the option of having the effective dates of these proposed changes be aligned with the implementation of IFRS 9 and IFRS 17 to avoid undue implementation costs and confusion created by consecutive changes in financial statement presentation.***

***Finally, we believe that the IASB should consider providing more guidance for the presentation of revenues and costs when they are allocated to different business activities on the face of the statement of profit or loss, including consistency with IFRS 8 and disclosure on judgement applied in the allocation process, in particular in the case of bancassurers.***