Norsk RegnskapsStiftelse

30 September 2020

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

Exposure Draft ED/2019/7: General Presentation and Disclosure

Norsk Regnskapsstiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to submit its views on ED/2019/7: General Presentation and Disclosures.

In general, we welcome the project and support many of the ED's proposals. We support the proposed categories in the statement of profit or loss with the operating category as a residual category. However, the definitions of financing and investing may be improved. We suggest that the final standard should define *main business activities* and give this concept an even more prominent role in the definitions of the categories. This concept should also be given more weight in the separation of integral and non-integral associates and joint ventures.

We do not support some of the proposals, especially related to the presentation of integral and non-integral associates and joint ventures with a subtotal requirement as well as the requirement for separate note disclosure for unusual items. We also suggest that the IASB align its proposal for management performance measures more with the ESMA's guidelines for alternative performance measures, and suggest allowing mixed models for presentation of operating expenses when this provides the most relevant information, in addition to requesting guidance to clarify what is required by a 'by nature' specification.

To discuss the issues raised in this paper please contact us.

Bjørn E Strandberg

Yours faithfully,
Bjørn Einar Strandberg
Chair of the Technical Committee on IFRS

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Appendix - responses to the specific questions

Question 1—operating profit or loss
Paragraph 60(a) of the Exposure Draft proposes that all entities present in the statement of profit or loss a subtotal for operating profit or loss. Paragraph BC53 of the Basis for Conclusions describes the Board's reasons for this proposal. Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

We agree that all companies present operating profit or loss.

In addition to operating profit or loss, users may appreciate additional subtotals on the face of the income statement within the operating category. The need for such additional subtotals may vary between industries, and we agree that the new standard should not require further subtotals for all companies. However, we support paragraph 42, which requires additional subtotals when such presentation is relevant. For instance, a subtotal before fair value adjustments may provide relevant information in industries such as investment property and fish farming.

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 agree that it is appropriate to define the operating category as a residual category. However, this residual approach requires clear definitions of the other categories. In question 5, we call for a clearer definition of the investing category.

According to paragraph 56, "an entity shall classify foreign exchange differences included in profit or loss applying IAS 21 in the same category of the statement of profit or loss as the income and expenses from the items that gave rise to the foreign exchange differences". For many companies, this implies more foreign exchange differences classified in the operating category than today. Some analysts consider foreign exchange differences in the operating category as noise for their valuations. We do not express any view on the categorization of foreign exchange differences, but we recommend separate disclosure of foreign exchange differences included in operating profit, either in the income statement or in the notes, for instance by amending IAS 21.52(a).

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 support the idea behind paragraph 48, but we recommend the IASB to define *investments* (see question 5) and *main business activities*. *Main business activity* appears an important concept in the ED, and in our response to other questions, we call for the IASB to consider using the concept more broadly as a determining factor in categorization issues. This importance requires a definition of the concept. Without a definition of main business activities, it is not clear how it relates to other similar terms, such as core business and principal activities.

We call for more guidance on how the concept of main business activities are identified in a group. If an activity is identified as a main business activity on a subsidiary level in its separate statements, it may or may not remain so on a group level, and we do not see that the ED provides enough guidance.

Moreover, the ED frequently refers to "*in the course of* its main business activities". It is not always clear what "in the course of" means, and it may be difficult to translate this phrase into Norwegian. A question arises as to whether this term extends the scope of the main business activities to include auxiliary activities, or whether it narrows it to only those that follows directly from the main activities. We suggest that the IASB considers expanding the definitions to include "in the course of" when *main business activities* are defined.

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?

As mentioned in question 3, we support the idea that main business activities are categorised as operating activities. However, we do not agree that the option in question 4 should be a free choice for the eligible entities. In BC68, the IASB argues that "*because of the difficulty in some cases in allocating income or expenses between the categories, the Board concluded that allocation should not be required but should be permitted"* (our underlining). In our opinion, it is not appropriate to give all eligible entities this option just because it is difficult for some. Rather, we suggest limiting this option to entities for which such allocation requires undue cost or effort. For entities with limited financing activities, we are concerned that presenting all financing items in operating profit provides information that seem more irrelevant or obscure.

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?

Investments are not defined in Appendix A, and paragraph 47-48 may seem ambiguous. Following the guidelines in paragraph 48, there will be assets that are neither part of main business activities nor part of investing category (nor cash or cash equivalent), and we assume income and expenses from these assets will end up in the operating category. If this is what is intended, it should be stated clearly. However, this categorization is not in line with the stated purpose of the investing category in the ED's BC49: "The objective of the investing category is to identify returns from investments that are **not** part of the entity's main business activities".

Considering the key role main business activities plays elsewhere in the ED's guidelines for categorization, we recommend that the IASB considers whether the investing category should be referred to as income and expenses from investments that are not part of its main business activities (or financing category).

In sum, we recommend the IASB to include a definition of *investment*, and this definition should be aligned with the stated objective for the investing category. We also recommend a definition of *main business activities,* see question 3.

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?

In general, we agree.

Nevertheless, we recommend the IASB to clarify the scope of "other liabilities" in paragraph 49 (c). For example, are provisions for uncertain tax positions within the scope of other liabilities? Prolonged tax disputes may cause significant interest to be incurred. Does paragraph 49 restrict interest to be categorised within the finance category only if the tax claim is recognised as a liability? In some jurisdictions, the interest payments tend to be received interest, rather than paid interest, because the tax claim is paid when claimed and returned if the conclusion is in favour of the taxpayer. The wording in paragraph 49 indicates that this interest is not within the finance category. We recommend that the guidance should be clarified so both interest income and expenses on uncertain tax amounts are included in the same category, similar to how measurement is independent of whether the tax position is an asset or a liability, cf. IFRIC 23.

We also note that the exclusion of assets from paragraph 49 (c) suggests that unwinding of the discount on assets is not part of the financing category. However, the examples in paragraph B37 (d) and BC43 indicates that the category also includes unwinding of the discount on assets. We recommend the IASB to clarify the categorisation of interest income and expenses related to assets.

While seldom a material amount, we find the rationale for unwinding a discount on costs to sell to be presented in the finance category to be unconvincing. An estimated future 'cost to sell' is not a liability, it is merely a part of the measurement of an asset's value under IFRS 5. While we see merit in net pension liabilities being part of the financing of the entity, we do not follow this logic here.

We note that IFRIC 12 seems to include the unwinding effect as an operating expense (see IFRIC 12.IE36-37). The IASB should consider amending IFRIC 12 to be ensure consistent categorisation of the effect of unwinding.

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 agree that the users will benefit from information that makes them able to separate associates and joint ventures that are closely related to operating activities from those who are not. However, we do not support all the proposed solutions.

Firstly, the proposed definition of *integral associates and joint ventures* will exclude many associates and joint ventures that entities consider part of their main business activities. In many capital intensive industries, it is common to cooperate with other companies through joint arrangements and associates, and it may be of less importance who operate the joint operation or control the associate. Many such cooperations will not fulfill the requirements in IFRS 12.20D and will be categorised as non-integral. Nevertheless, the arrangements and associates are in fact considered part of the main business activities of the entity. The proposed definitions of the terms *integral* and *non-integral* introduce a new layer of judgement. We suggest that a separation of entities into the two categories should be made with reference to main business activities, and not level of integration. This would facilitate a more coherent categorisation throughout the standard, and it would facilitate more consistency by reducing the number of judgemental terms.

Secondly, we do not support the proposed paragraph 60(b) that mandates the subtotal "operating profit or loss and income and expenses from integral associates and joint ventures". This subtotal is a sum of two numbers, and due to its nature, it may be used by quite few, and therefore not be a key metric across the board. If this is an important subtotal for the users, the users will be able to summarise themselves.

Thirdly, if the IASB decides to keep the proposed split in the income statement, we are not convinced that it is necessary to require a mandatory split in all the other primary statements.

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?

We agree with the proposed roles of the primary financial statements and the notes, but we find the wording of paragraph 20 unclear and a bit superfluous. One example is paragraph 20(c): What does it mean to *identify* items or areas about which users of financial statements may wish to seek additional information in the notes? Is this just referring to cross-referencing, or is it referring to a wider purpose? If it is the latter, a poor presentation in a primary financial statement may fulfil its role since the reader have to seek additional information in the notes. We question the need for paragraph 20 (c); in our opinion, it adds little to paragraph 21.

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?

In principle, we agree. The need for digitally readable information increases and non-mixed models and information about operating expenses by nature will facilitate this.

There is, however, a need for a more consistent application of the models. Even though the models have existed for a long time, they are not very well described, neither in the current IAS 1 nor in the ED.

We believe there is need for more guidance. Without clear definitions or guidance, we believe that mixed models will continue in practice.

In paragraph 69, the ED provides some examples of expenses by nature. We struggle to see how expenses related to raw-materials, employees, equipment and intangibles are all examples of 'materials'? A more generic term would be 'resources'. (The meaning would be somewhat clearer if the comma after raw materials is replaced with an ending parenthesis.)

Also, one of the examples in paragraph 69 is "expenses related to employees (employee benefits)". Does this example imply that the broader term 'personnel expenses' is not a nature since it may include hired personnel? If so, what is the nature of hired personnel, is it the hiring that decide the nature so it should be grouped with hired cars etc, or is it the similarity to employees that decide the nature? The BC argues that a by nature specification gives better information to project the future expenses. Under this approach employee expenses are typically more fixed than hired personnel, which may warrant separate presentation.

In B15 various line items are mentioned such as provisions and reversal of provisions. Provisions may include expenses of many natures. In our opinion, a change in a provision is not a 'nature' and this presentation is compatible with the by-nature approach only if all changes in provisions are shown on a separate line, similar to changes in inventories of finished goods and work in progress.

We note that some preparers and users argue that the mixed model is appropriate for some industries, and it is commonly used by peers that apply other GAAPs, such as US GAAP. We are therefore not convinced that prohibition of mixed models is the best solution. However, we agree with the ED that entities should use the model that is most relevant, but we suggest that the IASB consider including mixed models as an option when this is the most relevant model.

According to paragraph 65(a)(vii), entities shall present *cost of sales* in the statement of profit or loss. The paragraph refers to paragraph 71, which clarifies that this applies when entities apply a *function of expense* method. However, paragraph B47 states that "an entity shall present in the statement of profit or loss the line items required by paragraph 65 regardless of the method of analysis of expenses used" (our underlining). This means that *cost of sales* must be presented in the statement of profit or loss also when the *nature of expense* method is used, which seems strange and is contrary to what is said in paragraph 71. This should be clarified.

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) (c) Paragraphs B67–B75 of the Exposure Draft propose application guidance to help an entity to identify its unusual income and expenses.
d) (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 agree that unusual income and expenses should be disclosed. However, we do not support a separate note requirement for this. IFRS already includes other requirements that require entities to disclose unusual items that are material. For instance, paragraph 24 in the ED states that "An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Standards is insufficient to enable users of financial statements to understand the impact of transactions and other events and conditions on the entity's financial position and financial performance." One alternative is to extend this paragraph with a reference to the predictive value, which is key in the proposed definition of unusual income and expenses.

Moreover, the IASB has expressed that the definition of unusual income and expenses sets a high threshold for being unusual. We note that some stakeholders, who support separate note disclosure, would like a lower threshold for being unusual. This indicates that the proposal in the ED might result in two layers of unusual items in practice. Also, the introduction of MPMs might address unusual items.

In sum, we believe that the proposal adds little benefit to information required elsewhere in IFRS.

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 are not convinced that Management Performance Measures (MPM) should be within the scope of IFRS-standards. Many entities have already implemented similar guidelines, such as ESMA's guidelines for Alternative Performance Measures. For these companies, the MPM-requirements will not bring much additional benefit, it will rather present alternative performance measures in two separate sections of the financial report while the users express a desire to have them in one place. We suggest that the IASB and the ESMA align their requirements and guidance for management/alternative performance measures.

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 agree with the proposals in the question above.

However, we do not agree with the mandatory requirement to split the cash flows from integrated and non-integrated separately in paragraph IAS 7.38A (see question 7), and we suggest that the IASB avoids using the same name on categories in the *statement of profit or loss* and in the *statement of cash flow* when the content of the categories is different.

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?

Definition of Primary Financial Statement

Paragraph 11 defines Primary Financial Statement (PFS) as the statements described in paragraph 10(a)-10(d). Consequently, comparative information is not part of PFS as comparative information is described in 10(f). In our opinion, it would make sense to include comparative information to the statements in paragraph 10(a)-10(d) as part of PFS. Moreover, excluding comparative information is inconsistent with the proposed role of the PFS to make comparisons between reporting periods, ref. paragraph 20(b).

Definition of General Purpose Financial Statements

In Appendix A, *General Purpose Financial Statement* is now defined as "financial reports that provide information about a reporting entity's assets, liabilities, equity, income and expenses". In our opinion, this is a definition of *Financial Statements* as such without any explanation of what the term *General Purpose* might encompass.

Undue cost or effort

Several times in the ED, the IASB refers to undue cost or effort for some entities to justify exemptions from preferred solutions. However, the ED is inconsistent in the form of such exemptions:

1. In some cases, the ED allows exemptions only for entities facing undue cost or effort.
2. In some cases, the ED allows free choice for all entities (e.g. BC 68, see question 4).
3. In some cases, the ED disallows the preferred solution for all entities (e.g. BC 102)

The example from BC 68 (see number 2 above), is already described in Question 4.

The example from BC 102 (see number 3 above) is about the rejection of including non-derivative financial instruments in paragraph 58 "because it may be costly for an entity to identify the categories affected by the risk(s) managed and monitor whether the entity is holding the financial instrument for risk management. This is because entities may hold non-derivative financial instruments for multiple purposes, including risk management." We do not support to disallow the most relevant solution for all entities because it might be costly for some entities.

In general, we support exemptions only for entities facing undue cost or effort (see number 1 above).

Superfluous paragraphs

We have noted some paragraphs that seem to be superfluous as they repeat what is said in other paragraphs. Some examples:

Paragraph 102: Income and expenses from the recurring remeasurement of items measured at a current value are expected to change from period to period. They would not normally be classified as unusual income and expenses (see paragraph B72).	Paragraph B72: Income and expenses from the recurring remeasurement of items measured at current value would not normally be classified as unusual. Income and expenses from the remeasurement of such items are expected each reporting period and are expected to vary from period to period.

Paragraph 62: If an entity has no integral associates and joint ventures, it is not required to present the subtotal required by paragraph 60(b) for operating profit or loss and income and expenses from integral associates and joint ventures.	Paragraph 24: Some IFRS Standards specify information that is required to be presented in the primary financial statements or disclosed in the notes. 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. […]