ABAF BVFA Centre of Expertise for Finance Professionals

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Brussels, 29 September 2020

Subject : The IASB's Exposure Draft on *General Presentation and Disclosures* (December 2019)
Also sent via email to commentletters@ifrs.org

Dear Sir, Dear Madam,

The Belgian Association of Financial Analysts (hereinafter referred to as "ABAF/BVFA" or "We") welcomes the opportunity to provide the IASB with its comments on the exposure draft ED/2019/7 *General Presentation and Disclosures*, published in December 2019 (the ED).

We acknowledge the work done by the IASB on this subject - indeed this project responded to strong demand from users of financial statements - and welcome the steps taken and the proposals made that should lead to a more comparable and a more transparent set of financial statements. In general and notwithstanding a number of caveats, ABAF/BVFA agrees with a significant part of the proposals articulated in the ED. We are convinced that a number of the proposals will undoubtedly have a positive impact on the usefulness of financial statements.

That said, we also wanted to raise a few concerns, amongst others with regard to:

- The new concept of *integral* versus *non-integral* associates and joint ventures;
- The new subtotal "Operating profit or loss and income and expenses from integral associates and joint ventures";
- The newly defined "Unusual items";
- The definition of the new concept "MPMs" and the requirements related to them.

More details can be found below in our responses to each question.

In the meantime, do not hesitate to get in touch with us if we can be of further assistance.
Yours faithfully

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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 with the proposal.

Comparability is an important enhancing qualitative characteristic of useful financial information for the obvious reason that comparability allows analysts to compare - particularly the financial performance of - different entities (whether or not active in the same sector) not only at reporting date but also over time.

The fact that there was no specified subtotal foreseen in the statement of profit or loss that in some way captured "the operations" (one could also say "the entity's main business activities") was an significant shortcoming. We therefore subscribe to the argument as phrased in BC53, that this new subtotal will indeed increase comparability not only between entities, belonging e.g. to a particular sector, but also over time.

Another reason for us to agree with the proposal has to do with how profitability is measured. Firstly, profitability is important for analysts to assess the financial performance of the reporting entity. In fact, profitability and value creation are closely linked to each other. To measure e.g. the return on invested capital, users need a profit measure that can be linked to "the operations" (one could also say "the entity's main business activities"), i.e. the assets in which the reporting has invested to realise that profit measure. Also from that perspective, the newly required and more uniform subtotal *operating profit*, that as said can be compared with the assets in which the reporting entity has invested to realise that operating profit, will add value for users.

ABAF/BVFA also believe that the requirement for reporting entities to publish their operating profit may also lead to more insights in the business model of the entities: what is exactly in operating, why (or why not) is something in operating, what are the exact criteria for the group to determine that something is operating… From that perspective, and probably in combination with what is laid down in IFRS 8 *Operating Segments*, it could be useful when entities would have to explain themselves when it comes down to their "main business activities", c.q. their "operating activities", that generate the "operating profit".

It is true that the operating profit is defined as a residual (see also BC54 and our answer to Question 2). One could therefore argue that the operating profit runs the risk of becoming a mixture of things, not necessarily the "real" operating income (that per operating segment could be defined as the "operating income" minus the "operating costs").

ABAF/BVFA is not that concerned about that. We agree with what is said in the *Basis for Conclusions* that the operating income will mainly include the income and expenses from the reporting entity's main business activities. If there are other amounts that materially influence the operating income and that for some reason cannot be linked to the main business activities, we would expect the reporting entity to comment on that (to the extent that the amounts are material, i.e. could influence the decisions taken by the user or investor).

We would also like to link this part of the discussion to IFRS 8 *Operating Segments*. To the extent that the operating profit is impacted by amounts that are not linked to the main business activities, we would expect these "miscellaneous" amounts to be presented separately in the segment reporting. IFRS 8 should therefore require the reporting entities to present the operating profit - as defined - of each separate operating segment. It would create a direct link between the consolidated operating profit or loss and the operational performance of the segments. The amounts that are operating because they did not belong in the investing nor in the financing category, could then be disclosed separately.

Graphically, we see it as follows:

Segment A	Segment B	Segment C	Segment D	Miscellaneous	Consolidated
Operating profit A	Operating profit B	Operating profit C	Operating profit D	xxx	Operating profit as reported in profit or loss
Main business activities					

This interaction between the proposal in the ED and IFRS 8 would solve the concerns of some users that the operating profit is not defined directly.

We also agree with the fact that the operating profit includes unusual income and expense (see BC56 and our answer to Question 10). Unusual income and expense should be dealt with in a different way because introducing one (or several other) separate line item in the statement of profit or loss, e.g. to separate out the unusual items and/or other accounting entries, would in our view make the statement of profit or loss overly complex in terms of presentation format.

Lastly, we would like to add that EBIT is for us not a good alternative as we will explain more clearly when we answer Question 12 on EBITDA.

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?

As already partly explained in our answer to Question 1, we agree with the proposal.

We are normally not that much in favour of categories that are a residual. It feels incorrect if something is a residual, i.e. if the operating category is defined as "all income and expenses included in profit or loss that are not classified in: (a) investing; (b) financing; (c) integral associates and joint ventures; (d) income tax; or (e) discontinued operations" (paragraph 46).

A direct approach is easier to grasp and leads to more transparent information and hence better financial reporting.

In this case however we agree that a balance needs to be struck. The statement of profit or loss should not become overly complex by introducing different "other" or "miscellaneous" subcategories whereby it is almost a certainty that these would in turn lead to a new discussion about what these "other" or "miscellaneous" subcategories exactly mean.

But it is fair to be warry about a few things as we already mentioned in our answer to Question 1. The operating profit might in a number of cases become a hotchpotch of things. Nonetheless, we strongly believe that the operating profit will indeed mainly refer to the reporting entity's main business activities. To the extent that from this perspective there is something "wrong" with the operating profit (e.g. categorised as "others"), we would expect the reporting entity to comment on that and/or that the financial information is presented in such a way that users and investors can understand how the operating profit has been impacted by these "others". This would allow users and investors, if deemed necessary, to make adjustments in their analysis.

Again we would like to refer to IFRS 8 Operating Segments. If an amount is in the operating section of the statement of profit or loss but is not really operating in the sense that it is actually not linked to the main business activities, we would expect this amount to be in a kind of "miscellaneous" category in the segment reporting, i.e. that this amount would not belong to any of the operating segments and would be separated out in a transparent way.

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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 think this proposal needs further consideration.

According to the ED, *investments* lead to returns that are generated individually and largely independently of other resources held by a reporting entity. Then to say that certain investments generate returns in the course of the entity's main business activities is in our view already difficult to understand and confusing.

We think that the proposal is valuable but needs to be refined because we are not sure about the concept "investments made in the course of an entity's main business activities". Paragraph BC59 mentions "assets" that generate a return individually and largely independently of its other resources. We think that the Board needs to be more clear about these "assets":

- A paper company that builds a paper factory: the paper factory ("assets") is of course an investment made in the course of the entity's main business activities; the performance of the paper factory is obviously part of the operating profit;
- A paper company that takes a minority stake in another paper group active e.g. in another part of the world where the paper company itself is not yet active: is that an investment made in the course of the entity's main business activities? We do not think that it would be right to include the performance of the minority stake (dividends, fair value changes, other (operating) income…) in the group's operating profit although it is fair to state that the minority stake has been taken "in the course of the entity's main business activities".

Our main concern is that the operating profit should not combine income and expenses that are different in nature, i.e. should not be mixed up with each other, because by doing so will prevent users to assess correctly the returns on investment of the different assets.

In other words: the entity's main business activities is one thing, some "investments" (e.g. minority stakes) are something else. The consolidated group (parent + subsidiaries that generate a certain operating profit) is different from the investments made, even if they are made in the course of an entity's main business activities (e.g. a minority stake in a another sector player). The operating category should therefore exclude equity-method income or losses of affiliates and income and expenses from activities that are ancillary to the main business of the company. Affiliates under the equity method may have similar main businesses to the consolidated group but equity-method income or losses should be excluded from the operating category.

We therefore feel that the idea as phrased in paragraph 48 of the ED is partly correct but needs a more careful approach and careful reconsideration because the examples in BC59 and BC60 are of course correct in the sense that the rental income and remeasurements of investment properties should be included in the operating profit of an investment property's operating profit.

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 disagree with the proposal.

We are not in favour of these kind of options, i.e. when amounts could be accounted in different places. Options impair comparability and we do not think that in this case there is a balance to be struck.

ABAF/BVFA thinks it would be appropriate to classify only income and expenses for providing financing to customers in the operating category as in this case providing financing to customers is the main business activity. The result of this activity can validly be seen as the operating income.

To remain consistent with the way this has been elaborated in the ED, all income and expenses from financing activities and all income and expenses from cash and cash equivalents, should be accounted for in the financing category.

ABAF/BVFA is also of the opinion that this will also result in more useful information regarding (the business model of) financial institutions whose main business it is to provide financing to customers. By not introducing the above mentioned option, we believe that the financial statements of financial institutions in which the operations are disclosed separately, will also become more comparable.

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 partly disagree with the proposal.

We agree with the idea that aims at separating out the "investments" on the one hand and the income generated by these investments on the other hand. As already explained in our answer to Question 1, it will allow users of financial statement to better evaluate the performance ("profitability") of the different individual assets categorised as "investments".

But as already explained in our answer to Question 3, the idea of assets that *that generate a return individually and largely independently of other resources held by the entity* (Appendix A- Defined Terms) and that can be regarded as investments made *in the course of the entity's main business activities* need to be worked out better.

ABAF/BVFA's idea is there that income and expenses that are different in nature - e.g. revenue from sales or certain fair value changes versus dividend income or other fair value changes - should not be mixed up in the operating income. The operating income should really be about operating "income" minus operating "costs". The performance of the consolidated group is measured differently than the performance of the associates and joint-ventures. To combine them in a particular number will not make the financial statements more useful.

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 agree with the proposal but would like to add a comment.

Profit before finance and income tax is indeed an important indicator of a company's performance. This subtotal is the sum of the operating category, the integral associates and joint-ventures and the investing category (paragraph 63). This result *before financing* and de facto before *income tax* can be compared with the assets that generated that subtotal profit. BC33 is absolutely correct in saying that this allows to assess the performance of the reporting entity independently of how that entity is financed.

A subtotal that is not taken into account is *profit before tax*. This subtotal too is often important for users as it allows them to calculate profitability ratio's *before tax*, i.e. without taking into account the tax environment in which the reporting entity is active.

Profit before tax is not foreseen and cannot be foreseen because the result from integral associates and joint-ventures (after tax) is part of the new subtotal *Profit before finance and income tax.* The profit before tax being the algebraic sum of the amount mentioned before, would therefore not have any meaning.

It can be argued that users have the information available to exclude the result from integral associates and joint-ventures (after tax). They have the information available to calculate the profit before tax themselves. That is true. Nonetheless it would be useful to reconsider and to verify IAS 12 *Income Taxes* to see whether the correct information is disclosed to allow users to fully understand the key equation "Profit before tax - Income taxes = Profit after tax" (excluding equity-method related entries). ABAF/BVFA considers that (tax) information in the notes to understand the key equation we just mentioned as crucial.

(b) With regard to the interest income and expenses on other liabilities, i.e. not arising from financing activities (see paragraph B37) we disagree with the proposal.

As is stated in paragraph B37, this refers manly to interest expenses on liabilities not arising from financing activities (net defined benefit liabilities, decommissioning liabilities…).

If the actual cost is accounted for in the operating category, we are of the opinion that the unwinding of any discount should also be in the operating category. It is just a reflection of the idea that the nominal values are not always meaningful and that because of the accrual principle and the time value of money that is taken into account, that the cost is spread over a certain exercise period.

The Basis for Conclusions says that the users will have the opportunity to adjust the amounts classified in the financing category if they have different views about whether those items form part of an entity's financing. That is true. Nonetheless, we would like to turn this around: categorise them as operating - because that is where we think these amounts belong - and users can transfer them to the financing category if that suits them better in their analyses.

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?

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7 (a) We agree with the proposal.

We agree with the proposal but are looking at this probably from a different angle than the Board.

We agree with the idea of integral versus non-integral associates and joint ventures because we think it will give users of financial statements more insights in the way the reporting entity sees its own business model. As said, this was probably not the main consideration when the IASB decided to propose the concept.

We have however some concerns with regard to the way this idea of integral and non-integral associates and joint-ventures has been approached in the ED.

Integral and non-integral effectively means integral or non-integral to an entity's main business activities (new paragraph 20D in IFRS 12 Disclosure of Interests in Other Entities). Hence also our reference in Question 1 to the reporting entity's business model. Paragraph 20D adds to that a significant interdependency.

The new paragraphs 20B and 20C in IFRS 12 mention the relationship between the reporting entity and the associate or joint venture.

The definitions themselves in Appendix A then talk about the returns that are generated by the associate or joint venture that can be generated individually (or not) and largely independently (or not).

Although this is not the way the ED approaches this, our initial idea about the integral and non-integral associates and joint ventures was that the integral associates and joint ventures are the more important ones, i.e. those that will normally not get sold in the short-term, because they are part - or more part - of the entity's core business model than the non-integral associates and joint ventures. We acknowledge that this is not how the concept is approached in the ED. We just wanted to express our feeling about the new notions.

We want to put this a little bit into perspective as we are afraid that the approach as proposed is far from clear.

Imagine a reporting entity active in a certain sector with a 40% associate doing the same things in entirely the same sector. That in itself looks good enough for us to define the associate as an integral associate.

However, what if the associate is completely independent? What if the associate has it own brand names, its own R&D centre, it own marketing policies… That could make it a non-integral associate? Or not?

What if the reporting entity and the associate share certain R&D activities in a common R&D centre? Applying the factor relationship could then lead to the conclusion that the associate is integral again.

Paragraph 20D stipulates that the reporting entity has to take into consideration "all facts and circumstances" but the question remains which fact or which circumstance is more important than the other facts and circumstances? Because the question is how "all facts and circumstances" have to be interpreted before deciding whether an associate or joint venture is integral or non-integral? Based on the definitions it seems that generating a return individually and largely independently of the other assets of the entity - or not - is the key factor. But what does that mean in practice? Is sharing an R&D centre good enough to be integral? Or is it necessary for the associate or joint-venture to buy certain raw materials or certain services from the reporting entity?

Another idea that came up when discussing this is the following. If the conclusion is that the above mentioned associate is integral, does that automatically mean that all the other associates that can be linked to that specific associate are also integral? This would make sense in our view as otherwise you get a chaotic combination of integral and non-integral associates and joint-ventures that bears absolutely no logic.

Given all this, we would like to ask the IASB to rethink, not the concept of integral and non-integral associates and joint-ventures because as explained we think this would be a useful way to better understand a group, but the way the concept has been worked out and the way preparers would have to apply the concept in practice.

7 (b) We disagree with the proposal.

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ABAF/BVFA disagrees with the proposal to present the subtotal "operating profit and income and expenses from integral associates and joint ventures" in the statement of profit or loss. We think that the proposed subtotal adds apples and pears and has no real meaning from a user perspective.

We believe that it is not consistent to include associates income and expenses as it combines income and expenses that cannot be compared. The equity-method figure is post-tax and includes the contribution of the financial structure of the associates (i.e. interest) which is not reported in the statement of financial position of the group.

Some people may argue that the new subtotal does not do any harm and that analysts will be able to make the necessary adjustments if need be. They will probably do so because they will not use the new subtotal in their analysis.

Moreover, referring to our answer to Question 6 , it makes it impossible for the user if he would want to discuss the in our view more useful amount “profit before tax”.

We would therefore suggest to the Board to reconsider the way the integral associates and joint-ventures have been presented in the new profit or loss.

7 (c) We agree with the proposal.

We agree with the ED proposal to require an entity to provide information about integral associates and joint ventures separately from non-integral associates and joint ventures. Having introduced the concept, it is subsequently logic to require the reporting entities to disclose the relevant information with regard to the integral and non-integral associates and joint-ventures separately.

Referring also to our answer to Question 1, it will give users more insights in the way the reporting entity sees its own business model.

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 proposal.

Just one remark in this respect. The idea is, as phrased in paragraph 20 (b), that users should be able to make comparisons. However, the way the primary financial statements are presented often make it almost impossible to compare companies.

Some balance sheets e.g. are about 10-15 lines long (with all the details explained in the Notes). Other balance sheets take two full pages (with a lot of details in the balance sheet). Adding to that the fact that different entities often use different terminologies to describe the accounting entries does not make it always easy for users to compare e.g. balance sheets or statements of cash flows, that at first sight look totally different.

(b) We agree with the proposal.

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 agree with the proposal though would like to add a few remarks.

We do not consider one of the two methods superior to the other but keeping the possibility open of using either by nature or by function may jeopardise comparability of course. The Board takes the risk that similar companies cannot be compared when one group uses *by nature* while the other group uses *by function*. That is, admittedly, compensated by the fact that certain sectors almost unanimously go for one or the other. "Sectors" can in that case, despite the option, be compared because the reporting entities use the method that provides the most useful information to users of financial statements (as phrased in paragraph 68).

We very much welcome paragraph 72 imposing a per nature disaggregation disclosure when the company is using the per function presentation on its income statement (we fully agree with BC 113: "The strong support for this proposal from users"). We therefore have the impression that the IASB considers the per nature presentation as superior as it forces disclosure of the per nature information when the per function presentation is used in the income statement (see BC114).

ABAF/BVFA also believes that this per nature disclosure should be compulsory every time the company discloses its cost structure per function, e.g. in a midyear press release. Not doing so, prevents users to be able to use the per nature information in their analysis and to follow it along the year (and not only once a year, when the notes are published, sometimes a month after the earning release).

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?

(a) We partly disagree with the proposal

ABAF/BVFA agrees with the idea of trying to define unusual income and expenses in order to add clarity. Financial analysts do support the IASB in trying to better streamline the way "unusual items" are used (or abused) and to better capture the disclosures that are required with regard to the "unusual items".

The reason being that in calculating profitability ratios, users often eliminate so-called extraordinary/unusual/temporary/… gains and losses, items that under normal circumstances are not expected to occur again in the future. Users often also exclude certain "regular" gains or losses that they feel do not faithfully reflect the "normalised" profitability.

We note that defining properly these "unusual items" is challenging and we are struggling with the concepts of "limited predictive value" and "will not arise for several future annual reporting periods".

We also refer to our answer to (c).

(b) We agree with the proposal

The proposal to disclose this information with regard to the unusual items in the notes gets our support.

An alternative would be to put the unusual items on the face of the income statement. That would make the income statement overly complex in our view as we than run the risk that by adding subtotals the income statement becomes addled. Moreover, unusual items might be “operating”, “investing” or “financing”. It could thus well be that in an extreme case, a reporting entity adds three new subtotals. Other entities might see this differently and add one entry combining operating, financing and investing unusual items. That too would cause confusion.

Therefore, it is the better option to put the (unusual) numbers where they normally belong and to explain in the Notes why and how they are unusual.

We also welcome transparent disclosures that comment on the unusual items: why is something unusual, why are certain numbers that were not unusual all of a sudden unusual and vice versa. This would prevent that reporting entities play around too often with the unusual items in order to come up with some kind of “recurring” profit or cash flow number that suits them better.

(c) Paragraphs B67-B75 are very informative and other the other hand create quite a bit of vagueness in our view.

It seems to us that the approach introduces a lot of judgement. It may often be unclear for users and for preparers why certain income or expenses are unusual (despite paragraph 101). In other words, one company could categorise a cost as unusual while its competitor might categorise the same cost as “not” unusual.

We are also struggling with the idea that “Income and expenses that are not unusual by type may be unusual in amount” (paragraph B69). E.g. with the idea that the litigation costs in paragraph B69 can be unusual - even if in a certain period the amount is exceptionally high and has no predictive value.

To put this in a broader perspective, we really doubt whether IT-costs, marketing costs, telecom cost, energy cost, litigation costs… in other words costs that are part of the normal business model - i.e. that are part of the normal game - can easily be regarded as unusual. That gives a tremendous freedom to entities to come up with normalised or recurring numbers that suit them better.

In our view: it is not because a particular cost is by accident higher this year – and admittedly has little predictive value - that the reporting entity should be allowed to categorise it as “unusual”. It should not be that obvious to categorise a cost that is part of the normal game as “unusual”.

The flipside of the coin is also true: if an entity has exceptional environmental costs because something went wrong in factory XYZ in country ABC and if the problem has been solved and if measures have been taken to avoid similar problems in the other factories of the group going forward… in that case we could agree with the idea of saying that this particular cost is/was unusual. Also because we regard an environmental cost not necessarily as being “part of the game”.

(d) We agree with the proposal.

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 to some extent with the proposal

ABAF/BVFA agrees to strive for more transparency when entities show off with their own non-GAAP measures, but we are also confused by the way the proposal has been formulated and believe that the IASB should reconsider a number of aspects to avoid misunderstandings and to add more clarity.

- *Why do MPM's only refer to subtotals of income and expense?*

As correctly noted in the Basis for Conclusions, subtotals not specified by the standards are commonly used in financial statements and most of the times well understood by users though they may not always fully understand where the number exactly come from.

Entities often disclose non-GAAP amounts (and ratio's) that are useful for users, i.e. help them in their analyses. These ratio's and amounts complement the information provided by the IFRS standards.

But why the MPMs only refer to subtotals of income and expense is not clear to us.

We have the impression that the discussion regarding the MPMs is limited to *adjusted* operating profit and *adjusted* net profit (see also the Illustrative Examples in that respect). That is a missed chance in our view. We also have the impression that the Board had indirectly to take into account other existing regulatory frameworks on the presentation of financial statements. It would have been useful if the proposals had investigated the interaction with these other frameworks more clearly. ESMA e.g. defines an APM as *a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in* *the applicable financial reporting framework*. We have not investigated this ourselves in detail, but that would have been an interesting way to approach MPMs more broadly.

We would like to point out numbers like *free cash flow* (statement of cash flows) or *gross* or *net debt* and *working capital* (statement of financial position) that are also often disclosed. Fully in line with the approach that the ED explores, one could also require the entities to explain these non-GAAP measures and/or to reconcile them to the most relevant IFRS-based numbers used in the financial statements. E.g. with regard to the *working capital*, the entity could explain which liabilities have been deducted from which assets and why.

As a matter of fact and just to state our case after having checked a number of Belgian annual reports "2019-2020", we have noticed that a lot of reporting entities already explain in the notes their "Management Performance Measures". The amounts that are most used are e.g. gross and net debt, net capex, free cash flow and similar non-GAAP measures. A number of reporting entities also explained why these specific measures were important to them and/or how they were used in assessing e.g. their own performance (or the performance of the operating segments).

As explained, it is not clear to us why a more broader approach was not taken into account in the ED.

- *What is the exact meaning of "used in public communication outside financial statements"?*

We assume this refers in the first place to i.a. the management section of the annual report (= management section + financial statements), press releases (including quarterly and midyear reports), investor presentations. But what if an investor presentation is to be presented at a (private) outreach event organised by an international equity house and is published on the website a few minutes before the meeting starts and in which MPMs are mentioned? What with sustainability reports and other reports that more and more reporting entities nowadays publish separately and in which certain financial performance measures, e.g. MPMs, are often summarised?

The point we want to make is that MPMs pop up everywhere and that it is unclear to us what this then means in terms of disclosure requirements. Does it mean that the reporting entity has to reconcile the MPMs each and every time as explained in paragraph 106 of the ED ("in a single note to the financial statements"). Of course there are no Notes in a press release but does it mean that the entities then have to refer to the annual report in which the MPMs are explained. But what if in an investor presentation an MPM is introduced for the first time? In that case there are no Notes to refer to. We could go on inventing different scenario's in which cases it is not clear for preparers how they should reconcile or explain the numbers and/or for users to fairly understand the numbers that the reporting entity communicates.

Moreover, what with specific number that are disclosed in the financial statements but <u>not</u> outside the financial statements? Than seemingly the reporting entity does not have to reconcile the number - at least not as stipulated in the ED. Consistency is in our view needed whether the information is presented in- or outside the financial statements.

Consistency is also particularly important when it comes down to financial press releases. Management performance measures notified in press releases should be reconciled with the totals and subtotals of e.g. the income statement. This will allow users and investors to better understand the evolution as it does not make sense in terms of analysis to get a full set of numbers in the annual report (financial statements at year-end) and then receive a completely different and more limited set of numbers that in the worst case are not even comparable with the annual figures.

We agree with the Board that there should not be any restrictions on the calculation of performance measures. The Board should not forbid reporting entities to communicate certain numbers that are useful in understanding the performance (or financial position, or cash flow generation…). But we would like to underline the need for reconciliation (with the closest official IFRS numbers) and the need for disclosing and explaining any changes on the performance measures used. This information should be presented in a clear and meaningful format.

- **Why are certain specific subtotals not MPMs?**

We do not understand that the Board defines a specific list of subtotals that are not considered management performance measures (paragraph 104).

Fully in line with the nature of the discussion, the Board could require entities to explain – if deemed necessary - why e.g. profit or loss from continuing operations is what it is.

The number that strikes most attention is the "operating profit or loss before depreciation and amortisation". Why cannot we ask companies to explain the number and be transparent about the numbers that they have added back to the operating profit?

(b) and (c) We agree with some reservations.

Reporting entities presenting management performance measures in a single note within the context of the financial statements will improve transparency. It will reduce the subjectivity of what an entity considers its own management performance measures. This information disclosed in the notes could be assessed by the auditors and therefore be more reassuring for users. Therefore, we support the proposal to disclose the management performance measures in a single note.

In this context, we are not concerned that there are too many alternative management performance measures (MPMs) and/or that they can be defined too arbitrarily by management. Users have the opportunity to assess whether a particular MPM is useful for them or not in their analyses. The fact that the information regarding the MPMs is available in a single note, with reconciliation to the closest line items in the statement of profit or loss, is therefore extremely useful.

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 with the proposal. We agree that the accounting standards do not define and/or do not propose requirements relating to EBITDA.

EBITDA, often described as the "operating cash flow", is without any doubt an important number commonly used by analysts (as also mentioned in BC172). EBITDA is used to measure amongst others certain *coverage-* and *gearing* ratio's and/or to value companies using a multitude of what is called "multiples" (albeit that other advocators will argue that multiples have absolutely nothing to do with valuation).

But, as already explained in our answer to Question 1, we see EBITDA (and also EBIT) as a number created by analysts to help them in their analysis. EBITDA (and EBIT) are in our view less "accounting" numbers and should therefore not be defined in a financial reporting framework.

We should also take into consideration that, because EBITDA is a users' number, that different users have different views on EBITDA depending on what they try to measure in their analysis. That is of course true for most of the ratio's and related (IFRS) numbers but it is another argument for the IASB not to try to propose requirements for EBITDA (and EBIT). In other words, if users think that their EBITDA number is useful and if they prefer a certain approach, then they can define it as they want (… before interest, tax, depreciation and amortisation…) and use it the way they want.

We are however confused with BC172-173 with regard to MPMs.
BC172 suggests that EBITDA may meet the definition of MPM. Having read BC173, we are not that sure about that.
There should in our view not be any doubt that EBITDA would be an MPM. It is a subtotal of profit or loss, defined by the reporting entity itself and used inside and outside the financial statements. It is therefore very important that the reporting entity explains why its EBITDA is what it is ("transparency"). The relationship with the closest IFRS number, e.g. "operating profit", should be explained : which (non-cash) expenses have been added back to come up with the EBITDA number and/or which income has been taken into account to start the calculation (e.g. some entities dare to take the equity-method income into account when calculating EBITDA).

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?

(a) We agree with the proposal.

As already mentioned a couple of times, comparability is an important enhancing characteristic of useful financial information, also when analysing statements of cash flows and/or the cash flow cycle of reporting entities (cash flow "as such", free cash flow, cash flow from operations…). It is however fair to say that no two statements of cash flows look the same at this moment. The main problems are: firstly the way the cash flows are presented and secondly the terminology used. That makes it difficult for users to compare statements of cash flows.

We believe that different users have different views about what is the best starting point for (the indirect method of) reporting cash flows. The best approach also depends sometimes on what the analyst tries to measure, i.e. which in- or outflows he or she wants to take into account when measuring certain e.g. interrelationships or coverage ratio's. That makes it difficult to define the ultimate starting point for the statement of cash flows.

However, and that is also why we support the proposal, we feel that a consistent starting point - as proposed: the "new" operating profit or loss - is a good way to take this forward, especially in the context of comparability.

Assuming that the operating profit contains everything that is related to the main business activities, the proposal also creates a better link between the *cash flow from operations* and the operating profit which is exploratory according to us.

(b) We agree with the proposal

Options are always confusing and hamper comparability.

Options create the risk that reporting entities are not entirely clear about which amounts they have put where (and why). Options create the risk that ratio's do not measure what the user thinks they measure. Therefore we agree with the fact that the ED defines where interests and dividends paid or received must be put.

Users may have different views on this but the proposal makes it possible for them, if they want to measure certain ratio’s differently, to make the necessary adjustments now that that they know where certain cash flows have been reported.

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?

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14 (a) We have touched upon IFRS 8 *Operating Segments* a couple of times. We believe that the IASB should look for more cohesiveness between what is required regarding the primary financial statements, particularly the statement of profit or loss, and what is laid down in IFRS 8.

14 (b) The statement of cash flows is a very important primary financial statement. The interrelationship between balance sheet and profit and loss is explained by the statement of cash flows. In fact the three primary financial statements explain each other and as an analyst or investor, you cannot adequately understand one statement without understanding the two others.

Notwithstanding this, users often have difficulties with how the statement of cash flows is presented. There is a tremendous lack of consistency in that respect. Cash flows are not always presented in a clear and understandable way. The terminology used varies quite often and/or is not understandable enough.

We understand that this is not part of this discussion but would urge the Board to take a fresh look at IAS 7 *Statement of Cash Flows*. The idea is not to complete review the principles but to build in more transparency and consistency. The proposals in this ED on the one hand to define a uniform starting point and on the other hand to eliminate certain options to allocate certain cash flows in one way or another, already has our support.

Moreover, a new project on IAS 7 would also make it possible to align the different categories (operating, investing, financing) that are now used ánd in the profit or loss statement ánd in the statement of cash flows.

14 (c) Paragraph 74 of the ED comments on the presentation of (certain) income an expenses in *Other Comprehensive Income*.

Paragraph 74 (a) that covers income and expenses that are permanently reported outside profit or loss, only mentions *remeasurements*. Consequently, income and expenses that are <u>not</u> remeasurements should - at least that is our interpretation - always be recycled to profit or loss.

In general, we would urge the IASB to carefully reconsider the meaning and role of OCI (compared to profit or loss) and the concept of recycling. More clarity and more transparent information about OCI, often neglected by preparers and users, would be extremely useful.