For EFRAG's attention

General Presentation and Disclosures
ABI response to IASB ED/2019/7

About the ABI

The Association of British Insurers is the voice of the UK's world-leading insurance and long-term savings industry. A productive, inclusive and thriving sector, our industry is helping Britain thrive with a balanced and innovative economy, employing over 300,000 individuals in high-skilled lifelong careers, two-thirds of which are outside of London.

The UK insurance industry manages investments of over £1.7 trillion, pays nearly £12bn in taxes to the Government and powers growth across the UK by enabling trade, risk-taking, investment and innovation. We are also a global success story, the largest in Europe and the fourth largest in the world.

Founded in 1985, the ABI represents over 200 member companies providing peace of mind to households and businesses across the UK, including most household names and specialist providers.

ABI response

1. We are grateful for the opportunity to comment on the IASB's Exposure Draft ED/2019/7 *General Presentation and Disclosures*.

2. We acknowledge that users want greater clarity and consistency in P&L reporting. But we are not convinced that the ED's proposals are preferable to a general strengthening of certain aspects of the current IAS 1.

3. In particular for insurers, the proposal to disclose a prescribed 'operating profit' does not recognise the problems this causes for preparers such as UK insurers who report on a fair value through profit and loss basis for their financial assets and insurance liabilities, in particular in replacing a well understood existing measure of financial performance and in reducing comparability with insurers which report using other comprehensive income. The proposal would result in short-term volatility being reported in operating profit in a way which both does not help the management's reporting on their stewardship of the entity's resources and has limited predictive value from the user's perspective. This would reinforce, rather than reduce, the need for extra management performance measure reporting.

4. We are also not convinced by the ED proposals for analysis by operating expenses, reporting unusual items, and management performance measures, and we suggest that these be re-considered.

5. Our answers to the ED questions are given in the appendix to this response.

Association of British Insurers
September 2020

General Presentation and Disclosures **Appendix**
ABI response to IASB ED/2019/7 – answers to ED questions

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?

1. We understand in principle the desire of users to have consistency in the reporting of the profitability of entities' main business activities. However, this subtotal will only provide relevant information if the investing and financing categories are well-defined and there is the ability to appropriately disaggregate movements in the period where drivers of the results are significantly different. This is a particular concern for UK insurers per paragraphs 5 to 8 below.

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?

2. We agree that income/expense from entities main business activities should be included in the operating category.

3. We agree also that it's difficult to define main business activities. However, we suggest it's better to set 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 ED:

   - 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 distinguishing between investments that are, and those that are not, made in the course of an entity's main business activities, and this will necessarily be judgmental and may be arbitrary – in which case, the result would not be helpful to the user. We suggest that a principles-based approach is used instead and so that, above all, there is sufficient flexibility for preparers 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?

4. We welcome the inclusion in the operating category of insurers' returns from investments made in the course of their main business activities and of their income from cash and cash equivalents.

5. However, we have a significant concern about the effect of the proposals on UK insurers who will be users of the Fair Value through Profit and Loss options under IFRS 17 and IFRS 9.

6. For UK insurers, investment variances and economic assumption changes have typically been presented below the operating profit metric. This split has long been used by management and users of insurance companies to explain the on-going performance of insurance business driven by management actions (eg underwriting decisions and expense management) as opposed to the impact on profit from market movements (eg interest rates) and is well understood by analysts and investors.

7. IFRS 17 allows for the recognition of variances generated by market movements arising from insurance contracts in OCI, and IFRS 9 allows the equivalent for some financial assets backing the insurance contracts. However, this use of the OCI is not appropriate for UK insurers, particularly because of their different asset mix and use of derivatives for economic matching purposes. For them, with the results of their insurance and investment businesses reflected entirely in P&L and none in OCI, the proposal would affect operating profit in a different way. This would hinder comparability of results between insurers that apply the OCI option and those that don't, with the latter in particular being forced to use and explain additional management performance measures.

8. We consider that the IASB needs to address this issue. Otherwise the objectives of the proposed standard will not be met for UK insurers, which are a significant sector of the UK economy. Some form of disaggregation of fair value movements and associated economic movements in liabilities, in particular discount rates, is needed to enable performance in the period to be understood and facilitate a more useful and more comparable income statement presentation for insurers generally.

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?

9. We agree.

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?

10. We welcome the ED's recognition that an insurer's investments are generally made in the course of its main business activities.

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?

11. We agree.

<u>Integral and non-integral associates and joint ventures</u>

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?

12. We do not agree that integral and non-integral associates and joint ventures should be presented separately but should be treated together in the operating category. For insurers, such investments (and others) are mostly made as part of their asset/liability management strategy and it does not make sense to make such a distinction – which anyway may be difficult and heavily judgmental in practice.

13. We suggest that disclosure can instead be given of information needed to help the user to understand the integration of associates and investments in the overall business model.

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?

14. Whilst supporting the ED's description of the purposes of primary financial statements, we are concerned that there appears to have been little consideration given of the extent to which the proposals for the P&L account might also be reflected in other comprehensive income and 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?

15. We do not agree. From 2023, insurers will be required by IFRS 17 to present expenses on what is effectively a functional basis in P&L, because this gives the most relevant information to users. We are not aware that users of insurers' accounts have said that they also need detailed information on a by nature basis beyond the current IAS requirement for additional

information on the nature of expenses, including depreciation, amortisation, and employee benefits.

16. The ED requirement on insurers also to disclose in detail on a by nature basis in the notes to the accounts will add considerable complexity and cost. We therefore consider that this proposal does not meet cost/benefit requirements for IFRS changes.

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?

17. We do not support the proposals and in particular the definition of 'unusual'. We are not convinced that packaging/branding of events in this way will help users. We suggest instead that the IASB's proposals focus instead on ensuring that the presentation/disclosure of information – eg through disaggregation - conveys its key characteristics clearly so that users can make their own judgments.

18. For this purpose, 'unusual' is too vague a term and yet its definition is so tight as too exclude relevant information such as on a multi-year restructuring programme.

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?

19. We do not agree with this proposal in principle. We consider that a true and fair view given by a set of accounts is independent of any other communications, particularly those outside the annual report and accounts. Other communications are typically subject to the requirements and guidance of regulators such as, in the UK, the Financial Conduct Authority (for listing rules) and the Financial Reporting Council (for corporate reports), who can specify what they require. Annual reports can also benefit from the IASB's Management Commentary guidance, which we note is to be updated shortly by the IASB.

20. We also note that entities can already choose to include management performance measures in the notes to their accounts, and that IAS 1 encourages this to the extent that this reporting gives extra information that assists the user of the accounts in understanding better the financial performance that is shown in the P&L account.

21. Further, at a practical level, we suggest that it will not be easy to define what other communications are covered by the ED proposals.

22. We therefore suggest that the IASB focus instead on its management commentary guidance and work with other regulators to achieve any improvements needed in other communications.

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?

23. We have 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?

24. We agree with the proposals.

25. However, we suggest that the IASB also review its requirements for the statement of cash flows particularly in relation to life insurers, which users generally do not find useful.

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?

26. We suggest that the new standard should be effective from the same date as IFRS 17. That is to avoid the considerable operational impact of having to restructure general ledgers and reporting processes if the dates are not aligned – especially were the new standard to precede IFRS 17, in which case even an option to defer application of the new standard would not work because of its impact on groups that are not predominantly insurers