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Comments on the International Accounting Standards Board's Exposure Draft ED/2019/7 - General Presentation and Disclosures

Dear IASB,

Südzucker AG, Germany, appreciates the opportunity to comment on IASB's ED/2019/7: General Presentation and Disclosures (Primary Financial Statements).

Question 1 - operating profit and loss
We agree with the proposal. The operating profit and loss is a significant figure. It is therefore appropriate to introduce such a mandatory subtotal and to define what is included in this subtotal.

Question 2 - the operating category
We would prefer the operating category to be specifically defined and not be a default/residual category, as this is the core of a company's operations.

Question 3 - the operating category: income and expenses from investments made in the course of an entity's main business activities
We agree with the proposal, but recommend that the IASB defines in the final standard what is meant by entity's main business activities.

Question 5 - the Investing Category
We agree with the ED proposal. As mentioned above, we believe that the Board should define what is meant by an entity's main business activities.

Question 6 - Profit or Loss before Financing and Income Tax and the Financing Category
We agree with the ED proposal.

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Question 7 - Integrated and Non-Integrated Associates and Joint Ventures
It would be helpful to include a rebuttable basic presumption for distinction between integrated vs. non-integrated investments in the standard and not only in the Basis for Conclusion:

- Joint ventures are typically integral (BC78 (a): Feedback suggests this characteristic is common in joint ventures)
- Associated companies are typically non-integral = investing

That is, for example, already done today to distinguish associated companies from investments (IAS 28.5 with the 20% threshold). A different classification is only made if this classification can be clearly refuted on the basis of the business activity or existing service relationship. In such a case, the background to the rebuttal would have be explained in the notes. Without such rebuttable basic presumption, we would still see material diversity in practice regarding the application.

Question 8 - Roles of the Primary Financial Statements and the Notes, Aggregation and Disaggregation
We agree with the ED proposal. The best standards are those that follow a set of principles rather than a set of rules. Establishing these principles and general requirements will greatly improve compliance with the standards and help to solve implementation problems.

Question 9 - Analysis of Operating Expenses
We come to the conclusion that there is no superior method of analysis of operating expenses; both have advantages and disadvantages. The expenses by nature system allows, for example, the analysis of the individual main cost types in order to identify the cost drivers and understand their effects; this provides the possibility of forecasting further cost developments. The statement in BC111 ("feedback from users of financial statements that analyzing expenses using the function of expense method can lead to a loss of useful information") already shows that this information is highly relevant for users. Accordingly, when applying the cost by function system, a mandatory disclosure in the notes to the financial statements of the breakdown by cost type is now required (IAS 1.72). In this respect, we also fail to understand the definition of criteria for determining the "better" method, as both are always associated with advantages/disadvantages. Correspondingly, in our view it is preferable to remain with the current regulation of IAS 1 ("requires an entity to choose a method that is reliable and more relevant").
The intended mandatory breakdown by cost type in the notes (including material expense) when applying the cost by function system, is in practice a considerable additional effort for prepares. It requires a fully consolidated by cost income statement (in addition to the by function income statement) and - as this triggers questions regarding the reconciliation of both statements by auditors as well as users - a matrix integration of by cost and by function income statement. If the company has already chosen the more relevant presentation format (by cost or by function), this additional requirement with its implementation cost does not seem to be reasonable for us.

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Question 10 – Unusual Income and Expenses
In the IFRS 8 segment disclosure (which is based on a management approach) and in the management report ("Lagebericht"), companies already regularly break down income from operations into components such as regular operating income and special income (income from restructuring and special items). As of today, the special income is based on a terminology individually defined by the company. This terminology focusses on certain events (e.g. restructuring) or is using thresholds (e.g. only material effects); it is reasonable to require a disclosure of the company's individual definition in the notes and a reconciliation to amounts in the primary financial statements. The additional and standardized definition of unusual income and expenses by the Board could lead to different interpretations by the reporting company and the auditor compared to the one applied in the segment report / management report and thus to different/additional reporting in the financial statements leading to a further difficulty in understanding the financial performance. In this context, we doubt that the objective of identifying **all** (paragraph 100) unusual items is even possible; such an analysis requires materiality considerations and is to be individually applied for each company which is best done using today's approach in the segment (IFRS 8) / management report.

Question 11 – Management Performance Measures
It is not reasonable to require such indicators to be published in the way they are used in public communication (paragraph 103) and at the same time enforce allocation of tax and non-controlling effects (paragraph 106 (c)) even if not used (or cannot be determined in a meaningful way) in such public communication. Furthermore, such management performance measures should focus on key performance indicators only; not any published alternative profit figure should trigger such disclosure. By doing so – as already indicated in answer to question 10 – the information in the notes should focus either on standardized financial figures or on information used internally by management (IFRS 8). Further reporting requirements in line with external communication – if not (as in most cases) already in line with IFRS 8 publication – should be placed in the management report ("Lagebericht") but not in the notes.

Question 12 – EBITDA
We welcome the fact that, on the one hand, the Board has refrained from defining an EBITDA and, on the other hand, has omitted an EBITDA as a subtotal in the statement of income and expenses, as this cannot always be presented in the new layout. This view is also based on the fact that companies present an adjusted EBITDA that cannot be derived directly from the statement of income and expenses as a subtotal.

Question 13 – Statement of Cash Flows
As one can already see based on your questions, the majority of the draft covers presentation and disclosure issues of the income statement. The review of the income statement presentation and disclosure is already sufficiently complex and should therefore be covered independently from other issues in this draft. We therefore suggest to approach the review of other primary financial statements (especially the cash flow statement) separately and after the review of the income

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statement is finalized. This approach allows to take a more detailed look at questions regarding the design of the cash flow statement (including the definition and naming of subtotals) and the implementation of company-specific features (e.g. additional or different subtotals). An example for such a company-specific feature is an additional subtotal currently used by Südzucker Group within the cash flows from operating activities that allows to separate the impact of the distinctive seasonality of the sugar sector on working capital (campaign production with financing of beet purchases and inventories) from other non-seasonal operating cash flows, which is even used in the payment conditions of one of our outstanding bonds.

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