

**RSM International Limited**50 Cannon St  
London  
EC4N 6JJ  
UK

T +44 (0)207 6011080

[www.rsm.global](http://www.rsm.global)

Mr Hans Hoogervorst  
Chairman  
IFRS Foundation  
7 Westferry Circus  
Canary Wharf  
London E14 4HD  
United Kingdom  
Email: [commentletters@ifrs.org](mailto:commentletters@ifrs.org)

22 September 2020

**Re: Exposure Draft ED/2019/7 – General Presentation and Disclosures**

Dear Mr. Hoogervorst,

On behalf of RSM International Limited, a worldwide network of independent audit, tax and consulting firms, we are pleased to comment on the IASB's Exposure Draft ED/2019/7 General Presentation and Disclosures ('the ED').

We are supportive of the Board's efforts to provide structure to the issue of reporting financial performance in the statement of profit and loss and improve the communication of information about performance in the statement of profit and loss.

While we are generally supportive of the Board's efforts in this project, we believe that the standard should not be finalized in the proposed form. We believe that any final standard that would result from this project should provide more guidance in an attempt to enhance both consistency within an entity's reporting of results and comparability to the reporting of other entities.

We would be pleased to respond to any comments the Board or its staff may have about our response. If you have any questions or comments please do not hesitate to contact Gary Stevenson (+852 2583 1220) or me (+44 207 601 1842).

Our specific comments to the questions set out in the Exposure Draft follow:

Yours faithfully,



Marion Hannon  
Global Leader, Quality & Risk  
RSM International

**THE POWER OF BEING UNDERSTOOD**  
AUDIT | TAX | CONSULTING

#### **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 support this proposal.

#### **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?**

#### **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?**

#### **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?**

Questions 2-4 address the operating category.

The paragraph referenced in Question 2 (paragraph 46) states "The operating category includes information about income and expenses from an entity's main business activities." As a result, the determination of an entity's main business activities is critical in deciding which income and expenses are classified in the operating category.

The Exposure Draft, however, does not provide a definition of “the entity’s main business activities.” We believe that a definition of the term, as well as related guidance in making the determination of what constitutes “main business activities” would be beneficial to preparers and readers of financial statements by enhancing comparability. While we appreciate the difficulty that defining this term might entail, we believe that the importance of the statement of profit or loss is such that the operating category should not be a residual category.

We also believe that the income and expenses categories in the statement of profit and loss, as defined in the Exposure Draft, would lead to confusion among readers of financial statements, because of differences between the definitions of those categories used in the statement of cash flows.

With specific reference to Question 4, we do not agree with the proposed accounting policy choice in paragraph 51 of the Exposure Draft. We believe that the proposed policy choice should only be available to entities for which providing financing to customers is the sole business activity (e.g., financial institutions). We believe that extending a policy choice to entities other than financial institutions would reduce comparability between such entities that provide financing to customers as one of their main business activities and those that do not.

We also believe that non-financial institution entities that provide financing to customers as one of their main business activities should classify income and expenses from financing activities, (as well as from cash and cash equivalents) that relate to the provision of financing to customers in the operating category unless it is impracticable to do so (i.e. option (a) in para. 51).

#### **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 support this proposal.

#### **Question 6: profit or loss before financing and income tax and the financing category**

- (a) Paragraphs 60(c) and 64 of the Exposure Draft propose that all entities, except for some specified entities (see paragraph 64 of the Exposure Draft), present a profit or loss before financing and income tax subtotal in the statement of profit or loss.**
- (b) Paragraph 49 of the Exposure Draft proposes which income and expenses an entity classifies in the financing category.**

**Paragraphs BC33–BC45 of the Basis for Conclusions describe the Board’s reasons for the proposals.**

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

We support this proposal.

#### **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?**

While we believe there is some merit in the separation of results from integral and non-integral associates, we are concerned that the definitions of such entities are not likely to be applied consistently, leading to diversity in practice and a reduction in the meaningfulness of information presented. A determination of whether an associate is integral is likely to be based on management judgment. Consequently, we do not believe that the proposed guidance, as drafted, will result in consistent presentation across entities.

We recommend that the Board develop a list of properties that would be considered in reaching a determination of whether the associates in question are integral, supported by a requirement for enhanced disclosure similar to those in IFRS 12, thereby requiring more disclosure of information such as main business activities of joint ventures and associates, the nature of unusual items reported by joint ventures and associates, etc.

#### **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?**

While we agree with the proposals, we believe that it would be more appropriate to include the objectives in Chapter 3 of the Conceptual Framework than in any standard that results from this Exposure Draft.

#### **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 support this proposal.

#### **Question 10: unusual income and expenses**

- (a) Paragraph 100 of the Exposure Draft introduces a definition of ‘unusual income and expenses’.**
- (b) Paragraph 101 of the Exposure Draft proposes to require all entities to disclose unusual income and expenses in a single note.**
- (c) Paragraphs B67–B75 of the Exposure Draft propose application guidance to help an entity to identify its unusual income and expenses.**
- (d) Paragraphs 101(a)–101(d) of the Exposure Draft propose what information should be disclosed relating to unusual income and expenses.**

**Paragraphs BC122–BC144 of the Basis for Conclusions describe the Board’s reasons for the proposals and discuss approaches that were considered but rejected by the Board.**

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

We believe that past occurrence should be considered in determining whether an item of income or expense is unusual, although past occurrence in and of itself is not necessarily determinative. We believe that the Board should develop a definition of unusual income and expenses that would focus on departures from past occurrence and allow users of financial statements to reach their own conclusions on whether such information serves as predictive.

We believe such an approach would provide more benefit to users than would the approach proposed in the Exposure Draft. We believe the proposed guidance is subject to potential difficulties in application, particularly when trying to determine which items are indeed “unusual” compared to items that simply have not occurred in the past. We are concerned that the proposed guidance is similar to the former guidance on extraordinary items, which was found to generate information that was not always useful, to the degree that the extraordinary items guidance was eliminated from the presentation requirements.

#### **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?**

While we support the Board’s efforts to define management performance measures, we question whether such measures are best included in the financial statements.

Additionally, we believe that the proposed definition of management performance measures is too narrow in that it focuses solely on subtotals of income and expense and should be broadened to include all non-GAAP measures (including balance sheet and cash flow measures). The proposed definition does not allow adjustments, and excludes certain commonly used measurements. We believe these limitations will impact the usefulness of the information appearing in the financial statements. It is our belief that entities will continue to use these “excluded” management performance measures outside the financial statements, leading to potential

concerns about inconsistent use of management performance measures (and related reconciliations) in different communications to users.

In addition to the general concerns we have stated in the previous paragraphs, we also have specific concerns about the proposed definition: most notably the requirement in paragraph 103 that a management performance measure “complement” totals or subtotals specified by IFRS standards.

**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 believe that, because EBITDA is perhaps the most commonly used management performance measure, that the Board should develop requirements related to EBITDA if it going to develop requirements related to other management performance measures.

**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 support this proposal.

**Question 14: other comments**

**Do you have any other comments on the proposals in the Exposure Draft, including the analysis of the effects (paragraphs BC232–BC312 of the Basis for Conclusions, including Appendix) and Illustrative Examples accompanying the Exposure Draft?**

We have no other comments.

END OF DOCUMENT