Australian Government

Australian Accounting Standards Board

Staff Paper

Project:	**Primary Financial Statements**	**Meeting:**	M176
Topic:	**Consider Feedback on ED 298 and decide on issues for submission to IASB**	**Agenda Item:**	4.1
		Date:	28 May 2020
Contact(s):	James Barden jbarden@aasb.gov.au Helena Simkova hsimkova@aasb.gov.au	**Project Priority:**	High
		Decision-Making:	Medium
		Project Status:	ED Outreach

OBJECTIVE OF THIS PAPER

1 The objective of this agenda item is:

(a) to **inform** the Board of the feedback received in outreach performed to date in relation to ED 298 *General Presentation and Disclosures* and provide staff analyses of key issues;

(b) for the Board to **decide** and **provide feedback** on the preliminary staff recommendations on what feedback to provide to the IASB; and

PAPER BASED ON APRIL 2020 AGENDA PAPER

2 This agenda paper is based on Agenda Item 4.1 of the Board's April 2020 Board meeting. At the April meeting the Board requested further analyses of certain areas and more time to deliberate the IASB's proposals. Therefore, staff have updated some of the analysis from the April 2020 paper based on the feedback received from Board members. In particular, changes have been made in the following key issues:

(a) Key issue 2A – Integral and non-integral associates and joint ventures: Cost of preparation vs benefits to users

(b) Key issue 3A – Analysis of operating expenses: Cost of preparation vs benefits to users

(c) Key issue 4B – Unusual income and expenses: Events that occur over multiple report periods, such as restructures

(d) Key issue 5 – Management Performance Measures

3 Staff have provided a marked-up copy of this paper in the supporting material folder for Board members who may wish to see only areas of the paper that have changed since the April 2020 paper. However, given the objective of the discussion is to focus on the Board's feedback to the IASB's ED as a whole, we suggest the Board consider all issues addressed in this agenda paper.

ATTACHMENTS

Agenda Paper 4.2 IASB CMAC Slides (March 2020) – Summary of proposals [SUPPORTING DOCUMENTS FOLDER]

Agenda Paper 4.3 AASB ED 298 *General Presentation and Disclosures* [SUPPORTING DOCUMENTS FOLDER]

Agenda Paper 4.4 Mark-up comparison between AP4.1 M175 and this Board paper

[SUPPORTING DOCUMENTS FOLDER]

Staff also remind the Board that the following papers were shared in the April 2020 Board pack, but have not been included in this mailout:

April 2020 AP4.4 Minutes of AASB UAC Meeting (March 2020) [APRIL 2020 SUPPORTING DOCUMENTS FOLDER, BOARD ONLY]

April 2020 AP4.5 Minutes of AASB Disclosure Initiative Project Advisory Panel Meeting (March 2020) [APRIL 2020 SUPPORTING DOCUMENTS FOLDER, BOARD ONLY]

STRUCTURE

4 This Staff Paper is set out as follows:

(a) BACKGROUND;

(b) OUTREACH HELD TO DATE;

(c) CONTENT OF THIS PAPER;

(d) **Error! Reference source not found.**;

(e) SUMMARY OF RECOMMENDATIONS AND QUESTIONS TO THE BOARD;

(f) INITIAL SUMMARY OF KEY ISSUES IDENTIFIED BY STAFF;

(g) APPENDIX A: SUMMARY OF RESPONSES FOR EACH QUESTION – ED 298 IASB Questions; and

(h) APPENDIX B: SUMMARY OF WRITTEN RESPONSES FOR EACH QUESTION – Australian-specific SMCs.

BACKGROUND

5 The IASB issued Exposure Draft ED/2019/7 *General Presentation and Disclosures* in December 2019, resulting from the work on its Primary Financial Statements Project. The AASB re-issued ED 298 *General Presentation and Disclosures* domestically in January 2020. The AASB's re-issued ED contains some additional material, including:

(a) a preface discussing Australian research and a comparison to ASIC's RG 230 *Disclosing Non-IFRS Financial Information*; and

(b) additional Australian questions on the interaction between the ED and ASIC's RG 230, and a question on whether there are any auditing or assurance issues with the ED.

6 Staff have not provided a summary of the proposals or any education on the ED in this paper. However, for Board members that are not aware of the key proposals, Staff have attached:

(a) the slide pack used for the IASB's Capital Markets Advisory Committee meeting, which provides a useful overview of the key proposals in the Exposure Draft.

(b) the full Exposure Draft, including illustrative examples and the IASB's Basis for Conclusions.

OUTREACH HELD TO DATE

7 To date, Staff have held the following outreach on ED 298:

Category	Minutes/Supporting Papers/Recordings	Date
User Advisory Committee	Agenda Paper 4.4 – supplementary folder	19 March 2020

Project Advisory Panel (PAP)	Agenda Paper 4.5 – supplementary folder	23 March 2020
Webinar 1 – Joint with IASB	Link to recording	30 March 2020
Webinar 2 – Joint with IASB	Link to recording	31 March 2020
Targeted outreach: APRA	No specific issues raised – generally supportive	30 March 2020
Targeted outreach via email: PAP	Further specific questions on key issues	May 2020

8 Feedback from each of the outreach events has been summarised and categorised in this paper. As such, it is not necessary for Board members to read the individual summaries of the outreach.

9 Overall, stakeholders have appeared to be supportive of the overall objectives and directions of the project. Feedback has generally been focussed on particular aspects of the ED, rather than any fundamental issues with the entire package.

10 At this stage Staff do not propose to undertake any further outreach events on the ED. However, given the comment period is still open until 15 August (revised date), Staff may identify a need to undertake further targeted outreach based on the comment letters received. Staff will hold further targeted outreach with ASIC and ACNC which has been delayed due to the COVID-19 outbreak.

CONTENT OF THIS PAPER

11 This paper provides the Board with a summary of the feedback received to date in the outreach noted above. It also includes preliminary staff recommendations on what feedback the Board should provide to the IASB.

12 Staff recommendations are preliminary because further comments may be received as the comment period is still open, which may affect staff's views, or add additional issues to consider.

13 In this agenda item, staff are specifically seeking the Board's feedback on the preliminary staff recommendations, as well as for the Board to provide any further feedback that they would like Staff to raise with the IASB.

NEXT STEPS

14 At the April 2020 meeting the Board confirmed its decision to provide a formal comment letter to the IASB by its comment period deadline, 30 September 2020. Staff will bring a draft comment letter to the Board's September meeting for consideration and approval.

SUMMARY OF RECOMMENDATIONS AND QUESTIONS TO THE BOARD

Question No.	Overview of staff recommendation	Question to the Board
Question 1 Operating category	Staff recommend providing feedback to the IASB to consider providing more examples of where an asset is held in the course of an entity's main business activities, rather than the type of entities that might do so.	**Does the Board agree with staff's recommendation?**
Question 2 Integral and non-integral associates & JVs	Staff recommend to suggest the IASB require all associates and JVs to be presented in a single line in separate category (ie would be presented below operating profit in same location as the share from integral associates and JVs in current proposal), and rely on the disclosure requirements of AASB 12 to provide useful information about associates and JVs in the notes. Staff also recommend the IASB consider the appropriateness of the equity method and whether proportionate consolidation is more appropriate for integral associates and JVs separately, as part of the Equity Method research project.	**Does the Board agree with staff's recommendation?**
Question 3 Integral and non-integral associates & JVs	Staff recommend providing feedback to the IASB on the responses received, encouraging the IASB to consider how to make the definition/guidance more robust.	**Does the Board agree with staff's recommendation?**
Question 4 Analysis of operating expenses	Staff recommend providing feedback to the IASB to consider permitting an entity to determine the most appropriate analysis, even if that would include a mixed analysis on the face of the financial statements, whilst maintaining the requirement to provide an analysis by nature in the notes. This could provide more flexibility for preparers, whilst also ensuring users get consistent information by nature in the notes.	**Does the Board agree with staff's recommendation?**
Question 5 Analysis of operating expenses	Staff recommend providing feedback that the IASB consider requiring the minimum line items by nature in the notes only when presenting an analysis by function or amending the requirements for entities providing analysis by function. Staff also recommend the IASB consider requiring disclosure of the methodology used to allocate expenses by function. Staff consider this would assist users in	**Does the Board agree with staff's recommendation?**

Question No.	Overview of staff recommendation	Question to the Board
	understanding the components that sit within the functional categories to assist predicting future cash flows.	
Question 6 Unusual income and expenses	Staff recommend providing feedback to the IASB informing it of the feedback received, but not recommending any changes to the proposals, given that further guidance could lead to the Standard focussing more on rules than principles.	**Does the Board agree with staff's recommendation?**
Question 7 Unusual income and expenses	Staff recommend providing feedback to the IASB suggesting to re-consider the definition to also capture unusual items that may occur over more than one reporting period. The IASB should work to define a more flexible parameter for non-recurrence, but still providing limits to avoid misuse. This could be supported by disclosures which indicates the expected amount of recurrence for an unusual item that occurs over more than one period, assisting forecasting of short-term future cash flows and providing information on management's expectations.	**Does the Board agree with staff's recommendation?**
Question 8 Unusual income and expenses	Staff have not proposed what an alternative definition might look like, as this would use significant resources and may require outreach. However, if the Board prefers staff propose an alternate definition for the IASB, staff can re-prioritise work to do so for the September 2020 meeting.	**Would the Board like staff to undertake analysis and research to propose an alternate definition?**
Question 9 Unusual income and expenses	Staff recommend providing feedback to the IASB that disclosure of tax effects and amounts attributable to non-controlling interests should be required for unusual items of income and expense.	**Does the Board agree with staff's recommendation?**
Question 10 MPMs – faithful representation	Staff recommend providing feedback for the IASB remove the requirement for MPMs to be faithfully representative. Staff acknowledge the mixed arguments outlined in the previous column however, on balance, consider that the requirement impose significant practical challenges that could lead to MPMs not being included in the audited financial statements. Staff consider it is more useful to users to have the information about MPMs with accompanying reconciliations and explanations of the information, as the requirements of IFRS standards would not preclude entities using the measures in other public communications.	**Does the Board agree with staff's recommendation?**

Question No.	Overview of staff recommendation	Question to the Board
Question 11 MPMs – Measures used for compensation	staff do not recommend the Board suggest expanding the scope of MPMs to include measures used to compensate management. Whilst staff consider the information provided could be useful, we consider that it may result in lines being blurred as to what the purpose of reporting MPMs are, and may instead be better considered as part of other projects such as the IASB's management commentary project. (Note: recommendation changed since the April 2020 meeting).	**Does the Board agree with staff's recommendation?**
Question 12 MPMs – subtotals of income and expenses	Staff recommend expanding the scope of the proposals to include other performance measures that convey performance using other aspects of the financial statements, such as return on assets or equity ratios. The denominators of such ratios could be reconciled to the statement of financial performance. Staff consider that many of these measures could provide useful information on the financial performance of the entity.	**Does the Board agree with staff's recommendation?**
Question 13 MPMs – complements totals or subtotals specified by IFRS	Staff recommend providing feedback for the IASB to clarify what it means by 'complements totals or subtotals specified by IFRS Standards', as it is not clear why the IASB made that decision.	**Does the Board agree with staff's recommendation?**
Question 14 MPMs – whether MPM is the most appropriate term	Staff do not recommend suggesting an alternate term for the management performance measures as staff are unable to identify a term which we consider would be more appropriate or would sufficiently mitigate concerns raised about the IASB's proposed terminology.	**Does the Board agree with staff's recommendation?**

Question No.	Overview of staff recommendation	Question to the Board
Question 11: Appendix A[1]	Please refer to Appendix A for individual recommendations related to the other issues raised by stakeholders.	**Does the Board agree with the staff recommendations in Appendix A?**
Question 12	N/A	**Does board have any other feedback or comments on the proposals?**

[1] Staff are asking the questions in Appendix A as a collective

OUTREACH HELD TO DATE

INITIAL SUMMARY OF KEY ISSUES IDENTIFIED BY STAFF

<table>
<tr><th>Key issue</th><th>Has this issue been considered by the IASB? If yes, where.</th><th>Why it needs to be addressed (nature and extent of the problem)</th><th>Preliminary Staff recommendations</th></tr>
<tr><td colspan="4">The operating category: classification of income and expenses from investments made in the course of an entity's main business activities
Paragraph 48, BC58-BC61</td></tr>
<tr><td colspan="4">Key issue 1 – ambiguity in whether an item is in the investing or operating category</td></tr>
<tr><td>One webinar participant questioned whether fair value gains and losses in the scope of AASB 141 Agriculture would be classified in the operating or investing category.

The participant was concerned that the distinction between income and expenses from assets that generate returns individually and largely independently of the entity's other resources, which would be within the investing category, and income and expenses generated in the course of its main business activities, which would be within the operating category, was not clear.

Another example raised was that fair value gains and losses on investment property of a real estate investment entity would likely fall within the operating category, whilst fair value gains and losses on investment property held by a different type of</td><td>Yes, see ED 298 BC58-BC61.

The IASB considered that when an entity, in the course of its main business activities (emphasis added), invests in assets that generate a return individually and largely independently of its other resources, the investment returns are an important indicator of operating performance.</td><td>Staff agree that it is appropriate to include in the operating category income and expenses arising from assets in the course of the entity's main business activities.

However, paragraph B27 provides examples of the types of entities that may invest in the course of their main business activities (such as investment entities, investment property companies and insurers).

Staff consider it would be more useful for those examples to focus on when an asset is being used in the course of an entity's main business activities, rather than the type of entity. Examples of when an asset is being used in the course of an entity's main business activities may include income and expenses from:
An investment property held by an entity whose</td><td>Staff recommend providing feedback to the IASB to consider providing more examples of where an asset is held in the course of an entity's main business activities, rather than the type of entities that might do so.

Question 1: Does the Board agree with staff's recommendation?</td></tr>
</table>

Key issue	Has this issue been considered by the IASB? If yes, where.	Why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
entity solely for rental gains would be within the investing category. The participant considered this inconsistent. The participant felt that more work needed to be performed for the IASB to more clearly articulate why an item is investing and why an item is operating. One user specifically supported the IASB's proposal to require investments made in the main course of business to be within the operating category.		main business activity is investing in property, as opposed to the entity investing in an asset such as gold. • agriculture held by an entity that produces or sells that agriculture, such as grapes of a wine maker. Examples where assets are not held within the entity's main course of business, such as: • Surplus assets (ie. assets held that are not needed for operating activities) • An investment property held for rental returns by an entity whose main business activity is, for example, wine making. • Assets held for capital appreciation, such as gold, where the entity's main business activity is selling goods and services.	

<table>
<tr><th>Key issue</th><th>Has this issue been considered by the IASB? If yes, where.</th><th>Why it needs to be addressed (nature and extent of the problem)</th><th>Preliminary Staff recommendations</th></tr>
<tr><td colspan="4">Integral and non-integral associates and joint ventures
Paragraphs 20A-20D of proposed amendments to IFRS 12, 60(b), 53, 75(a) and 82(g)-82(h) of proposed IFRS X, BC77-BC89 and BC205-BC213.</td></tr>
<tr><td colspan="4">Key issue 2A – Cost of preparation vs benefits to users</td></tr>
<tr><td>One PAP member, a preparer, was concerned that identifying integral associates and JVs would be significant work for preparers without providing much useful information for users. It was suggested that the IASB would be better to consider whether to require proportionate consolidation for integral associates and joint ventures. Another PAP member, also a preparer, noted that users of their entity are more interested in proportionate consolidation for their ‘integral’ associates and joint ventures, and that preference is common amongst users.

Further feedback received from a PAP member argued that by definition of having significant influence (or joint control), associates and joint ventures would be integral to the entity. Further, the decision to invest in the entity arguably indicates that it is integral to the result of the reporting entity. Another member argued that an entity may still be integral to a business, despite being able to generate a return</td><td>Yes, see BC77-BC89.

The IASB has observed diversity in practice in presentation of an entity’s share of the profit or loss of associates and joint ventures.

The IASB considered requiring entities to present their share of the profit or loss of associates and joint ventures in a single location in the statement of profit or loss – the investing category. However the IASB has balanced the desire for some preparers to include ‘integral’ associates/JVs in the operating category rather than the investing category (as they are integral to main business activities), and users’ views that they do not belong in the operating category.
The IASB concluded that an entity should not classify the share of profit or loss of integral associates and joint ventures in the investing category because such income and</td><td>It appears the IASB’s objectives may not be met if:
Prepares are concerned that the requirement is onerous and may not be well understood or consistently applied, considering that the IASB permitted a separate category for integral associates and JVs to address feedback from some preparers;
UAC members consider they could receive information in other, arguably simpler ways, such as disclosure; and
Staff acknowledge that splitting associates and joint ventures has the potential to provide useful information as to how the associate/JV integrates with the main business activities of the entity. Staff also agree that associates/JVs should be excluded from operating profit so as not to</td><td>Staff considered three options:
Support the IASB’s proposal on the basis that it could provide useful information;
Allow entities to make a ‘free choice’ whether or not the associate/joint venture is integral or non-integral and disclose the reasons why the entity made its choice
Suggest the IASB require all associates and JVs to be presented in a single line in separate category (ie would be presented below operating profit in same location as the share from integral associates and JVs in current proposal), and rely on the disclosure requirements of AASB 12 to provide useful information about associates and JVs in the notes. Staff also recommend the IASB consider appropriateness of the equity method and whether proportionate consolidation is</td></tr>
</table>

Key issue	Has this issue been considered by the IASB? If yes, where.	Why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
individually and largely independently of the other assets of the entity. Another PAP member noted that the distinction could often simply be a function of the structure of ownership. Further, the majority of preparers (on the PAP) preferred that a single line item for associates and joint ventures is reported within operating profit, on the basis that associates and joint ventures are generally a significant aspect of the entity's operations, especially by virtue of the fact that, by definition, the reporting entity exerts significant influence over its associates and joint control of its joint ventures. One UAC member considered the distinction could be useful to understand more about associates and JVs and preferred that equity accounting is presented outside the operating category. However, the member also considered that associates and joint ventures usually do not represent a large propitiation of the profit or loss (ie not quantitatively large), hence additional disclosures in the notes about interests in other entities could meet the same objective. One Board member suggested considering an option to permit entities	expenses are not largely independent from income and expenses classified in the operating category. The IASB also does not propose classifying integral associates and joint ventures in the operating category on the basis that: • Equity accounting includes expenses which users prefer to analyse separately, such as financial expenses and income taxes (ie the operating profit would mix pre-tax and post-tax items); • This could disrupt users' analyses of operating margins; • The entity does not control the associates/JVs in the same way it controls other items in the operating category The IASB did not consider options such as proportionate consolidation.	mix pre-tax and post-tax items within the operating profit subtotal. However, Staff identify the following practical challenges in determining whether an investment is integral or non-integral as proposed: • Significant judgement is involved to apply the proposed definition which relies on whether the investment's returns occur largely and independently of other assets of the entity. Despite examples provided by the IASB which staff consider helpful, applying the definition on face value could be difficult when trying to distinguish whether the returns occur separately from assets such as brand names. Further, staff consider it is possible that an associate/JV could be a significant part of the businesses overall profitability and financial performance, but may be considered non-integral if not occurring in conjunction with other assets that the entity controls.	more appropriate for integral associates and JVs separately, as part of the Equity Method research project. Whilst many of the issues mentioned may be addressed by improving the proposed definition and guidance, staff consider that a more appropriate solution would be not to require the distinction. This is on the basis that: • Users do not appear to place much value on the distinction, and could receive useful information via disclosures. Staff intend to confirm this at the July 2020 UAC meeting • Comparability and complexity may remain for preparers in retaining the proposal. • A more robust/appropriate solution may be identified by focussing on the appropriateness of equity accounting more broadly. Staff recommend option 3, because: • it would reduce the challenges noted in this key issue as well as key issue 2B below

Key issue	Has this issue been considered by the IASB? If yes, where.	Why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
to make an accounting policy choice whether an associate or joint venture is integral or non-integral, and have that supported by robust disclosure the reasons for the choice.		• The distinction between having significant influence and whether an associate is integral may both cause significant effort by preparers to determine, and may not be well understood by preparers nor users. For example, applying paragraph 20D[2] of the proposed amendments to IFRS 12, it could become difficult to conclude that a significant interdependency between an entity and an associate or joint venture does not exist where the parent has significant influence of the investment's financial and operating policies; • It calls into question why an entity would hold an investment in an associate or joint venture if it is not integral.	• it would still allow presentation outside of the operating and investing categories • Entities could still disclose information about the nature of the relationship in the notes Staff do not consider that a 'free choice' (option 2) would be useful from a comparability/consistency perspective. **Question 2:** Does the Board agree with staff's recommendation?

[2] Proposed paragraph 20D states (note: some text excluded for brevity): "…a significant interdependency between an entity and an associate or joint venture would indicate that the associate or joint venture is integral to the main business activities of the entity. Examples of a significant interdependency … include: (a) …integrated lines of business…; (b) sharing a name or brand … so that externally it may appear as one business … (although the reporting entity may have other, separate businesses); and (c) having a supplier or customer relationship … that the entity would have difficulty replacing without significant business disruption."

Key issue	Has this issue been considered by the IASB? If yes, where.	Why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
Key issue 2B – Definition: Consistency of application			
Some PAP members and one webinar participant were concerned that the definition of integral associates and joint ventures might not be applied consistently both within an entity year-on-year and between entities. However, one PAP member did consider that the guidance IASB had provided was nonetheless useful to determine whether the associate or joint venture is integral at a point in time, and more useful than some other options considered by the IASB. One webinar participant also suggested that the guidance for the split between integral vs non integral is confusing and requires more clarity. One UAC member was also concerned the distinction between associates and JVs seemed to be arbitrary.	Yes, see BC209-BC213. The IASB proposed the definition to be consistent with the proposed definition of income and expenses from investments for simplicity. The IASB concluded it was not possible to develop an exhaustive list of criteria that could encompass all possible integral/non-integral relationships. The IASB is aware of concerns as to whether the proposed definition is sufficient to enable consistent application.	If the IASB does not support the above recommendation (see Key Issue 2A), the feedback is suggesting that the definition would not be applied consistently over the reporting periods and that there may be a lack of comparability in application. Staff are also concerned that if the definition (which focusses on whether an associate/JV is integral to the main business activities) is too broad or lacks guidance, entities may be able to easily reclassify associates/JVs when they are performing well/underperforming to reach a desired presentation in the statement of profit or loss. On the other hand, Staff support retaining a principles-based definition that allows for reclassification where the associate/JV has genuinely changed how it integrates with the main business activities. Staff propose to discuss the proposed definition further with the UAC at its July 2020 meeting.	Staff considered two options (assuming the change suggested in 2A above is not addressed): • providing feedback to the IASB on the responses received, encouraging the IASB to consider how to make the definition/guidance more robust. • AASB staff to undertake research and analysis to propose an alternate definition. However, staff consider this would require significant staff resources considering this matter was consulted with PAP, UAC and webinar participants with mixed views, and would require conceptual research and development of ideas (noting the IASB also had challenges in creating a definition). Staff recommend option 1, on the basis that AASB's resources are better used on other in-progress priorities.

Key issue	Has this issue been considered by the IASB? If yes, where.	Why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
			Question 3: Does the board agree with staff's recommendation?
Analysis of operating expenses Paragraphs 68 and B45, BC109-BC114			
Key issue 3A – Cost of preparation vs benefits to users			
Preparers: Some PAP members were concerned that the requirement to provide an analysis by nature might be costly whereby function is the entity's most appropriate method. One member noted that costs are often classified by employees outside of the financial reporting chain into a relevant category, which requires re-classification for financial reporting purposes. It may also require changes to systems in many cases. PAP members confirmed that in their experience it is uncommon to see an entity re-analyse its operating expenses by nature when applying the current IAS 1 requirements. One member also noted that entities which used analyses by function might prefer to prepare analyses by nature to avoid additional work even though the	Yes, see BC109-BC114 The IASB intends to strengthen current requirements of IAS 1 by requiring an entity to use the single method of analysis that provides the most useful information. The IASB proposes to require an entity to provide an analysis by nature in a single note. The IASB BC sets out that users require an analysis by nature because a functional analysis can lose useful information due to combining expenses with different natures that respond differently to economic events, inhibiting forecasting, and natural analysis also compares to the statement of cash flows more easily. The IASB notes that functional analysis can be useful to facilitate	The requirement could impose significant cost for preparers due to the change from current practice. Further outreach to PAP members also confirms that for some preparers there could be significant changes needed to systems to facilitate the proposals, particularly where re-analysis by nature is required (e.g. decoding the items in the system). Staff think there could be merit in permitting entities to determine their own methodology to analyse expenses. Such an approach may trade off comparability between entities, however staff think this may be permissible if, • based on feedback from the UAC, users do not currently appreciate the distinction or are concerned by it;	Staff recommend providing feedback to the IASB to consider permitting an entity to determine the most appropriate analysis, even if that would include a mixed analysis on the face of the financial statements. Staff also recommend the IASB consider requiring disclosure of the methodology used to allocate expenses. Staff consider this would assist users in understanding the components that sit within categories to assist predicting future cash flows. **Question 4:** Does the Board agree with staff's preliminary recommendation?

Key issue	Has this issue been considered by the IASB? If yes, where.	Why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
analyses by function would be more relevant and useful. Staff also understand anecdotally that a mixed presentation by nature and function is the most common presentation by Australian entities. Therefore, there would be additional costs associated to the change of presentation. Some further feedback from PAP members supported a mixed analysis of operating expenses on the basis that analysis by function is often attempting to align to reporting of business divisions/segments, it can provide useful information. However, the allocation of overheads/corporate expenses does not lend itself well to such an analysis and breaking up those expenses by nature is more useful. However, some PAP members did note that a mixed analysis could distort ratio analysis.	calculation of performance metrics and margins. However, a mixed analysis is not useful in the IASB's view as this may distort the calculations of such metrics and has been noted by users as a concern. In response to feedback that providing an analysis by nature would be costly where a functional analysis is provided, the IASB decided to limit the requirement to an analysis of total operating expenses, rather than analysis each functional line item. The IASB acknowledged that this may still be costly, particularly where entities have not tracked capitalised costs, but considered that the strong support from users for this proposal outweighed the costs (subject to further feedback).	• the functional analyses are performed thoughtfully; and • it is more informative. Staff note that users generally support receiving information in financial statements 'through the eyes of management', which we expect permitting a mixed analysis would facilitate. However, staff suggest that to address concerns of comparability and the effect on ratio analysis, entities could be required to disclose the methodology used to allocate expenses, which should provide users useful information on what line items represent, coupled with enhanced requirements for disaggregation. Staff asked the PAP whether a requirement to disclose the methodology would be onerous, with mixed feedback that it may be costly, but may also be a reasonable requirement for material information. However, staff intend to perform furthermore detailed outreach with the UAC, given that the basis that staff's recommendation relies	
Users: One UAC member preferred flexibility for entities to present the analysis of operating expenses. Some other UAC members were ambivalent to the method an entity			

Key issue	Has this issue been considered by the IASB? If yes, where.	Why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
adopts. However, consistency and clear disclosure of the method used were noted as the most important factors. It was also evident that not all users, nor others that are not technical accountants, had a clear understanding of the difference between and reasons for analyses by function or nature.		heavily on the assumption that users in Australia do not have strong views on the analysis of expenses. Staff will feed back to the Board at its September meeting.	
Board members: One Board member was concerned that a mixed analysis would not be appropriate. Another Board member supported mixed analysis, noting that this is currently a common practice. One Board member was concerned by the requirement to re-analyse by nature in a note, as: • This may not be a commonly done in practice and hence could impose significant cost; and • It may be particularly costly for a manufacturing entity to de-capitalise the elements of cost of goods sold (e.g. cost of asset/inventory sold), which could be both practically difficult and raises questions conceptually as to whether the components making up inventory are an expense (as they would			

Key issue	Has this issue been considered by the IASB? If yes, where.	Why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
appear re-analysed), or rather inputs to an asset (the item of inventory).			
Key issue 3B – Required minimum line items mix nature and function			
The IASB has retained required minimum line items that were required as a result of other previous IASB projects. For example, these mostly relate to the requirements of IFRS 9 and include a requirement to include a line item for impairment losses determine in accordance with Section 5.5 of IFRS 9 (including impairments of financial asset, lease receivables and contract assets). This results in a situation where an entity presenting an analysis by function would be required to include some line items analysed by nature (as impairment losses would be a natural expense). This brings confusion to an analysis by function. UAC members also noted the importance of clear disclosure of how an entity has analysed its expenses. However, the ED does not propose that an entity would be required to disclose any information about the	No, based on feedback from IASB staff, the IASB has not re-considered minimum line items required as a result of other projects. However, BC116 notes that the IASB intends for those line items to 'continue to be presented prominently'.	Staff consider this is problematic the IASB has not reconsidered its previous decision to require these minimum line items in the context of the proposals of this Exposure Draft. Such minimum line items may cause confusion because they result in a mixed analysis that the IASB is trying to prohibit. In addition, there does not appear to be justification why the minimum line items are the most important. For example, there is no justification why impairment losses on financial assets should have more prominence (ie a required line item) then impairment losses on non-financial assets.	Staff recommend providing feedback that the IASB consider requiring the minimum line items by nature in the notes only when presenting an analysis by function or amending the requirements for entities providing analysis by function. **Question 5:** Does the Board agree with staff's recommendation?

Key issue	Has this issue been considered by the IASB? If yes, where.	Why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
methodology or judgements used to allocate expenses between functions.			
Unusual income and expenses Paragraphs 100-101, BC67-BC75, BC122-BC144			
Key issue 4A – Definition of 'several reporting periods'			
Some PAP members were concerned that the definition of unusual items may be too loose by only requiring an entity to consider whether the item will arise in 'several future annual reporting periods'. Members considered the IASB could clarify that an item could be 'usual' despite only occurring at interims longer than several years, such as long-term property development. Members considered the IASB could instead refer to whether an item is within the business's 'usual rhythm'. Webinar participants also questioned what the IASB had intended 'several' to mean. One participant questioned whether the IASB had intended that the recurrence was required to happen	Yes, see BC129-BC136. The IASB considered that a reference to 'several reporting periods' would mean that entities would not: • Consider periods too short, which would lead to more unusual items • Consider periods too long, which would be onerous • Would not be as arbitrary as choosing a specific time period	If the requirements are not clear this could lead to inconsistency in practice. This could also require significant work by auditors to opine on management's judgements. However, AUASB staff did not consider that a reference for several reporting periods was an unreasonable amount of judgement for auditors. Staff consider that the guidance in paragraphs BC67-BC75 provide useful guidance on making judgements about whether an item is unusual. Further, BC132 is helpful which notes the board 'did not intend to require an entity to consider all possible future	Staff recommend providing feedback to the IASB informing it of the feedback received, but not recommending any changes to the proposals, given that further guidance could lead to the Standard focussing more on rules than principles. **Question 6:** Does the Board agree?

Key issue	Has this issue been considered by the IASB? If yes, where.	Why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
'back-to-back' for several reporting periods – ie each of several reporting periods, or only one.		reporting periods nor to consider only a short period'. Prescribing anything further may lead to the Standard creating rules rather than principles. In addition, we do not consider that the definition should be changed to refer items outside of usual business activities. The reason is, that items relating to usual business activities might still be identified as unusual (e.g. change in tax rate) and vice versa.	
Issue 4B - Events that occur over multiple reporting periods, such as restructures			
One webinar participant was concerned that unusual events, such as a restructure or a strategic change, may fall out of the definition of unusual if it were to occur over more than one reporting period. Further, it was highlighted that whilst an unusual item such as a multi-year restructure would not be unusual in year 0 year 1, it would likely be unusual in its final year (and only disclosed as such in the final year of occurrence). Subsequent outreach with the PAP confirmed concerns, particular from preparers, noting that the proposed definition appears particularly restrictive.	Yes, see BC122-BC144, in particular BC134. The IASB intends the requirement to assist in predicting future cash flows. Whilst events by nature may be unusual, the IASB did not intend for them to meet the definition as they may recur in the future and hence they would have predictive value for those future periods.	Staff consider the definition could lead to inconsistencies depending on whether an unusual event crosses over reporting periods or not. For example, a restructure that occurs between January-February would be considered unusual, whereas a restructure that occurs between June-July would not where an entity has a 30 June year-end. Staff acknowledge and agree that the requirement should provide information for users to assess future cash flows, however we question whether a timeframe based on the reporting date	Staff recommend providing feedback to the IASB suggesting to re-consider the definition to also capture unusual items that may occur over more than one reporting period. The IASB should work to define a more flexible parameter for non-recurrence, but still providing limits to avoid misuse. This could be supported by disclosures which indicates the expected amount and timing of recurrence for an unusual item that occurs over more than one period, assisting forecasting of short-term future cash flows and providing information on management's expectations.

Key issue	Has this issue been considered by the IASB? If yes, where.	Why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
In addition, two PAP members noted a preference that the assessment is based on whether the item is unusual in context of the normal operating cycle (ie past), rather than an assessment of the potentially unclear future.		achieves this object or would be too short-term in focus. Staff also question whether it is useful to only have disclosure in the final year of an unusual multi-year item. The proposal appears to focus on forecasting cash flows for one future reporting period. However, Staff expect that users might be interested in information that helps forecasts for longer periods of time, and would therefore benefit from information about unusual items based on their nature and likelihood to recur in the medium-long term. On the other hand, staff are conscious that without defining a boundary, entities may inappropriately (or constantly) report items as unusual. Staff propose to discuss this suggestion in more detail with the UAC at its meeting in July 2020, and will provide an update to the Board in September 2020.	**Question 7:** Does the Board agree with staff's recommendation? Staff have not proposed what an alternative definition might look like, as this would use significant resources and may require outreach. However, if the Board prefers staff propose an alternate definition for the IASB, staff can re-prioritise work to do so for the September 2020 meeting. **Question 8:** Would the Board like staff to undertake analysis and research to propose an alternate definition?

Key issue	Has this issue been considered by the IASB? If yes, where.	Why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
Issue 4C - Disclosure of non-controlling interest and tax effect of unusual items			
Some UAC members requested that the tax affect and effect on non-controlling interest be disclosed for unusual items of income and expense.	No (not in BC).	Users consider that this information is important. This disclosure is proposed for MPMs on the basis that users require this information so they can make their own adjustments and also to re-calculate earnings per share. Staff consider this would also be relevant for unusual items.	Staff recommend providing feedback to the IASB that disclosure of tax effects and amounts attributable to non-controlling interests should be required for unusual items of income and expense. **Question 9:** Does the Board agree with staff's recommendation?
Management Performance Measures paragraphs 103, 106, BC145-BC180			
Overall comment			
A number of stakeholders raised concerns that the definition of MPMs is too narrow in many areas.	Yes, see BC145-BC180. The IASB limited the scope in an attempt to balance the needs of users to understand more about MPMs and management's views of the entity, but also to balance the need to not have misleading information in the financial statements. Specific areas are set out in the key issues below.	The restrictive nature of the definition of an MPM could lead to many measures communicated by management publicly not meeting the definition. The implication is that measures communicated publicly may fall out of the scope of MPMs, and hence not be disclosed or reconciled in the audited financial statements. Importantly for Australia, some questions were raised whether the cash earnings measure commonly used in the banking industry would	Addressed in specific areas set out in key issues below.

Key issue	Has this issue been considered by the IASB? If yes, where.	Why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
		meet the definition of an MPM. Staff are of the view that it would be included based on a limited desktop review of the Big 4 banks[3], which indicated all adjustments are items of income or expense. Common adjustments to statutory profit or loss were: • Hedge ineffectiveness/volatility • Discontinued operations Revaluations Specific areas are set out in the key issues below.	
Issue 5A – Requirement for MPMs to be 'faithfully representative'			
Some webinar participants questioned why the IASB had required MPMs to meet faithful representation requirements. There was concern that this could result in significant judgement by preparers and auditors to determine whether or an MPM faithfully represents what it purports to represent.	The IASB thinks that all information included in the financial statements should provide a faithful representation of what it purports to represent. The IASB has noted alternate views that restricting the scope could lead to a loss of information about MPMs that fall out of scope, but rejected those views (see BC159-BC161).	Staff consider that this requirement may not be appropriate as: • Standard setting requires trade-offs, and staff consider users would be better informed by including all MPMs • The related disclosures and reconciliations would provide information for users on what the measures anyway represent	Staff recommend providing feedback for the IASB remove the requirement for MPMs to be faithfully representative. Staff acknowledge the mixed arguments outlined in the previous column however, on balance, consider that the requirement impose significant practical challenges that could lead to MPMs not being included in the audited financial statements. Staff

3 Based on 2019 annual reports – see ANZ, page 53; NAB, page 84; Westpac, page 156; Commonwealth Bank, page 3.

Key issue	Has this issue been considered by the IASB? If yes, where.	Why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
		• The use of MPMs in the financial statements would still be prohibited from having more prominence being displayed with more prominence than subtotals and totals required by IFRS standards, reducing the potential for misleading users (as per proposed paragraph 43(d) of IFRS X). • AASB 8 *Operating Segments* does not impose similar restrictions on the disclosure of segment information that reflects the views of management • Feedback from AUASB staff suggests that MPMs would be challenging to audit if there are not suitable criteria for assessing whether the MPM meets faithful representation requirements or not. It could be costly for auditors to opine whether an MPM faithfully represents what it purports to present, especially because this would be entity-specific, ie there would be no efficiencies between entities. On the other hand, staff acknowledge and share concerns	consider it is more useful to users to have the information about MPMs with accompanying reconciliations and explanations of the information, as the requirements of IFRS standards would not preclude entities using the measures in other public communications. **Question 10:** Does the Board agree with staff's recommendation?

Key issue	Has this issue been considered by the IASB? If yes, where.	Why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
		that disclosing performance measures that do not faithfully represent what they purport to represent could provide incomplete or misleading information that users rely upon. Staff acknowledge that some of those concerns could be mitigated by the proposed disclosure as to why management consider the term useful, as well as the required reconciliation (albeit a reconciliation may still be incomplete in describing whether the information included/excluded is appropriate).	
Issue 5B – Measures used for compensation			
UAC members noted that the scope should be broadened to include any measures used to compensate management, including when only used internally (linkage to Remuneration Report). However, many Board members commented at the April 2020 Board meeting that they did not support extending the definition to measures used internally to compensate management. In their view, the objective of the proposal should focus on measures used externally to report	Not addressed in BC. However, BC146(b) notes that users consider information about how management views the entity's financial performance and how the business is managed useful.	Staff agree this would be out of scope unless published in the remuneration report or other public communications. To address user views that information about receiving information on management's view of performance and how the business is managed is what is intended to be addressed, staff consider that management compensation measures could be included as they provide information on management's view	On balance, staff do not recommend the Board suggest expanding the scope of MPMs to include measures used to compensate management. Whilst staff consider the information provided could be useful, we consider that it may result in lines being blurred as to what the purpose of reporting MPMs are, and may instead be better considered as part of other projects such as the IASB's management commentary project.

Key issue	Has this issue been considered by the IASB? If yes, where.	Why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
financial performance of the entity, and that expanding the scope to internal metrics could both expand the requirements significantly, and also shift more focus to corporate governance and internal management reporting rather than financial reporting.		of the entity's performance (albeit only internally). On the other hand, Staff acknowledge this could broaden the scope of MPMs significantly, and blur lines between management of the entity and the financial performance of the entity. Staff consider that there may be more merit to considering this requirement as part of the IASB management commentary project, rather than the PFS project. Additionally, Staff acknowledge that whilst there is comprehensive remuneration reporting requirement in Australia (that may anyway capture such measures as MPMs), this may not be the case in other jurisdictions. As such, this requirement may expand the scope of the IASB's proposals beyond that supported by other jurisdictions.	(Note: recommendation changed since the April 2020 meeting). **Question 11:** Does the Board agree with staff's recommendation?
Issue 5C – Subtotals of income and expenses			
Some PAP members considered that the definition of MPM was too narrow, as it is limited to **subtotals** of income and expenses, ie there would not be	Rationale not explained clearly in BC, except B154 notes that the definition is limited due to the project focussing on improvement to the statement of profit or loss.	Other measures/ratios such as return on assets or equity would also be excluded as they are not sub-totals of income and expenses	Staff recommend expanding the scope of the proposals to include other performance measures that convey performance using other aspects of the financial statements, such as return on assets or equity

Key issue	Has this issue been considered by the IASB? If yes, where.	Why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
any asset measures or cash flow measures disclosed as MPMs. PAP members were also concerned that an adjusted total profit figure (eg. Profit calculated by management with an accounting policy inconsistent with IFRS), would meet the definition as it is a **total** rather than **subtotal** (because para 103 states that MPMs are only **subtotals**, whereas arguably this is a **total** of revenue and expenses, albeit not prepared in accordance with IFRS standards).			ratios. The denominators of such ratios could be reconciled to the statement of financial performance. Staff consider that many of these measures could provide useful information on the financial performance of the entity. **Question 12:** Does the Board agree with the staff recommendation?
Issue 5D – Meaning of 'complements totals or subtotals specified by IFRS Standards'			
The IASB requires MPMs to complement totals or subtotals specified by IFRS Standards. However, the IASB does not provide any further guidance on what would or would not constitute an MPM complementing a total or sub-total. This could lead to significant judgement for preparers and auditors.	BC does not appear to address why the IASB decided to include this requirement.	Staff agree that the ED does not provide guidance on what the parameters of 'complements' are intended to be, which may cause challenges and remove some MPMs from scope. It is also not clear why the IASB made this decision.	Staff recommend providing feedback for the IASB to clarify what it means by 'complements totals or subtotals specified by IFRS Standards', as it is not clear why the IASB made that decision. **Question 13:** Does the Board agree with the staff recommendation?

Key issue	Has this issue been considered by the IASB? If yes, where.	Why it needs to be addressed (nature and extent of the problem)	Preliminary Staff recommendations
Issue 5E – Whether Management Performance Measure is the most appropriate term			
Some UAC members discussed whether a more appropriate term to described MPMs would be 'alternate performance measures' A webinar participant also commented that the use of MPM as a term is confusing given that in many cases, the non-GAAP measure that a firm promotes in press release is not one of the measures used to determine management compensation as outlined in the Remuneration Report. The participant questioned whether "Non-compliant" be a more useful term. One Board member also did not support the use of the MPM term.	Not specifically addressed in BC.	Staff consider that given the complexities of the scope of what the IASB is considering a management performance measure, it is inherently challenging to place a label on them. Alternate performance measures may not be an appropriate term as it already has a 'meaning' to many people due to its common use (the same would be true for non-GAAP or non-IFRS), and 'non-compliant' may not be a term that is favoured by preparers, as it implies having done something incorrectly. Staff consider that other terms could be used, for example 'externally reported performance measures' or 'management-defined performance measures', but we do not think they would be any clearer as to their meaning than using MPM.	Staff do not recommend suggesting an alternate term for the management performance measures as staff are unable to identify a term which we consider would be more appropriate, or would sufficiently mitigate concerns raised about the IASB's proposed terminology. **Question 14:** Does the Board agree with the staff recommendation?

APPENDIX A: SUMMARY OF RESPONSES FOR EACH QUESTION – ED 298 IASB Questions

Question 1 Operating profit and 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 proposals? Why or why not? If not, what alternative approach would you suggest and why?

Issue 1 – Application to entities in the extractive industries
One user recommended that the Board consider how resources and/or exploration companies would fit into the proposed structure. Staff have not been made aware of any other concerns relating to this but will continue to monitor. **Staff recommendation** Based on feedback by some Board members in April 2020, staff have reached out to preparers and users involved in extractive activities to understand whether they have any concerns over the proposals. However, staff resources have not permitted a staff analysis between the April meeting and this meeting. Staff propose to integrate any feedback received from those stakeholders in the draft final submission in September 2020. **Question to the Board: Does the Board agree with the Staff recommendation?**

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?

Issue 1 – Flexibility for management to define their own operating profit
One user considered that entities should be given some flexibility to define their own operating profit. However, the respondent would like entities to provide clear disclosure on how their operating profit is determined and, if changed between periods, explain what was changed and why. **Staff recommendation** Staff do not propose providing this feedback to the IASB on the basis that the IASB's proposals would bring more consistency **Question to the Board: Does the Board agree with the Staff recommendation?**

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.

Paragraph 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?

Issue 1 – whether to split pools of assets used both within the entity's main business activities and for other purposes
One webinar participant (a preparer in the insurance industry) questioned whether a financial services entity that has a pool of assets supporting both the main operating activity and helpful investment to produce returns more generally for shareholders would need to split the assets and/or split the returns into two categories. **Staff recommendation** Staff recommend informing the IASB of this feedback to consider whether other jurisdictions raise similar issue. It has not been raised by any other respondents. Staff consider that the ED is clear that an entity separately identifies investments made in the course of its ordinary business activities and those that earn returns separately. This view was shared by IASB staff in the webinar. **Question to the Board: Does the Board agree with the Staff recommendation?**

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 proposals? Why or why not? If not, what alternative approach would you suggest and why?

No specific feedback received to date on this question

Question 5 The investing category

Paragraph 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

Paragraph BC48-52 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?

No specific feedback received to date on this question.

Question 6 Profit or loss before financing and income tax and the financing category

(a). Paragraphs 60(c) and 64 of the Exposure propose that all entities, except for some specified entities (see paragraphs 64 of the Exposure Draft), present a profit or loss before financing and income tax subtotal in the statement of profit and 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?

Issue 1 – presentation of certain income and expenses related to financial instruments

One webinar participant (preparer) noted that there is currently no clear guidance on the presentation of certain items in the P&L, for example where to present a day 1 gain or loss/its unwinding (if it was deferred) or a gain/loss on derecognition of certain types of financial instruments under IFRS 9. The participant also noted that the interest on a lease is currently required to be classified within financing without consideration of the business model. The participant questioned whether the project looks to provide clarity in other standards to ensure consistency of presentation.

Staff recommendation

Staff consider that the IASB is attempting to provide principles for where to present different items of income and expense through this project. As such, Staff do not consider it necessary to recommend to the IASB to specifically clarify where certain types of income or expenses should be presented, but rather supports the use of the principles proposed in the ED. With respect to the presentation of lease income, staff consider that entities would be permitted to classify interest on a lease liability in the operating category based on the ED if the entity's business model is to provide financing to customers (see paragraph B29(c) which provides 'lessors that provide finance leases to customers' as an example. However, staff nonetheless recommend informing the IASB that this feedback was received.

Question to the Board: Does the Board agree with the Staff recommendation?

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 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 prosed 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 of Conclusions describe the Board's reasons for these proposals and discuss approaches that were considered rejected by the Board.

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

Issue 1 – linkage between materiality and whether an associate or joint venture is integral

One webinar participant asked whether an associate or joint venture that is quantitatively material to the entity would also be integral.

Staff recommendation

Staff consider that the ED is clear that the determinant factor in the proposed definition is whether the associate or joint venture is integral to the main business activities, rather than its quantitative nature. As such, Staff do not recommend providing this feedback to the IASB.

Question to the Board: Does the Board agree with the staff recommendation?

Issue 2 – expectation that most joint ventures would be integral

The basis for conclusions notes that the IASB expects most joint ventures would be integral to the business (BC78-BC79). Further, an entity would also have joint control of a joint venture. On this basis, to save cost for preparers, the IASB could provide a rebuttable presumption that all joint ventures are integral.

Staff recommendation

Staff recommend providing a suggestion for the IASB to consider whether a practical expedient for joint ventures would be appropriate.

Question to the Board: Does the Board agree with the staff recommendation?

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?

Issue 1 - Linkage between aggregation and materiality

The IASB notes in paragraph B9 that 'in the notes, it is the concept of materiality that drives aggregation and disaggregation. To achieve the objective of financial statements, items that have dissimilar characteristics shall be disaggregated into component parts when the resulting information is material.'

However, in the body of the standard, the IASB does not link the requirements for aggregation to the definition of materiality.

Staff recommendation

Staff recommend providing feedback for the IASB to consider the linkage between aggregation and materiality in a more robust way and providing more guidance on their linkage in the body of the Standard. Staff consider that materiality should be the underlying driver to the presentation of line items.

Question to the Board: Does the Board agree with the staff recommendation?

Issue 2 – use of 'other' categories and related disclosure

The IASB has proposed that the use of an 'other' category in the statement of profit or loss is minimised. Instead, an entity would be required to aggregate immaterial items with other items that share similar characteristics and can be described in a manner that faithfully represents those items, or to aggregate immaterial items that do not share characteristics, but which may be described in a way that faithfully represents the dissimilar items. If an entity cannot disaggregate in either of those ways (ie retains an 'other' category, then it is required to disclose information in the notes about the content and largest item in the category.

Staff recommendation

Staff consider that the disaggregation suggested by the IASB could become particularly onerous for entities and also has the potential to clutter the financial statements with immaterial information. Staff recommend providing feedback for the IASB to re-consider the requirement in the context of only providing material information.

In addition, the IASB has not illustrated how it might disaggregate the 'other' category in the notes, despite presenting such a line item in its illustrative examples. Staff recommend the IASB illustrate such a disclosure.

Question to the Board: Does the Board agree with the staff recommendation?

Question 9

Paragraph 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 the expense method in the notes.

Paragraph 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?

No specific feedback received to date on this question in addition to issues noted in Key Issue 3.

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 expense in a single note.

(c). Paragraphs BC67-BC75 of the Exposure Draft propose application guidance to help and 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?

Other disclosures related to unusual items

The disclosure requirements may be made more robust by including additional disclosures around how decisions about whether items are unusual items of income and expense from period to period where. This could be consistent with paragraph 108, which requires disclosures for MPMs in the following areas:

- To disclose sufficient explanation for users of financial statement to understand changes in determining whether an item is unusual;

- To disclose reasons for the change; and
- To restate comparative information accordingly.

Staff recommendation

Staff recommend providing feedback to the IASB suggesting similar disclosures to paragraph 108 in respect of unusual items of income and expenses.

Question to the Board: Does the Board agree with the staff recommendation?

Presentation on the statement of profit or loss

Members of the PAP considered that if unusual items are material, then they should be described as such on the face of the statement of profit or loss. The member noted that enforcement activities should be undertaken for entities applying the definition inappropriately.

One UAC member was ambivalent as to whether unusual items are disclosed in the notes or presented on the face of the statement of profit or loss.

Staff recommendation

Staff do not recommend suggesting to the IASB to permit presentation of a category of unusual income and expenses on the face of the statement of profit or loss. Staff agree with the IASB's reasons for not permitting this.

Question to the Board: Does the Board agree with the staff recommendation?

Linkage to management commentary project

Project Advisory Panel members recommended that the linkage between the proposals for unusual income and expenses and the Management Commentary project should be considered, particularly around the narrative piece of the unusual occurrence.

Staff recommendation

Staff recommend providing feedback to the IASB to consider the linkage to these proposals in the management commentary project. Staff agree that the management commentary and unusual income and expenses note should be complementary.

Question to the Board: Does the Board agree with the staff recommendation?

Clarifying whether an item is unusual if its amount is lower than usual (eg reduced revenue)

Project Advisory Panel members discussed that the current outbreak of COVID-19 may be a relevant example of unusual income and expenses and how the proposals would function in that context. One member noted it would be useful to clarify how the proposals would address where income is unusually low, and whether that would be in the scope of the proposals. Another member questioned whether government funding as a substitute for lost revenue would be classified as unusual income, or reduced taxation expense to fund staff payments as another example.

Staff recommendation

Staff consider that the ED is clear that items of income or expense would be classified as unusual if it were unusual in either type or amount. Staff therefore consider that the ED is clear that an item of income or expense **lower** than it is expected to be in future reporting periods would meet the definition.

However, staff recommend alerting the IASB that this question was raised, suggesting it consider whether an example could be given in the guidance to clarify this point for stakeholders.

Question to the Board: Does the Board agree with the staff recommendation?

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 describes 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?

<table>
<tr><td>Issue 1 – definition of public communication</td></tr>
<tr><td>Some PAP members were concerned whether the requirement to include information in public communications may be too broad where certain information is provided in, for example, a sustainability report.

A webinar participant (a preparer) also questioned whether the IASB's reference to 'public communication' is intended or not to include communications such as social media (eg LinkedIn posts or tweets).

Staff recommendation

Staff agree that it is not clear how far the IASB intends 'public communications' to span.
This could also become a practical challenge for auditors if they are required to understand and review all of the various ways that an entity could communicate publicly.

Staff recommend providing feedback to the IASB to clarify more clearly what would be considered a 'public communication'.

Question to the Board: Does the Board agree with the staff recommendation?</td></tr>
<tr><td>Issue 2 – disclosures related to how management uses MPMs</td></tr>
<tr><td>The IASB has not proposed that an entity shall disclose:
• If and how MPMs and unusual items differ, if an MPM is adjusted due to an unusual item identified in the unusual items note; or
• How MPMs are used internally by management

Staff recommendation

Staff recommend providing feedback for the IASB to consider including the above-mentioned disclosures. In particular information on how management uses MPMs internally could provide useful information to users on how management manages and evaluates the business.

Question to the Board: Does the Board agree with the staff recommendation?</td></tr>
<tr><td></td></tr>
<tr><td></td></tr>
</table>

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?

Issue 1 – general support for not defining EBITDA
Most project advisory panel members, UAC members and webinar participants agreed with the IASB's proposal (and related reasons) to not define EBITDA.
Issue 2 – clarifying that the IASB's permitted subtotal 'operating profit before depreciation and amortisation' is not EBITDA
The ED permits the use of an 'operating profit before depreciation and amortisation' sub-total without requiring the disclosures for management performance measures. However, the IASB does not make linkage in the integral parts of the ED that this sub-total must be calculated using the IASB's definition of operating profit, and therefore any management-defined EBITDA inconsistent with this definition would be an MPM. Staff recommendation Staff recommend providing feedback for the IASB to be clearer in the guidance accompanying the standard that EBITDA would still be an MPM unless it is defined exactly as specified by the IASB's subtotals of operating profit before depreciation and amortisation. **Question to the Board: Does the Board agree with the staff recommendation?**

Question 13 Statement of cash flows

(a). *The proposed amendments 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?

Issue 1 – presentation of interest and dividends received
One UAC member disagreed with the proposal for interest paid, interest received and dividends received. That member considered those items should be included in operating cash flows in an attempt to make the operating category in the cash flow statement the equivalent of net profit after tax. However, other UAC members were comfortable with the IASB proposals as long as the description of the items are appropriate. Staff recommendation Staff suggest informing the IASB of the feedback, but do not recommend suggesting the IASB change the proposals, as this was not a suggestion supported by other UAC members. **Question to the Board: Does the Board agree with the staff recommendation?**
Issue 2 – operating, investing and financing not aligned across statements

One webinar participant questioned users' views on the non-alignment of the definitions of operating, investing and financing across the statement of profit or loss and statement of cash flows.

Staff recommendation

Staff did not receive specific feedback on this from the UAC. Nonetheless, Staff consider that the non-alignment could be confusing for both preparers and users, and hence recommend providing feedback to the IASB to consider how the definitions could be aligned, or whether to use alternate titles in one of the statements.

Question to the Board: Does the Board agree with the staff recommendation?

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 the appendix) and Illustrative Examples accompanying the Exposure Draft?

Issue 1 – separate project on Other Comprehensive Income

Some respondents asked whether the IASB would consider the requirements for what is included in OCI as part of this project.

Staff recommendation

Staff recommend feeding this feedback into its response to the forthcoming Agenda Consultation of the IASB.

Question to the Board: Does the Board agree with the staff recommendation?

Issue 2 – some illustrative examples not particularly realistic

One PAP member commented that the illustrative examples appeared to be missing some practical considerations and did not appear to have been developed in consultation with the relevant industry groups.

Staff recommendation

Staff have followed up with the respondent on their feedback and recommend passing on their feedback to the IASB.

Question to the Board: Does the Board agree with the staff recommendation?

Issue 3 – definition of GPFS

Defined terms: the definition of General Purpose Financial Statements in the ED is not consistent with current definition in AASB 101 or the Conceptual Framework. The ED proposes the definition as "Financial reports that provide information about a reporting entity's assets, liabilities, equity, income and expenses." Currently, the definition in AASB 101 states GPFS "are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs."

Staff recommendation

Staff recommend providing feedback to the IASB to reconsider and/or explain why the definition is inconsistent with previous definitions.

Question to the Board: Does the Board agree with the staff recommendation?

Issue 4 – presenting extra columns and IFRIC discussions
One webinar participant noted a 2014 IFRIC discussion about columns in financial statements for sub-entities within the reporting entity, and that such columns would ideally be IFRS-compliant. The participant questioned whether the ED would result in this being clarified. Staff recommendation Staff recommend providing feedback to the IASB to consider the interaction between the referred-to IFRIC discussion and the proposals.

APPENDIX B: SUMMARY OF WRITTEN RESPONSES FOR EACH QUESTION – Australian-specific SMCs

SMC 1 Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

(a) not-for-profit entities;

(b) public sector entities, including GAAP/GFS implications;

No specific feedback received to date on this question

SMC 2 Whether there are any signification inconsistencies or other issues between the proposals and the requirements of ASIC RG 230 Disclosing non-IFRS financial information that should be addressed by any resulting standard;

No specific feedback received to date on this question. **Staff are liaising closely with ASIC to discuss any implications and the way forward for RG 230 if this .**

SMC 3 whether, overall, the proposals would result in financial statements that would be useful to users;

No specific feedback received to date on this question

SMC 4 Whether the proposals are in the best interest of the Australian economy

No specific feedback received to date on this question

SMC 5 Whether the proposals are auditable, or whether they would give rise to any auditing or assurance challenges

Some PAP members commented that the new definitions and concepts used in the ED might take the most work for auditors to agree to the judgements and interpretations of preparers. The definition of integral associates and joint ventures was provided as an example. Staff recommendation Staff will discuss any feedback with the AUASB staff and provide an update to the Board at its next meeting.

SMC 6 Unless already provided in response to specific matters for comment 1 – 5 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

No specific feedback received to date on this question