

Peter Wells
Professor
Accounting Discipline Group
15 Broadway, Ultimo NSW 2007

PO Box 123
Broadway
NSW 2007 Australia
www.uts.edu.au

T: +61 2 9514 3581
Peter.Wells@uts.edu.au

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IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

AASB
Level 14
530 Collins Street
Melbourne VIC 3000
Australia

ED 298 General Presentation and Disclosure

I welcome this opportunity to make a submission on ED 298 and would like to comment as follows on the specific questions asked.

1. I am in general agreement with the requirement to present an additional subtotal for operating profit or loss as this will :
 - a. Increase consistency in the subtotals used
 - b. Increase consistency in the determination of inclusions (and exclusions) within the subtotal
 - c. Make it more difficult to sustain MPM that are broadly similar but more opportunistically determined.

2. I can understand the approach adopted of defining investing and financing activities, and identifying operating activities simply as the residual. However, this approach has a number of weaknesses, including:
 - a. Incomplete consideration of the nature of operating activities, and this becomes readily apparent in the categorisation of interest for certain businesses
 - b. Excessive complexity, including the requirement for extensive modification of items included in investing and financing. For example:
 - i. inclusion in operating activities of interest revenues and expenses for firms providing customer finance (which is only necessary because operations were not properly defined and requirement for judgement not acknowledged)
 - ii. treatment of asset impairments relating to assets in different categories
 - iii. treatment of gains and losses on hedging transactions.

A preferable treatment would have been to

 - a. Properly define operating activities
 - b. Require firms to categorise all income and expenses as operating, investing or financing and having regard to the definitions and business operations, and do so in

a consistent manner to ensure articulation. Not much different in terms of outcome but much more simply expressed.

3. While I agree with the essential requirement, I find the manner in which this is done excessively complex. Refer to answer at 2.
4. While I agree with the essential requirement, I find the manner in which this is addressed excessively complex. Refer to answer 2 above.
5. I agree with the essential requirement, but find the manner in which this is addressed excessively complex, and if this was expressed having regard to articulation of items recognised in the financial statements this could have been expressed more simply and intuitively.
9. Having regard to the decisions being made with information in financial reports, and in particular determining future performance, emphasis should be given to the nature of expenses as there is a significant empirical literature identifying differences in persistence across different expenses. However, decision making is not limited to this and the evaluation of past performance is also an important use of accounting information. In this context information on a function basis would also be relevant. Hence, disclosure on this basis should also be prescribed. An interesting question is the best format for this to be disclosed. One of my major concerns with the information in financial reports is how it articulates, and maybe addressing the question of functional presentation would be best addressed having regard to *IFRS 8 Operating Segments*. This is also addressing the issue of how segment disclosures articulate into the statement of profit or loss.
10. The Australian experience with Abnormal and Extraordinary Items makes me particularly cautious on these types of disclosures. They may however aid in the evaluation of amounts in the statement of profit and loss. For this to occur the disclosures would need to be extended to more fully capture how they articulate with all items in the statement of profit or loss. In essence this would be a reporting of unusual items and their impact on all line items in the statement of profit or loss. For example, the tax consequences of unusual operating expenses.
11. In Australia there is significant experience of this issue with RG 230 which seems to work well. More credibility might be attached to MPMs if it was disclosed whether this measure was used in management compensation contracts, and if it was subject to modification what the modifications were. This might act as a constraint on some of the more opportunistic MPMs.
13. The different classification of interest receipts and payments is potentially problematic if they both arise from the operation of the cash management function - Financing. Furthermore, this is inconsistent with the treatment in the statement of profit or loss. Insufficient regard has been had to articulation.

14. If I have one overarching comment regarding these proposed amendments it is that insufficient regard has been had to how information articulates across the statements of profit or loss and other comprehensive income, financial position and cash flows, together with the notes. Interestingly, the importance of this was identified by the IASB in a discussion paper 'Preliminary Views on Financial Statement Presentation' issued in 2008. This identifies a mechanism for simplifying many aspects of the amendments, articulation and consistent treatment. While it is acknowledged that it may not be possible to address presentation in all statements concurrently, it should be recognised that sophisticated users of financial statements reformat them to facilitate meaningful analysis. This is constrained by the ability to adjust consistently across the statements, hence the importance of articulation. Such reformatting is also facilitated by digital financial reporting which the IAASB encourages with its IFRS Taxonomy. Hence disclosure to facilitate this is important.

Yours faithfully

