IFRS Newsletter
Update on accounting standards in Canada

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Introduction

While 2020 has required a lot of work on the accounting impact of the public health crisis, most companies are now done with the upheaval resulting from the implementation of new standards, although IFRS 16 remains an enforcement priority.

In this issue of our IFRS Newsletter, we look at two draft documents published recently by the IASB: the Exposure Draft on accounting for a lease liability following a sale and leaseback transaction with variable payments, and the Discussion Paper on business combinations under common control.

In this number, we also present the issues identified by the IASB in its post-implementation review of the “new” consolidation Standards, which have now been in effect for several years and which have given rise to various questions regarding practical application, and a summary of the feedback received by the Board regarding its Exposure Draft on *General Presentation and Disclosures*. The forthcoming redeliberations will undoubtedly require a lot of time and effort during 2021... and maybe beyond!

COVID-19: External resources related to reporting and audit

As a reminder, CPA Canada has compiled a summary of external publications to help you understand the potential financial reporting and audit implications of the COVID-19 pandemic. To have access, click on the following link.

Effective dates for new IFRS standards

Consult the summary of recently issued pronouncements, prepared for information purposes only by CPA Canada's Accounting Standards Board, by clicking on this link.

IFRS Highlights

Lease liability in a sale and leaseback: IASB publishes Exposure Draft

Last November 27, the IASB published Exposure Draft ED/2020/4, entitled "Lease Liability in a Sale and Leaseback", which aims to clarify how a seller-lessee should apply the requirements of IFRS 16 for subsequent measurement of leases arising from sale and leaseback transactions.

This Exposure Draft follows an Agenda Decision from the IFRIC on the accounting treatment of sale and leaseback transactions with variable payments, which was published in its June 2020 IFRIC Update. The IASB announced in May 2020 that it would publish an Exposure Draft on the topic.

The Board's proposed amendments to IFRS 16 primarily focus on clarifying how paragraphs 36 to 38 of the Standard should be applied to subsequent measurement of lease liabilities resulting from sale and leaseback transactions with variable payments.

More specifically, the Exposure Draft proposes that, in a sale and leaseback transaction, the seller-lessee should:

- Determine the proportion of the transferred asset that relates to the retained right-of-use asset (i.e., the right of use that the seller-lessee retains through the lease) by comparing (a) the present value of expected payments for the lease (including those that are variable), and (b) the fair value of the transferred asset at the date of the transaction;
- Recognize a lease liability at an amount corresponding to the present value of the expected lease payments (including any expected variable lease payments);
- Subsequently measure the lease liability by reducing its carrying amount to reflect the expected lease payments—but without remeasuring it to reflect any change in future variable lease payments—and recognize any (positive or negative) difference between actual and expected lease payments in profit or loss.

As regards to the transition requirements, the IASB proposes that the requirements should be applied retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, unless this is not possible without the use of hindsight. If retrospective application is only possible with the use of hindsight, the seller-lessee should determine the lease payments at the beginning of the period in which it first applies the amendment.

The IASB is also planning to add two new illustrative examples to IFRS 16.

The Exposure Draft is available by clicking on this link, and the comment period is open until March 29, 2021.

Discussion Paper on business combinations under common control

Last November 30, the IASB published a Discussion Paper on business combinations under common control, focusing on mergers and acquisitions involving entities within the same group.

Indeed, IFRS 3, *Business Combinations* excludes these transactions from its scope, despite the fact that they are common in practice.

Aiming to reduce diversity in practice

In the absence of IFRS requirements on this topic, companies end up presenting similar transactions in various ways: some use an approach based on the fair value of the acquired business (the acquisition method), while others use an approach based on its book value. Through this Discussion Paper, the Board is seeking to reduce this diversity in practice and thus to improve the transparency and comparability of financial reporting on these transactions.

What the IASB is proposing

Rather than imposing a single method (acquisition method or book-value method) for all such transactions, the IASB is proposing that the chosen approach should depend on the characteristics of the transaction. If the transaction does not affect the non-controlling shareholders of the acquired company, the book-value method should be used.

What the IASB is expecting from the consultation

In the Discussion Paper, the Board seeks feedback on when each measurement method should be applied, how these methods should be applied, and the disclosure requirements.

The comment period closes on September 1, 2021.

The press release and all the documents published by the IASB are available by clicking on this link.

Taking climate-related matters into account in IFRS financial statements

In an environment of increasingly rapid development of standards for non-financial reporting, the IFRS Foundation published an educational document in November 2020. It reminds issuers that although IFRS standards do not explicitly refer to climate-related matters, they nonetheless require such matters to be taken into account if their impact on the financial statements as a whole is material. The Foundation draws on the concept of materiality as recently redefined in IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. IFRS Practice Statement 2: *Making Materiality Judgements* provides useful practical guidance on the topic. The Foundation also notes that companies frequently have to make use of judgment to assess whether information is material when preparing their IFRS financial statements.

In the educational material published last November, the Foundation provides a non-exhaustive list of provisions in IFRSs that may require entities to reflect the impact of climate-related matters (and of other emerging risks) in their financial statements, if this impact is material for the entity in question. These provisions are likely to apply if significant use of judgment is made in determining carrying amounts, estimates and/or disclosures required in the notes.

The IFRS Foundation also emphasizes that IAS 1 requires issuers to consider whether they need to provide additional information, beyond what is specified in the standards, if investors would need this information in order to understand the impact of climate-related matters on a company's financial position and performance.

The publication is available by clicking on this link.

IASB adds post-implementation review of part of IFRS 9 to its work plan

At its November 18, 2020 meeting, the IASB reached a number of decisions on the post-implementation reviews of IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers*.

Post-implementation reviews of IFRS 9

The IASB validated three post-implementation reviews, one for each phase of IFRS 9, at its October meeting.

The post-implementation review on the classification and measurement phase was added to the IASB's work plan in November. Work will begin as soon as possible.

The Board will consider the start dates for the post-implementation reviews of the impairment and hedge accounting phases in the second half of 2021.

Post-implementation review of IFRS 15

The start date of the IFRS 15 post-implementation review will also be discussed in the second half of 2021.

IFRIC publishes Agenda Decision on Supply Chain Financing Arrangements – Reverse Factoring

On December 14, 2020, the IFRIC published an Agenda Decision on Supply Chain Financing Arrangements – Reverse Factoring, which is available by clicking on this link.

This final decision contains some slight modifications/clarifications to the tentative Agenda Decision published last June, but the key points remain the same.

IFRSIC publishes tentative Agenda Decision on Attributing Benefit to Periods of Service

A tentative Agenda Decision by the IFRIC, published in the December 2020 IFRIC Update, is likely to attract a lot of feedback especially when it runs counter to current practice.

The comment period was open until February 15, 2021. A summary of the decision follows.

The request put to the Committee related to the periods of service to which an entity attributes benefit for a defined benefit plan.

The request concerned a defined benefit plan under which employees are entitled to a lump sum benefit payment when they reach retirement age, provided that they are employed by the entity at that point. The amount of the payment depends on the employee's length of service but is capped at a set number of consecutive years of service.

In the fact pattern submitted to the IFRIC, the employees are not entitled to a retirement benefit from the plan until they reach the retirement age of 62, provided that they are still employed by the entity at this point. The amount of the benefit is one month of final salary for each consecutive year of service prior to retirement. It is capped at 16 years of service (in other words, the maximum retirement benefit to which an employee may be entitled is 16 months of their final salary).

The request asked which periods of service the benefits should be attributed to if the employee has rendered service to the entity for more than 16 consecutive years. In other words, should these benefits be attributed to the last 16 consecutive years of service immediately prior to retirement, or should they be attributed to the entire length of service, i.e., more than 16 years?

At its December meeting, the IFRIC considered the request and tentatively decided that:

- If an employee joins the entity before the age of 46 (that is, more than 16 years before retirement age), any service rendered by the employee before the age of 46 does not reduce the amount of future service that must be rendered over each successive period before they become entitled to the retirement benefit;
- Service rendered before the age of 46 does not affect the timing or amount of retirement benefit. As a result, the obligation to pay the retirement benefit only arises at the age of 46;
- Each year of service rendered between the ages of 46 and 62 gives rise to additional benefits as the service provided in each period reduces the amount of future service that an employee must render in order to be entitled to the retirement benefit;
- An employee will receive no material amount of additional benefits after the age of 62, irrespective of the age at which they joined the entity, so the entity only attributes retirement benefits until the age of 62.

Based on the provisions of IAS 19 (paragraphs 70 to 74 of IAS 19 and example 2, illustrating paragraph 73), the Committee therefore tentatively decided that the entity should attribute retirement benefits to each year in which the employee renders service between the ages of 46 and 62. The IFRIC tentatively decided not to add this issue to its work plan.

FICE project gathers speed!

At its December 2020 meeting, the IASB decided to add the Financial Instruments with Characteristics of Equity (FICE) project to its standard-setting agenda and to explore whether to make amendments to IAS 32, which covers the presentation of financial instruments.

The objective of any such amendments would be to clarify the principles set out in the Standard, to address issues around practical application, and to improve disclosures in the notes.

The IASB published a Discussion Paper as part of its research project on the topic in June 2018. The Discussion Paper received a lot of feedback.

It is not yet known when the IASB will publish an Exposure Draft of the proposed amendments.

A Closer Look

IASB consultation relating to the post-implementation review of IFRS 10, IFRS 11 and IFRS 12

On December 18, 2020, the IASB published a Request for Information relating to the post-implementation review of the three international Standards on consolidation: IFRS 10, *Consolidated Financial Statements*, IFRS 11, J*oint Arrangements* and IFRS 12, *Disclosures of Interests in Other Entities*. The Request for Information is available by clicking on this link.

The IFRS Foundation's procedures require the post-implementation review of a Standard to begin three years after its first application. It is carried out in two stages. The first stage of the current post-implementation review, consisted of the targeted consultation of around twenty groups of analysts, standard-setters, preparers of financial statements, and regulators and was completed in April 2020. It was used to identify the specific application issues arising from these Standards. The second stage opens with this public consultation in the form of a Request for Information. At the end of this procedure, the IASB will assess whether it is necessary to amend these Standards on consolidation.

After outlining the origin of these Standards, we will present the issues expected to emerge from the consultation for each of the IFRSs concerned.

You can contribute to this IASB consultation until May 10, 2021.

Origin of the Standards on consolidation

The current Standards on consolidation were published by the IASB in 2011 for first application no later than January 1, 2014 (deferred by a year from the date planned by the IASB). They have replaced IAS 27, *Consolidated and Separate Financial Statements*, IAS 31, *Interests in Joint Ventures*, SIC-12, *Consolidation—Special Purpose Entities*, SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers* and renamed IAS 28, *Investments in Associates as Investments in Associates and Joint Ventures* after amendment.

IFRS 10 introduced a single basis for consolidation based on the concept of control, regardless of the legal form of the entities in scope of consolidation, or the nature of the links that join them (voting rights or other contractual agreements).

IFRS 11 focuses on the rights and obligations of the joint arrangement, rather than its legal form, now distinguishing joint operations and joint ventures. The option of proportionate consolidation was removed, joint ventures now being mandatorily accounted for using the equity method.

Finally, IFRS 12 brought together all the disclosure requirements for entities included in the scope of consolidation, joint ventures and associates, and non-consolidated structured entities.

This revision of the consolidation Standards took place against the background of (i) the 2008 financial crisis and the desire to limit off-balance sheet activities, and (ii) the process of convergence with the FASB (the American standard-setter), which partly justified the elimination of the proportionate consolidation method, despite its widespread application in Canada.

Since their first application, these Standards have raised a number of questions leading to targeted amendments (on the transition guidance, the scope of the consolidation exception for investment entities, and acquisition of interests in joint operations in which the activity constitutes a business). The answer to one of these questions, on the interactions between IFRS 10 and IAS 28 (see the amendment on the *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*), has been deferred indefinitely. However, it was agreed to consider it again as part of the IAS 28 research project.

Although related to the application of IFRS 11 and IFRS 12, the equity method (provided for by IAS 28) is not included in the scope of the present review.

This is because in October 2020, the IASB decided to devote a separate research project to IAS 28, conducted in parallel to this review but limited to considering practical solutions to the application problems raised by the equity method (addressed inter alia by the IFRIC). However, the IASB has yet to determine the practical arrangements for this project.

The Request for Information contains eight questions of which four relate to IFRS 10, three to IFRS 11 and one to IFRS 12. A final question allows stakeholders to identify any topics not addressed by the post-implementation review but which deserve to be brought to the IASB's attention.

Questions raised by the application of IFRS 10

Applying the control principle

The first phase of targeted consultations has confirmed that there is widespread support for the principle, introduced by IFRS 10, that consolidation must be based solely on the concept of control.

The single definition provided by the Standard is that an investor controls an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over that entity.

According to IFRS 10, an investor controls an investee if, and only if, the investor has all the following: (a) power over the investee (b) exposure, or rights, to variable returns from its involvement with the investee; (c) the ability to use its power over the investee to affect the amount of the investor's returns.

A number of difficulties in exercising judgment in light of this definition, and the conditions to be met in practice in order to reach a conclusion as to control, had been identified from the outset; the consultation therefore aimed to find practical solutions to facilitate the application of IFRS 10.

Condition 1: power over the investee

An investor has power over the investee if the investor has existing rights conferring the current ability to direct the "relevant activities" of the investee, namely the activities that significantly affect the investee's returns.

It can be difficult to identify the "relevant activities" when two or more investors each have rights over different activities. In this case, the Standard requires the investor to determine the relevant activities that most significantly affect the investee's returns. The question 2(a) aims to gather information about the situations in which it is particularly difficult to identify the relevant activities, and how frequently these situations arise. It also intends to establish what additional relevant factors can be taken into account when exercising judgment.

The Standard distinguishes protective rights from substantive rights. Only substantive rights confer power. But it can be challenging, for example, to establish the purely "protective" rights of a franchisor when laws or contractual agreements limit the rights of any other party over the franchise. This distinction can also be complex when reassessing control, for example when share options become exercisable under certain market conditions. The question 2(b) aims to identify the extent to which the factors put forward by the Standard enable an investor to determine if rights are protective rights only, or whether they are (or have ceased to be) "substantive".

It can also be difficult to demonstrate power when an investor has less than a majority of the voting rights and the other shareholdings are widely dispersed. The question 2(c) aims to assess (i) the extent to which the facts and circumstances identified by the Standard are relevant in these situations, (ii) how frequently these situations arise, and (iii) if the cost of obtaining the information is significant. At this stage, and as noted in the post-implementation review, the IASB has refused to define quantitative thresholds, deferring to the exercise of judgment.

Condition 3: link between power and variable returns

IFRS 10 developed the distinction between agent and principal when power is delegated in an entity. In practice, even where the condition of power is fulfilled, it is not always easy to know to what extent the decision maker acts on its own behalf or on behalf of another party.

For example, if a decision maker’s remuneration depends in part on future events and is therefore exposed to variable returns, is this consistent with acting on behalf of a third party? The question 3(a) asked stakeholders to identify examples of such situations.

The analysis may also be complex in the case of a de facto agency relationship, i.e., in the absence of a contractual arrangement (question 3(b)).

Defining an "investment entity"

According to IFRS 10, an investment entity cannot consolidate its investments but should measure them at fair value through profit or loss. Nevertheless, it must consolidate its subsidiaries which (i) are not themselves investment entities and (ii) whose main activity is providing services.

The definition of an investment entity was added by an amendment to IFRS 10. Its characteristics are described in terms of its business purpose, its exit strategy and the way it measures the fair value of its investments, rather than its investment structure. The question 4(a) seeks examples of situations where these characteristics do not allow a sufficiently faithful or consistent application of the Standard.

The question 4(b) also asks whether the fair value measurement of subsidiaries that themselves are investment entities results in a loss of information, as compared with consolidation. In particular, this could be the case when the investee provides services or holds assets/liabilities other than investments (e.g., cash balances and liabilities).

Accounting requirements

Accounting for change in the relationship between an investor and an investee

Some stakeholders said IFRSs should provide greater detail on how to account for a transaction, an event or circumstances that alter the relationship between an investor and the entity in which it has invested, and which was its subsidiary.

One example is a transaction in which a parent loses control of a subsidiary but retains an interest in a joint operation under IFRS 11. Though the IASB amended IFRS 11 in 2014 to add requirements on the acquisition of interests in joint operations, IFRSs do not deal exhaustively with all those situations that alter the relationship between an investor and an investee.

Further, some stakeholders disagreed with the requirement to remeasure a retained interest at fair value after a loss of control, since they take the view that these interests, taken in isolation, have not changed. However, the IASB has decided that the loss of control is a sufficiently significant economic event to justify remeasurement when a new Standard applies (IFRS 9, IFRS 10, IFRS 11 or IAS 28).

The question 5(a) asks whether "discontinuities" between the Standards are frequent and problematic when the relationship between the parent and its subsidiary is altered, how an entity accounts for these situations, and if, in circumstances that result in a loss of control, remeasuring the retained interest at fair value provides relevant (i.e., useful) information.

Partial acquisition of a subsidiary that does not constitute a business

Two accounting practices exist for the partial acquisition of a subsidiary that does not constitute a business as defined by IFRS 3: either (i) the assets and liabilities acquired are accounted for by allocating the consideration paid based on their relative fair values, without identifying non-controlling interests or (ii) the acquisition method in IFRS 3 is nevertheless applied, meaning that all the assets and liabilities are accounted for, including the recognition of non-controlling interests.

The question 5(b) seeks to establish which of these two practices is most common, and how often these transactions occur.

Joint arrangements (IFRS 11)

Collaborative arrangements without joint control do not meet the definition of a joint arrangement in IFRS 11. These arrangements must be accounted for by the equity method (in accordance with IAS 28) if there is significant influence, but some stakeholders said that the accounting treatment prescribed by IFRS 11 for joint operations might be more relevant in some cases.

The question 6 aims to identify these situations and asks how frequent they are, what accounting treatment is applied and how appropriate it is.

The question 7 also seeks to understand how frequently a party to a joint arrangement needs to consider the "other facts and circumstances", as described in IFRS 11 (after having considered the legal form and the terms of the contractual arrangement, if the joint arrangement was structured through a separate vehicle), in order to determine the classification of a joint arrangement as either a joint operation or a joint venture. The IASB would also like to know whether the Standard, which has since been supplemented by the guidance of the IFRIC, is sufficient to allow an entity to assess these "other facts and circumstances".

Furthermore, the accounting treatment of joint operations can be complex in practice, for example, when the joint operator's share of output purchased differs from its share of ownership interest in the joint operation. This question was brought to the attention of the IFRIC (see IFRIC Update March 2015).

Another complex case relates to the amount and the nature of the assets and liabilities that the joint operator should recognize in light of agreements entered into on behalf of the joint arrangement, when it has a right to recover from other joint operators (see IFRIC Update March 2019).

On these two topics, the question 8 seeks to identify the situations in which the Standard sets requirements that do not enable a joint operator to report its assets, liabilities, revenue and expenses in a relevant and faithful manner.

Need for additional disclosures (IFRS 12)

Stakeholders' opinions differ as to the disclosures required for subsidiaries with material non-controlling interests. Some ask for additional information regarding the breakdown of non-controlling interests by subsidiary, the proportionate share of operating cash flows attributable to material non-controlling interests, restrictions on paying dividends, their tax consequences and the subordination of debt in subsidiaries, and the disaggregation of assets and liabilities held by subsidiaries with material non-controlling interests, associates and joint ventures.

Other stakeholders found some of the requirements excessive. For example, some questioned the need to provide information about subsidiaries with significant non-controlling interests, because the information about the assets and liabilities controlled is already available through consolidation.

Finally, structured entities that are not controlled by the entity can sometimes be hard to identify. The information to be disclosed can also be difficult to obtain.

The consultation question 9 tries to assess whether the Standard effectively assists entities to determine the right level of detail for their disclosures.

Key points to remember

- After an initial round of targeted consultations, the IASB has just launched the second phase of the post-implementation review of the consolidation Standards (IFRS 10, IFRS 11 and IFRS 12) in a public consultation on eight application issues. Contributions can be submitted until May 10, 2021. A separate, but parallel, research project will consider the equity method (IAS 28).
- Among the application difficulties raised by IFRS 10, *Consolidated Financial Statements*, the consultation focuses on:
  - Evaluation of the conditions for assessing the existence of control, including (i) the assessment of "power" when several investors each have rights over different relevant activities, or when the distinction between protective and substantive rights is complex, or when an investor has less than a majority of the voting rights and the other shareholdings are widely dispersed; (ii) assessment of the status of a decision maker (i.e., principal or agent) where remuneration is dependent on future events, or where there is an *existing* agency relationship;
  - The consolidation exception for interests held by an investment entity: the principles defining an investment entity can be difficult to apply, and the information may be less relevant than in the case of consolidation;
  - The absence of an explicit accounting treatment for situations in which the relationship between the parent and its subsidiary alters, leading to loss of control of a subsidiary, and uncertainties about how to consolidate a subsidiary which does not constitute a business.
- For IFRS 11, *Joint Arrangements*, the questions concern:
  - The relevance of the equity method to collaborative arrangements without joint control;
  - The complexity of determining whether a joint arrangement is a joint operation or a joint venture in light of the "other facts and circumstances";
  - The complexity of the accounting treatment of joint operations (i) when the share of ownership differs from the share of revenue or (ii) where a joint operator has entered into agreements on behalf of the joint operation.
- The "disclosures of interests in other entities" required by IFRS 12 are sometimes seen as too detailed or, on the contrary, as inadequate. Finding the right balance is difficult, especially for disclosures on significant non-controlling interests.

A Closer Look

Summary of feedback received by the IASB on its Exposure Draft, *General Presentation and Disclosures*

At its December 2020 meeting, the IASB reviewed the Staff Papers (available by clicking on this link) summarizing the feedback received from stakeholders on the Exposure Draft, *General Presentation and Disclosures*, for which the comment period ended on September 30, 2020.

Over the coming months, the IASB will have to analyze the feedback received in 215 comment letters on the proposals set out in the Exposure Draft, which was published a year ago. Feedback was also received via various outreach events that were organized by the IASB during 2020, despite the pandemic.

The objective set out in the Exposure Draft is to eventually replace IAS 1, *Presentation of Financial Statements*, although many of the provisions of the current Standard will be carried over to the new one. The Exposure Draft forms part of the *Primary Financial Statements* project, which aims to make information more useful to users of financial statements and to improve comparability of financial statements over time and between entities.

Before we turn to the key messages on the proposals in the Exposure Draft identified by the staff, we should clarify that this article retains the terms and definitions used by the staff in order to provide the most accurate picture possible of the relative weights of different points of view. Thus, for the purposes of this article:

- "Almost all" means all respondents except a very small minority;
- "Most" means a large majority, with more than a few exceptions;
- "Many" means a small majority or a large minority;
- "Some" means a small minority, but more than a few;
- "A few" means a very small minority.

Subtotals and categories – general model

Most respondents agreed with the proposals to specify mandatory subtotals (operating profit or loss, operating profit or loss and income and expenses from integral associates and joint ventures, profit or loss before financing and income tax) and categories (operating, investing, and financing) for presenting income and expenses in the statement of profit or loss. They felt that this information would be useful and would improve comparability.

However, some respondents said that additional guidance would be necessary, particularly on the definitions of the categories and the concept of "main business activities", which would be used to identify the income and expenses to be classified in the "operating" category.

Many respondents also expressed concerns about:

- The proposed classification of foreign exchange differences (i.e., in the same category of the statement of profit or loss as the income and expenses relating to the items that gave rise to the foreign exchange differences) and of fair value gains and losses on derivatives and hedging instruments: they were not convinced that the benefits of these proposals would outweigh the costs;

- The proposed labels for the categories in the statement of profit or loss: the fact that these labels are the same as those used in the statement of cash flows could be confusing, given that the content of the categories could be different.

Finally, some respondents expressed concerns about:

- The fact that the "operating" category is defined as a residual category, primarily because these respondents did not agree that some income and expenses that are unusual, volatile or that do not arise from an entity's main business activities should be included in the operating profit;
- The proposed classification of income and expenses related to cash and cash equivalents, or to other investments held as part of treasury activities.

Subtotals and categories – entities with particular main business activities

Most respondents agreed with the proposals in the Exposure Draft that the following should be included in the "operating" category (rather than "investing" or "financing"):

- Income and expenses arising from investments made in the course of an entity's main business activities (e.g., if the entity is a real estate investment company);
- Income and expenses arising from financing activities, and income and expenses related to cash and cash equivalents, if providing financing to customers is one of the entity's main business activities.

However, many respondents said they disagreed with the choice of accounting policy proposed for entities that provide financing to customers as a main business activity. The Exposure Draft offers preparers the option of presenting all, or only some, income and expenses arising from financing activities and from cash and cash equivalents in the "operating" category. Some respondents suggested that the choice of accounting policy should be replaced by a practical expedient in order to improve comparability between entities.

Subtotals and categories – integral and non-integral associates and joint ventures

The comment letters confirmed the IASB's initial findings from outreach events, namely that there is a diverse range of opinions regarding various aspects of the proposals in the Exposure Draft. This is perhaps unsurprising given that the topic is particularly complex, and that the IASB showed some difficulty in settling on a solution. Many respondents did not express an overall view on the IASB's proposals, but of those who did, more disagreed with the proposals than agreed.

Most respondents expressed concerns about:

- The proposal to separately identify integral associates and joint ventures;
- The proposed definitions of integral associates and joint ventures (i.e., companies accounted for using the equity method that are integral to the main business activities of an entity and consequently do not generate a return individually and largely independently of the other assets of the entity) and of non-integral associates and joint ventures;
- The separate presentation of amounts relating to these investments in the primary financial statements.

Overall, stakeholders were not very supportive of the IASB's proposals, although the staff identified some geographical differences and differences between various types of stakeholders. Generally speaking, preparers and users of financial statements tended to disagree with the proposals, although most users nonetheless agreed that the share of profit or loss from equity-accounted companies should be excluded from operating profit.

Disaggregation – analysis of operating expenses

Most respondents commented on the proposals relating to the presentation of operating expenses in the statement of profit or loss.

However, the stakeholders had mixed views:

- Many respondents (primarily accounting bodies and standard-setters) agreed and some respondents (primarily preparers and their representative bodies) disagreed with the proposal to require an entity to choose its method for analyzing operating expenses (i.e., by nature or by function), depending on which will provide the most useful information to users in the statement of profit or loss;
- Many respondents (primarily users, accounting bodies and standard-setters) agreed and many others (primarily preparers and their representative bodies, plus a few users) disagreed with the proposal to prohibit an entity from mixing the two methods of analyzing operating expenses in the statement of profit or loss;
- Many respondents (primarily users, standard-setters and accounting bodies) agreed and many others (primarily preparers and their representative bodies) disagreed with the proposal to require an entity to provide an analysis of operating expenses by nature in the notes if it has presented an analysis by function in the statement of profit or loss.

Disaggregation – unusual income and expenses

Most respondents (including almost all users of financial statements) agreed that the IASB should define "unusual" items.

However, most respondents, including some users, disagreed with the definition proposed by the IASB in the Exposure Draft (which was as follows: "Unusual income and expenses are income and expenses with limited predictive value. Income and expenses have limited predictive value when it is reasonable to expect that income or expenses that are similar in type and amount will not arise for several future annual reporting periods.") These respondents made a range of different suggestions for changing the definition. There was, however, no clear consensus on what an alternative definition of "unusual" items should be.

Finally, respondents were split evenly on whether specific disclosures on these unusual items should be presented in a separate note to the financial statements.

Management performance measures

Many respondents, including nearly all users, agreed with the IASB's proposal to require entities to disclose information on management performance measures in the notes. These respondents felt that this information would be useful and would bring needed discipline and transparency to this aspect of financial reporting, which is currently covered by different rules in different jurisdictions, where such rules exist (e.g., in Europe, ESMA's guidelines on alternative performance measures).

However, most respondents who agreed with the proposal nonetheless expressed concerns regarding the definition of management performance measures.

The two main concerns were as follows:

- Requiring disclosures on all management performance measures used in "public communications outside financial statements" is too wide in scope. Most respondents who expressed this concern requested additional guidance or suggested a narrower definition of "public communications".
- Management performance measures are currently defined rather narrowly (only certain subtotals of income and expenses). These respondents felt that disclosures in the notes on other measures would be equally useful. Most respondents who raised this point wanted the definition of management performance measures to be expanded to cover alternative performance measures relating to the statement of financial position and the statement of cash flows.

In contrast, some respondents disagreed that disclosures on management performance measures should be presented in the notes, for the following reasons:

- They felt that non-GAAP measures are either outside the scope of financial statements, or do not meet the objective of financial statements as set out in IAS 1 or in the Exposure Draft;
- Including disclosures on management performance measures in the notes would increase the cost of preparing financial statements;
- It may be difficult to audit these measures.

Most respondents agreed with the majority of disclosures required in a separate note to the financial statements under the IASB's proposals. In particular, many respondents, including all users, felt that the requirement to reconcile management performance measures with the most directly comparable subtotal specified in IFRS would improve the transparency and usefulness of information about these measures.

Unsurprisingly, however, there were mixed reactions to the proposal to require the disclosure of the tax and non-controlling interest effects of each item reconciled as described above. While many users agreed with this disclosure requirement, other respondents felt that:

- This information would be costly to obtain;
- This cost would be higher than the cost of disclosures required in the notes on items presented in the statement of profit or loss;
- This disclosure requirement conflicts with the idea that management performance measures should communicate to users the management view on an aspect of the entity's financial performance. In practice, information about tax and non-controlling interest effects is not always used by Management.

Most respondents, including most users, agreed with the IASB's decision not to define EBITDA given that there is not currently a consensus on what EBITDA represents. Its use also varies widely from one entity to another and it is not applicable to some industries.

Redeliberations are likely to take a while...

At this point in time, the IASB has not been asked to make any decisions regarding the future direction of the project. However, some Board members have already stated, at the December meeting, that they are not in favour of publishing another Exposure Draft.

The IASB will set out a schedule for redeliberations of the proposals in the Exposure Draft at its January 2021 meeting. The redeliberations are likely to last for the whole year at least, during which a new Chair and some new Board members will begin their terms on July 1, 2021. This may have an impact on the final direction of the project, which is a very significant one for preparers and users of financial statements.

Key points to remember

- A large number of stakeholders submitted feedback on the Exposure Draft, *General Presentation and Disclosures*, for which the comment period ended on September 30, 2020.
- Redeliberations will start in 2021 and are likely to take several months.
- The project content and direction could change, given that a new Chair and some new Board members will begin their terms on July 1, 2021.
- A number of key issues need to be redeliberated:
  - The definitions of categories in the statement of profit or loss;
  - The distinction between integral and non-integral equity-accounted entities;
  - The definition of "unusual" income and expenses.
  - The scope of "management performance measures";
  - Disclosures required in the notes on operating expenses that are not presented by nature in the statement of profit or loss; etc;
- This project has great significance for preparers and users of financial statements: watch this space!

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