

**Martin Boer**  
*Director*  
Regulatory Affairs

[September 25, 2020]

Mr. Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
7 Westferry Circus  
Canary Wharf, London E14 4HD  
United Kingdom



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

Dear Mr. Hoogervorst:

1. The Institute of International Finance (IIF), via its IIF Senior Accounting Group (SAG), welcomes the opportunity to comment on the Exposure Draft ED/2019/7 General Presentation and Disclosures.
2. Financial reporting is a key instrument for companies to communicate relevant financial information to their investors and other stakeholders. Therefore, we understand the importance that regulators, standard setters, and market participants work together to further improve comparability and transparency of companies' performance reporting.
3. Although we appreciate the International Accounting Standards Board (IASB) initiative to improve how information is communicated in financial statements as part of their *Primary Financial Statements* project and their overall work on *Better Communication in Financial Reporting*, we do not believe it will provide more useful information for the banking industry.
4. There are several changes proposed in the Exposure Draft where IIF member firms would like to provide feedback and, in some cases, provide suggestions for additional considerations.
5. Before responding to the specific questions posed in the Exposure Draft, we would like to address a few substantive issues.
6. In general, member firms disagree with the proposal in the Exposure Draft to require financial statements prepared in accordance with International Financial Reporting Standards (IFRS) to have a note disclosing information that is not in accordance with IFRS.

7. Member firms find the proposed definition of 'unusual income and expenses' to be far too restrictive. It should take into consideration the nature of the unusual event and items that will occur over multiple periods.
8. In general, member firms believe that application of the integral versus non-integral distinction will require significant management judgment, which will likely result in inconsistency in approaches taken by preparers in classifying associates and joint ventures as integral versus non-integral.
9. In the Annex, we provide more details and additional answers to some of the specific questions posed in the Exposure Draft.
10. We hope that you will find our comments useful and constructive. If you have any questions, please feel free to contact the undersigned at [mboer@iif.com](mailto:mboer@iif.com) or Stefan Gringel at [sgringel@iif.com](mailto:sgringel@iif.com).

Yours sincerely,

A handwritten signature in grey ink, appearing to read 'M. Boer', with a stylized, flowing script.

Martin Boer  
Director, Regulatory Affairs  
Institute of International Finance (IIF)

## ANNEX

### **Question 1—operating profit or loss**

Paragraph 60(a) of the Exposure Draft proposes that all entities present in the statement of profit or loss a subtotal for operating profit or loss.

*Paragraph BC53 of the Basis for Conclusions describes the Board's reasons for this proposal.*

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

- The introduction of the 'Operating Profit or Loss' subtotal is sensible for entities with significant income and expenses in other categories of the statement of profit or loss (i.e. the 'Financing' and 'Investing' category). For banks, however, this subtotal would be almost redundant since it is expected that items deemed to be 'Financing' and 'Investing' activities will be immaterial and therefore we would expect that the exemption in paragraph 24 will be applied to classify everything in 'Operating.' Hence, the subtotal would not add much value to the statement of profit or loss in the case of a typical bank.
- However, whilst we think the 'Operating Profit or Loss' subtotal would not add value to a bank's Income Statement, we understand it is more useful in other industries and hence do not object to this being introduced.

### **Question 4—the operating category: an entity that provides financing to customers as a main business activity**

Paragraph 51 of the Exposure Draft proposes that an entity that provides financing to customers as a main business activity classify in the operating category either:

- income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or
- all income and expenses from financing activities and all income and expenses from cash and cash equivalents.

*Paragraphs BC62–BC69 of the Basis for Conclusions describe the Board's reasons for the proposals.*

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

- Members agree with the proposal in the Exposure Draft to allow preparers to make a policy choice on whether to include all income and expenses from 'Financing' activities and all income and expenses from cash and cash equivalents in 'Operating' activities as it properly

represents the operating activities of a bank. However, we propose that paragraph 51 and 52 are amended as follows:

- 51. If an entity provides financing to customers as a main business activity, it shall make an accounting policy choice to not classify in the financing category either (see paragraphs B28–B29):*
- (a) all income and expenses from the financing category (as described in paragraph 49) and classify as operating activities; or*
  - (b) disclose which income and expense items from the financing category are included in the operating category and those items classified in the financing category.*
- 52. An entity also includes the following income and expenses in the operating category:*
- (a) ...*

- We are also supportive of the requirement in paragraph 64 to not present the subtotal profit or loss before financing and income tax when an entity elects to present all of its interest income and expense in the ‘Operating’ category.
- Members would prefer if all elements of ‘Financing’ could be reclassified to ‘Operating’ under this election, i.e. to also include the interest income and expenses on other liabilities in the ‘Operating’ section for entities that provide financing to customers as a main business activity. If the interest income and expenses on other liabilities remains in ‘Financing’ it is likely to be an immaterial amount and where that is the case we assume we could follow the guidance in paragraph 24 and present the immaterial amounts within ‘Operating.’
- We also suggest paragraph 48 could be moved into the operating section and amended to:

*“An entity shall classify in the operating category income and expenses specified in paragraphs 47(a)–47(b) generated in the course of its main business activities. An entity shall not classify income and expenses from non-integral associates and joint ventures in the operating category.”*

**Question 7—integral and non-integral associates and joint ventures**

- (a) The proposed new paragraphs 20A–20D of IFRS 12 would define ‘integral associates and joint ventures’ and ‘non-integral associates and joint ventures’; and require an entity to identify them.
- (b) Paragraph 60(b) of the Exposure Draft proposes to require that an entity present in the statement of profit or loss a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures.
- (c) Paragraphs 53, 75(a) and 82(g)–82(h) of the Exposure Draft, the proposed new paragraph 38A of IAS 7 and the proposed new paragraph 20E of IFRS 12 would require an entity to provide information about integral associates and joint ventures separately from non-integral associates and joint ventures.

*Paragraphs BC77–BC89 and BC205–BC213 of the Basis for Conclusions describe the Board’s reasons for these proposals and discuss approaches that were considered but rejected by the Board.*

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

- In general, members believe that the application of the integral versus non-integral distinction will require significant management judgment, which will likely result in inconsistency in approaches taken by preparers in classifying associates and joint ventures as integral versus non-integral.
- An example of the subjectivity involved could be an investment in an entity which performs certain processes which a bank had previously performed ‘in house.’ The bank may make an equity investment into a company and have significant influence through that investment and Board representation. One business of the bank may utilize the service provided by the company which the company provides to a number of banks. In this case, when assessing whether there is a significant interdependency between the bank and the associate under IFRS 12.20D, this example might meet criterion (a) having integrated lines of business, but not meet criterion (c) since the bank could replace the relationship with the associate by utilizing another firm or performing the process in house without causing significant business disruption.
- Therefore, if the IASB decides to retain the requirement to split integral versus non-integral, then additional application guidance and examples will be needed in the final standard.
- Members would also expect entities to move between the categories as the relationships between entities evolve over time which is why there will be an ongoing cost to reassessing the associates/joint ventures. Members question whether the costs of performing such an exercise justifies any benefits received and suggests the IASB removes this requirement in the final standard.

- If the integral/non-integral split was removed then members would prefer the net profit from associates and joint ventures to be a separate caption on the income statement.
- Lastly, members doubt that the distinction between integral versus non-integral adds any value, since IFRS 12 already requires entities to disclose the nature of its relationships with material associates and joint ventures.

**Question 9—analysis of operating expenses**

Paragraphs 68 and B45 of the Exposure Draft propose requirements and application guidance to help an entity to decide whether to present its operating expenses using the nature of expense method or the function of expense method of analysis. Paragraph 72 of the Exposure Draft proposes requiring an entity that provides an analysis of its operating expenses by function in the statement of profit or loss to provide an analysis using the nature of expense method in the notes.

*Paragraphs BC109–BC114 of the Basis for Conclusions describe the Board’s reasons for the proposals.*

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

- Although we can understand that this proposal might offer valuable information for investors analyzing other industries, some members currently utilize the mixed method presentation and have not received any negative feedback or suggestions from investors and therefore prefer to retain the option to use this approach.
- The Exposure Draft should therefore clarify that an entity may use a mixed presentation of its operating expenses when the nature of expense method is the most relevant presentation for some of its main business activities whereas the function of expense method is the most relevant presentation for its other main business activities. In any case, the presentation of its operating expenses should never be dictated by the presentation requirements that apply to one of its main business activities. This is particularly true for conglomerates which may include activities of different natures, some of which may be subject to IFRS standards with prescriptive presentation.

**Question 10—unusual income and expenses**

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

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

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

- Overall, members find this definition is too restrictive and does not take into consideration the type of unusual ‘event’ and the fact that the impact of the event may be realized over multiple periods. The current definition is basically restricting the category to one-off items.
- We believe the definition should take into consideration items that are not helpful in analyzing recurring income and expense and that these items may not be incurred solely in one quarter or one annual period (e.g. restructuring costs, merger and acquisition related costs, divestiture related costs, litigation expenses) that may be incurred in more than one quarter or could be in multiple quarters that cross over a year end (e.g. between the months of September to March).

**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.

- In general, members disagree with the proposal in the Exposure Draft to require financial statements prepared in accordance with IFRS to have a note disclosing information that is not in accordance with IFRS. We believe such matters are best addressed through listing rule requirements, which are better able to address all of a company’s public communications, than duplicate some of these requirements in the financial statements. We therefore kindly

ask the IASB to delete this from the final standard. However, if the IASB does not agree to delete this, we would like the following additional comments to be considered.

- Members believe the requirement to disclose the income tax effects and the effect on non-controlling interests (NCI) for each reconciling item will be overly burdensome and is likely to generate costs that outweigh the benefits of including such detailed information. Calculating a hypothetical tax charge would be onerous and require significant judgment. Adjusting items would need to be assessed to determine the jurisdiction and also their nature as to whether there are permanent or temporary differences. Assumptions would need to be made regarding recognition and measurement of deferred tax assets. The revised deferred tax assets would need to be assessed for recoverability and it is unclear whether this should be based on existing projections or on the management performance measures (MPM) result. Whilst we appreciate the relief in paragraph 107 we would still expect significant cost and effort for minimal benefit.
- We acknowledge that the IASB argues in paragraph BC177 of the Exposure Draft that “it gives users information needed to select which adjustments they want to consider in arriving at an adjusted earnings per share measure used in their analysis.” However, based on the experience of our members, users do not ask for this kind of information as banks already reconcile the amounts in their publications. This is another reason why the IASB should reconsider such requirements.
- Another point we would like to highlight is the need for more clarity on the criterion in paragraph 103(a) (“are used in public communications outside financial statements”) as this could be interpreted to encompass a wide scope. Members believe the definition of public communications should be limited to items being communicated at the time of interim and year-end reporting.
- Lastly, we would recommend the IASB to allow the reconciliation to be made in other sections of the report with appropriate cross referencing. For example, if the MPM is quoted in the Management Discussion and Analysis (MD&A) section then it might be more relevant and useful to users to reconcile the MPM at that point. This is similar to how the credit risk disclosures might be in other sections of the report utilizing IFRS 7.35C.



**Question 14—other comments**

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

- For financial institutions that expect to utilize the election to include most revenues and expenses in the 'Operating' section the guidance on foreign exchange and derivatives (paragraph 56-69) will not have a material impact to their reporting. However, we have concerns with the operational complexity this may cause other firms.
- For foreign exchange translation this is often performed systematically in the ledger at an entity level. The systematic calculation often does not consider the nature of the exposure which is causing the FX P&L and rather sums the exposure across instruments which might be in different sub-categories (e.g. financing and operating). As such it will require system changes to implement this requirement. Members also question whether grossing up the FX P&L between the different categories of the income statement provides useful information (e.g. if an entity has a foreign currency denominated loan asset in operating which is offset by a foreign currency denominated bond issuance in financing whether showing the gross FX translation P&L provides better information to users). Members would appreciate a practical expedient similar to that in paragraph 58 for derivatives.
- For derivatives members also highlight operational complexity to meet the requirements. Apart from hedge-accounted derivatives there is no current split of P&L between those providing economic hedges and those trading derivatives. This allocation would require significant effort and in some cases would not be possible. An example of where it would not be possible would be where a central function is the counterparty to internal derivatives which are then externalized on a net exposure basis. In this case the allocation of the external derivative to the different P&L categories would often not be possible. The issue is mitigated by the practical expedient provided in paragraph 58.