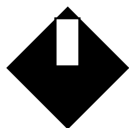

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International Accounting Standards Board
Columbus Building, 7 Westferry Circus
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**Comments on the Exposure Draft *General Presentation and Disclosures***

To the Board Members:

The Japanese Institute of Certified Public Accountants ("we" and "our") appreciates the continued efforts of the International Accounting Standards Board on this project, and welcomes the opportunity to comment on the Exposure Draft *General Presentation and Disclosures* ("ED").

It is essential for investors to be able to evaluate the corporate value in an appropriate manner based on the information disclosed by the entity in order to ensure optimal resource allocation in the capital market. Given that such effective disclosure cannot be achieved without providing relevant principles and guidance, we appreciate the IASB's effort to improve the financial performance reporting through the work of its Primary Financial Statements project.

That said, we believe further consideration is required especially in the following areas for the proposals in the ED:

a. We welcome the IASB's proposal to require entities to present a subtotal for operating profit because it would significantly improve the usefulness of the statement of profit or loss under IFRS. However, we believe the IASB should describe more about the characteristics of the 'entity's main business activity' and provide sufficient guidance on determining what constitutes the operating profit, rather than defining it as a

residual. (See our detailed response to Question 2.)

b. We disagree with the proposal on the distinction between integral and non-integral associates and joint ventures and to present a subtotal resulting from that distinction. We think the four-category proposal would only complicate the structure of the statement of profit or loss and obscure the original objective of the operating category. We are more supportive of using three categories, namely operating, investing, and financing categories to classify all income and expenses in the statement of profit or loss. (See our detailed response to Question 7.)
c. For the proposal regarding 'unusual' income and expense, we believe the definition of 'unusual' income and expenses and the guidance on how to identify such income and expenses needs to be more robust and operable. In that way, entities would be able to disclose such income and expenses that are less arbitrary and biased. (See our detailed response to Question 10.)
d. For the proposal regarding management performance measures, we believe further consideration is required, particularly in the following areas: the definition of 'management performance measures;' relationship with subtotals specified by IFRS Standards; and disclosure requirements. (See our detailed response to Question 11.)
e. Although it appears that the proposals in the ED does not contemplate digital reporting, which is expected to be common among entities in the near future, and the basic concept of the equity method of accounting, we recommend the IASB to consider these implications in the Board deliberations going forward when finalising the new Standard or when working on disclosure initiative projects. (See our response to Question 14.)

We hope the IASB carefully considers the above points through the process of pursuing the aim to improve financial performance reporting.

Please find below our comments to the questions raised in the ED.

| **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.<br>Paragraph BC53 of the Basis for Conclusions describes the Board's reasons for this proposal.<br>Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why? |

| **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.<br>Paragraphs BC54–BC57 of the Basis for Conclusions describe the Board's reasons for this proposal.<br>Do you agree with this proposal? Why or why not? If not, what alternative approach would you suggest and why? |

**Comment:**

(1) We do not agree with the IASB's proposal to classify all income and expenses not classified in other categories to the operating category. Although we support the proposal to present in the statement of profit or loss a subtotal of operating profit, we believe the IASB should describe more about the characteristics of 'an entity's main business activity' and provide sufficient guidance on determining what constitutes the operating profit, rather than defining it as a residual.

We understand that 'operating profit or loss' is one of the most important subtotals for users of financial statements. It also represents a subtotal that is widely used in current practice. However, as the definition is currently not defined explicitly in IFRSs, different stakeholders may have different views on what can be included in the amount. Thus, we believe the IASB's proposal to define the operating category and present a subtotal for operating profit would improve the usefulness of the statement of profit or loss under IFRS.

That being said, we believe the proposal requires further consideration in the following areas:

- On one hand, operating profit or loss is defined as a default or a residual category as described in paragraph BC54. On the other hand, paragraph 46 of the ED indicates that 'operating category includes information about income and expenses from an entity's main business activities.'
- The notion of 'an entity's main business activity' is used in various situations in the ED such as when classifying income and expenses between the investing category and the operating category (paragraph 48), between the financing category and the operating category (paragraphs 51 and 52), and also when classifying income and expenses arising from equity-accounted associates and joint ventures. This represents that the notion of 'an entity's main business activity' is substantially used as a dividing line in determining the operating category of an entity. Nonetheless,

the term ‘an entity’s main business activity’ is not sufficiently defined in the ED, nor it comes with an explicit principle and a comprehensive supplementary guidance.

Based on above, we highly recommend the IASB provides clarification on the characteristics of ‘an entity’s main business activity.’ Further, a group of companies conducting multiple businesses should be provided with application guidance, which incorporates benchmarks in determining main business activities and/or illustrative examples that show the relation between quantitative and qualitative perspectives of a business activity, such as its strategic position within the group.

In such cases, a separate guidance should also be provided for including income and expenses from business activities that are not from an entity’s main operating activities but are incidental to those activities.

(Characteristics of ‘an entity’s main business activity’)

Although the operating category is defined as a default or a residual category, paragraph B33 of the ED illustrates that certain income and expenses are not to be classified in the investing category but in the operating category, including depreciation expenses. With consideration of this paragraph B33, in our view, the characteristics of ‘an entity’s main business activity’ can be described, for example, as a ‘revenue-generating activity using the entity’s asset in combination of other resources of the entity in the course of its ordinary activities of producing goods and delivering services’.

In case of a manufacturing entity, its main business activity would be to generate revenue through the combined use of its property, plant and equipment, raw materials, human resources, and intangible assets.

In case of a financial service institution, its main business activity would be to earn interest revenue from providing financing to customers by receiving deposits from customers and lending loans to customers (paragraph BC63 of the ED). Moreover, its main business activity may be referred to as the entity’s activity of investing in assets that generate a return individually and largely independently of its other resources in the course of its ordinary activities.

(2) We recommend the following income and expenses items discussed in the ED related to classification in operating category should be either reconsidered or deliberated further:

a. Classification of foreign exchange differences (paragraph 56)
b. Classification of fair value gains and losses on derivatives and hedging instruments (paragraphs 57 and 58)
c. Classification of interest income and expenses on other liabilities (paragraph 49(c))
d. Income and expenses arising from an investment in equity shares of business partners held by a non-financial entity with a purpose of maintaining and strengthening the business relationship. (referred to as ‘strategic investment’)

a. Classification of foreign exchange differences (paragraph 56)

The ED proposes that an entity shall classify foreign exchange differences included in profit or loss applying IAS 21 *The Effects of Changes in Foreign Exchange Rates* (or ‘IAS 21’) in the same category of the statement of profit or loss as income and expenses from the items that gave rise to the foreign exchange differences. We disagree with the proposal due to the following reasons. In our view, deliberation on whether benefits of comparability and information with more predictive value provided by proposed approach outweigh the cost should be made by the IASB.

- Foreign exchange differences arise on various transactions. Therefore, the proposed approach could lead to arbitrary judgements when classifying amounts to the operating, investing and financing categories. For example, lending and borrowing transaction within a group is eliminated upon consolidation procedure but associated foreign exchange differences remain to be recognised in consolidated profit or loss. In such a case, classification is required on for example whether to classify exchange differences in the investing category from a lender’s perspective or in the financing category from a borrower’s perspective for consolidation purposes with usefulness of information provided.
- We assume that the proposal would be costly for prepares of financial statements, including implementation costs for the process changes and possible system changes. Paragraph BC92 of the ED describes the basis for the proposal, insisting that an entity would provide an incomplete picture of the performance of its main business activities if it excluded exchange differences related to the main business activities from operating profit or loss. However, we do not think that the ED provides reasonable explanation enough to justify costs and benefits of implementing the proposal.

b. Classification of fair value gains and losses on derivatives and hedging instruments (paragraphs 57 and 58)

The ED's proposal indicates that when an entity enters into a forward exchange contract for highly probable forecast sales denominated in foreign currency and denominated in foreign currencies, and applies cash flow hedges under IFRS 9 *Financial Instruments* (or 'IFRS9'), all of the following shall be classified in the operating category (paragraph 57): net fair value gains and losses on the forward exchange contract incurred in the period between the inception of the hedge and date of sales; and foreign exchange differences applying IAS 21 as well as fair value gains and losses on the forward exchange contract associated with trade receivables up until their settlement dates. Furthermore, the ED requires that paragraph 57 should also be applied to derivatives arising from those related to economically-related hedges that are used to manage risks but not applying hedge accounting. We do not support the proposal due to the following reasons:

- It appears that a significant change in existing practice would be required for many entities in order to comply with the proposal. As commented above at section (2) a. related to foreign exchange differences, we do not think the ED provides reasonable explanation enough to justify costs and benefits of implementing the proposal.
- Although the ED provides an exemption in paragraph 58, stating 'except when doing so would involve undue cost or effort,' it is not clear why this exemption is separately provided for this specific requirement. Further explanation should be provided to maintain consistency with other requirements in the ED.
- We agree with the IASB's proposal of clarifying presentation categories for derivative gains and losses arising from economically-related hedges not applying hedge accounting, as it would be useful for users. However, we believe this issue has been identified and discussed in practice based on current IAS 1 *Presentation of Financial Statements* (or 'IAS 1'). That said, it is unclear whether the proposal in the ED regarding the classification of gains and losses is derived from a new principle, and if so, how it is related to the current IAS 1.

c. <u>Classification of interest income and expenses on other liabilities</u> (paragraph 49(c))

Paragraph 49(c) proposes that interest income and expenses on other liabilities are classified in the financing category, whereas paragraph B37 says that 'paragraph 49(c) requires an entity to classify interest income and expenses on liabilities not arising from financing activities in the financing category.' We disagree with the proposal due to the following reasons:

- We understand that the proposal is trying to differentiate 'liabilities arising from financing activities' from 'assets and liabilities related to an entity's financing.' However, the ED does not provide sufficiently clear definition and principle for the latter. We believe that, net interest expense (income) on a net defined benefit liability (asset) under IAS 19 *Employee Benefits*, unwinding of the discount on a decommissioning, restoration or similar liability, and other income and expenses described in paragraph B37 should be classified in the operating category instead of financing category, given the nature of activities or other events that gave rise to those items, all of which, in our view, are from an entity's main business activities.
- Paragraph BC43 insists that 'this proposal is intended to capture income and expenses that reflect the effect of the time value of money on liabilities that do not arise from financing activities,' and 'many users of financial statements consider such income and expenses to be similar to income or expenses from financing activities.' However, this discussion does not align with that per paragraph B33(a), which stipulates that interest revenue from trade receivables should be classified in the operating category, not the investing category, based on activities that gave rise to the item.
- Paragraph B35(c) requires that income and expenses arising from trade payables (for example, those negotiated on extended credit terms) should be classified in the financing category. However, we suggest the accounting for extended credit terms should align with that for financing component in IFRS 15 *Revenue from Contracts with Customers* (or 'IFRS 15').

d. Income and expenses arising from an investment in equity shares of business partners held by a non-financial entity with a purpose of maintaining and strengthening the business relationship

Clarification is required on whether such income and expenses would be perceived as 'an entity's main business activity' and classified to the operating category, or whether they should be classified to the investing category in accordance with paragraph 47 (and also paragraphs B32 and BC49) based on the nature of a financial asset that generates cash flows individually and independently.

In addition, according to IFRS 9 (paragraphs 4.1.4 and 5.7.5), an entity is allowed to make an irrevocable election to present in other comprehensive income all subsequent changes in the fair value of an investment in an equity instrument that is not held for trading. In such cases, amounts presented in other comprehensive income shall not be

subsequently transferred to profit or loss (paragraph B5.7.1 of IFRS 9). Furthermore, according to the associated Basis for Conclusions in IFRS 9, the IASB noted arguments that presenting fair value gains and losses in profit or loss for some equity instruments may not be indicative of the performance of the entity, particularly if the entity holds those equity instruments for non-contractual benefits, rather than primarily for increases in the value of the investment. We suggest that such requirements and discussions in IFRS 9 should also be taken into account when finalising the new Standard.

| **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.<br>Paragraphs BC58–BC61 of the Basis for Conclusions describe the Board's reasons for this proposal.<br>Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why? |

**Comment:**

It appears reasonable that financial institutions and other entities conducting investing activities as their 'main business activities' should be accounted for differently from non-financial companies. We agree with the ED's proposal, provided that the following are further considered and addressed appropriately:

- We consider that sufficient guidance is not provided in the ED in determining what kind of investing activities constitute 'an entity's main business activity.' The following examples illustrate that different judgements could be made in determining 'an entity's main business activity.' With that in mind, as already commented at Question 1 and 2, we strongly recommend the IASB describe the characteristics of 'an entity's main business activity' and provide sufficient guidance on determining what constitutes the operating profit, rather than defining it as a residual.
  - ✓ When a subsidiary of an entity is mainly engaged in investing activities, its income and expenses from investments could be accounted for, at the subsidiary level, as income and expenses from investments made in the course of its 'an entity's main business activities'. At the consolidated level, should such income and expenses be classified in the operating category or the investing category?

- ✓ Where Entity A holds convertible bonds issued by Entity B with the intention to turn it into a subsidiary when Entity B becomes more profitable, it could be difficult to determine whether the investment was made in the course of Entity A's main business activities. In this case, should interest income arising from the convertible bonds be classified in the operating category or the investing category?
- ✓ It might be difficult to determine whether or not cross-shareholdings represent investments made in the course of an entity's main business activities. In this case, should dividend income from the shares be classified in the operating category or the investing category?

| **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:<br>・ income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or<br>・ all income and expenses from financing activities and all income and expenses from cash and cash equivalents.<br>Paragraphs BC62–BC69 of the Basis for Conclusions describe the Board's reasons for the proposals.<br>Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why? |

**Comment:**

We disagree with the proposal. We suggest that guidance should be supplemented to identify 'income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers.' When, and only when, such income and expenses can be identified, the amount should be classified in the operating category.

As described in paragraph BC63, when an entity provides financing to customers as its main business activity, the difference between the interest revenue from that activity and the related interest expense—a cost of earning that income—is an important indicator of operating performance.

Accordingly, we recommend identifying to the extent possible, income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision

of financing to customers. Only this identified portion should be classified into the operating category.

However, the proposed application guidance may permit entities to simply classify in the operating category all income and expenses from financing activities and all income and expenses from cash and cash equivalents in the operating category. We are concerned that this may hinder the appropriate presentation of the difference between the interest revenue arising from its business activity of providing financing to customers and the corresponding interest expense.

(Classification of issued investment contracts with participation features and insurance finance income and expenses)

In paragraph 52 of the ED, both (b) issued investment contracts with participation features and (c) insurance finance income and expenses seem to be classified in the operating category without giving much consideration about the appropriateness of the classification. This is likely because both items lack explanation on 'the course of an entity's main business activities' within the paragraph. Paragraph BC73 explains that the classification is applicable for (c) because insurance finance income and expenses relate to the main business activities of insurers, which appears logical. However, given that IFRS 17 *Insurance Contracts* is a standard applicable not only for insurers but also for insurance contracts, we believe clarification is required in paragraph 52 of the ED. Likewise, paragraph BC74 gives discussion on (b) that some entities issue investment contracts in the course of their main business activities; however, we still believe that explanation on 'the course of an entity's main business activities' is needed in the body of the standard.

| **Question 5—the investing category** |
|---|
| Paragraphs 47–48 of the Exposure Draft propose that an entity classifies in the investing category income and expenses (including related incremental expenses) from assets that generate a return individually and largely independently of other resources held by the entity, unless they are investments made in the course of the entity's main business activities.<br>Paragraphs BC48–BC52 of the Basis for Conclusions describe the Board's reasons for the proposal.<br>Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why? |

**Comment:**

We agree with the proposal, provided that our response to Question 1 and 2 is further considered and addressed appropriately.

| **Question 6—profit or loss before financing and income tax and the financing category** |
|---|
| (a) Paragraphs 60(c) and 64 of the Exposure Draft propose that all entities, except for some specified entities (see paragraph 64 of the Exposure Draft), present a profit or loss before financing and income tax subtotal in the statement of profit or loss.<br>(b) Paragraph 49 of the Exposure Draft proposes which income and expenses an entity classifies in the financing category.<br>Paragraphs BC33–BC45 of the Basis for Conclusions describe the Board's reasons for the proposals.<br>Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why? |

**Comment:**

We agree with the proposal, provided that the following is further considered and addressed appropriately.

In general, it is less ambiguous to distinguish financing activities and the financing category from the operating and investing categories. Likewise, it is usually straightforward to determine whether or not an entity is providing financing to customers as its main business activity, compared to classifying certain income and expenses either in the operating or investing categories. Furthermore, a 'profit or loss before financing and income tax' subtotal is a concept close to EBIT, which is used widely by many users of financial statements for their analysis purposes. Therefore, we support the IASB's proposal to require entities to present a profit or loss before financing and income tax subtotal in the statement of profit or loss.

However, we suggest further consideration be made in the following areas:

- The ED proposes that interest income and expenses on other liabilities not arising from financing activities should be classified in the 'financing category.' However, we believe that they should be excluded from the financing category and classified to the operating category, given that they are income and expenses from an entity's main business activities (please refer to our response to Question 1 and 2 for further detail).
- We understand that the ED does not put focus on ensuring consistency within an

entity’s financial statements. However, we are concerned that different categories could be applied for the same item under the IASB’s proposed approach, causing inconsistent classifications. For example, the ED requires income and expenses from cash and cash equivalents to be classified in the financing category, whereas the amended IAS 7 *Statement of Cash Flows* requires interest received to be presented in the category of cash flows from investing activities.

| **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.<br>(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.<br>(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.<br>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.<br>Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why? |

**Comment:**

We disagree with the proposal.

We disagree with the IASB’s proposal for entities to separately present the share of profit or loss of associates and joint ventures accounted for under the equity method from the operating profit or loss subtotal, and further requiring entities to make a distinction between ‘integral’ and ‘non-integral’ associates and joint ventures, given that the Equity Method of Accounting project has remained in the IASB’s research pipeline for a considerable amount of time without much deliberation being made on its fundamental concept. Alternatively, we believe that entities should be required to classify the share of profit or loss of associates and joint ventures accounted for using the equity method either in the operating or investing category in accordance with the definition of ‘an entity’s main business activity,’ considering the nature of each investment. Please also

refer to our response to Question 2 within the same context.

a. Separately presenting income and expenses from equity-method investments from the operating profit or loss subtotal

- According to paragraph 46 of the ED, the operating category includes information about income and expenses from an entity's main business activities. At the same time, the ED strictly requires entities to present equity-method investments separately from the operating category, even when an investment represents the entity's 'main business activity,' simply because income and expenses are generated from investments using the equity method. We believe such proposal introduces unnecessary complication to the structure of the statement of profit or loss. Also, we believe the proposal would make the original purpose of the operating category unclear, thereby not being able to provide relevant and useful information to users.
- It is globally understood that the equity method accounting treatment contains both aspects of consolidation accounting and financial instruments accounting. In other words, this concept is in between consolidation accounting based on the concept of control and financial investments accounting with no control or significant influence. However, the ED's proposal seems to contradict this understanding, because it requires entities to include not only income and expenses from consolidated subsidiaries, but also those generated from financial investments and financing activities in operating profit or loss based on the notion of 'an entity's main business activity' (paragraphs 48, 51, and 52 of the ED), while excluding income and expenses generated from equity-method investments under the concept of significant influence. If we follow this logic of the ED, suppose that an entity invests in another entity in the course of its main business and strategically lowers its ownership in the investee from a subsidiary, to an associate, and finally to a financial investment. Income and expenses from the investment would not be included in operating profit or loss when the investee's status is an associate, but could be put back in operating profit or loss when the entity's interest in the investee is minimised to a financial investment level. Such presentation of financial performance certainly seems to lack consistency and usefulness. We believe that entities should be required to classify the share of profit or loss of associates and joint ventures accounted for using the equity method either in the operating or investing category in accordance with the definition of 'an entity's main business activity,' based on the nature of each investment on associates accounted for using equity method and joint ventures. Please also refer to our response to Question 2 within the same context.

- Paragraph BC82 provides the basis for the IASB's proposal, mentioning that many users of financial statements analyse the results of investments in associates and joint ventures accounted for using the equity method separately from the results of an entity's operating activities because of the following reasons: the entity does not control an investee associates and joint ventures (paragraph BC82(c)); and the equity method of accounting combines income and expenses, including financing expenses and income taxes, and thus would significantly disrupt the users' analysis of operating margins (paragraphs BC82(a) and (b)). However, we would like to make an argument regarding paragraph BC82(c) that whether an entity has control or not over the investment cannot be justified as a reason in the light of the ED's basic principle or approach based on the concept of 'an entity's main business activity.' This is because income and expenses from financial investments to which an entity has no control could be included in operating profit or loss. Further, regarding paragraphs BC82(a) and (b), we suggest applying the same classification rules for all investments when presented in the body of the statement of profit or loss, and then separately disclosing income and expenses from equity-method investments in the footnotes. We further suggest making necessary improvements to IFRS 12 *Disclosures of Interests in Other Entities* (or 'IFRS 12'), specifically in paragraphs B12 and B13, for disclosures on associates and joint ventures that are material to the reporting entity. Thus, we should be able to successfully provide relevant information to users of financial statements. Given that a wide range of discussions are currently being made for the equity method of accounting, including fundamental change in its recognition and measurement rules of IAS 28 *Investments in Associates and Joint Ventures*, we believe that the IASB should focus on enhancing disclosures under IFRS 12 for investments in equity-accounted associates and joint ventures at this stage.

b. Distinction between 'integral' and 'non-integral' associates and joint ventures

- As commented in a. above, we are concerned that the relationship between 'an entity's main business activity' and 'integral or non-integral' is unclear. Equity-accounted associates and joint ventures, regardless of whether they are 'integral or non-integral' to the main business activities of an entity are classified either in the operating or investing category in accordance with the definition of 'an entity's main business activity' after losing significant influence over the investment. As a result, the classification rule of each category is quite uncertain in the ED. As commented at Question 2, we strongly suggest that priority should be given on providing an explicit principle for 'an entity's main business activity' as well as a comprehensive

supplementary guidance.

| **Question 8—roles of the primary financial statements and the notes, aggregation and disaggregation** |
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| (a) Paragraphs 20–21 of the Exposure Draft set out the proposed description of the roles of the primary financial statements and the notes.<br>(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.<br>Paragraphs BC19–BC27 of the Basis for Conclusions describe the Board's reasons for these proposals.<br>Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why? |

**Comment:**

We agree with the proposal, provided that the following will be further considered and addressed appropriately.

- We suggest the ED should provide certain thresholds as a minimum requirement for note disclosures, given that one of the objectives of this project is to 'enhance comparability' of financial statements.
  As referred to in paragraph BC26 of the ED, the IASB considered providing quantitative thresholds for disaggregation, for example, requiring separate disclosure of any balances over 10% of an entity's revenue. The Board later rejected this approach, concluding that judgement of materiality should include a qualitative assessment. However, we believe a qualitative assessment alone is likely to cause inconsistency in the application of the requirement, making it difficult for the Board to achieve its purpose of enhancing financial statements' comparability.
- If not providing certain thresholds, the Board should at least develop detailed guidance and illustrative examples for identifying 'shared characteristics' as described in paragraph 25(a). For example, even when several items have a shared 'characteristic,' the 'characteristic' might not always be the most relevant. In such cases, a practical issue may arise as to whether or not aggregating items with shared characteristics is appropriate.

| **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?

**Comment:**
We agree with the proposal, provided that the following will be further considered and addressed appropriately.

a. Mixed presentation of the nature of expense method and the function of expense method

According to paragraph B47 of the ED, an entity shall present line items specified in paragraph 65 as 'line items to be presented in the statement of profit or loss,' even when an entity applies the function of expense method for the analysis of operating expenses. Other than those specified line items in accordance with paragraph 65, it is our understanding that a mixed presentation of natural and functional line items is generally not permitted. However, paragraph B15 lists up certain circumstances that would give rise to the separate presentation in the statement of financial performance or disclosure in the notes, including write-downs and restructuring costs. It is uncertain as to whether the requirement is indicating that mixed presentation is permitted in such cases.

We do not think mixed presentation should be prohibited in all cases, because the need for presenting separate line items in the statement of profit or loss may arise for significant expense items. Therefore, we suggest the IASB clarify whether and to what extent mixed presentation is permitted in order to avoid diversity in practice.

b. Disclosure using the nature of expense method and its cost

It would certainly be beneficial for users to have disclosure information about an analysis of expenses by nature. At the same time, as stated in paragraph BC113, it could be costly for some preparers to modify consolidation systems and track information about the nature of expenses incurred. It may further cause difficulty for auditors in

auditing such disclosures. Accordingly, depending on the forthcoming feedback from stakeholders and results of fieldwork testing, we hope that the IASB will consider developing certain relief measures. For example, the Board may provide an exemption stating that 'unless doing so would practically incur undue cost and effort.'

| **Question 10—unusual income and expenses** |
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| (a) Paragraph 100 of the Exposure Draft introduces a definition of 'unusual income and expenses'.<br>(b) Paragraph 101 of the Exposure Draft proposes to require all entities to disclose unusual income and expenses in a single note.<br>(c) Paragraphs B67–B75 of the Exposure Draft propose application guidance to help an entity to identify its unusual income and expenses.<br>(d) Paragraphs 101(a)–101(d) of the Exposure Draft propose what information should be disclosed relating to unusual income and expenses.<br>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.<br>Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why? |

**Comment:**

We agree with the proposal, provided that the IASB will improve the definition of 'unusual income and expenses' and provide clarity on how these can be identified.

The requirement to disclose unusual income and expenses would provide useful information to users of financial statements about information on income and expenses which may not arise for several future periods when they make future cash flow projections (paragraphs BC123(a) and BC124). However, identifying 'unusual income and expenses' may involve significant judgement and could be arbitrary in general. Also, it is likely that disclosures on unusual items tend to focus on unusual expenses. Furthermore, we are concerned that 'unusual income and expenses' defined in the ED would make it extremely difficult for auditors to make audit judgements in many situations, given that a wide range of income and expenses could fall under the definition of 'unusual income and expenses,' including revenue items in IFRS 15. We expect the IASB to consider more practical and robust ways of defining and identifying 'unusual income and expenses' to enhance disclosures which are less arbitrary and biased. As examples, we recommend the following approaches:

- Defining ‘unusual income and expenses’ based on the proposed concept of ‘limited predictive value’ seems too abstract rather than being a principle-based approach. Particularly, we do not think the proposal has succeeded in providing a sufficiently clear and detailed basis for determining whether revenue items under IFRS 15 are unusual consistently in practice. In our view, it is useful that the IASB develops a definition and supplementary guidance, or an illustrative example that helps make a judgement on for example the following revenue items:
  - Revenue from one-time events, such as disasters or the Olympics
  - Revenue from a contract-based project won by an engineering firm, which has no transaction history in that country or area and whose management considers the project to be non-recurring.
- We recommend the IASB consider a necessary simplification for enhancing practicability by excluding revenue in IFRS 15 and related costs from the scope of ‘unusual income and expenses’ if developing a clear definition or guidance for certain items of income and expenses is difficult.
- Paragraphs B69 to B73 of the ED mainly focus on expense items, illustrating whether certain items should be classified as ‘unusual’ expenses or not. We recommend that the ED also include illustrative examples for income items, such as gain on sales of investments or businesses and extraordinary income; highlighting whether such income items should be classified as ‘unusual’ income or not.
- According to paragraphs B70 and BC136 of the ED, the proposed definition does not require entities to consider whether a similar income or expense has occurred in the past. It should be clearly indicated in the ED that the past occurrence of similar income or expense should also be a considered factor if an entity is uncertain as to whether it has reasonable expectation that similar income or expense will not recur in the future. Without such requirement, it will allow entities to disclose information on unusual items whenever expectation about the future is uncertain. For example, if an entity does not wish for certain income items to be disclosed in this proposed footnote, the entity may be able to arbitrarily exclude the information from the disclosure by insisting uncertainty in the future periods.
- Restructuring costs may contain various expense items other than provisions, such as impairment loss on tangible assets, loss on disposals, termination benefits, termination penalties for contracts, and valuation loss on inventories. Thus, when assessing whether income or expenses are ‘unusual,’ we recommend the new Standard clearly stipulates that each item comprising restructuring costs should

meet the definition of ‘unusual.’ As an alternative approach, we may suggest defining what constitutes restructuring costs in the new Standard to assess whether such restructuring costs are ‘unusual’ as a whole. For example, the definition can stipulate that restructuring costs include costs directly arising from the restructuring of discontinued operations, which have no relation to continuing operations.

- According to the ED’s proposal for ‘unusual income and expenses,’ classification of ‘unusual’ is based on expectations about the future rather than past occurrences. At the same time, the term ‘unusual’ is also used in International Standards on Auditing (e.g. ISA220, ISA315), which require entities to determine whether or not an item is ‘unusual’ based on past occurrences. Under such circumstances, it is possible that entities and auditors will have different views when trying to identify unusual income and expenses. Entities may classify unusual items based on the new Standard, IFRS X, whereas auditors may identify items based on International Standards on Auditing. We strongly recommend that the IASB consult closely with the IAASB regarding this matter.

| **Question 11—management performance measures** |
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| (a) Paragraph 103 of the Exposure Draft proposes a definition of ‘management performance measures’.<br>(b) Paragraph 106 of the Exposure Draft proposes requiring an entity to disclose in a single note information about its management performance measures.<br>(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.<br>Paragraphs BC145–BC180 of the Basis for Conclusions describe the Board’s reasons for the proposals and discuss approaches that were considered but rejected by the Board.<br>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?<br>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? |

**Comment:**

We agree with the ED’s proposal, provided that the following are further considered and addressed appropriately.

a. We do not think the disclosure requirements regarding the income tax effect and the effect on non-controlling interests for management performance measures are necessary (i.e. paragraphs 106(c) and 106(d) of the ED). We believe the proposed requirements would significantly increase preparation costs for financial statements as well as audit costs with very limited benefits.

b. We recommend that the ED should restrict the scope of management performance measures to exclude measures not based on IFRS recognition and measurement requirements. According to paragraph BC155 of the ED, the Board insists that management performance measures should not be restricted to measures based on amounts recognised and measured in accordance with IFRS Standards, and illustrates measures that apply proportionate consolidation. We understand that certain definition is needed for management performance measures to efficiently present users of financial statements with the relationship between measures actually used by entities when communicating with investors and IFRS-based financial statement amounts. However, we are concerned that the current ED may give an impression that entities are required to provide a reconciliation for even measures based on concepts completely different from IFRS and/or general accounting concepts or provide a reconciliation for non-IFRS accounting standards. Accordingly, we recommend the IASB clarify the meaning of the terms 'subtotal' in the definition of management performance measures per paragraph 103 as well as 'complement totals or subtotals' in paragraph 103(b), making sure that measures completely not based on IFRS recognition or that measurement requirements are excluded from its definition.

c. In addition to our comment in b. above, the IASB should clarify the meaning of the terms 'subtotals specified by IFRS Standards' regarding management performance measures per paragraph 103 as well as 'complement totals or subtotals' in paragraph 103(b). For example, would management performance measures represent those that cannot be presented in the body of financial statements, given the order and structure of the statement of financial performance? Would additional line items presented in the statement of financial performance in accordance with paragraphs 42 and 43 of the ED be regarded as management performance measures as long as they comply with the requirements in paragraphs 103(a) and (c)?
    - As stated in paragraph 104(a), it makes sense that a total or subtotal required by paragraphs 60 and 73 represents subtotals specified by IFRS Standards. However, we do not think that the ED provides sufficient basis for defining items in

paragraphs 104(b)–104(e), which are written as if a consensus was reached that they are specifically excluded from management performance measures as 'subtotals specified by IFRS Standards.' In particular, operating profit or loss before depreciation and amortisation per paragraph 104(c) seems to be quite different in nature compared to items in paragraphs 104(b), (d), and (e) because it has a characteristic of a cash-flow-based measure and thus cannot be presented as is within the financial statements, given the current structure of the income statement or the statement of comprehensive income. Furthermore, we understand operating profit or loss before depreciation and amortisation is considered to be one of the most significant management performance measures. However, it is unclear as to what makes the IASB able to provide a definitive statement in the ED, saying that operating profit or loss before depreciation and amortisation represents 'subtotals specified by IFRS Standards.' It is our understanding that only the following represent 'subtotals specified by IFRS Standards:' totals or subtotals required by paragraphs 60 and 73; and subtotals that meet all the requirements in paragraph 43 (IAS 1.85A, 55A). We further recommend that such definition should be clearly stated in the ED.

- We also point out that the following sentence in paragraph B81 of the ED needs further clarification: 'A subtotal presented in the statement(s) of financial performance to comply with paragraph 42 may meet the definition of a management performance measure.'
- When an additional subtotal is provided under paragraph 43, such as gross margin, which is widely used as a measure that can certainly be presented in the income statement or the statement of comprehensive income under IFRS, it is uncertain in the ED as to whether additional disclosures are required for such subtotal. Some people may argue that such subtotal represents a subtotal 'complementing' subtotals specified by IFRS Standards, rather than 'a subtotal specified by IFRS Standards,' as long as the subtotal is used in public communication outside financial statements per paragraph 103(a) (unless specifically excluded from the list of subtotals in paragraph 104). In such cases, we are concerned that the cost of providing additional disclosures might outweigh the benefits of doing so.

d. Paragraph 110 of the ED prohibits the use of columns to present management performance measures in the statement of financial performance. However, as commented in section c. above, the definition of management performance measure does not seem to be sufficiently clear in the ED. Accordingly, we recommend the ED

should clarify situations in which the use of columns to present management performance measures in the statement of financial performance is acceptable or prohibited.

e. According to paragraph 73B of IAS 33 *Earnings per Share* (or 'IAS 33') in a draft amendment to the current IAS 33, an entity would not be allowed to disclose amounts per share information permitted in paragraph 73 of the current IAS 33 when such amount is neither attributable to a total or subtotal included in paragraph 104 of the new Standard nor management performance measures disclosed by the entity applying the new Standard. We disagree with the proposal, which restricts entities from making voluntary disclosures, because we believe certain measures using concepts other than netted income and expenses could be useful for users of financial statements.

f. We recommend either deleting the requirement '(c) communicate to users of financial statements management's view of an aspect of an entity's financial performance' from paragraph 103 of the ED, which provides definition of management performance measures, or combining it with the requirement (a) of the same paragraph.

   If paragraph 103(c) is supposed to be a separate requirement that is distinct from paragraph 103(a), some may be able to argue that a subtotal of income and expenses does not qualify for management performance measures because only paragraphs 103(a) and (b) are applicable, and not paragraph 103(c). In such cases, we are concerned that it would be very difficult for entities and auditors to prove in practice whether or not the subtotal communicates management's view, as it could be quite subjective. We are also concerned that the requirement in paragraph 103(c) would give entities an option not to include certain measures in the financial statements by simply arguing that such measures have failed to provide management's view, even when auditors believe that they should be disclosed in the financial statements.

g. We suggest the scope of management performance measures defined in the ED should be limited to significant ones that are used in communication with investors.

   Some entities, including financial institutions, use a number of management performance measures for the purpose of communicating with investors. In such cases, if entities are required to provide a reconciliation in the notes between all of the management performance measures and the most directly comparable subtotal or total in the financial statements, we are concerned that the notes could be increased in

volume and unnecessarily complex.

h. We are highly concerned that it would be quite a challenge for auditors under the ED to conduct audits and make audit judgements. Given that users find alternative performance measures or non-GAAP measures useful in making forecasts about future performance (paragraph BC6(c) of the ED), we welcome the ED's proposal of requiring entities to disclose management performance measures. However, on the other hand, we are doubtful whether audits can be conducted within reasonable costs for such management performance measures, which are supposed to faithfully represent aspects of the financial performance of the entity (paragraph 105(a)), especially in situations where section b. of this comment is applicable. Likewise, we also believe it would be quite challenging to make audit judgements.

| **Question 12—EBITDA** |
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| Paragraphs BC172–BC173 of the Basis for Conclusions explain why the Board has not proposed requirements relating to EBITDA.<br>Do you agree? Why or why not? If not, what alternative approach would you suggest and why? |

**Comment:**

We agree with the Board's view.

As stated in paragraphs BC172 and BC173, the measure referred to as EBITDA is defined and calculated in practice by preparers and users of financial statements in their own ways, which they believe to be useful based on their own judgement. Under such circumstances, we see little benefit in setting up a single definition for EBITDA in the ED. Rather, it might cause an unnecessary confusion amongst preparers and users of financial statements if the ED provides a definition that is different from what they have been using as their own measures.

Moreover, we understand that one of the reasons of amendment to the IAS 1 regarding paragraphs 85A and 85B (and 55A) of IAS 1 was EBITDA generally cannot be presented as a subtotal in the financial statements given the order of line items in the statement of profit or loss. We also acknowledge the IASB has always considered EBITDA as one of the key performance measures for management during the deliberations for the ED. With that in mind, it is our understanding that the Board has developed the requirements for management performance measures (paragraphs 103–110), knowing that a requirement for EBITDA need not be proposed specifically in the ED.

| **Question 13—statement of cash flows** |
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| (a) The proposed amendment to paragraph 18(b) of IAS 7 would require operating profit or loss to be the starting point for the indirect method of reporting cash flows from operating activities.<br>(b) The proposed new paragraphs 33A and 34A–34D of IAS 7 would specify the classification of interest and dividend cash flows.<br>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.<br>Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why? |

**Comment:**

We agree with the proposals.

We agree with both of the proposals because we believe they would certainly enhance the comparability of financial statements. Please refer to our comment for Question 6 regarding our concern about interest income and expenses from cash and cash equivalents.

| **Question 14—other comments** |
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| 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? |

**Comment:**

a. Transition

We recommend the ED should be applied prospectively instead of retrospectively, by amending paragraph 119 of the ED that requires retrospective application in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

It would not be practical for entities to go back to the preceding annual reporting period of the first year of application and retrospectively identify unusual income and expenses (including some, or all, of those that are included in management performance measures as reconciling items). We must say that if entities find it difficult making judgements, it would be even more challenging for auditors to audit such information. Although we recognise the need for financial statement users to understand the historical trend of unusual income and expenses, such information may not faithfully represent an aspect of

the financial performance of an entity due to the above-mentioned difficulty. Providing such information might even mislead users. Accordingly, we recommend the ED should be applied prospectively.

b. Status of the finalised standard

It appears that the proposals in the ED does not contemplates digital reporting, which is expected to be common among entities in the near future, and the basic concept of the equity method of accounting. Accordingly, we recommened the IASB to consider these implications in the Board deliberations going forward and to clarify that it is regarded as a tentative standard until the Primary Financial Statements project accomplishes its ultimate goal.

Yours faithfully,

Takako Fujimoto
Executive Board Member－Business Accounting Standards and Practice/Corporate Disclosure
The Japanese Institute of Certified Public Accountants