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30 September 2020

Dear Sir

**Exposure Draft ED/2019/7: General Presentation and Disclosure**

We are pleased to comment on the above Exposure Draft (the ED). Following consultation with the BDO network[1], this letter summarises views of member firms that provided comments on the ED.

We support the efforts of the IASB to improve the presentation and disclosure requirements of IFRS. We believe that creating a higher level of consistency in the presentation of the statement of profit or loss will improve the usefulness of information provided to users of financial statements, in particular, information prepared and analysed in electronic format.

We also support the IASB's proposals to require the disclosure of management performance measures in the financial statements. These types of measures are increasing in prevalence worldwide, and we believe the rigour and disclosure requirements relating to them must be improved.

In addition to our comments supporting the proposals, we have a number of suggestions to improve and clarify the proposed requirements.

Our responses to the questions in the ED are set out in the attached Appendix A.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)20 7893 3300 or by email at abuchanan@bdoifra.com.

Yours faithfully

Andrew Buchanan

Andrew Buchanan

*Global Head of IFRS*

[1] Service provision within the international BDO network of independent member firms ('the BDO network') in connection with IFRS (comprising International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the IFRS Interpretations Committee and the former Standing Interpretations Committee), and other documents, as issued by the International Accounting Standards Board is provided by BDO IFR Advisory Limited, a UK registered company limited by guarantee. Service provision within the BDO network is coordinated by Brussels Worldwide Services BV, a limited liability company incorporated in Belgium. Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BV, BDO IFR Advisory Limited and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BV, BDO IFR Advisory Limited and/or the member firms of the BDO network.

## Appendix A

<u>*Question 1*</u>
*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?*

We agree with the proposal. We agree with the Board's conclusion in BC53-57, which describes the Board's reasons for this proposal. In particular, we observe that 'operating profit' is considered an important measure of performance for a wide number of entities and financial statement users. The fact that this sub-total is not defined by IFRS reduces the comparability of financial results between entities, even when the underlying transactions may be very similar.

We also note that the use of financial information in electronic format is increasing. This is evidenced by regulators requiring more comparable and consistent formats for financial statements in many jurisdictions (e.g. XBRL). This emphasises the need for measures of financial performance to be calculated in a consistent manner, as comparison of financial information in electronic format and analysis of entities by stratified groups (e.g. operating profit for specific sectors or by listed entity status) is only meaningful if it is presented consistently.

<u>*Question 2*</u>
*Paragraph 46 of the Exposure Draft proposes that entities classify in the operating category all income and expenses not classified in the other categories, such as the investing category or the financing category.*

*Paragraphs BC54–BC57 of the Basis for Conclusions describe the Board's reasons for this proposal.*

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

We agree with the proposal. Paragraph 46 of the ED defines the operating category as a residual, where all income and expenses are first categorised into the other categories noted in paragraph 46(a)-(e), and only the remainder is classified in the operating category. A residual approach to classification ensures that all items of income and expense are categorised and reduces conflicts that may arise if an item of income or expense may meet the definition of multiple categories if all categories were defined inclusively.

We draw the Board's attention to the fact that the proposed categories of operating, financing and investing are aligned in title with IAS 7's categories for the presentation in the statement of cash flows. Despite this naming alignment, there does not appear to be an intention to align the underlying meaning of these categories between IAS 7 and this exposure draft.

While BC37 notes that the Board proposed to base its definition of financing activities in the exposure draft on the work of the IFRS Interpretations Committee in March 2013 as relating to IAS 7, BC51 acknowledges that the investing category in the exposure draft differs from investing activities as defined in IAS 7. We acknowledge that there cannot be complete alignment between these two standards, partially because the purpose of IAS 7 and the exposure draft differ. IAS 7 aims to provide information about cash flows of an entity while the exposure draft aims to provide information about items of income and expense.

Despite this, we believe that the titles applied to prominent aspects of primary financial statements appearing consistent without a consistent underlying meaning may confuse many financial statement users.

We suggest that the Board considers a broader project to amend or replace IAS 7, since numerous amendments and the activities of the IFRS Interpretations Committee have highlighted potential areas of improvement relating to IAS 7 that are broader than conflicts between it and the exposure draft.

We suggest this course of action because in our consultation processes, we considered whether there are alternatives to the three categories in the exposure draft; however, we were unable to determine alternative titles that would accurately depict the intended meaning of the Board, as described in the defined terms and Basis for Conclusions.

*<u>Question 3</u>*
*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.*

*Paragraphs BC58–BC61 of the Basis for Conclusions describe the Board's reasons for this proposal.*

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

We agree with the principle that the Board is articulating, in that the classification of items of income and expense will depend on the nature of an entity's operations. For example, interest income relating to financial assets classified at amortised cost in accordance with IFRS 9 may be classified as in the operating category for a bank, whereas interest income earned on financial assets held in a treasury account for a corporate entity would be classified in the investing category. This distinction based on the type of entity is appropriate.

While we support this principle, we are concerned that the concept of 'main business activities', which drives this distinction, as well as several other requirements in the exposure draft, is not defined. While the operating category is a residual, meaning it is defined by exclusion in comparison to the other categories; we believe it is important for the principle that underpins that category (i.e. whether an item of income or expense is part of an entity's main business activities) to be defined, including appropriate application guidance. This is because the determination of main business activities is pervasive in its effects on financial statement presentation and disclosure.

We also note that the language selected is similar to 'ordinary activities', which is used in IFRS 15, paragraph 6 and establishes which sales of goods and services are in the scope of IFRS 15's requirements. We appreciate that there may not be an intention for the Board to establish consistency in this use of terminology in the two Standards; however, both terms appear similar. As main business activities are not defined, it is unclear whether these terms are intended to capture different meanings.

In providing a definition and application guidance on main business activities, it would be helpful if this addressed the following:

1. Whether 'main' is intended to address the size of the financial effect of an entity's item of income and expenses (e.g. the largest amounts of income and expenses relating to a particular type of activities or some 'threshold'), management's view of the importance of those activities or some other measure;
2. Whether main business activities should be evaluated based on current activities only or by the intention of management (e.g. how main business activities might be determined for a start-up entity or an entity transitioning into another line of business);
3. Whether main business activities may change over time, and if so, whether reclassification of comparative figures would be required if such a change in main business activities were to occur;
4. If main business activities may change, what factors would need to be considered in order for main business activities to change for accounting purposes, similar to guidance provided in IFRS 9 relating to a change in business model for the reclassification of financial assets; and
5. Whether main business activities may require adjustment in a consolidated group (e.g. whether a bank included in the consolidated financial statements of a larger entity might be required to reclassify its chart of accounts to comply with the 'main business activities' of the consolidated group).

Point 4 arises because the exposure draft is inconsistent in its use of the term 'entity' and 'reporting entity'. For examples of 'reporting entity', see paragraphs 20B, 20D, definition of 'general purpose financial statements'. For examples of 'entity', see paragraphs 10, 12, 13, etc.

Said another way, would the requirements apply to subsidiaries that are separate legal entities, whose classifications of income and expenses are subsequently aggregated on an unadjusted basis in accordance with the the consolidation requirements of IFRS 10, or do the requirements apply to the consolidated reporting entity, and therefore items of income and expense of each subsidiary may need to be re-categorised at consolidated level based on the requirements of the exposure draft?

<u>*Question 4*</u>

*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?*

We do not agree that an entity that provides financing to customers as a main business activity should have a 'free' accounting policy choice between the two options noted in paragraph 51.

We acknowledge the complexities noted in BC64-66, as some entities may find it challenging to distinguish which financing activities are part of its main business activities and which are not. Part of this difficulty may arise from the fact that main business activities are not clearly defined (see our response to question 3). However, one of the primary objectives of the exposure draft is to increase comparability between entities with similar operations and if two entities with identical operations could select a different policy for the presentation of financing activities, this impairs the usefulness of the financial information produced by the standard.

If the Board considers the inclusion of two potential approaches to be appropriate, we believe this should be subject to a constraint. This might be achieved by only permitting the classification of all income and expenses from financing activities as operating activities if subdividing the classification of these items is 'impracticable'.

*<u>Question 5</u>*
*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.*

*Paragraphs BC48–BC52 of the Basis for Conclusions describe the Board's reasons for the proposal.*

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

We agree with the principle of the proposal, that investing should be its own category, as information about returns generated from assets independent of other resources held by the entity (but not part of the entity's main business activities) provides useful information to users of financial statements. For example, if a significant component of overall net income is earned from holding investments (including non-integral JVs and associates), creating a separate category provides useful information to users of financial statements. The separate investment category would communicate what portion of income (or comprehensive income) is derived from an entity's main business activities and what portion is earned from 'passive' investments, assuming that entity does not make investments in the course of its main business activities.

We acknowledge that the requirements to classify items of income and expense may be complex in a number of instances, including the classification of fair value gains and losses on derivatives and hedging instruments. We note that B40 of the exposure draft includes a summary of the requirements in paragraphs 57-59.

We have reproduced this table below for reference, as we have comments relating to how it summarises these requirements:

**Table 1—Classification of fair value gains and losses on derivatives and hedging instruments**

| | | Gains and losses on: | |
|---|---|---|---|
| | | **Derivatives** | **Non-derivative financial instruments** |
| **Used for risk management** | **Designated as a hedging instrument** | Classify in the category affected by the risk the entity manages, except when it would involve grossing up gains and losses—then classify in the investing category. | |
| | **Not designated as a hedging instrument** | Apply the presentation requirements for derivatives designated as hedging instruments except if such classification would involve undue cost or effort—then classify in the investing category. | Apply requirements for classification in paragraphs 45–55. |
| **Not used for risk management** | | Classify in the investing category, except when used in the course of a main business activity—then classify in the operating category. | |

Comment #1

Comment #2

Comment #1: this cell states that for a derivative not designated as a hedging instrument, that the presentation requirements for derivatives designated as hedging instruments should be followed unless doing so would involve undue cost or effort. This is summarising the requirements of paragraph 58. We believe this cell does not provide the intended meaning, as it states that an entity should ‘apply the presentation requirements’, which implies that this would mean all of the presentation requirements for derivatives designated as hedging instruments, whereas paragraph 58 makes it clear that this only applies to the requirements in paragraph 57. We believe this cell in the table should be amended to clarify this.

Comment #2: this cell, as well as the table in general, along with paragraphs 56-59 do not address hedge ineffectiveness clearly. For example, a derivative financial instrument may be designated as a hedging instrument, meaning paragraph 57 would apply to the item of income and expense arising from that derivative (e.g. an adjustment to the carrying value of inventory that is subsequent recognised as an expense, for example). The table and paragraphs 56-59 do not clearly state how hedge ineffectiveness should be classified. We believe the intention of the requirements is for hedge ineffectiveness to be classified in the investing category, because paragraph 57(c)(ii) states that the investing category is the residual. If this is the intention, then it would be useful if this were clarified in the requirements.

*Question 6*

(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.*
(b) *Paragraph 49 of the Exposure Draft proposes which income and expenses an entity classifies in the financing category.*

*Paragraphs BC33–BC45 of the Basis for Conclusions describe the Board's reasons for the proposals.*

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

Consistent with our response to question 4, we do not believe that entities should have a free accounting policy choice such that paragraph 64 is necessary. However, if the Board concludes that the accounting policy choice in paragraph 51 is appropriate, then we agree that all entities should present profit or loss before financing and income tax except for entities applying the choice to not present any financing activities.

The sub-total would distinguish profits earned before financing activities (e.g. finance expenses), which may be significant to many entities. This sub-total would communicate income and losses generated from an entity's main business activities and investing activities, separate from items of income and expense relating to the liabilities required to fund a portion of their ongoing operations.

*Question 7*

(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?*

We believe that creating a distinction between integral and non-integral joint ventures would provide useful information to users of financial statements, but only if main business activities can be more clearly defined (see our response to question 3). This is because this distinction may cause material differences in the presentation of an entity's financial statements; therefore, clear guidance on how main business activities are determined is important.

We also acknowledge that this additional requirement introduces complexity and creates a meaningful distinction in how income and expenses arising from investments accounted for using the equity method are classified, which in some cases may reduce comparability between entities. For example, one entity may apply reasonable judgment to conclude that an associate is non-integral whereas another entity with a very similar underlying set of circumstances may apply reasonable judgment and conclude differently.

Therefore, we believe the Board should also consider whether the additional complexity of this proposal is warranted given the potential benefits. We note that if this distinction were eliminated, and all income and expenses arising from investments accounted for using the equity method were classified in the investing category, that management could utilise a management performance measure to disclose some measure of profit or loss. This management performance measure would be included in the notes to the financial statements, adjusted to consider a distinction similar to the 'integral' classification as proposed by the exposure draft.

Additionally, if the distinction between integral and non-integral associates and joint ventures is retained, consistent with our response to question 3, we believe that it should be clarified whether this requirement may produce different outcomes at different levels in an organisational structure. For example, if Entity A concludes that its equity method investment in Associate Z is integral, could Entity B, the parent of A, conclude differently?

<u>*Question 8*</u>
*(a) Paragraphs 20–21 of the Exposure Draft set out the proposed description of the roles of the primary financial statements and the notes.*
*(b) Paragraphs 25–28 and B5–B15 of the Exposure Draft set out proposals for principles and general requirements on the aggregation and disaggregation of information.*

*Paragraphs BC19–BC27 of the Basis for Conclusions describe the Board's reasons for these proposals.*

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

We agree with the proposals. The description of the roles of the primary financial statements in paragraphs 20-21 accurately describe the purpose of these statements.

Paragraphs 25-28 and B5-15 provide a useful summary of the principles that must be applied when determining the level of aggregation and disaggregation in financial statements. We believe that summarising these requirements in one place in the exposure draft and articulating a single principle for aggregation will be useful for preparers of financial statements.

We agree with BC26 that a quantitative threshold is not appropriate and that judgment must be applied in applying the aggregation requirements in conjunction with the definition of materiality.

*Question 9*
*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?*

We agree with the proposals, however, we believe it may be difficult for an entity to determine which method of expense presentation provides the most useful information to users of financial statements (paragraph 68). Additionally, auditors may find it challenging to reject a method selected by management given the lack of criteria provided in order to make this assessment. This outcome would be consistent with current practice, where management typically selects a method of expense presentation relatively freely and usually subject to geographic and/or industry practice. We note this because while paragraph 68 is written to imply that the selection of an expense presentation method is not a 'free' choice, this may be the end result in practice based on the current drafting of the requirements.

We believe it is useful that paragraph B46 also explicitly prohibits the mixture of nature of expense method and the function of expense method, except when required by B47, as this mixture does currently occur in practice.

*Question 10*
(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?*

We agree that requiring entities to disclose ‘unusual items’ is an improvement to the existing requirements of IFRS. This is because in many instances under existing practice, entities are more likely to disclose non-recurring or ‘unusual’ losses or debit entries recorded in profit or loss, but they are less inclined to do so for gains or credit entries recorded in profit or loss (e.g. a gain that is not expected to recur).

Additionally, we believe that defining an unusual item provides the benefit that if management wishes to disclose a management performance measure, which adjusted ‘unusual’ items out of profit or loss, then such items must meet the definition of an unusual item. This would reduce the use of the term ‘unusual’ being applied inappropriately.

However, we believe the requirements could be improved in a number of respects.

Firstly, we believe the Board must be mindful of the complexities involved in translating the requirements of IFRS into multiple languages. IFRS is applied in dozens of languages worldwide; however, IFRS is only officially translated into a smaller number of different languages. It may be difficult to ensure that the intention of this proposal is accurately translated. Our concern is that while ‘unusual’ has a well understood meaning in many English-speaking countries, it may be challenging to find a term with a similar meaning in certain other languages. Conversely, in some languages, more than a single word may carry a similar meaning. This is relevant when the unusual income and expense requirements interact with the management performance measure requirements, as entities may be able to bypass the ‘ring fenced’ definition in the exposure draft by using another term that is not captured in the translated version of the standard.

Secondly, there appears to be inconsistency in how the term is defined in the exposure draft:

- Paragraph 100 states that unusual income and expenses are defined as having ‘limited predictive value’, which means that 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.
- Paragraph B67 states that an item cannot be classified as unusual if it is reasonable to expect that income or expenses similar in type and amount will arise in <u>any</u> of several future annual reporting periods.

Paragraph B67 includes the word ‘any’ in the final sentence, whereas paragraph 100 does not. While this difference may appear minor, it affects how an entity would determine if an item is considered to be unusual or not. For example, if B67 were applied, any expectation of recurrence in several future annual reporting periods would mean that the item could not be presented as unusual. In contrast, paragraph 100 lacking the term ‘any’ implies that it may need to occur in several periods (i.e. more than just ‘any’ single period) in order to not meet the definition of an unusual item. We encourage the Board to clarify the inconsistency in the language between paragraphs 100 and B67. It would be useful to define ‘unusual income and expenses’ in Appendix A.

Additionally, if ‘any’ single period were considered the appropriate definition of unusual income and expenses, this may unintentionally scope out certain items. For example, if income and expenses occurred over a fiscal reporting period end (e.g. the end of December and into January for an entity with a calendar year-end), then the fact that those items of income and expense ‘straddle’ a fiscal period end would cause them to violate the definition of unusual income and expenses as noted in B67. This is because those items of income and expense would be expected to arise in <u>any</u> of several future annual reporting periods.

We also believe that the exposure draft should address how unusual items should be presented in the comparative period if a similar item of income or expense does recur in a future period, despite an entity having a bona fide expectation that the item originally met the definition of an unusual item of income and expense. We believe that as long as the entity concludes that the presentation of that item of income or expense as unusual was not an error as defined in IAS 8, that no reclassification or 'correction' of the presentation in the comparative period would apply, however, we do not believe that is clear based on the current drafting of the requirements.

Finally, we note that certain jurisdictions' regulatory requirements prohibit the use of the term 'unusual' or restrict it to a limited set of circumstances that may conflict with the requirements of IFRS. Consistent with our response to question 11, we encourage the Board to work with securities regulators worldwide to ensure any conflict between the requirements of IFRS and securities regulation may be identified and an appropriate solution may be implemented. This may also inform the Board's decision concerning an effective date for the final standard, as adjustments to securities law and regulation may require a significant amount of time to implement.

*Question 11*

- *(a) Paragraph 103 of the Exposure Draft proposes a definition of 'management performance measures'.*
- *(b) Paragraph 106 of the Exposure Draft proposes requiring an entity to disclose in a single note information about its management performance measures.*
- *(c) Paragraphs 106(a)–106(d) of the Exposure Draft propose what information an entity would be required to disclose about its management performance measures.*

*Paragraphs BC145–BC180 of the Basis for Conclusions describe the Board's reasons for the proposals and discuss approaches that were considered but rejected by the Board.*

*Do you agree that information about management performance measures as defined by the Board should be included in the financial statements? Why or why not?*

*Do you agree with the proposed disclosure requirements for management performance measures? Why or why not? If not, what alternative disclosures would you suggest and why?*

We agree that management performance measures should be included in the financial statements with appropriate disclosure. We support the inclusion of management performance measures in the financial statements because these types of measures are increasing in prominence worldwide, and they are not always adequately disclosed and reconciled to amounts that are measured in accordance with IFRS. Including them in the financial statements enhances the information provided by the financial statements themselves, rather than management providing their view of the performance of the entity only outside of the financial statements (e.g. in management discussion and analysis sections of public documents).

Before noting our concerns, we would like to emphasise the importance of the Board in working with securities regulators worldwide if the exposure draft is finalised. Consistent with our response to question 10, securities laws and regulations worldwide are very diverse. Some regulators have established detailed requirements for these types of measures which go beyond the statement issued by IOSCO in 2016, some of which would conflict materially with the requirements included in this exposure draft. We believe the Board must adequately understand the scope of these issues before finalising an IFRS standard and determining an effective date and transitional provisions. This is because the effective date of the standard needs to consider the time required by preparers, regulators and legislatures to identify inconsistencies between the requirements of the standard and securities regulation and law. The identification of such issues and resolving them may take a significant amount of time, especially if the resolution requires the modification of laws that are subject to legislative approval.

We have a number of other concerns relating to the proposed requirements. Our concerns relating to the proposed requirements are as follows.

Paragraph 105(a) states that management performance measures shall 'faithfully represent' aspects of the financial performance of an entity to users of financial statements. Faithful representation is defined in the conceptual framework. Paragraph 2.13 states (emphasis added):

*To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete,* ***<u>neutral</u>*** *and free from error. Of course, perfection is seldom, if ever, achievable. The Board's objective is to maximise those qualities to the extent possible.*

While the conceptual framework acknowledges that information will rarely achieve perfectly faithful representation, in many instances management performance measures will not result in faithful representation because they will not be neutral. One of the proposed requirements is that management performance measures communicate management's view of an aspect of an entity's financial performance (paragraph 103(c)); however, in practice adjustments made by management are often 'one way', with adjusted profit measures typically excluding only specified expenses and not income. Therefore, it is unclear to us whether paragraph 105(a) creates a 'threshold' for faithful representation that must be satisfied in order for the management performance measure to be included in the financial statements. If so, we believe this is inappropriate, because then management performance measures that do not faithfully represent aspects of the financial performance of an entity would be excluded from the financial statements, meaning they would not be reconciled to the nearest IFRS sub-total nor would they be subject to the other disclosure requirements for management performance measures.

We believe the Board needs to amend the requirements of any final Standard to clarify whether it intends to scope into the requirements of the proposed IFRS all management performance measures regardless of whether they achieve faithful representation. In that context, we note that BC161 states that 'a management performance measure that does not faithfully represent an aspect of an entity's performance should not be included in the financial statements as a management performance measure'. If that is the case, then we believe that the management performance measures that are most in need of disclosure will not be included in the scope of these requirements, which we do not believe is an appropriate outcome.

If the Board intends for a broader number of management performance measures to be captured by the requirements, then we have concern that users of financial statements may interpret the issuance of an audit or other assurance report in relation to the financial statements as an endorsement of the management performance measure. For example, if management includes a management performance measure that adjusts a significant loss to remove many significant expenses, the requirements included in the exposure draft would require a reconciliation of that loss to the nearest IFRS sub-total, along with a number of other disclosures that we believe are useful. However, a user of the financial statements may interpret an audit or other assurance report as confirming that the auditor believes the management performance measure selected by management is appropriate, when in reality, the auditor has only confirmed that the management performance measures complies with the relevant presentation and disclosure requirements of IFRS.

Auditors already experience a similar issue with these types of measures included in documents outside of the financial statements (e.g. management discussion and analysis), where certain users of financial statements do not necessarily understand that auditors do not provide any assurance on such figures (although we acknowledge that the audit report specifies its scope). We believe the 'auditor confirmation' issue may be worsened if management performance measures are included in the financial statements. To address this concern, we believe that the note summarising all management performance measures should be required to disclose that such figures are not calculated in accordance with IFRS. Additionally, it should be disclosed that management performance measures are not required to faithfully represent all aspects of the financial performance of an entity (assuming that the Board intends to capture all management performance measures in the scope of these requirements).

We have a number of other concerns relating to the management performance measure requirements:

1. Management performance measures are partially defined as being 'used in public communications outside financial statements'. This establishes a very low threshold for a management performance measure to be included in the scope of these requirements. Based on our interpretation, a single communication would be included in the scope of these requirements. We recommend that some threshold be introduced such as 'regularly communicates'. It is also not clear what form of communication would be viewed as constituting a 'public communication'. For example, would this include a posting on social media by a company director or an employee?
2. It is unclear to us whether the 'public communication' requirement is coterminous with the period end in the financial statements. For example, if an entity is preparing its 31 December 2024 financial statements and a public communication is made on 15 January 2025, does that public communication satisfy criterion (a) in the definition of a management performance measure? We believe that this is not the intention of the Board, since an entity is likely to prepare management performance measures concurrently with the preparation of the financial statements, which will occur subsequent to period end out of necessity; however, we believe this should be clarified.
3. It is unclear to us whether management performance measures that interact with non-financial information would be included within the scope of the requirements. For example, income earned per square foot of rented space, or income per barrel of oil sold. We suggest that this is clarified.

*Question 12*
*Paragraphs BC172–BC173 of the Basis for Conclusions explain why the Board has not proposed requirements relating to EBITDA.*

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

We agree with the proposal. If some measure of EBITDA is considered important to management, then it may be included as a management performance measure and subject to those presentation and disclosure requirements.