THE 100 GROUP

Financial Reporting Committee

IFRS Foundation
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23 September 2020

Dear Mr Hans Hoogervorst,

Please find enclosed our response to your Exposure Draft: General Presentation and Disclosures (ED/2019/7).

This response has been prepared by the 100 Group Financial Reporting Committee and is intended to speak on behalf of the Group as a whole. The 100 Group membership represents around 90% of the FTSE100 market cap as well as a number of equally significant sized unlisted businesses.

We thank you for the opportunity to comment on your proposal and would invite any further dialogue which you would deem of value.

Overall we are supportive of the intentions of this project and the proposals to create a new accounting standard rather than simply to make amendments to those currently in place. Having said that we do have some significant concerns around some of the detail in the draft.

In particular, we have raised a number of comments around: the introduction of integral and non-integral joint ventures and associates; the effective prohibition of the term 'other' in the aggregation and disaggregation of financial information; the proposal for the analysis of operating expenses; the proposal for the introduction of unusual items; and the proposals around MPM disclosures.

Our detailed responses to the questions outlined in the Discussion Paper are included as an appendix. We have sought to be clear and constructive in our feedback, providing where possible, practical solutions and alternatives to the issues and requirements identified. We hope you find that they provide helpful insight as you move to the next stage of the project.

Please do contact our secretariat Hannah Maughan at secretariat@the100group.co.uk should you wish to discuss any of our comments in further detail and she will be very happy to put you in touch with us.

Yours sincerely,

Iain MacKay,
Chair of the 100 Group Financial Reporting Committee

APPENDIX 1 – Questions

Question 1 Operating Profit or Loss

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

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

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

100G response We understand the basis for the proposal and are supportive of the requirement for all entities to present a subtotal for operating profit (or loss).

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.

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

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

100G response We understand the basis for the proposal and are in agreement with the proposed definition for the category.

We note that the nature of IFRS being principles based means that in practice some companies could interpret the classification of income and expenses slightly differently. Consequently, in order to ensure continued consistent treatment and comparability of reporting, we would expect the field-testing to highlight any significant consistency issues for the Board to consider.

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.

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

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

100G response We understand the basis for the proposal, and we support the requirement to classify income and expenses from investments within the operating category where they were made in the course of the entities own business activities.

Question 4 The operating category: an entity that provides financing to customers as a main business activity

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

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

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

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

100G response We understand the basis for the proposal and are supportive of the requirement that customer financing where it forms part of an entity's main business activities should be classified within operating expenses.

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.

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

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

100G response We understand the basis for the proposal and are supportive of the requirement that investing activities which do not form part of the main business activities should be classified within investing, we would however welcome additional guidance on the definition of such activities.

It would be useful to define what investing activities would form part of the main business activities, noting that examples from outside of the financial services sector would be particularly useful.

Further, we believe it to be important that any detail within the final standard does not create additional requirements which then overlap with IFRS 17.

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.

(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?

100G response We understand the basis for the proposal and do not object to a requirement to disclose profit or loss before financing and income tax as a subtotal on the face of the P&L account.

Question 7 Integral and non-integral associates and joint ventures

(a) The proposed new paragraphs 20A–20D of IFRS 12 would define 'integral associates and joint ventures' and 'non-integral associates and joint ventures'; and require an entity to identify them.

(b) Paragraph 60(b) of the Exposure Draft proposes to require that an entity present in the statement of profit or loss a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures.

(c) Paragraphs 53, 75(a) and 82(g)–82(h) of the Exposure Draft, the proposed new paragraph 38A of IAS 7 and the proposed new paragraph 20E of IFRS 12 would require an entity to provide information about integral associates and joint ventures separately from non-integral associates and joint ventures.

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

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

100G response We understand that the decision to exclude results from associates and joint ventures from operating profit/loss is designed to improve the comparability of operating profit/loss.

Furthermore, for several of our members the ability to disclose an additional line 'operating profit/loss including the results of associates and joint ventures' is vital to ensuring comparability across their sector and we are therefore supportive of an option to identify associates and joint ventures in this way.

However, we have a number of observations regarding the presentation and disclosure requirements of this proposal:

– *Materiality*

  We consider the addition of optionality as to whether the distinction between integral and non-integral be made within the Income statement or the notes to the accounts would be more beneficial to users, based on the application of materiality. For instance, where both integral and non-integral results are immaterial, then the disaggregation between the two categories would be better reflected in the notes to the accounts.

  Further, the assessment of ownership and control in the determination of whether an undertaking is an associate or a joint venture is extensively covered by both IFRS 10 and IFRS 11. Where, applicable and material to an entity, there already exists significant disclosure requirements regarding the judgements applied and the results from such undertakings. Therefore, where the results from associates and joint ventures are immaterial, then the current wording of the exposure draft is misaligned with the disclosure requirements of IFRS 10 and IFRS 11.

- *Definition of integral*

  For those industries which maintain a large proportion of their operations through joint operations, associates and joint ventures, the proposed definition of 'integral' is too restrictive, and would result in a number of associates and joint ventures, that are aligned with an entity's activities and would ordinarily be considered part of operating profit/loss, being reclassified below operating profit/loss as they do not meet the definition of integral in the exposure draft.

  For example, in the extractive sector, joint operations and joint ventures are distinguished by the requirements of IFRS 11, however the underlying activity and the nature of the relationship is in substance very similar – it therefore appears inappropriate to record joint operation results in operating profit/loss and joint venture results below operating profit/loss.

  Members from such industries propose that by removing language on not generating 'individual returns largely independently' and updating the definition to focus on the aligned nature of the activities between the investor and the associate/joint venture would better serve users.

- *Cash flow statement*

  The current proposal for the differentiation between integral and non-integral associates and joint ventures is inconsistent with the disclosure requirements of the cash flow statement. The exposure draft should ensure that any final amendment in this regard should continue to reflect consistency between primary statements.

In summary, we propose that optionality based on materiality be applied to the proposed standard and that the definition of integral be updated to better capture the nature of the many diverse relationships already defined by IFRS11 to ensure consistency of treatment within entities as well as across sectors and throughout the primary statements.

Question 8 Roles of the primary financial statements and the notes, aggregation and disaggregation

(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?

100G response We understand the basis for the proposal and are generally supportive of the requirements however we have some reservations and suggested amendments.

- *Aggregation*

  While we agree that it is appropriate to aggregate immaterial items we believe that the proposals go too far in effectively prohibiting the use of the term 'other'. Primary in our concern is that a significant volume of explanatory text is required to be added to the financial statements with little or no value, thereby running counter to the requirement to be clear and concise.

  We believe that companies should be able to aggregate immaterial items and the use of a generic title, such as "other", might be the only appropriate way of doing so. Having aggregated, the proposals would then require associated narrative for these immaterial items which would be more extensive than that for material line items and so unduly focus users of the financial statements on these immaterial items.

  While we understand and appreciate that IFRS' in general do not utilise quantitative thresholds, we suggest an alternative would be to incorporate quantitative and qualitative guidance for determining the level of analysis required, such as is applied in IFRS 8.

- *Goodwill*

  In addition, while we are not averse to the presentation of goodwill on the face on the statement of financial position, we consider that the concept of materiality should be available to companies so as not to unnecessarily expand the statement of financial position for insignificant balances.

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?

100G response Whilst we do understand the desire to improve comparability, we are not sure that the current proposal is effective in that effort, and further, we have some significant reservations around the requirement which effectively mandates the by nature reporting of the statement of profit or loss.

Specifically:

- *Unlikely to drive an improvement in comparability*

  While we appreciate that certain users of financial statements may wish to see the presentation of the P&L account both by function and by nature, we do not believe that this will drive improved comparability or transparency.

  For instance, certain sectors, including the aviation industry, almost entirely present their P&L by nature, but with such a high degree of divergence of presentation in practice, comparability is limited.

  In addition, companies are likely be left with a residual balance of "other" items, which will not be comparable between companies either within the same sector nor across sectors, which will inevitably hinder the comparability that investors seek

  Without very extensive and detailed definitions there is likely to be no improvement in comparability across companies even within the same sector.

- *Less valuable insights into the business*

  Companies that currently report on a functional basis do so because this is how they run their business and monitor performance internally. These companies will have to maintain two income statements – by function for internal reporting and performance monitoring, and by nature for external reporting. Where the analysis of expenses by nature is prepared solely to meet an external disclosure requirement, the ability of management to answer questions about those expenses or trends is likely to be limited.

  Furthermore, there are a number of companies that currently use a hybrid of the nature and function presentations as they believe this provides a useful presentation for readers. These companies may find the move to presentation either by function or by nature could reduce the usefulness of their P&L account presentation to users.

- *Cost to implement*

  Further, we have some very significant concerns around the cost to implement such a reporting requirement for a number of businesses whose accounting systems and consolidations structures have been designed specifically to gather, hold and analyse data on a functional basis.

  For many Groups, to work back through the reporting would be a significant undertaking regarding system changes and configurations, which is exacerbated for Groups with multiple ERP systems. For certain of our members, the change management process to implement such a change would take over 12 months and run in the millions of pounds. An example of the complexity required would be with regard to the rule setting to ensure consistency where certain PL items are capitalised.

- *Practicalities to implement*

  Over and above the costs there are some practical hurdles to overcome. Where for example payroll costs are capitalised within intangible assets or PP&E and amortised over the life of the asset the reconciliation required between functional and nature reporting might be so complex as to be impracticable.

  And even where it is achievable, if additional or adapted accounting policies need to be developed and adopted in order to achieve the intended reporting we challenge whether the perceived value is sufficient to warrant it.

We would like to propose an alternative which might meet the perceived needs of users without significantly increasing the burden on preparers. We would propose that rather than a secondary classification of all expenses, a more practical approach for those companies that present expenses by function would be to continue to present in addition the specific financial statement line items by nature required by IAS 1 (i.e. depreciation; amortisation; and employee costs included in the statement of profit or loss) but then to provide an analysis of each of these items showing the split between functional line items. This information is more likely to be available from existing reporting processes in most cases and could therefore be reported without excessive additional cost.

Question 10 Unusual income and expenses

(a) Paragraph 100 of the Exposure Draft introduces a definition of 'unusual income and expenses'.

(b) Paragraph 101 of the Exposure Draft proposes to require all entities to disclose unusual income and expenses in a single note.

(c) Paragraphs B67–B75 of the Exposure Draft propose application guidance to help an entity to identify its unusual income and expenses.

(d) Paragraphs 101(a)–101(d) of the Exposure Draft propose what information should be disclosed relating to unusual income and expenses.

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

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

100G response Whilst we do understand the basis for the proposal, we disagree with how the proposal is currently drafted and propose that further clarifications and/or amendment be made.

Firstly, the current drafting of unusual items implies that the threshold for the identification and recording of such items is low – potentially requiring entities to carry out an exercise to search for items that meet the definition, going beyond how management monitor the performance of the business – and is therefore open to significant divergence in practice. We recommend that it is made clear that to meet the definition of an unusual item, the item must be material to a user's understanding of the performance of the business.

Secondly, we would request further clarification to be given regarding the interaction between unusual items and the proposed management performance measures detailed in the exposure draft. Such clarification should focus on whether all unusual items by definition should fall within the management performance measures (based on the preceding paragraph point on unusual items going beyond the level at which management monitor the performance of the business), or whether there could be divergence.

We believe that the combination of the proposals on unusual items, MPMs addressed in more detail below and the requirements around by function and by nature reporting of expenses is likely to increase the complexity of reporting and reduce comparability across businesses, leading to a reduction in clarity for users of accounts.

And finally, we would request deeper consideration of the specific definitions which currently appear to create inconsistent treatment – for example:

- those items of accrued income and expense that are recognised as unusual, for which in the event of their reversal in future periods if unused then do not meet the recognition criteria to be classified as unusual;
- a genuinely one off transformation or restructuring project that spans two financial reporting periods and therefore cannot be said to not continue next year but would not for the next many years.
- consideration of the consistency between the IFRS and the US GAAP definition of 'unusual', since comparability issues could arise in the event of the definitions diverging

Question 11 Management performance measures

(a) Paragraph 103 of the Exposure Draft proposes a definition of 'management performance measures'.

(b) Paragraph 106 of the Exposure Draft proposes requiring an entity to disclose in a single note information about its management performance measures.

(c) Paragraphs 106(a)–106(d) of the Exposure Draft propose what information an entity would be required to disclose about its management performance measures.

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 MPMs 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 MPMs? Why or why not? If not, what alternative disclosures would you suggest and why?

100G response We understand the basis for the proposal, however we do not support the blanket requirement to include reconciling and explanatory information around management performance measures (MPMs) within the financial statements in all cases. We also believe that the narrow definition of MPMs, excluding alternative asset, liquidity and cash flow measures, will potentially create confusion for users, where entities utilise MPMs that fall outside of the narrow definition in the exposure draft.

Many large IFRS reporters are already subject to reporting requirements in relation to MPMs issued by ESMA, the SEC or similar regulatory organisations. The definitions of MPMs to which these requirements apply are broadly consistent and we do not understand the rationale for the Board choosing a significantly narrower definition of MPMs to be included within the financial statements.

We would propose that if MPMs are presented within the financial statements, the relevant explanations and reconciliations should also be included in the notes. However, if MPMs are included in the document that contains audited accounts but not in the accounts or notes themselves, then the explanations and reconciliations should be included in the document, but not necessarily within the audited accounts. If considered necessary, the reconciliations could be made subject to audit wherever they are presented in the document.

We would not be supportive of extending the definition of MPMs to include metrics based on non-IFRS measures (such as capital metrics within the insurance industry) within the definition. The use of a collection of performance measures beyond those using IFRS is often an important part of an entity's performance discussion and the advantage of collecting these together outside of the audited financial statements is one of the reasons why we are not supportive of including certain IFRS items in the audited statements (which is likely to lead to duplication and the Annual Report becoming longer and more complex).

Nor would we be supportive of including non-financial MPMs within the definition.

However, we would propose that reporters should be permitted the option to expand the definition of MPMs in their financial statements to cover more than income statement metrics, such as capital intensive industries, where such measures are critical to aiding the understanding of performance.

Further, with regard to the proposed requirement to incorporate the income tax effect of each item disclosed in a reconciliation between the most comparable IFRS measure and the management performance measure we have two concerns. Firstly, we question the merit where the measure is by definition a pretax measure (e.g. EBITDA), and consider that this would in fact create confusion; and secondly, we would seek clarification that where the impact of an 'adjustment' is presented across the P&L in a tabular reconciliation, only the total tax impact is required as opposed to the tax impact of every element of the adjustment.

Question 12 EBITDA

Paragraphs BC172-173 if 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?

100G response We understand the basis for the proposal and are largely supportive of the decision not to define EBITDA.

We would simply raise a challenge as to whether there might be some value in defining a basis for EBITDA in order to create some comparability. Companies would be able to adopt an adjusted EBITDA if they so choose, but this would then be covered by the disclosure requirements of MPMs.

Question 13 Statements of cash flows

(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.

(b) The proposed new paragraphs 33A and 34A–34D of IAS 7 would specify the classification of interest and dividend cash flows.

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.

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

100G response We understand the basis for the proposal and are supportive of the requirement for operating profit or loss to be the starting point for the indirect method of reporting cash flows from operating activities, but we did want to raise one minor matter.

Specifically, we note that the titles used in the statement of cash flows and the P&L account are now proposed to be the same but relate to different items. Although we do not think this should be an issue, it may be something for the IASB to consider aligning should concerns be raised through IFRIC

Question 14 Other

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?

100G response	Some of our members have noted the removal of the ability to present columns on the face of the income statement. They believe that a columnar presentation can aid communication with stakeholders and request that this option be reinstated.