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International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Board Members,

RESPONSE TO EXPOSURE DRAFT – GENERAL PRESENTATION AND DISCLOSURES ("ED")

ISCA sought views from its members on the above ED through a three-month public consultation and from the ISCA Financial Reporting Committee which includes experienced technical accounting professionals from large accounting firms, preparers and other stakeholders.

We agree with the Board's key proposed amendments in the ED, such as the introduction of three new defined sub-totals and providing guidance around how to classify items into the different categories in the statement of profit or loss. We believe that with application of these amendments, entities would be able to better communicate performance reporting via the statement of profit and loss and this would lead to improved comparability among different IFRS reporters.

Notwithstanding this, we would like to share the following concerns regarding the proposed amendments:

General Comments

(i) Consider requiring the presentation of unrealised revenue and unrealised income/loss as a separate performance measure

The ED does not address the issue of presentation of unrealised revenue and unrealised income/loss. We note that unrealised earnings is one of the key factors in assessing the quality of an entity's earnings and such information is relevant for investors. Ambiguity over realised versus unrealised earnings and the quality of unrealised earnings can have severe implications for the valuation of companies. In addition, the statement of cash flows does not provide sufficient information over the quality of earnings.

Currently, there are no requirements in the Standards to disclose unrealised earnings by their level of uncertainty. However, for assets and liabilities measured at fair value, IFRS 13 requires disclosure of the level of fair value hierarchy (Level 1, 2, 3). The levels reflect the inputs to valuation techniques used to measure fair value.

We suggest that the Board considers requiring entities to disclose the unrealised revenue and unrealised income/loss as a separate performance measure and the Board could adopt a similar hierarchy structure used in IFRS 13, i.e. use different levels to reflect the measurement uncertainty of the unrealised earnings.

The Board could consider embarking on a new project on performance reporting to address the above or consider adding a new item under the Board's "Better Communication in Financial Reporting" project.

(ii) Provide clarity on the concept of "main business activities"

We observe that most of the proposals in the ED were developed around the concept of "main business activities". Therefore, it is important for the concept of "main business activities" to be clearly defined.

Throughout the ED, the concept of "main business activities" did not appear to be clearly explained. For example, it is unclear whether "main business activities" is defined by size, such that only the largest business activity will be captured by the concept, or if it refers to business activities that, by nature, are considered "main", although smaller in scale.

We believe further clarification to the concept of "main business activities" is needed and additional guidance should be included to allow for its consistent application across entities. Illustrative examples, for instance, of how it applies to an international conglomerate, and how it applies to a corporate entity also engaged in financing activities, would be one potentially effective way of providing such guidance. The additional guidance should also illustrate how to identify income and expenses that are not generated in the course of an entity's main business activities.

We believe that the ED should also address the situation when an entity changes its main business activities and how to address such changes when it occurs. We believe this is important as it will affect comparability of information within the financial statements and between different entities.

ED Question 1 – operating profit or loss

(iii) Limitations to comparability between entities for operating profit or loss subtotal

We generally agree that having a standardised subtotal for operating profit or loss increases comparability between entities to a certain extent.

However, it should be noted that there could continue to be limitations to the comparability between entities i.e. operating profits of entities in the same industry may still differ due to the different business model/strategy.

For example, in the context of the real estate industry, a company that engages in active asset recycling may classify gain or loss on disposal of an investment property under the operating category as it views such gain or loss to be generated from its main business activities, while another company that holds properties on a long term basis may classify gain or loss on disposal of an investment property under the investing category.

ED Question 2 – the operating category & ED Question 13 – statement of cash flows

(iv) Consider aligning the categorisations in the statement of profit or loss and the statement of cash flows

We generally agree with the list of items to be included in the operating category of the statement of profit or loss.

However, we noted that the categorisation in the statement of profit or loss may not necessarily correspond with the statement of cash flows resulting in inconsistencies within the primary financial statements. This could create "new" confusion for users of financial statements. For example, a company that engages in active recycling of properties may classify gain or loss on disposal of an investment property under the operating category in the statement of profit or loss but the corresponding cash receipts from the same sale of the investment property would be reported as cash flows from investing activities.

Aligning the definitions for the categories in the two statements would ease the burden of preparation for preparers and ensure consistency in inclusion of items under the different categories.

ED Question 5 – the investing category

(v) Provide clarity on what constitutes "incremental expenses"

We generally agree with the proposal 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.

We suggest that the definition of "incremental expenses" incurred be clarified as there is limited guidance in the ED to explain what constitutes "incremental expenses". In addition, we also suggest that the Board provides examples to illustrate incremental expenses incurred generating income and expenses from investments as the ED has only illustrated what is not considered as incremental expenses in paragraph BC50.

ED Question 7 – integral and non-integral associates and joint ventures

(vi) Consider not requiring the split of associates and joint ventures into integral and non-integral

We do not agree with distinguishing between integral and non-integral associates and joint ventures.

Under existing current IFRS 12 requirements, substantial information on material associates and joint ventures is disclosed, including summarised financial information of each material associate or joint venture, dividends received and a reconciliation of summarised financial information presented to the carrying amount of interest in the joint venture or associate. We are of the view that this information on material associates and joint ventures is sufficient for users of the financial statements.

We have concerns as to how the split between integral and non-integral may be applied in practice. In our view, it is not clear what "having integrated lines of business" and "sharing a name or brand" refer to. It is not clear what level of interdependency would be sufficient to meet the definition of an integral associate and joint venture. It is also not clear, how the concepts of "significant influence" and "joint control", interact with the concept of interdependency. For instance, some may consider that an associate is always integral to the business while others may consider that an associate is never integral to the business of the investor.

We also note that the "integral" concept is proposed in a way that represents a new nuance on the scale, with non-significant influence at one end and control at the other. Strong interdependency between an investor and investee is an element to consider when determining whether the former controls the latter. So, integral investees are more dependent on the investor than significant influence or joint control alone suggests, but less dependent than control would imply. All of these concepts require the exercise of significant judgement by management. The concept of "integral" introduces further judgement which increases the risk of different treatment of two investees, although the substance of the arrangements may be the same.

We believe that including share of profit from integral investees in the operating category may have its challenges. In particular, some are concerned that considering integral investees as part of an entity's operating activities could encourage "earnings management", which is an even more pronounced concern when taking into account the judgemental assessment required to determine whether or not an investee is integral, as discussed above. On the other hand, introducing a separate section in the statement of profit or loss for a sub-group of equity-method investees appears excessive in that narrowly-scoped income and expenses receive unwarranted attention.

Furthermore, if share of profit from integral investees were to be included in the operating category, the concerns regarding how to distinguish between integral and non-integral would effectively be eliminated. This is because the only logical way of distinguishing between integral and non-integral in that case would be to rely on paragraph 48 (assuming that the concept of main business activity can be clarified, as discussed in point (iii) above).

In addition, it is not clear what is the timing of assessment of whether an associate and joint venture is integral or non-integral to an entity and how to account for changes between integral vs non-integral classification when there are changes to the main business of the entity.

ED Question 8 – roles of the primary financial statements and the notes, aggregation and disaggregation

(vii) Unclear why immaterial items, when aggregated, require further information to be presented

We refer to the proposed requirements in paragraph 28 of the ED. Our view is that regarding aggregation and disaggregation, the concept of materiality is sufficient and there is no need to add on the requirements in paragraph 28. If the items are immaterial when aggregated, by definition, they are immaterial and no further information should be necessary.

ED Question 9 – analysis of operating expenses

(viii) Consider simplifying requirements for entities when deciding whether to present operating expenses either using nature of expense or function of expenses method

We agree with the proposal to provide requirements and application guidance to help an entity to decide whether to present its operating expenses using the nature of expense or the function of expense methods of analysis.

We also agree that an entity that provides an analysis of its operating expenses by function in the statement of profit or loss should provide an analysis using the nature of expense method in the notes. Requiring the analysis to be located a single note may enhance the usefulness of the financial statements, as the information will be easier to access and the navigation within the financial statements will be improved.

However, we are of the view that the determination of what is the 'most useful information to users' requires considerable amount of research and is subjective and judgemental, therefore is difficult to apply in practice. We believe that the current requirement that states '*whichever provides information that is reliable and more relevant*' may be a more appropriate benchmark. This threshold would require a less onerous assessment and would require an entity to only compare the two alternatives, not ruling out that another approach (mixed) may be better.

<u>ED Question 10 – unusual income and expenses</u>

(ix) Provide guidance on "unusual" concept and its presentation on the primary financial statements

We agree with the proposal to define unusual income and expenses, as this will result in entities disclosing both unusual income and expenses, and not only unusual expenses, which tends to happen in current practice. We support the Board's proposal as users often find information about non-recurring items helpful in their efforts to predict future performance, which is aligned with the objective of financial reporting.

We believe that examples of transactions or events that would be considered as unusual income and expenses should be provided to increase consistency in application of the "unusual" concept.

Furthermore, the term "several future annual reporting periods" in paragraph 100 is unclear. Does this refer to two or more periods, or more than three periods? We note that paragraph 102 implicitly suggests that one period may be "several periods" in this context. Without additional guidance we would expect to see significant diversity in practice – "unusual" having one meaning to one entity, and another to other entities.

We generally agree with the proposal as to what information should be disclosed for unusual income and expenses. We also agree that requiring the disclosure of unusual items to be accorded a single note enhances the usefulness of financial statements. Information will be easier to access and the navigation within the financial statements is improved.

We note that the proposal does not preclude unusual income and expenses from being presented in the primary financial statements (paragraph BC126). The Board should consider providing additional guidance on exactly when presentation of unusual items in the primary financial statements would be appropriate. Similarly, we encourage the Board to clarify whether presenting unusual items in the statement of financial performance would conflict with the requirement to include unusual items disclosures in one single note.

In addition, for unusual items, it would be helpful if the Board could consider providing more guidance on what constitutes "unusual items" through the use of examples under varying circumstances.

ED Question 11 – management performance measures
(x) Consider prohibiting the use of Management Performance Measures (“MPMs”) in the financial statements

We recommend prohibiting the presentation and disclosure of MPMs, and to leave presentation and disclosure of such MPMs for management reporting outside of the financial statements.

We believe there are valid audit concerns to consider should MPMs be included in the financial statements. Generally, MPMs outside the financial statements are governed by local regulatory requirements. When MPMs are defined in reference to being published outside of financial statements, the auditor will have to undertake a search across all other communication of the entity before concluding on the completeness of the required disclosures in the financial statements. This may therefore be an onerous requirement, potentially having consequences for the scope of the audit. Furthermore, a requirement to identify all MPMs by searching all communication of the entity may have other audit-related consequences.

Should you require any further clarification, please feel free to contact myself, Mr Marcus Chan, Assistant Manager, TECHNICAL: Financial & Corporate Reporting, from ISCA via email at jumay.lim@isca.org.sg or marcus.chan@isca.org.sg.

Yours faithfully,

Ms Ju May, LIM
Deputy Director
TECHNICAL: Financial & Corporate Reporting;
Ethics & Specialised Industries;
Audit & Assurance