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30th September 2020

IFRS Foundation
Columbus Building
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Via email: commentletters@ifrs.org

Dear Sir/Madam

Re: The IASB's Exposure Draft on General Presentation and Disclosures (ED/2019/7)

1. Our key messages

1.1. We believe it is important to improve primary financial statements reporting. While our members may not agree on the order of importance of these primary statements, we accept the IASB starting with the statement of profit or loss and then moving on to the others, because company financial performance is key and the statement of profit or loss is the one that provides most information in this respect. We would expect the IASB to consult on which primary statement to focus on next, the statement of cash flows or the statement of financial position.

1.2. From our shareholder user perspective, we agree with all your proposals. However, there are some areas that could be enhanced and others where we would hope they are not changed. Some of these key points are listed below in 1.3.

1.3. Our key comments are as follows.

1.3.1. We suggest that the operating category is linked to an entity's business model - as described in an UK annual report that includes the relevant financial statements – or something similar, if not required reporting as in the UK, and is not just a default category.

1.3.2. The whole area of accounting for unrealised gains and losses on revaluation of assets and liabilities needs to be reviewed in detail as the area is complex and we believe in the interests of capital maintenance it is not always appropriate to credit **<u>unrealised</u>** gains to the statement of profit or loss if this allows them to be distributed. If this is not going to be covered in the revision of accounting standards relating to the statement of profit or loss, we suggest it is picked up in the project on the statement of financial position with any impacts on the statement of profit or loss being revisited at that time.

1.3.3. We strongly agree with the proposals on presenting and disclosing operating expenses by nature and/or by function. Therefore we would hope they are not changed. However, we suggest that disclosure of the reasons for deciding the choice presented is made more explicit.

1.3.4. We suggest that the next stage of the Primary Financial Statements project is to look at the statement of cash flows.

1.3.5. We would like this stage of the project to consider making the same operating, integral associates and joint ventures, investing and financing categories changes for the direct method for cash flow statements as those that are being made for the statement of profit or loss and for the indirect method for cash flow statements.

2. Introduction

2.1. Our comments on the exposure draft are set out in our key messages above and in the appendix to this letter where we answer your questions.

2.2. UKSA and ShareSoc represent the interests of private shareholders. In addition to our own members, there are 5 million people who own shares and have investment accounts with platforms in the UK. The Office for National Statistics estimates that individual investors own 13.5% of the UK stock market by value. In addition to this there are many more who have money invested in shares via funds, pensions and savings products such as employee share ownership schemes.

2.3. Our comments are based on our members' use of annual reports and financial statements. Our experience is not necessarily one of technical expertise but more of an interested well informed user of financial statements. We believe private shareholders obtain a lot of their information from audited financial statements and therefore will be supportive of your project on performance reporting.

3. If you have any questions or require clarification of our comments, please contact Charles Henderson at charles.henderson@uksa.org.uk and Cliff Weight at cliff.weight@sharesoc.org.

4. We understand our comments will be on the public record and posted on your website. We Specifically do not request confidentiality and wish as many people as possible to read our comments.

Yours faithfully

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Appendix – UKSA and ShareSoc response to the IASB's Exposure Draft on General Presentation and Disclosures (ED/2019/7)

1. Question 1—operating profit or loss. Paragraph 60(a) of the Exposure Draft proposes that all entities present in the statement of profit or loss a subtotal for operating profit or loss. Paragraph BC53 of the Basis for Conclusions describes the Board's reasons for this proposal. Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

   1.1. Yes, we agree with the proposal.

   1.2. We agree with the proposal mainly because we believe that most if not all users of statements of profit or loss are looking for consistency and comparability, which this proposal should bring. We also do not disagree with the Board's reasons for the proposal.

   1.3. We would add (in respect of Paragraph 46) that an entity's operations should be based on its main business activities as described in its business model in its annual reports; not just income and expenses that are not classified in investing, financing, integral associates and joint ventures ("JVs"), income tax or discontinued operations.

2. 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 this proposal? Why or why not? If not, what alternative approach would you suggest and why?

   2.1. Yes, we agree with the proposal.

   2.2. However, we are not totally comfortable with the idea that the operating category is a default category but recognise the practical reasons described by the Board in reaching its conclusions. We would add our point made in this Appendix 1.3 above.

   2.3. We would suggest that the proposed standard, as well as presenting the operating category as a default category in Paragraph 46, also presents the operating category as being aligned materially with an entity's business model, wherever this is set out, usually in the UK in its strategic report in an annual report. This would have the advantage of being sanity checked by audit, which is required to report on any contradictions between the financial statements and non financial reporting in the same annual report.

3. 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 proposal? Why or why not? If not, what alternative approach would you suggest and why?

   3.1. Yes, we agree with the proposal. However, we do not agree that remeasurements of values, as mentioned in Paragraph BC59 in respect of investment properties, are income or expenses, unless they are realised.

   3.2. If an entity's investing income and expenses are part of its main business activities, then they should appear in its operating category and its operating profit or loss.

   3.3. We would add that our preference for reserves or deficits arising from the remeasurement of values is not always to take them to statements of profit or loss or of other comprehensive income. This preference is based on the idea that in any maintenance of an entity's capital, it needs to keep at least unrealised profits from revaluations from distributable reserves from which it may distribute dividends. The exception would be when unrealised losses exceed unrealised gains and would need to be then set off against distributable reserves. We suggest this complex area is picked up in the project on the statement of financial position with any impacts on the statement of profit or loss being revisited at that time.

4. Question 4—the operating category: an entity that provides financing to customers as a main business activity. Paragraph 51 of the Exposure Draft proposes that an entity that provides financing to customers as a main business activity classify in the operating category either: • income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or • all income and expenses from financing activities and all income and expenses from cash and cash equivalents. Paragraphs BC62–BC69 of the Basis for Conclusions describe the Board's reasons for the proposals. Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

   4.1. Yes, we agree with the proposal.

   4.2. We recognise the arguments and accept the practical difficulties for the Board's conclusions.

5. 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 proposal? Why or why not? If not, what alternative approach would you suggest and why?

   5.1. Yes, we agree with the proposal.

   5.2. We accept the Board's reasons and conclusions set out in Paragraphs BC48 – BC52. However, we would add our concern about remeasurement of values mentioned in the Appendix 3.1 and 3.3 above.

6. 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?

   6.1. Yes, we agree with the proposals.

   6.2. We accept the Board's reasons and conclusions set out in Paragraphs BC33 – BC45.

7. 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?

7.1. Yes, we agree with the proposals.

7.2. This is mainly because we can see the merit of having a separate line and disclosures on profits or losses and income and expenses from integral associates and JVs. If this information is hidden in the operating category, users of financial statements may be unable to receive clearer information on an entity's main business activities. By separating it out, users can analyse the information separately or combine it with the operating category as they prefer.

7.3. However, we are not sure that the proposed new paragraphs 20A – 20D in IFRS 12 are clear enough on requiring disclosures of the reasons why associates and JVs are integral or not. We suggest this is more explicit.

7.4. We are also mindful of non-integral associates and JVs being those that are discontinued and this may require them to fall into any discontinued or unusual item category rather than as proposed a separate non-integral line.

8. 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?

8.1. Yes, we agree with the proposals.

8.2. We are supportive of the reasons and conclusions of the Board in Paragraphs BC19 – BC27. It will be interesting to see whether compliance with Paragraph 28 is met.

8.3. However, we suggest that the role of the statement of profit or loss as useful for obtaining an overview of an entity's performance is made more explicit. We also suggest the proposals make more explicit a requirement to disclose the reasoning for any aggregation.

9. 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?

9.1. Yes, we agree strongly with the proposals.

9.2. This is because we require clearer information on operating expenses and the proposals prevent entities obscuring such information by mixing by nature and by function methods.

9.3. However, we suggest that disclosing the reasoning behind which method to use on the face of the statement of profit or loss, ie why it provides more useful information to users, is made an explicit requirement.

10. 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?

10.1. Yes, we agree with the proposals.

10.2. Users of statements of profit or loss need to understand income or expenses that will not arise for several future annual reporting periods. Defining unusual items in this way and requiring a single note with the four main disclosures – amount, how it arose and meets the definition of an unusual item, in which line item it is included and an analysis by nature if the statement of profit or loss provides by function – should be sufficient for users. Since prohibiting the presentation of extraordinary items, we have relied on companies providing information on unusual items clearly, but this can be variable both in quality as well as quantity. Setting a standard will reduce this variability.

11. 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 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?

11.1. Yes, we agree that information about management performance measures ("MPMs") as defined by the Board should be included in the financial statements. We accept the practicalities of limiting this at this time to income and expenses included in the statement of profit or loss. We also agree with the proposed disclosure requirements for MPMs.

11.2. We believe that in most cases, the statement of profit or loss will provide sufficient information of an entity's financial performance. We accept that management may use alternative financial performance measures but would like to see these reconciled to the line items covered by Paragraph 104. We prefer these to be prepared consistently and would like to see a five or preferably 10 year run of these measures. We would like directors to sign off the data as being true and fair or accurate in all material respects, depending on jurisdiction, and not pass the buck to their auditors who traditionally have been influenced by management from one year to the next to allow results to be presented in a way favourable to management . Our organisations are against additional regulation unless there is a clear need. We favour a reduction in red tape and regulation.. However, we accept that the proposals will require any MPMs and their reconciliations to profit and loss account line items being audited as they will be part of the audited financial statements.

11.3. We accept that at this time the reconciliation requirements and being audited will not apply to alternative financial or other performance measures that do not fit into the MPMs definition in the proposed Standard. However, we believe that good organisations who want to be transparent with their shareholders and other stakeholder users of financial statements will volunteer to provide reconciled and audited alternative financial or other performance measures that are not MPMs, following the lead that the proposed Standard will provide.

12. Question 12—EBITDA. 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?

12.1. Yes, we agree.

12.2. Mainly because EBITDA, if it matters to an organisation, could be an MPM within the proposed Standard. We also accept that until this Standard is in place, EBITDA is not necessarily consistently defined or reconciled to Paragraph 104 line items. The publication of a five/10 year run of EBITDA on a consistent basis and/or with notes of changes of definition and their impact will be a great improvement.

13. Question 13—statement 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?

13.1. Yes, we agree with the proposals.

13.2. As we accept that this Primary Financial Statement project is focusing on the statement of profit or loss, which in our view is the most important primary financial statement, in order for a quicker implementation, we also accept that changes in other Standards may only be related to the current proposals. We expect that the Primary Financial Statement project will move onto the statement of cash flows next, as this would be in our view the next important such statement.

13.3. Based on our limited knowledge of IAS 7 and not knowing the detailed requirements of the direct method, which in our experience is not much used, we would add that if not already required the Standard should require that the direct method discloses how the gross cash receipts and payments relate to the proposed "operating profit or loss". This may include having a separate Operating category in the cash flow statement similar to the proposed category in the statement of profit or loss.

13.4. Cash is king. It is difficult to "fiddle" cash (Wirecard and Patisserie Valerie are notable exceptions, but the evidence of so few exceptions is arguably evidence of the "rule" is generally true). A clear reconciliation of cash and profits would be helpful. Again, if this were to be presented on a five/10 year run, this will greatly help the retail investor to understand the accounts and what is going on.

14. Question 14—other comments. Do you have any other comments on the proposals in the Exposure Draft, including the analysis of the effects (paragraphs BC232–BC312 of the Basis for Conclusions, including Appendix) and Illustrative Examples accompanying the Exposure Draft?

    14.1. We have no other comments.

    14.2. However, we would be happy to meet and discuss any clarifications required on our comments or to develop any thinking on the results of your consultation.