International Auditing
and Assurance
Standards Board

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October 2, 2020

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Hans,

Re: Comments on IASB's Exposure Draft (ED), *General Presentation and Disclosures*

I am pleased to provide the attached comments on the International Accounting Standards Board (IASB)'s Exposure Draft (ED), *General Presentation and Disclosures*. These comments have been developed by the International Auditing and Assurance Standards Board (IAASB)'s IASB Liaison Working Group (the Working Group), with a particular focus on auditability or verifiability arising from the IASB's proposals.

Consistent with our previous letters, the Working Group limited its comments (see the attachment to this letter) to potential verifiability or auditability issues arising from the IASB's proposed requirements relating to:

1. Definition of Management Performance Measures;
2. Integral and Non-integral Associates and Joint Ventures;
3. Definition of Unusual Income and Expenses; and
4. Incremental Common Expenses.

I hope that you will find the comments helpful. If you need any clarification or would like to further discuss our written comments, please do not hesitate to contact me (tomseidenstein@iaasb.org), or the Chair of the Working Group, Rich Sharko (rich.n.sharko@nl.pwc.com).

Yours sincerely,

Tom Seidenstein
IAASB Chair

Working Group's Views on Specific Matters–*General Presentation and Disclosure*

The Working Group broadly supports the proposed changes in the ED which, subject to our comments below, are expected to be auditable.

The following sets out the Working Group's views in relation to specific aspects discussed in the IASB's ED, *General Presentation and Disclosure,* for consideration by the IASB. The Working Group focused on areas that impact auditability, which is the remit of the Working Group, and did not comment on all aspects discussed in the ED.

Section	Specific Aspects in the ED that Impact Auditability	Working Group's Views
1.	**Definition of Management Performance Measures** (a) Paragraph 103 of the ED proposes a new definition for 'management performance measures.' (b) Paragraph 105 of the ED proposes a new requirement that management performance measures shall faithfully represent aspects of the financial performance of the entity to users of financial statements; and be described in a clear and understandable manner that does not mislead users.	**<u>Auditability / Verifiability Issue(s) Identified</u>** A management performance measure is defined in paragraph 103 as "*subtotals of income and expenses that:* *(a) Are used in public communications outside financial statements;* *(b) Complement totals or subtotals specified by IFRS standards; and* (c) *Communicate to users of financial statements management's views of an aspect of an entity's financial performance.*" 1. The Working Group has a concern relating to paragraph 103(a). The extent of "public communications" outside the financial statements could be interpreted very broadly. For example, this could include social media posts, comments made in interviews, podcasts, teleconferences, etc. Consequently, it could be difficult for an auditor to assess the completeness of all possible mediums used by management to publicly communicate management performance measures outside the financial statements. 2. Further clarity would be helpful with respect to how the requirement in paragraph 105(a) of the ED (i.e., that management performance measures faithfully represent aspects of the financial performance of the entity to users of financial statements) is meant to be applied when determining which measure(s) are to be disclosed. Without further clarity it may be difficult to audit management's judgments about which management performance measures are disclosed in the financial statements.

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<u>Proposed Action(s) for the IASB's Consideration</u>
1. In response to concerns relating to the auditability of the definition of "management performance measures" in paragraph 103(a) of the ED, alternative approaches for the IASB's consideration may include:
(a) Modifying the definition of management performance measures in paragraph 103(a) of the ED by:
(i) Using a term that identifies a 'function responsible' for the entity's public communications outside the financial statements about its financial position and performance, including management performance measures; and
(ii) Adding that management performance measures are those regularly used by management when reviewing the entity's performance and making decisions.
This approach is similar to the purpose served by the term "chief operating decision maker" making decisions about resources to be allocated to the segment and assessing its performance in IFRS 8, Operating Segments, and may help the auditor focus on the communications from this function when assessing the completeness of the disclosures.
(b) Requiring the entity to establish a process that addresses management performance measures used in public communications outside the financial statements, which sets out, for example:

The function assigned ultimate responsibility and accountability for the entity's process that addresses management performance measures used in public communications outside the financial statements;
The management performance measures used in public communications;
How the management performance measure is calculated;
How the management performance measure provides useful information about the entity's performance; and

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		• All mediums used to publicly communicate management performance measures outside the financial statements. (c) Modifying the definition of management performance measures in paragraph 103(a) of the ED to specifically name the sources of public communication for which the requirements apply. For example, it could be explicitly written as public communications in press releases, earnings calls, the company's website and other information included within the financial statements (or other explicit sources the IASB determines necessary to include). The Working Group also recommends explicitly excluding oral communications as these may give rise to auditability issues on how such oral communications are captured. 2. With respect to concerns relating to how the general requirement for faithful representation of information shall apply in the context of determining management performance measures to be disclosed, the Working Group suggests that this be clarified through providing more specificity in proposed paragraph 105(a) of the ED.
2.	**Integral and Non-integral Associates and Joint Ventures** (a) The proposed new paragraphs 20A–20D of International Financial Reporting Standard (IFRS) 12, *Disclosure of Interests in Other Entities,* define 'integral associates and joint ventures' and 'non-integral associates and joint ventures'; and	The Working Group notes that it is in the public interest for the IASB to address the significant diversity in practice in the presentation of an entity's share of the profit or loss of associates and joint ventures accounted for using the equity method. **<u>Auditability / Verifiability Issue(s) Identified</u>** 1. Proposed paragraph 20D states that "*a significant interdependency between an entity and an associate or joint venture would indicate that the associate or joint venture is integral to the main business activities of the entity,"* and describes three examples of significant interdependencies in proposed paragraphs 20D(a)–20D(c). While a significant interdependency serves as an "indicator" of whether an associate or joint venture accounted for using the equity method is integral or non-integral to the entity's main business activities, further clarity is needed about whether the existence of a significant interdependency is the only criterion, or whether there may be other criteria when assessing whether associates or joint ventures are integral. Without clearer criteria to make this

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(b) Paragraph 60(b) of the ED 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 ED, the proposed new paragraph 38A of International Accounting Standard 7, Statement of Cash Flows, and the proposed new paragraph 20E of IFRS 12 require an entity to provide information about integral associates and joint ventures separately from non-integral associates and joint ventures.</td><td>assessment, it may be difficult to audit management's judgments in this area and could lead to inconsistency in practice.
2. Further clarity is also needed with respect to whether one or all example(s) of significant interdependencies in proposed paragraph 20D of IFRS 12 must be present in order for an associate or a joint venture to be classified as integral to an entity's main business activities.
<u>Proposed Action(s) for the IASB's Consideration</u>
The Working Group recommends the IASB further clarify the requirement to classify whether an associate or a joint venture accounted for using the equity method is integral or non-integral to an entity's main business activities by:
1. Providing specific criteria or further guidance for entities to use when assessing whether an associate or a joint venture accounted for using the equity method is integral or non-integral to an entity's main business activities, including clarification of whether a significant interdependency between an entity and an associate or a joint venture is the only criterion to be used for this assessment.
2. Clarifying whether one or all example(s) of significant interdependencies given in paragraph 20D of IFRS 12 are a definitive list or just examples of circumstances where this may be the case.</td></tr>
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3.	**Definition of Unusual Income and Expenses** Paragraph 100 of the ED introduces a new definition for 'unusual income and expenses.'	**<u>Auditability / Verifiability Issue(s) Identified</u>** 1. Specific concerns from this proposal pertain to the definition of "unusual income and expenses" in paragraph 100 of the ED. The definition states: "*Unusual income and expenses are income and expenses with limited predictive value. Income and expenses have limited predictive value when 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*** (emphasis added)." There may be different interpretations of the intended meaning of "several future annual reporting periods" (e.g., some may consider it to be two reporting periods while others may consider it to be five, etc.). As written, it will require significant judgment by the entity's management and the exercise of professional judgment by the auditor, and may also contribute to inconsistency in practice. In addition, it may be difficult to audit whether income and expense items represent unusual income and expenses solely based on the "limited predictive value" criteria set out in paragraph 100 of the ED, without any criteria relating to the specific nature or circumstances of the entity's operations (i.e., income and expense items arising from transactions or events that are unusual in relation to the nature or circumstances of the entity's operations). **<u>Proposed Action(s) for the IASB's Consideration</u>** 1. An alternative approach, for the IASB's consideration, would be to modify the definition of unusual income and expenses in paragraph 100 of the ED as follows: *"Unusual income and expenses are income and expenses with limited predictive value <u>and arise from transactions or events that are unusual in relation to the nature or circumstances of the entity's operations</u>. Income and expenses have limited predictive value when it is reasonable to expect that income or expenses that are similar in type and amount will not arise for ~~several~~ <u>more than two</u> future annual reporting periods."* This alternative approach would reduce the potential inconsistency in practice when determining the intended meaning of "several reporting periods" while also clarifying that

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Modifying the proposed definition in this manner would assist the auditor to exercise professional judgment (from determining what constitutes "several future annual reporting periods") and help the auditor focus on assessing whether unusual income and expenses arise from transactions or events that are unusual in relation to the specific nature or circumstances of that entity's operations.

In addition, the IASB may consider adding criteria or guidance to determine how to assess whether transactions or events are unusual in relation to the nature or circumstances of the entity's operations, including how to appropriately determine the number of periods to consider, which would in turn assist the auditor in assessing management's conclusions.</td></tr>
<tr><td>4.</td><td>Incremental Common Expenses

The ED proposes that the entity presents in the statement of profit or loss income and expenses classified in specific categories (i.e., operating, integral associates and joint ventures, investing and financing) whereas previously this categorization was not required.

Paragraphs 47–48 of the ED propose that an entity classifies in the investing category income and expenses (including related incremental</td><td>The Working Group supports the IASB's objective to separate investing income and expenses from operating income and expenses without imposing undue cost or effort on preparers of financial statements by limiting the allocation to the investing category to incremental expenses related to the investments only.

<u>Auditability / Verifiability Issue(s) Identified</u>

1. As described in paragraph BC50, the Working Group understands that an entity is not required to allocate common expenses directly related to an investment (e.g., if an employee is engaged in both operating and investing activities of the entity) between the operating category and investing category, respectively. However, further clarity is needed with respect to whether the proposal permits an entity to allocate such common expenses between the operating category and investing category if the entity chooses to do so as an accounting policy. This would be an important consideration for the auditor to understand in order to determine whether the entity's management appropriately adhered to the requirement in proposed paragraph 47(b) of the ED as the IASB intends.

<u>Proposed Action(s) for the IASB's Consideration</u>

1. The Working Group suggests that this matter be clarified in proposed paragraph 47(b) of the ED.</td></tr>
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	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.	