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Comments on the Exposure Draft *General Presentation and Disclosures*

1. The Accounting Standards Board of Japan (the "ASBJ" or "we") welcome the opportunity to provide our comments on the International Accounting Standards Board (the "IASB")'s Exposure Draft (ED/2019/7) *General Presentation and Disclosures* (the "ED"), issued in December 2019.

2. Our understanding is that the ED forms part of the IASB's work on Better Communication in Financial Reporting. We agree that there is room for improvement in this area and we appreciate the IASB's efforts to address issues that exist in this area. We would like to contribute to the initiatives to improve global accounting standards by submitting our comments on the ED.

3. Overall, there are many proposals in the ED that we do not support.

Subtotals

4. We disagree with the proposal in the ED to newly require an entity to present three new subtotals in the statement of profit or loss for the following reasons:

    (a) The current paragraph 85 of IAS 1 *Presentation of Financial Statements* requires an entity to present additional subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity's financial performance. Japanese entities that have voluntarily adopted IFRS Standards have applied this paragraph in good faith and, as a result, these entities often present subtotals such as "operating profit" or "business profit".

If these entities followed the proposals in the ED, in many cases they would no longer be able to present the subtotals that they have been presenting in the statement of profit or loss, that is, subtotals that have been considered to be relevant to the understanding of the entity's financial performance.[1] This is because, under the proposals in the ED, entities would not be able to aggregate items that would be classified in different categories. We question whether the proposals in the ED result in "better" communication in financial reporting, which, in our understanding, is the aim of the IASB.

(b) We agree that comparability among entities is important. However, we believe that "true" comparability that is useful for users of financial statements can be achieved only after incorporating the entity's perspective of its businesses. In addition, many preparers of financial statements in Japan hold the view that financial statements should allow entities to "tell the story" and, in this context, entities should present subtotals which they believe are relevant for the understanding of their financial performance. As described later in paragraph 6, we propose that an entity should present operating profit or loss based on what the entity identifies as its main operating activities.

(c) While presenting subtotals proposed by the IASB is expected to improve comparability, we are concerned that given the wide range of activities that entities engage in, presenting these proposed subtotals would lead to uniformity, that is, the subtotals may lead to the impression that it is always meaningful to compare these subtotals even in cases it is not meaningful. We are concerned that the proposals may lead to the misunderstanding that only those subtotals defined by IFRS Standards would truly represent an entity's financial performance but any other subtotal would not. Furthermore, we are concerned that, if users of financial statements consider these subtotals as irrelevant to their understanding of the financial statements, they may not be used, even when

[1] We note that the IASB acknowledges in paragraph BC165 of the ED that "few management performance measures would meet the requirements for presentation as a subtotal in the statement(s) of financial performance".

entities incur costs for the presentation of these subtotals.

5. The ED proposes "operating profit or loss" as one of the new subtotals to be presented and defines the subtotal as a residual. However, we believe that operating profit or loss should be directly defined after clarifying the objective of presenting this subtotal. Both preparers and users of financial statements find operating profit or loss to be a useful performance measure; however, we believe that its usefulness is ensured by clarifying the objective of presenting such subtotal. If operating profit or loss is merely defined as a residual, the only common nature of the items included in operating profit or loss would be that they do not meet the definition of other categories. We think it would be difficult to justify such subtotal as a useful subtotal.

6. If the IASB were to add a subtotal that would be required to be presented under IFRS Standards, we believe the only subtotal that should be added is "operating profit or loss". Based on paragraphs 4 and 5 above, we believe that the objective of presenting operating profit or loss should be to show how much return an entity has generated from the activities that the entity identifies as its main operating activities, and we propose defining operating profit or loss as "income and expenses recognised in profit or loss related to activities that an entity identifies as its main operating activities."

   Our understanding is that the identification of operating activities based on the entity's judgement has not been well accepted in past international discussions. One of the main reasons that was pointed out was that comparability among entities would be impaired. However, Japanese constituents believe that showing how the entity views its financial performance, that is, allowing the entity "tell the story", provides more useful information.

   We note that one of the difficulties that accounting standard-setters have faced in past international discussions was the presentation by financial institutions and conglomerates. Our proposed definition of operating profit or loss would address this issue as well.

   Under our proposal, we believe that it is essential for an entity to disclose sufficient information regarding how it views its operating activities and operating profit or loss and what types of income and expenses are included in operating profit or loss. We believe such disclosures would provide more useful information to users of financial statements.

Management Performance Measures (MPMs)

7. Regarding the proposals related to Management Performance Measures (MPMs) in the ED, we think that the definition and the scope of MPMs subject to disclosure are unclear. If the intention of the IASB is to consider *all* subtotals of income and expenses that are used in public communications outside financial statements as MPMs, we do not support such proposal.

8. We propose that MPMs should be defined as "performance measures that are permitted to be presented, subject to reconciliation, if an entity determines that the subtotals defined by IFRS Standards do not appropriately represent its financial performance". In addition, if MPMs were to communicate management's views of the entity's financial performance, we believe that MPMs should be presented on the face of the statement(s) of financial performance. The ED proposes that MPMs should be disclosed in the notes. However, we are concerned that, if MPMs are disclosed in the notes but subtotals defined by IFRS Standards are presented on the face of the statement(s) of financial performance, it may lead to the misunderstanding that MPMs are less useful than the subtotals defined by IFRS Standards.

   Due to the categories and subtotals defined by IFRS Standards, some MPMs cannot be presented as additional subtotals in the statement(s) of financial performance. In such case, we think that MPMs can still be presented at the end of the statement(s) of financial performance, similar to how earnings per share (EPS) is currently presented.

9. The ED does not propose any restrictions to MPMs. Our understanding is that the IASB is attempting to reduce Alternative Performance Measures (APMs) by doing so. However, we believe that MPMs should be restricted to measures calculated in accordance with recognition and measurement requirements of IFRS Standards (as a result, all adjustment items will also be in accordance with recognition and measurement requirements of IFRS Standards). We note that some entities are required by local laws and regulations to present performance measures based on local accounting standards other than IFRS Standards outside the financial statements (which would qualify as APMs), and if such APMs were treated as MPMs, they would not only be difficult to audit, but the costs to prepare this information would outweigh any potential benefits. Moreover, we are concerned that such requirements in IFRS Standards may create a disincentive to disclose useful

information, including APMs, outside the financial statements.

<u>Presentation of investment profit or loss on entities accounted for using the equity method</u>

10. In considering the presentation of the share of profit or loss of associates and joint ventures accounted for using the equity method (hereinafter referred to as "equity method investments"), we believe that it is necessary to conceptually determine the nature of the equity method of accounting. We do not support establishing presentation requirements for equity method investments in the statement(s) of financial performance or the statement of cash flows at this time, because our understanding is that there are diverse views on the nature of the equity method of accounting internationally, and we are concerned that without fully discussing this issue, the resulting presentation requirements could predetermine the direction of future discussions at the IASB. We note that, under our proposed definition of operating profit or loss, how to present the share of profit or loss of equity method investments would not be an issue because it would depend on the entity's judgment.

<u>Improving the communication of information about other comprehensive income</u>

11. The revised Conceptual Framework still does not define "profit or loss" nor "other comprehensive income (OCI)". We do not believe that classifying items within OCI, which is undefined, into two categories would result in improving the communication of information about OCI.

12. We understand the IASB's intention to increase the understandability of amounts included in OCI by classifying OCI into items that are recycled and items that are not. However, we believe that all OCI items should be recycled, and we expect the IASB to define "profit or loss" and eliminate non-recycling items in the future.

<u>Cost Benefit Considerations</u>

13. We believe that the costs related to some proposals in the ED outweigh any potential benefits. Such proposals include, for example:

    (a) classifying foreign exchange differences included in profit or loss applying IAS 21 *The Effects of Changes in Foreign Exchange Rates* in the same category of the statement of profit or loss as the income and expenses from the items that gave rise to the foreign exchange differences (paragraph 56 of the ED); and

(b) disclosing the income tax effect and the effect on non-controlling interests in the reconciliation between MPMs and the most directly comparable subtotal or total (paragraph 106 of the ED).

Relevance of the statement of cash flows of financial institutions

14. Although this issue is not discussed in the ED, users of financial statements in Japan have told us that they do not use the statement of cash flows in their liquidity analyses carried out as part of their assessment of the soundness of financial institutions. Accordingly, we believe that the IASB should consider the possibility of not uniformly requiring the statement of cash flows to all entities. For example, a financial institution whose liquidity is monitored by local regulators and that the results of such monitoring are publicly available may not need to prepare the statement of cash flows, because the statement of cash flows does not provide information regarding the sufficiency of short-term liquidity and because users of financial statements of such financial institution can obtain liquidity information from other disclosures. We note that the IASB currently does not uniformly require all entities to classify their assets and liabilities into current or non-current in the statement of financial position, and the IASB should consider the possibility or providing similar flexibility.

Cooperation with the U.S. Financial Accounting Standards Board (FASB)

15. Finally, we believe that the presentation and disclosure of financial statements is important in ensuring comparability among entities. In this context, we believe that it is desirable that the results of the initiatives of the IASB, including this ED, be ultimately consistent with the requirements under U.S. GAAP. Accordingly, we expect the IASB and the U.S. Financial Accounting Standards Board (the “FASB”) to work closely together to develop their respective accounting standards.

16. For our comments on the specific questions, please refer to the Appendix.

17. We hope our comments are helpful for the IASB’s consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

Atsushi Kogasaka
Chair

Accounting Standards Board of Japan

Appendix

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. We agree with the proposal in the ED that would require all entities to present a subtotal for operating profit or loss in the statement of profit or loss. Our understanding is that both preparers and users of financial statements find operating profit or loss to be a useful performance measure, and we believe that presenting this subtotal would be helpful to improve Better Communication in Financial Reporting.

2. However, we think it is critical that this subtotal be defined appropriately because the usefulness of operating profit or loss is ensured by clarifying the objective of presenting such subtotal. In this context, we believe that it is insufficient to state that "the operating category includes information about income and expenses from an entity's main business activities" (paragraph 46 of the ED). If operating profit or loss is merely defined as a residual, the only common nature of the items included in operating profit or loss would be that they do not meet the definition of other categories. We think it would be difficult to justify such subtotal as a useful subtotal.

3. Many preparers of financial statements in Japan hold the view that financial statements should allow entities to "tell the story" and, in this context, entities should present subtotals which they believe are relevant for the understanding of their financial performance. Therefore, we propose that an entity should present operating profit or loss based on what the entity identifies as its main operating activities. We will discuss the definition in more detail in our responses to Question 2 and onwards.

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?

4. We disagree with the proposal in paragraph 46 of the ED. Our understanding is that Japanese entities that have voluntarily adopted IFRS Standards have applied the current paragraph 85 of IAS 1 in good faith and, as a result, these entities often present subtotals such as "operating profit" or "business profit". If these entities followed the proposals in the ED, in many cases they would no longer be able to present the subtotals that they have been presenting in the statement of profit or loss, that is, subtotals that have been considered to be relevant to the understanding of the entity's financial performance.[2] This is because, under the proposals in the ED, entities would not be able to aggregate items that would be classified in different categories. We question whether the proposals in the ED result in "better" communication in financial reporting, which, in our understanding, is the aim of the IASB.

5. While presenting subtotals proposed by the IASB is expected to improve comparability, we are concerned that given the wide range of activities that entities engage in, presenting these proposed subtotals would lead to uniformity, that is, the subtotals may lead to the impression that it is always meaningful to compare these subtotals even in cases it is not meaningful. We are concerned that the proposals may lead to the misunderstanding that only those subtotals defined by IFRS Standards would truly represent an entity's financial performance but any other subtotal would not. Furthermore, we are concerned that, if users of financial statements consider these subtotals as irrelevant to their understanding of the

[2] We note that the IASB acknowledges in paragraph BC165 of the ED that "few management performance measures would meet the requirements for presentation as a subtotal in the statement(s) of financial performance".

financial statements, they may not be used, even when entities incur costs for the presentation of these subtotals.

6. Therefore, we believe that the objective of presenting operating profit or loss should be to show how much return an entity has generated from the activities that the entity identifies as its main operating activities, and we propose defining operating profit or loss as "income and expenses recognised in profit or loss related to activities that an entity identifies as its main operating activities." We believe that our proposed objective of presenting operating profit or loss and the definition of operating profit or loss can be applied to a wide range of entities, including those that provide financing to customers such as banks and conglomerates.

7. Under our proposal, we believe that it is essential for an entity to disclose sufficient information regarding how it views its operating activities and operating profit or loss and what types of income and expenses are included in operating profit or loss. We believe such disclosures would provide more useful information to users of financial statements.

8. If the IASB were to add a subtotal that would be required under IFRS Standards, we believe the only subtotal that should be added is "operating profit or loss". Any other subtotal should follow the general principle, that is, to present additional subtotals if an entity believes that they are relevant to an understanding its own financial performance.

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?

Main business activities

9. As we noted in our response to Question 1, we believe that the usefulness of operating profit or loss is ensured by clarifying the objective of presenting such subtotal. We agree with the direction in the ED that focuses on "the entity's main business activities"; however, we believe that the ED should also clearly state that an entity should identify its own operating activities.

10. Our understanding is that the identification of operating activities based on the entity's judgement has not been well accepted in past international discussions. One of the main reasons that was pointed out was that comparability among entities would be impaired. However, Japanese constituents believe that showing how the entity views its financial performance, that is, allowing the entity "tell the story", provides more useful information.

    As we noted in our responses to Questions 1 and 2, we propose presenting operating profit or loss based on the main operating activities identified by the entity. We agree that comparability among entities is important. However, we believe that "true" comparability that is useful for users of financial statements can be achieved only after incorporating the entity's perspective of its businesses.

    We also note that one of the difficulties that accounting standard-setters have faced in past international discussions was the presentation by financial institutions and conglomerates. Our proposed definition of operating profit or loss would address this issue as well.

Presentation category and classification of foreign exchange differences

11. The ED proposes that an entity shall classify foreign exchange differences included in profit or loss applying IAS 21 in the same category of the statement of profit or loss as the income and expenses from the items that gave rise to the foreign exchange differences (paragraph 56 of the ED). However, we believe that the costs to prepare this information outweigh any potential benefits mainly because foreign exchange differences do not have any predictive value. Paragraph BC92 of the ED states that an entity would provide an incomplete picture of the performance of its main business activities if it excluded exchange differences related to the main business activities from operating profit or loss and classified them in a different category. However, we believe that such argument is not convincing because the objective of presenting

operating profit or loss is unclear in the ED, and that this issue should be considered after the IASB decides on a structure of the statement(s) of financial performance that has relevance.

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?

12. As we noted in our response to Question 3, we agree with the direction in the ED that focuses on "the entity's main business activities". However, the meaning of "main business activities" is not clear in the ED and, accordingly, the scope of the "entities that provide financing to customers as a main business activity" is not clear. Therefore, we are concerned whether the proposals can be applied consistently in practice. For example, if there is a small-sized financing subsidiary that provides financing to customers within the consolidated group, it is not clear how the income and expenses from that subsidiary's financing activities would be presented in the consolidated financial statements.

13. As we noted in our response to Question 2, we propose defining operating profit or loss as "income and expenses recognised in profit or loss related to activities that an entity identifies as its main operating activities." Applying this definition to the example raised in the preceding paragraph, if an entity determines that the activities of the financing subsidiary forms part of the consolidated group's main operating activities, the income and expense activities arising from such activities would be

presented in operating profit or loss. Under our proposal, there is no need to define "entities that provide financing to customers as a main business activity".

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?

A separate investing category

14. As we noted in our response to Question 2, if the IASB were to add a subtotal that would be required to be presented under IFRS Standards, we believe the only subtotal that should be added is "operating profit or loss". This is to avoid uniformity and to allow entities to present subtotals that, in their view, represent their financial performance appropriately.

15. We think that investment activities defined in the ED are, in essence, undertaken using the entity's excess cash (capital standing ready to be invested for businesses). We believe that it is not always necessary to require an entity to present the investing category and the financing category separately because:

    (a) there are not that many cases where such activities (that are not the entity's main activities) are significant enough to warrant a separate category; and

    (b) such investing activities may be viewed as negative financing activities and thus combining the investing category and the financing category may increase understandability.

16. Therefore, we think that it is not necessary to require an entity to present the additional subtotals proposed in the ED, namely "operating profit and income and

expenses from integral associates and joint ventures" and "profit before financing and income tax". We believe that Better Communication in Financial Reporting can be achieved by emphasizing that:

(a) an entity is required to present additional subtotals in the statement(s) of financial performance when such presentations are relevant to an understanding of the entity's financial performance; or

(b) an entity should additionally disclose information in the notes when an entity determines as it is necessary (proposed paragraph 6A of the IAS 8 *Basis of Preparation, Accounting Policies, Changes in Accounting Estimates and Errors*).

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?

<u>A separate financing category</u>

17. As we noted in our responses to Questions 2 and 5, if the IASB were to add a subtotal that would be required to be presented under IFRS Standards, we believe the only subtotal that should be added is "operating profit or loss".

18. We believe that classifying income and expense items into those that comprise operating profit or loss and others provides useful information to users of financial statements. However, we do not think that it is necessary to uniformly require an entity to further classify the "others" category (that is, items that are not included in operating profit or loss). As we noted in our response to Question 5, we believe that

Better Communication in Financial Reporting can be achieved by emphasizing that:

(a) an entity is required to present additional subtotals in the statement(s) of financial performance when such presentation is relevant to an understanding of the entity's financial performance; or

(b) an entity should additionally disclose information in the notes when an entity determines as it is necessary (proposed paragraph 6A of the IAS 8).

Interest income and expenses on other liabilities

19. If the IASB were to introduce the financing category, we do not believe that interest income and expenses on other liabilities should be included in the financing category as proposed in paragraph 49(c) of the ED. We believe that interest expenses arising from liabilities that are used for the entity's operating activities should not be classified in "expenses from liabilities related to an entity's financing". Rather, such expenses should be classified in the operating category. Any liability comprises a time value of money element unless it is immediately settled in cash, and liabilities that are used for the entity's operating activities are no exception. We are concerned that the financial ratios based on the figures presented in the statement(s) of financial performance may be significantly distorted because net interest expense on a net defined benefit liability, which is cited as an example in the application guidance in the ED, may be significant in amount.

20. In addition, we are concerned that this proposal is inconsistent with the definition of financing activities in IAS 7 *Statement of Cash Flows*[3]. The proposal will make the statement(s) of financial performance and statement of cash flows less compatible and thus may create confusion among the users of financial statements.

21. We note that the concept of the time value of money is well understood in the context of financial liabilities; however, our understanding is that there are diverse views regarding whether the unwinding of the discount on non-financial liabilities is an interest expense. We do not think the unwinding of the discount of non-financial liabilities is an interest expense because it is not an expense on liabilities that arises from financing activities.

[3] IAS 7 defines financing activities as activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

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?

Establishing presentation requirements before determining the nature of equity method investments

22. In considering the presentation of the share of profit or loss of equity method investments, we believe that it is necessary to conceptually determine the nature of the equity method of accounting. We do not support establishing presentation requirements for equity method investments in the statement(s) of financial performance or the statement of cash flows at this time, because our understanding is that there are diverse views on the nature of the equity method of accounting internationally, and we are concerned that without fully discussing this issue, the resulting presentation requirements could predetermine the direction of future discussions at the IASB.

23. Our responses to the proposals in the ED, if the IASB were to continue to consider the separate presentation of share of profit or loss of integral and non-integral equity method investments, are provided in the following paragraphs.

<u>Separate presentation of "integral associates and joint ventures" and "non-integral associates and joint ventures"</u>

24. We think most equity method investments are integral to an entity's business activities. This is because "significant influence" or "joint control" is obtained as a result of explicit decision making and is not obtained by accident. If non-integral equity method investments exist, we think they would be rare.

25. We do not think that the concept of "integral" is clear. We are concerned that most equity method investments would be viewed as non-integral because "significant interdependency" is raised as an example of "integral" (proposed paragraph 20D of IFRS12 *Disclosure of Interests in Other Entities*). In contrast, paragraph 47 of the ED states that "the objective of the investing category is to communicate information about returns from investments that are generated individually and largely independently of other resources held by an entity". Accordingly, the scope of non-integral equity method investments that would be classified in the investing category is likely to be narrow. We believe this inconsistency between paragraph 47 of the ED and proposed paragraph 20D of IFRS 12 should be resolved.

26. For the reasons stated in paragraphs 24 and 25 above, we believe that presenting the share of profit or loss of equity method investments separately based on whether they are integral or non-integral (and thus requiring an entity to disclose significant judgements and assumptions in accordance with paragraph 7(d) of IFRS12) is inappropriate. Instead, as we noted in our responses to Questions 1 and 2, we believe that presenting operating profit or loss based on whether the income and expenses are related to activities that an entity identifies as its main operating activities provides useful information to users of financial 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?

Requiring disclosure about the largest breakdown item in a subject

27. We think that "other" creates a problem because items that do not share similar characteristics (and are usually, individually immaterial) are aggregated into a single line item, their individual descriptions and amounts are lost. To solve this problem, we believe that items need to be presented separately to the extent that "other" becomes sufficiently small so that users are comfortable that "other" does not include useful information.

28. From this perspective, we believe that paragraph 28 of the ED does not lead to "other" that includes sufficiently small amounts of items that do not share similar characteristics.

Quantitative threshold to facilitate disaggregation

29. We believe that, in principle, quantitative thresholds, or "bright lines", should not be introduced for recognition and measurement requirements. This is because recognition and measurement decisions affect financial figures, such as total assets and net income.

30. On the other hand, presentation deals with the amounts determined as a result of applying the recognition and measurement requirements under IFRS Standards – how detailed should the amounts be presented in the financial statements?

Although it is difficult to describe the rationale for setting a specific quantitative threshold for presentation requirements, we believe that quantitative thresholds are an effective means to facilitate the preparation of financial statements at low cost, while preventing excessive aggregation. We also note that quantitative thresholds would improve the "other" problem noted in paragraph 27 of this comment letter.

31. Paragraph BC26 of the ED states that providing quantitative thresholds conflicts with qualitative guidance. However, if quantitative thresholds are not used, IFRS Standards would need to rely on terms such as "immaterial", which is open to interpretation and is likely to lead to diversity in practice. We believe using quantitative thresholds is likely to result in consistent application of IFRS Standards.

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?

Indicators to decide whether to use the function of expense method or the nature of expense method

32. We agree the direction in the ED to provide a set of indicators to help entities assess which method provides more useful information based on either the function of expense method or the nature of expense method. However, we have the following comments on the set of indicators:

    (a) Paragraph B45(b) of the ED refers to "which method most closely represents the way the business is managed and how management reports internally". We believe that an entity may conduct more than one business, where the function of expense method is suited to some businesses, but the nature of expense method is suited to other businesses. Therefore, this indicator should be given priority over other indicators.

(b) Paragraph B45(d) of the ED refers to "whether the allocation of expenses to functions would be arbitrary and therefore would not provide a sufficiently faithful representation of the line items presented. In such cases, the nature of expense method shall be used". This statement leaves the impression that the nature of expense method is the IASB's preferable method. The statement should be written in a neutral manner.

33. In addition, IFRS Standards permit entities to present their results by netting income with related expenses, when the presentation reflects the substance of the transaction or other event (paragraph 34 of IAS 1). For example, "net trading income" and "net income from financial assets at fair value through profit or loss" are presented in the statement of profit or loss of financial institutions. The requirements are carried over as paragraph B16 in the ED.

34. For expenses that are presented as a result of netting, we do not think they should be subject to the requirement that an entity should provide an analysis of its total operating expenses when presenting an analysis of expenses classified in the operating category using the function of expense method. This is because the resulting expense is merely a result of comparing the income and related expenses of specific transactions that were subject to offsetting.

Analysis using the nature of expense method only when using the function of expense method in the statement of profit or loss

35. Paragraph 72 of the ED states that an entity using the function of expense method is required to disclose an analysis of operating expenses using the nature of expense method in a single note. To require additional information only when using the function of expense method may motivate an entity to choose the nature of expense method, regardless of the substance of the entity's business, simply for cost reasons. We think the choice between the nature of expense method and the function of expense method should be based on the substance of the entity's business and, therefore, do not support this proposal that can be viewed as being biased.

Mixture of the function of expense method and the nature of expense method

36. We think that it is possible to present additional information using the nature of expense method in the statement(s) of financial performance as a breakdown even when an entity presents an analysis of expenses classified in the operating category using the function of expense method. We believe that it is not clear why the entity that could use the above presentation would be prohibited from using a mixture of the function of expense method and the nature of expense method (paragraph B46 of the ED).

37. In addition, we note that the IASB is proposing an entity to present the line items listed in paragraph 65 of the ED regardless of the method of analysis of expenses used (paragraph B47 of the ED). Also, in the Illustrative Examples of the ED, "general and administrative expenses" and "impairment losses on trade receivables" are presented together in the statement of profit or loss. We think this demonstrates that there is usefulness in using a mixture of the function of expense method and the nature of expense method.

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?

38. We believe that the information regarding unusual income and expenses may be

useful for the users of financial statements to understand the income and expenses that are not unusual, that is, the profit that is useful in assessing the prospects for future net cash inflows. In this context, we understand the IASB's attempts related to the presentation and disclosures of unusual income and expenses.

39. However, we have the following concerns with the guidance to identify "unusual income and expenses" proposed in the ED:

    (a) Even if income or expenses are similar in amount, there may have no predictive value. For example, even if the disposal of property, plant and equipment that are similar in amount occurred for two consecutive years, it may be merely a coincidence.

    (b) Even if income or expenses are not similar in amount, that does not mean that there is no predictive value. For example, if a trend of a steady increase in revenue of 20% per year is observed, that information may have predictive value even if income or expenses are not similar in amount.

40. Considering paragraph 39 described above, we do not think that "unusual income and expenses" can be defined appropriately. Therefore, we think “unusual income and expenses” should not be defined (paragraph 100 of the ED) and disclosures related to unusual income and expenses should not be required (paragraph 101 of the ED). Rather, we think the IASB should emphasize that entities are required to achieve a fair presentation by making additional disclosures in the case determined to be necessary by the entity, in accordance with proposed paragraph 6A of IAS 8, which is carried forward from the current paragraph 15 of IAS 1.

41. Operating profit or loss would include items that would otherwise be called unusual income and expenses. Accordingly, we think an entity should clearly present such items on the statement(s) of financial performance based on the principles of aggregation and disaggregation in accordance with paragraphs 25-28 of the ED, so that users of financial statements can reclassify those items when they think it is necessary.

42. In addition, we note that, in accordance with paragraph 42 of the ED, an entity would be required to present a subtotal that would exclude items that would otherwise be called unusual income and expense items if the entity considers such subtotal to be relevant.

43. Even if an entity does not present in the statement(s) of financial performance a subtotal, we believe that users of financial statements can appropriately assess the prospects for future net cash inflows if each item that would otherwise be called unusual income and expenses is presented separately.

44. As we noted above, we do not think "unusual income and expenses" can be properly defined. Accordingly, it is not easy for an entity to determine which income and expenses should be presented separately. Therefore, in order to ensure that important items are presented separately, we believe that it is useful to expand the list of items that an entity is required to separately present under IFRS Standards (paragraph 65 of the ED) and include the items (such as restructuring costs) listed in paragraph B15 of the ED.

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?

The definition and the scope of Management Performance Measures (MPMs) subject to disclosure

45. Regarding the proposals related to Management Performance Measures (MPMs) in

the ED, we think that the definition and the scope of MPMs subject to disclosure are unclear. If the intention of the IASB is to consider *all* subtotals of income and expenses that are used in public communications outside financial statements as MPMs, we do not support such proposal. Specifically, we are concerned that it may be difficult for entities to identify all MPMs subject to disclosure because the scope of MPMs which are those "used in public communications outside financial statements" in the ED[4] is unclear. Accordingly, we do not think it is practical to require all Alternative Performance Measures (APMs) to be incorporated into financial statements as MPMs.

46. We propose that MPMs should be defined as "performance measures that are permitted to be presented, subject to reconciliation, if an entity determines that the subtotals defined by IFRS Standards do not appropriately represent its financial performance". In addition, if MPMs were to communicate management's views of the entity's financial performance, we believe that MPMs should be presented on the face of the statement(s) of financial performance. The ED proposes that MPMs should be disclosed in the notes. However, we are concerned that, if MPMs are disclosed in the notes but subtotals defined by IFRS Standards are presented on the face of the statement(s) of financial performance, it may lead to the misunderstanding that MPMs are less useful than the subtotals defined by IFRS Standards. Due to the categories and subtotals defined by IFRS Standards, some MPMs cannot be presented as additional subtotals in the statement(s) of financial performance. In such case, we think that MPMs can still be presented at the end of the statement(s) of financial performance, similar to how earnings per share (EPS) is currently presented.

47. The ED does not propose any restrictions to MPMs. Our understanding is that the IASB is attempting to reduce APMs by doing so. However, we believe that MPMs should be restricted to measures calculated in accordance with recognition and measurement requirements of IFRS Standards (as a result, all adjustment items will also be in accordance with recognition and measurement requirements of IFRS Standards). We note that some entities are required by local laws and regulations to present performance measures based on local accounting standards other than

[4] Paragraph B79 of the ED describes MPMs as follows: "only subtotals that management uses in public communications outside financial statements, for example, in management commentary, press releases or in investor presentations, meet the definition of management performance measures".

IFRS Standards outside the financial statements (which would qualify as APMs), and if such APMs were treated as MPMs, they would not only be difficult to audit, but the costs to prepare this information would outweigh any potential benefits. Moreover, we are concerned that such requirements in IFRS Standards may create a disincentive to disclose useful information, including APMs, outside the financial statements.

The reconciliation items for MPMs

48. We disagree with the proposal in paragraph 106 of the ED to require an entity to disclose the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation between the MPM and the most directly comparable subtotal or total included in paragraph 104. We believe the costs of preparing this information would outweigh any potential benefits.

The relevance between MPMs and adjusted earnings per share (Paragraph 73B of proposed IAS 33)

49. The current paragraph 73 of IAS 33 *Earnings per Share* permits an entity to voluntarily disclose amounts per share using a reported component (for example, sales) of the statement of comprehensive income. On the other hand, for the calculation of basic and diluted earnings per share in the ED, the disclosure of the amount per share that an entity is permitted to disclose under paragraph 73 of the current IAS 33 would also be prohibited if it is not the subtotal or total included in paragraph 104 of the ED or the MPM disclosed by the entity in application of paragraph 106 of the ED. In other words, disclosure of sales per share, which is allowed under the current IAS 33, would no longer be permitted. Such a requirement is inconsistent with the fundamental thinking underlying IFRS Standards, which is to permit an entity to voluntarily disclose additional useful information.

50. We do not support this proposal because we believe that disclosure of MPMs and the disclosure of adjusted earnings per share are different disclosures and thus that there is no need to prohibit the disclosure of adjusted earnings per share that is not calculated consistently with MPMs.

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?

51. Faithful representation is one of the qualitative characteristics of useful financial information and is also required in paragraph 15 of IAS 1 (which is proposed to be transferred to IAS 8 by the ED). Therefore, we believe that all information provided in the financial statements, not only EBITDA, must achieve a faithful representation.

52. From this perspective, we think it is sufficient to clarify that any information provided in the financial statements shall possess the two basic qualitative characteristics of relevance and faithful representation, without establishing specific requirements only for the presentation or disclosure of EBITDA. Accordingly, we support the IASB's proposal not to establish specific requirements for EBITDA.

53. However, we disagree with paragraph BC173 of the ED which proposes that an EBITDA measure equal to operating profit or loss before depreciation and amortisation is not an MPM and, therefore, does not require disclosures required by paragraph 106 of the ED. If EBITDA does not qualify as an MPM simply because it is equal to operating profit or loss before depreciation and amortisation, the disclosure of calculation methods and other information would not be required, even when there is no consensus on the definition of EBITDA and EBITDA is the best measure that conveys management's views of the entity’s financial performance. We believe that this would fail to achieve the IASB's objective to improve transparency by requiring MPM disclosures.

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?

The starting point for the indirect method of reporting cash flows from operating activities

54. We believe that prescribing that operating profit or loss is the starting point for the indirect method will decrease the number of items that needs to be adjusted, such as non-cash items presented between operating profit or loss and net profit or loss, when compared to IAS 7. Accordingly, we think this proposal would lead to simplification.

55. However, the items that are adjusted provide information about non-cash items that are included in the statement(s) of financial performance. Therefore, while simplification is important, we think the IASB should make an overall assessment, after considering the information that would be lost.

56. In addition, we believe that the comparability of the statement of cash flows can be impaired if non-cash items presented as adjusting items vary among entities because the objective of presenting operating income or loss, the starting point of the reconciliation, is unclear. As we noted in our response to Question 1, we believe that, as a prerequisite of discussing this issue, the objective of presenting operating income or loss should be clarified.

Classification of interest and dividend cash flows

57. We disagree with the proposals in the ED in that an entity should classify cash flows from dividends received, interest paid, and interest received in a single category of the statement of cash flows for the following reasons:

(a) As we noted in our responses to Questions 1 and 2, we believe that operating profit or loss should be based on income and expenses related to activities that an entity has identifies as its main operating activities, rather than to identify entities that provide financing to customers as their main business activities. In this context, an entity should be permitted to classify cash flows from dividends received, interest paid, and interest received in different categories of the statement of cash flows, because they may affect a user's assessment of the reporting entity's prospects of future cash flows differently.

(b) The classification of dividends received, interest paid, and interest received in the statement of cash flows should be based on the definition of the operating, investing and financing activities in IAS 7.

Relevance of the statement of cash flows of financial institutions

58. Users of financial statements in Japan have told us that they do not use the statement of cash flows in their liquidity analyses carried out as part of their assessment of the soundness of financial institutions for the following reasons:

(a) In their financial analyses of financial institutions, they do not separate the cash flows into the categories of operating, investing and financing unlike in their financial analyses of entities in other industries.

(b) In their liquidity analyses of financial institutions, they use information that is publicly disclosed in other disclosures.

59. We believe that the IASB should consider the possibility of not uniformly requiring the statement of cash flows to all entities, considering the comments on how the statements of cash flows of financial institutions are used in the preceding paragraph. For example, a financial institution whose liquidity is monitored by local regulators and that the results of such monitoring are publicly available may not need to prepare the statement of cash flows, because the statement of cash flows does not provide information regarding the sufficiency of short-term liquidity and because users of financial statements of such financial institution can obtain liquidity information from other disclosures. We note that the IASB currently does not uniformly require

all entities to classify their assets and liabilities into current or non-current in the statement of financial position, and the IASB should consider the possibility or providing similar flexibility.

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?

Improving the communication of information about other comprehensive income

60. The revised Conceptual Framework still does not define "profit or loss" nor "other comprehensive income (OCI)". We do not believe that classifying items within OCI, which is undefined, into two categories would result in improving the communication of information about OCI.

61. We understand the IASB's intention to increase the understandability of amounts included in OCI by classifying OCI into items that are recycled and items that are not. However, we believe that all OCI items should be recycled, and we expect the IASB to define "profit or loss" and eliminate non-recycling items in the future.

62. We do not object to the IASB's proposal not to require the presentation of a subtotal for profit or loss and remeasurement permanently reported outside profit or loss. As we noted in the preceding paragraph, we believe that all OCI items should be recycled in the future, and we believe that such subtotal will not be necessary in the future. However, we note that paragraph 42 of the ED, which is carried forward from paragraph 85 of IAS 1, would require an entity to present subtotals when they are relevant. We think that the IASB should clarify this point.

Transition

63. The ED proposes retrospective application in accordance with IAS 8. However, we believe that the new IFRS Standard should be applied prospectively for the following reasons:

    (a) The financial statements of the preceding reporting period shall be required to be prepared based on the current requirements about presentation and disclosure and the requirements of new IFRS Standards. As a result, an entity will need to maintain different data for different presentation requirements, which is likely to increase the burden on the entity.

(b) Regarding the new disclosure requirements for MPMs and unusual income and expenses, it is difficult to objectively distinguish between the information that was available in the past and those that subsequently became available.

64. In addition, the ED proposes that the new IFRS Standard should be applied for annual reporting periods beginning on or after 18–24 months from the date of publication. However, the changes in presentation and disclosure proposed by the ED are extensive and are likely to lead to changes in operating processes of the reporting entity, including its subsidiaries. Accordingly, we urge the IASB to carefully consider the timing of the effective date based on the results of field tests.

Interim Financial Reporting

65. We think that the MPMs will provide useful information about an entity's financial performance from the management's perspective. As we noted in our response to Question 11, we believe MPMs should be presented on the face of the statement(s) of financial performance. For MPMs presented on the face of the statement(s) of financial performance, we believe that it is also useful to present them in the interim financial statements. Therefore, we agree with the proposals in the ED amending IAS 34 *Interim Financial Reporting* to require MPMs to be included in interim financial reporting.

66. However, considering the description[5] in paragraph 6 of IAS 34, we believe that requiring all MPM disclosures is excessive. Regarding MPMs, we believe that it would be sufficient to require only the disclosure of the MPMs themselves and the related reconciliation. As we noted in our response to Question 11, we disagree with the proposals in the ED to require disclosure of the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation of MPMs. Accordingly, we do not think these items should be required in the interim

[5] Paragraph 6 of IAS 34 states, "In the interest of timeliness and cost considerations and to avoid repetition of information previously reported, an entity may be required to or may elect to provide less information at interim dates as compared with its annual financial statements. This Standard defines the minimum content of an interim financial report as including condensed financial statements and selected explanatory notes. The interim financial report is intended to provide an update on the latest complete set of annual financial statements. Accordingly, it focuses on new activities, events, and circumstances and does not duplicate information previously reported".

financial statements.

Cooperation with the U.S. Financial Accounting Standards Board (FASB)

67. We believe that the presentation and disclosure of financial statements is important in ensuring comparability among entities. In this context, we believe that it is desirable that the results of the initiatives of the IASB, including the ED, be ultimately consistent with the requirements under U.S. GAAP. Accordingly, we expect the IASB and the FASB to work closely together to develop their respective accounting standards.

68. Specifically, the FASB decided in September 2017 to add to its agenda a technical project focused on disaggregating performance information, either through presentation in the statement of profit or loss or disclosure in the notes. Also, the Financial Performance Reporting project focusing on the structure of the statement of profit or loss including the development of subtotals and totals has been set up as a research project.

69. In addition, the FASB is currently working on the development of an approach to promote the disaggregated presentation of performance information based on the management's internal view within an entity, and this show that the management's view is considered. This is different from the approach proposed by the IASB, and if the IASB and the FASB complete the project adopting different approaches, comparability among companies using IFRS Standards and U.S. GAAP will be impaired. When the IASB considers the comments received on the ED, we suggest the IASB to consider the status of the FASB's deliberations.