Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Meeting Summary of HKICPA Roundtable Discussion for Investors, Analysts, Practitioners and Preparers of Financial Statements
(via teleconference)

Date: 23 June 2020, Tuesday
Time: 5:00 p.m. – 8:00 p.m.

IASB Exposure Draft on General Presentation and Disclosures

1. Operating Category

- Preparers commented that in some cases it would involve judgement, and there is insufficient guidance, to determine an entity's main business activities. They suggested the IASB should provide more guidance and examples to help preparers to determine their main business activities, including how an entity's main business activities link to its segment reporting.

2. Investing Category

- Stakeholders did not have specific comments about the investing category.

3. Financing Category

- A preparer confirmed that the proposed presentation of the unwinding of the discount on liabilities in the financing category is consistent with that preparer's current practice.
- Preparers generally agreed with the IASB's approach to include all interest income on cash and cash equivalents in the financing category for cost-benefit reasons.

4. Categories in statement of profit or loss

- A preparer commented that the three proposed categories in the statement of profit or loss are similar, but not identical, to the three activities in the statement of cash flows and the differences between the categories in these two statements will cause confusion. She considered that the IASB should clearly identify the linkage and differences between each of the categories in these two statements in the body of the Standard, not just in the Basis for Conclusions (eg, paragraph BC 51 of the ED describes the difference between the investing categories in these two statements), noting that some users of the financial statements and other stakeholders may not read the Basis for Conclusions.

5. Integral and non-integral associates and joint ventures

- One investor considered that it would be difficult for preparers to split a portfolio of associates and joint ventures between integral and non-integral, particularly for a conglomerate company that has different businesses, which would increase the complexity of performing the split. This investor noted that the proposals would likely lead to diversity in practice and hence a lack of comparability.
- Another investor questioned the usefulness of having a split between integral and non-integral associates and joint ventures on the face of the statement of profit or loss. He suggested the IASB should instead develop better disclosures about the characteristics and risk profile in the notes. He also commented that the proposed subtotal of operating profit and income and expenses from integral associates and joint ventures is misleading to users of the financial statements because the company does not have control over those investees and so the share of profit or

loss of associates and joint ventures should not be mixed with the operating profit or loss of the company.

- A preparer considered that the existing disclosure requirements for associates and joint ventures in IFRS 12 *Disclosure of Interests in Other Entities* in the notes together with the proposal for the split of associates and joint ventures into integral and non-integral in the statement of profit or loss would be appropriate and sufficient for users of financial statements to understand how the company invests in the associates and joint ventures to develop their business.
- A preparer questioned whether the proposed subtotal of operating profit and income and expenses from integral associates and joint ventures is intended to capture all income and expenses related to associates and joint ventures. She suggested the IASB should provide additional guidance in this area to achieve consistency in practice. For example, she recommended that the IASB should clarify whether finance costs incurred on a loan to integral associates and joint ventures (that forms part of the carrying amount of the net investment in these associates and joint ventures) shall be grouped and presented above this subtotal in the statement of profit or loss.
- A practitioner commented that 'significant interdependency' in proposed paragraph 20D of the ED would be a key factor in the determination of integral associates and joint ventures and it is judgemental. The practitioner said the proposed classification would be difficult to audit. Also, she mentioned that if a company invests in a portfolio of associates and joint ventures, the company may be uncertain whether there will be a significant interdependency between the company and the associates and joint ventures in the future, and hence they will be classified as non-integral associates and joint ventures. She questioned how useful the information about the split of integral and non-integral would be in this scenario.

6. Aggregation and disaggregation

- An investor expressed support for the aggregation and disaggregation proposals. There were no other specific comments.

7. Analysis of operating expenses

- One investor questioned why the option to present the analysis of expenses in the notes is proposed to be removed in the ED. He considered that the detailed analysis of operating expenses should be in the notes so that the statement of profit or loss is concise and uncluttered, and noting that investors usually analyse the primary statements together with the corresponding notes. He suggested the IASB should provide additional examples to illustrate the minimum line items to be presented in the statement of profit or loss.
- Another investor had a similar view that the statement of profit or loss should not be overly detailed.

8. Unusual income and expenses

- One investor said he welcomed the proposals, particularly basing the determination of unusual income and expenses on forward-looking information, which is consistent with investors using forward-looking information for their cash flow forecasts. He also shared his observations that an increasing number of entities are disclosing non-recurring or similarly described items in their financial statements and users would find it helpful to have a reconciliation of those items to IFRS specified totals or subtotals to understand how those items are determined.
- A preparer noted that the proposed definition would be subject to interpretation and suggested that the IASB should provide more guidance or real-life examples to illustrate how to determine unusual income and expenses.

9. Management Performance Measures (MPM)

- A preparer commented that the proposed disclosure requirements are excessive and would increase significantly the work and costs for preparers. However they may be confusing for less sophisticated users and users who are not familiar with IFRS.
- Another preparer raised similar concerns and shared her experience that entities may provide additional disclosures to sophisticated analysts and investors on MPM to address their needs. However, providing such extensive disclosures to less sophisticated users of the financial statements would be overwhelming and may not be understandable by them.
- A preparer commented that the scope of the MPM proposals is not comprehensive as it only forms a sub-set of the Alternative Performance Measures as defined in ESMA Guidelines on Alternative Performance Measures. The preparer also considered that there is insufficient time for users of financial statements to understand how the MPM proposals would provide them with useful information and comment on the proposals. She suggested the IASB should carry out a separate project to broaden the scope of MPM, and also provide more education about the current use of MPM to users and allow sufficient time for their feedback.
- Preparers also raised concerns about the practical difficulty and complexity in providing sufficient information about how the MPM is calculated for auditors' verification.
- One investor shared his experience that it is currently difficult to understand the MPMs disclosed by entities. He is also skeptical of the usefulness of MPMs as they could be easily manipulated by management. On the other hand, cash flows are harder to manipulate.
- Another investor agreed that the proposals on MPM may provide some useful information, however, the extent of detail should be balanced with the incremental costs incurred by preparers. He thought that the most critical disclosure would be the reconciliation from the MPM to the nearest IFRS specified total or subtotal, which could provide users with a better understanding of the underlying performance of the business.

10. EBITDA

- Most participants agreed with the IASB's proposal not to define EBITDA.
- One investor considered the use of operating profit or loss before depreciation and amortisation as the IFRS specified subtotal is better than EBITDA as it is clearly defined. However, he suggested the IASB should instead identify operating profit or loss before depreciation, amortisation, and impairment as the IFRS specified subtotal to provide users with better insight on the free cash flows of an entity.

11. Statement of cash flows

- One investor commented that it is helpful to see the split of dividends paid from integral and non-integral associates and joint ventures, however, the costs versus benefits of this proposal should be considered carefully.
- Another investor added that dividends paid from both integral and non-integral associates and joint ventures are classified in the investing category in the statement of cash flows. Therefore, he questioned why income and expenses from integral associates and joint ventures is presented in a separate category in the statement of profit or loss, rather than in the investing category like income and expenses from non-integral associates and joint ventures.

12. Further comments

<u>Classification of fair value gains and losses on derivatives and of exchange differences</u>

- A preparer raised concerns that the principles for the classification of fair value gains and losses on derivatives and of exchange differences, as summarised in paragraphs B39 and B40 of the ED, are complicated and difficult to understand. She also questioned why the presentation of derivatives would not be differentiated based on whether hedge accounting has been applied, meaning such presentation may not be useful to investors. She considered the existing disclosure requirements under IFRS 7 *Financial Instruments: Disclosures* on financial risk management are sufficient for investors to understand the hedging relationships designated by an entity and how management manages the financial risks of the entity. She also commented that the incremental costs incurred by preparers to perform the proposed separate classification appeared to outweigh the benefits to users, unless there is a strong need for such information by users.

- Investors generally agreed with the preparer's view and considered that the proposals for classification of fair value gains and losses on derivatives and of exchange differences would provide limited benefits to them. One investor commented that a balance should be made between the information needs of investors, the work done by the preparers, and the competitive disadvantages of disclosing too much information to the public, particularly for public interest entities.