

September 23, 2020

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

By e-mail: commentletters@ifrs.org

Re: IFRS® Standards Exposure Draft—*General Presentation and Disclosures*

(ED/2019/7)

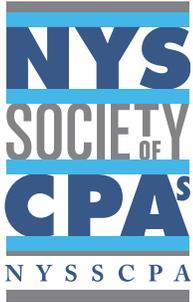
The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 22,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above-captioned exposure draft.

The NYSSCPA's International Accounting and Auditing Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with us, please contact Richard C. Jones, Chair of the International Accounting and Auditing Committee, at (516) 463-6990, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Edward L. Arcara
President

Attachment



**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

COMMENTS ON

**IFRS® STANDARDS EXPOSURE DRAFT—*GENERAL PRESENTATION AND
DISCLOSURES***

(ED/2019/7)

September 23, 2020

Principal Drafters

**Richard C. Jones
William M. Stocker III**

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NYSSCPA Staff

Ernest J. Markezin

New York State Society of Certified Public Accountants
Comments on
IFRS® Standards Exposure Draft—*General Presentation and Disclosures*
(ED/2019/7)

We welcome the opportunity to respond to the International Accounting Standards Board’s (IASB or the Board) invitation to comment on International Financial Reporting Standards (IFRS) Exposure Draft—*General Presentation and Disclosures* (the ED).

General Comments

We support the Board’s objective for issuing the proposed guidance and agree that the proposals are consistent with the Board’s emphasis, expressed in several ongoing and completed projects, on “Better Communication in Financial Reporting,” which has the broader goal of improving how information is communicated to financial statement users.

Our comments below are offered in consideration of the Board’s objective of making financial information more useful and improving the way the financial information, in this case financial performance, is communicated to financial statement users.

Specific Comments

Our responses to the Questions for Respondents are as follows.

General Presentation and Disclosures

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.

Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why? See the Basis of Conclusions (“BOC”) ¶ BC53 for the Board’s reasons for this proposal.)

Response: We support the Board’s proposal requiring that company’s present information that is “comparable between entities,” particularly among entities within the same business sector or within similar industries.

Of course, in meeting this presentation objective, preparers require precise definitions of the classification categories. Therefore, in a final standard or in the associated supporting

material, the Board should provide examples and illustrations that clarify the application of its definitions and classification criteria.

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.

Do you agree with this proposal? Why or why not? If not, what alternative approach would you suggest and why? (See BOC ¶s BC54–BC57 for the Board’s reasons for this proposal.)

Response: While we support the Board’s proposal to present financial performance in the proposed categories, e.g., operating, investments, finance, and integral investments and joint ventures, etc., we believe that, for the operating category, the Board should provide a distinct definition and related classification criteria. This proposed “default” approach for classifying income and expenses in the operating category could work to reduce comparability in reporting as entities apply the classification criteria for income and expenses to the distinctly defined categories without consideration of the “operating nature” of such items.

Additionally, as discussed below, the Board’s proposal requiring disclosure of “unusual income and expenses,” while not allowing a category in the statement of profit or loss for such items might result in entities presenting such items in the operating category, by default (or worse, spreading those items among the various categories of profit and loss, thus reducing the comparability of the related sub-totals across entities in the same or similar industries).

Lastly, recognizing that users of financial statements, particularly investors and potential investors, and lenders and potential lenders, assign a higher valuation to entities that generate high (and increasing) recurring profits from operating activities relative to their peers’ recurring profits or relative to some specific benchmark, we are concerned that, absent a specific criteria for classification of income and expense items in operating activities, that might have the undesired result of those preparers establishing policies favoring classification of income items as operating income while classifying related expense items in separate more clearly defined categories.

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.

Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why? (See BOC ¶s BC58–BC61 for the Board’s reasons for this proposal.)

Response: We support the Board’s proposal requiring an entity to classify income and expenses from investments in the operating category when such income and expenses are generated from investments made in the course of an entity’s main business activities.

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.

Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why? (See BOC ¶s BC62–BC69 for the Board’s reasons for the proposals.)

Response: We support the Board’s proposal allowing an entity to make a policy choice related to the classification of income and expenses related to the entity’s financing activities, when providing financing to customers is a main business activity of the entity.

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.

Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why? (See BOC ¶s BC48–BC52 for the Board’s reasons for the proposal.)

Response: We support the Board’s proposal that an entity classifies in the investing category income and expenses from assets that generate a return individually and largely independently of other resources held by the entity, unless the investments are made in the course of the entity’s main business activities.

Additionally, we agree that such income and expenses should include related incremental expenses, as explained above.

Lastly, we support an entity classifying income and expenses from non-integral associates and joint ventures in the investing category.

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.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why? (See BOC ¶s BC33–BC45 for the Board’s reasons for the proposals.)

Response: We support the Board’s proposal that entities, except as specified in ¶64, present a subtotal for “profit or loss before financing and income tax” in the statement of profit or loss.

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.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why? (See paragraphs BC77–BC89 and BC205–BC213 for the Board’s reasons for these proposals and a discussion of approaches that were considered but rejected by the Board.)

Response: We support the Board’s proposal requiring identification and separate presentation of integral and non-integral associates and joint ventures in the statement of profit and loss.

Further, we support the proposal requiring entities to present in the statement of profit or loss a subtotal for operating profit or loss and income and expenses for integral associates and joint ventures.

Lastly, we support the proposed new paragraph requiring an entity to provide information about integral associates and joint ventures separately from non-integral associates and joint ventures.

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.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why? (See BOC ¶s BC19–BC27 for the Board’s reasons for these proposals.)

Response: These paragraphs expand on the Conceptual Framework for Financial Reporting (“CF”) discussion of “Aggregation”, mainly contained in CF ¶s 7.20-7.22. However, by defining and describing a “notion” of disaggregation, which is not discussed in the CF, we believe the proposal goes beyond the definition and explication of Aggregation contained in the CF. As result, while we support the proposed definitions and explanations of the aggregation and disaggregation notions contained in the proposal, we believe the Board should address these “broader” guiding principles in the CF.

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.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why? (See BOC ¶s BC109–BC114 for the Board’s reasons for the proposals.)

Response: We support the Board’s proposed requirements and application guidance regarding an entity’s presentation of operating expenses in its statement of profit or loss. Additionally, we support the proposed requirement that an entity that presents its operating expenses by function in the statement of profit or loss to provide an analysis using the nature of expense method in the footnotes to financial statements.

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.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why? (See BOC ¶s BC122–BC144 for the Board’s reasons for the proposals and discussion of approaches that were considered but rejected by the Board.)

Response: While we agree with the Board’s intent to identify items of income and expenses that are not recurring and that are of “limited predictive value” to users of financial statements, we do not agree that entities should disclose such items in the notes to financial statements while presenting those same amounts in the statement of profit and loss in operating, investing and financing categories. Such an approach would limit the usefulness of the various subtotals presented in the statement of profit and losses by limiting the comparability of those sub-totals among entities in the same or similar industries.

As an alternative, we recommend that the Board retain its definition of unusual income and expenses and require a separate presentation of such amounts in the statement of profit or loss, after the operating, investing and financing categories. If the Board were to adopt such an approach, they should retain the disclosures in ¶101(a), 101(b), and 101(d), as appropriate, with two additional disclosures. The additional disclosures would be 1) which categories the unusual items would be included if they had been included in the subtotals and 2) the income tax expense related to the unusual item. The first additional disclosure would permit financial statement users to add back the unusual items to the appropriate categories if they believe that analysis to be useful. The second additional disclosure would likely be useful to users.

In some cases, the non-recurring item with “limited predictive value” might itself be income tax expense or benefit, such as the result of a tax examination of past tax years relating to issues that are no longer relevant to the entity. In such cases there should be a subtotal “profit for the year from continuing operations before non-recurring income tax expense,” then the “non-recurring income tax expense,” followed by “profit for the year from continuing operations.”

We have an additional concern regarding the requirement of paragraph B73 to exclude items of income and expense related to the unusual items that are not themselves unusual. We believe that in many cases the exclusion of such items that would not have been incurred without the unusual item, would be highly misleading. The issue of related income tax expense would be handled by the suggested disclosure discussed in the second paragraph of this response.

We further believe that there should be some narrow criteria to include other items of income and expense with the not recurring “limited predictive value” items. Something like “clearly direct and incremental” items of income and expense. Examples might include sales commission, and cost of sales on revenue items

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.

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? (See BOC ¶s BC145–BC180 for the Board’s reasons for the proposals and a discussion of approaches that were considered but rejected by the Board.)

Response: We agree with the Board’s proposed definition of management performance measures and we support the proposed disclosure requirements.

Question 12—EBITDA: 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? (See BOC ¶s BC172–BC173 for the Board’s reason for not proposing requirements relating to EBITDA)

Response: While we agree with the Board’s proposed decision to avoid the quagmire associated with defining EBITDA and recommending disclosure requirements for that metric, we note that the proposed subtotal of “earnings before interest and taxes” establishes the baseline for the EBITDA metric, which the Board acknowledges in ¶s BC46-BC47 in the BOCs. While the Board also acknowledges that the subtotal proposed by the ED for “earnings before interest and taxes” (EBIT) does not properly include certain interest expense and interest revenue items because those amounts are classified in other categories, we are certain that financial statement analysts and other users of financial statements will rely on the proposed EBIT subtotal as a starting point for their EBITDA performance measure. And, thus, we believe the Board has not successfully extricated themselves from the EBITDA measurement discussion. We believe that the Board should either:

- a. Remove the proposed EBIT subtotal; or
- b. Propose that, in their footnotes to the financial statements, entities detail the interest income and interest expense items reported in their statement of profit or loss. This disclosure should be by reporting category.

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.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why? (See BOC ¶s BC185–BC208 for the Board’s reasons for the proposals and a discussion of approaches that were considered but rejected by the Board.)

Response: We support the Board proposal to require operating profit or loss as the starting point for the indirect method of reporting cash flows from operating activities.

Additionally, we support aligning the requirements for reporting dividends received, interest received, and interest paid with the approach for reporting such amounts in an entity’s statement of profit or loss.

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?

Response: We have no further comments.