Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Primary Financial Statements**	**Meeting:**	M177
Topic:	**Comment letters and draft submission on ED 298**	**Agenda Item:**	6.1
		Date:	2 September 2020
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		Decision-Making:	High
		Project Status:	Comment letter

OBJECTIVE OF THIS PAPER

1 The objective of this agenda item is:

(a) to **inform** the Board of further UAC feedback and comment letters received on ED 298 *General Presentation and Disclosures*; and

(b) for the Board to **approve** the AASB's comment letter to the IASB.

ATTACHMENTS

Agenda Paper 6.2	Draft comment letter to IASB on ED/2019/7
Agenda Paper 6.3	Comment letters received on ED 298 (collated)
Agenda Paper 6.4	Informal feedback received on ED 298 (Board only)
Agenda Paper 6.5	Late submission received on ED 298
Agenda Paper 6.6	AASB ED 298 *General Presentation and Disclosures* [SUPPORTING DOCUMENTS FOLDER]

STRUCTURE

2 This Staff Paper is set out as follows:

(a) Background (paragraph 3-4);

(b) Additional feedback received (paragraphs 5);

(c) Draft comment letter (paragraphs 6-7);

(d) Next steps (paragraphs 8-9);

(e) Summary of comment letters received; and

(f) Appendix A: Detailed feedback from the UAC.

BACKGROUND

3 The IASB issued Exposure Draft ED/2019/7 *General Presentation and Disclosures* in December 2019, resulting from the work on its Primary Financial Statements Project. The AASB re-issued ED 298 *General Presentation and Disclosures* domestically in January 2020.

4 The AASB discussed feedback received through various outreach, including webinars, the Disclosure Initiative Project Advisory Panel, the User Advisory Panel and other targeted outreach at its April and June 2020 meetings. The Board made tentative decisions regarding its feedback to the IASB at those meetings, which is reflected in the draft comment letter attached as Agenda Paper 6.2.

ADDITIONAL FEEDBACK RECEIVED

5 The following additional feedback has been received since the June meeting which the Board should be updated on prior to reviewing the draft comment letter.

Comment letters and informal feedback

6 Three comment letters were received from:

(a) S1: Peter Wells, Professor, University of Technology Sydney;

(b) S2: Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC); and

(c) S3: Australiasian Council of Auditors-General (ACAG).

7 Staff also received preliminary feedback from CA ANZ staff via email. Overall, staff do not consider that the comment letters/informal feedback raise any additional key issues that would warrant staff recommending the Board to amend its previous decisions. The only additional feedback which staff consider relevant to include in the comment letter is:

(a) feedback for the IASB to provide additional guidance for entities to determine their 'main business activities'; and

(b) a suggestion for the IASB to re-consider the going concern requirements proposed to be moved from IAS 1 *Presentation of Financial Statements* to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

8 The majority of written feedback was also received from public sector stakeholders. That feedback focuses on issues which appear to be specific to the application of the proposals in the public sector, rather than issues that are relevant to the IASB's proposals (which naturally have a private sector focus). Staff recommend that the feedback from public sector is analysed in a greater detail when the proposals are closer to being finalised by the IASB.

9 The summary of comment letters received section provides a more detailed summary of the feedback received formally, including the public sector feedback.

Late comment letter received (not analysed in this paper)

10 Additionally, Staff received a late submission from QBE on the date of finalising this paper for mailout. As such, the submission has not been analysed or incorporated into this paper or draft comment letter. It is, however, attached as Agenda Paper 6.5 for the Board's noting. Staff note that QBE has also submitted directly to the IASB. Staff's initial observations on the submission are that QBE generally supports the proposals, but request some clarification with relation to:

(a) the definition of management performance measures

(b) disaggregation in the primary financial statements and the interaction with IFRS 17 *Insurance Contracts*; and

(c) whether the IASB's proposal to re-analyse operating expenses by nature in the notes is appropriate for insurers.

11 Staff will update the Board verbally if we recommend that there is significant feedback that the Board might consider amending the draft comment letter for.

User Advisory Committee – July 2020

12 As agreed with the Board in June 2020, Staff asked the UAC its views on the Board's decisions relating to some of the IASB's proposals, specifically relating to integral associates and joint ventures, analysis of operating expenses and unusual items of income and expenses.

13 As an overarching comment, staff consider that the UAC is supportive of the AASB's proposed responses to the IASB. Staff have identified some additional points to raise in the comment letter based on the feedback, in particular, that the IASB should ensure any changes to the definition of unusual items of income and expenses does not allow for the disclosure to be misused, and that the disclosure requirements in IFRS 12 *Disclosure of Interests in Other Entities* may require improvement via the forthcoming review of that standard.

14 Appendix A provides a detailed summary of the additional feedback received and staff proposed responses to the feedback.

DRAFT COMMENT LETTER

15 Staff have attached the draft comment letter as Agenda Paper 6.2. The draft comment letter reflects previous decisions of the Board and incorporates the staff recommendations set out in this paper.

16 Staff are seeking the Board's approval of the comment letter at this meeting, as it is due to the IASB by 30 September 2020. The draft comment letter contains some specific questions to the Board.

NEXT STEPS

17 If the Board approves the draft comment letter, staff will finalise and submit to the IASB.

18 If the Board would like amendments to the draft comment letter, staff will take one of three approaches, depending on the magnitude of changes:

(a) for minor amendments, staff will bring an updated comment letter to the Board on day two of this meeting for approval; or

(b) for more substantial amendments, staff recommend the formation of a sub-committee of Board members to approve the draft comment letter out-of-session.

SUMMARY OF RECOMMENDATIONS AND QUESTIONS TO THE BOARD

Question No.	**Questions to the Board**
1	Does the Board agree with the staff recommendations relating to additional feedback noted in the below section *Summary of comment letters received*, particularly whether to include in the draft submission: - feedback for the IASB to consider adding more guidance on how an entity would identify its 'main business activities' (see ED question 3 below); and - a recommendation for the IASB to undertake a more holistic project addressing matters relating to the going concern assessment and disclosures (see ED question 14 below)?
2	Does the Board have any other feedback that they would like incorporated into the comment letter (see Agenda Paper 6.2)?
3	Does the Board approve the comment letter (see Agenda Paper 6.2). To facilitate discussion, staff identify the following as the key issues in the comment letter for the Board to consider in approving the comment letter: • Integral and non-integral associates and joint ventures (question 7); • Analysis of operating expenses (question 9); • Unusual income and expenses (question 10); and • Management performance measures (question 11).
3	If the Board does not approve the content of the comment letter (see Agenda Paper 6.2), would the Board like to finalise the comment letter by: • Re-consideration on day 2 of this meeting (if possible); or • By a Board sub-committee?

SUMMARY OF COMMENT LETTERS RECEIVED

Question 1 Operating profit and 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 proposals? Why or why not? If not, what alternative approach would you suggest and why?

Feedback	***Interaction with Board's view***	***Staff recommendation***
S1 (UTS) generally agrees that operating profit or loss will increase consistency.	Consistent	n/a

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?

Feedback	***Interaction with Board's view?***	***Staff recommendation***
S1 (UTS) recommends properly defining operating profit, rather than the proposed residual approach, as: • exceptions to the model create complexity (for example re-categorisation for entities providing finance to customers) • incomplete consideration of what operating activities actually are (rather than just a residual approach)	Inconsistent. However, as noted in the IASB's BC, the IASB attempted but was unable to reach a direct definition of operating profit. Staff agree that such a definition would be too difficult to create and hence agree with the IASB's proposal.	Staff recommend not to include this feedback in the draft comment letter

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.

Paragraph 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?

Feedback	***Interaction with Board's view?***	***Staff recommendation***
Preliminary feedback from CA ANZ staff suggested that the IASB should provide guidance on what constitutes a 'main business activity' to assist the application of the definition.	Consistent, however additional guidance may be required. Staff note that entities are currently required to disclose their 'principal activities' under AASB 101 paragraph 138. That requirement has been largely carried forward into paragraph 99 IFRS X, but the term has been amended to 'main business activities'. On that basis, determining the principal activities of an entity is not a new requirement. However, what entities define as their 'main business activities' is now much more important given the proposed categorisation of the P&L relies heavily on the main business activities, and therefore additional guidance may be warranted. There appears to be no guidance in the ED about how to determine an entity's main business activity, except for paragraph B27 which states "If, applying IFRS 8 *Operating Segments*, an entity reports a segment that constitutes a single business activity, that may indicate that that business activity is the main business activity". Staff consider that it would be useful for the IASB to provide some more guidance on how an entity identify what its main business activities are (or are	Staff recommend including feedback for the IASB to consider adding more guidance on how an entity would identify its 'main business activities'.

	not). However, staff consider that the guidance should not be too prescriptive, and be limited to indicators of main business activities similar to paragraph B27. We think this is important so that entities still have some flexibility in defining what the main business activities are in their context, given the diverse range of entities reporting under IFRS.	

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 proposals? Why or why not? If not, what alternative approach would you suggest and why?

Feedback	***Interaction with Board's view?***	***Staff recommendation***
Preliminary feedback from CA ANZ staff suggested that there is a potential loss of comparability and consistency between entities due to the proposed policy choice in this proposal. If the accounting policy choice is permitted, the respondent proposed additional disclosures to enhance comparability.	Not previously considered by AASB. The IASB acknowledges a potential loss of comparability but makes this proposal on the basis that many entities would not be able to determine in a non-arbitrary way what financing costs relate to the provision of financing to customers, and what relates to other business activities. This would be the case where, for example, there is a central treasury function. Staff have not discussed this proposal in detail with Australian entities that provide financing to customers to test whether the IASB's assertions are true. However, we note that preliminary feedback received by	Staff recommend not to include this feedback in the draft comment letter

	the NZASB indicates that in New Zealand, entities that would be eligible to apply the accounting policy option would not be able to allocate the items on a non-arbitrary basis. With that in mind, staff consider that the IASB's policy choice is a practical way forward.	

Question 5 The investing category

Paragraph 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

Paragraph BC48-52 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?

No additional feedback

Question 6 Profit or loss before financing and income tax and the financing category

(a). Paragraphs 60(c) and 64 of the Exposure propose that all entities, except for some specified entities (see paragraphs 64 of the Exposure Draft), present a profit or loss before financing and income tax subtotal in the statement of profit and 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?

No additional feedback

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 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 prosed 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 of Conclusions describe the Board's reasons for these proposals and discuss approaches that were considered rejected by the Board.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

Feedback	***Interaction with Board's view?***	***Staff recommendation***
Preliminary feedback from CA ANZ staff noted that whilst the proposed definition could provide useful information, the definition required clarification or further guidance to reduce the assumptions and judgements involved in its application.	Mostly consistent. The Board has noted the judgement and proposes not to require the distinction between integral and non-integral(which goes further than the suggestion to simply improve guidance), but to recognise this income/expense on a separate line.	Staff recommend no change to the draft comment letter

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?

Feedback	***Interaction with Board's view?***	***Staff recommendation***
Preliminary feedback from CA ANZ staff supported the IASB proposals in this regard.	Consistent	n/a

Question 9 Analysis of operating expenses

Paragraph 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 the expense method in the notes.

Paragraph 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?

Feedback	***Interaction with Board's view?***	***Staff recommendation***

S1 (UTS) agrees that both natural and functional analysis is useful. The respondent also suggests that functional analysis is prescribed (ie both by nature and function should be required), and linked in a more articulate way with segment reporting.	Partially consistent. The Board decided to recommend that a mixed approach is not used. It did not consider whether to require an analysis by both nature and function in all circumstances. The IASB considered this but rejected it on the basis that there was no demand from users for these disclosures (BC114). Staff have not received feedback from users to rebut that assumption, and note that the proposals would already require a functional analysis where it is deemed the most useful type of analysis for the specific entity.	Staff recommend no change to the draft comment letter
Preliminary feedback from CA ANZ staff supported the IASB's proposal, except for the required minimum line items in paragraph B47 which may lead to a mixed analysis by default.	Consistent. The Board decided to provide feedback to the IASB not to require the mixed analysis by default by way of the minimum line items required by B47.	Staff recommend no change to the draft comment letter

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 expense in a single note.

(c). Paragraphs BC67-BC75 of the Exposure Draft propose application guidance to help and 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?

Feedback	***Interaction with Board's view?***	***Staff recommendation***
S1 (UTS) is cautious over adding this disclosure based on the Australian experience with abnormal and extraordinary items. However, it is accepted that the proposal may provide useful information. Such	Consistent. The Board previously agreed that the tax effect and impact on NCI should be disclosed to provide information on the impact of unusual items.	Staff recommend no change to the draft comment letter

information should articulate to other line items (such as tax), however.		
Preliminary feedback from CA ANZ staff suggested that the subjectivity of the definition could be improved, particularly with respect to: • Focussing only on the future. Parameters defining additional disclosures on how management has determined these items would be useful. • Using terms such as 'limited predictive value' and 'several future reporting periods'. • Not defining unusual in the context of the business or circumstances.	Partially consistent. The Board agreed that the definition could incorporate occurrences of the past to help assess the future, which would address some of these comments. However, the Board also previously rejected moving away from the principle of 'several future reporting periods' to avoid becoming overly rules-based. The IASB BC clarifies that it did not intend for the definition to focus on events that are unusual in nature (BC134). This is because events that are unusual in nature may give rise to usual items of income of expense. In other words, it may be an event that is unusual in nature (eg an earthquake) that creates persistent expenses over a number of years. Staff agree with the IASB's proposal in this regard.	Staff recommend no change to the draft comment letter.

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 describes 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?

Feedback	***Interaction with Board's view?***	***Staff recommendation***

S1 (UTS) considered that additional disclosure as to whether the MPM is relevant to management compensation contracts would be useful.	Inconsistent. The Board previously considered suggesting management compensation is added to the scope of the proposals, but rejected it on the basis that it focussed more on internal management of the entity, rather than information disclosed in public.	Staff recommend not to include this feedback in the draft comment letter.
Preliminary feedback from CA ANZ staff suggested that the proposed definition is too narrow, and should be expanded to measures beyond subtotals of income and expense. The feedback also suggests: • To clarify what the IASB means by ‘public communications’. This will further add problems for auditors to get comfort over the completeness of the information. • concerns from auditors and preparers about audit challenges, in terms of judging whether a measure is relevant. ('faithfully represents' in the context of MPMs).	Consistent The feedback is generally consistent with the Board’s previous decisions	Staff recommend no change to the draft comment letter.

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?

No additional feedback

Question 13 Statement of cash flows

(a). The proposed amendments 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?

Feedback	***Interaction with Board's view?***	***Staff recommendation***
S1 (UTS) and informal feedback noted that insufficient regard has been given to articulation between the statement of profit or loss and the cash flow statement (clarity on the terms, which are similar within those statements).	Consistent. The Board previously agreed to provide feedback to the IASB to clarify the interaction of the statements.	Staff recommend no change to the draft comment letter.

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 the appendix) and Illustrative Examples accompanying the Exposure Draft?

Feedback	***Interaction with Board's view?***	***Staff recommendation***
Preliminary feedback from CA ANZ staff suggests that the IASB re-consider the going concern disclosure requirements which are simply carried over from IAS 1 to IAS 8 to align them with the auditing standards requirements.	Not considered in the context of this project. Staff agree that this project provides an opportunity to influence the IASB to include a project on going concern on its work program, as discussed by the Board in relation to COVID-19 in June 2020.	Staff recommend to include this in the comment letter.

APPENDIX B: SUMMARY OF WRITTEN RESPONSES FOR EACH QUESTION – Australian-specific SMCs

SMC 1 Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

(a) not-for-profit entities;

(b) public sector entities, including GAAP/GFS implications;

Feedback	***Interaction with Board's view?***	***Staff recommendation***
S2 and S3 (HoTARAC and ACAG) are concerned that the proposals would require significant consideration and possible amendment for the public sector. For example, areas for consideration would include: • Whether the proposed categories and subtotals are appropriate for the public sector, which generally focus on economic flows, more specifically, consideration would be required as to how the categories link to the principles in the ABS GFS manual (and AASB 1049). • Whether the concept of a 'significant interdependency' would be appropriate in a public sector context where determining whether an associate/joint venture is integral or not • Whether the definition of MPMs would capture the broad range of information required to be reported by public sector entities, including budgets and GFS measures, and whether it would be appropriate for such measures to be subject to the MPM disclosure requirements;	Staff do not consider that this feedback is relevant to the IASB, which focusses on the information needs of users in the FP sector, not the public sector. Staff agree that the proposals would require close consideration for their applicability to NFP and public sector entities. Staff recommend that consideration is given: • When the IASB's redeliberation is closer to finalised, so that the Board's does not have to re-work any views or proposals with respect to the NFP/public sector • Via the planned post-implementation review of AASB 1049, which many of the presentation-related issues stem from for the public sector. Staff do not identify any issues that do not appear to be public sector/NFP-specific. In other words, staff do not identify anything that could be improved by the IASB with respect to the comments.	Staff recommend not to include this feedback in the draft comment letter.

• Classifying income from cash and cash equivalents in the financing category, given that public sector entities hold excess cash as investments. • Some changes in terminology may be problematic, including the definition of borrowings requiring borrower to be "appropriately compensated" in IAS 7, which may be interpreted differently in the public sector environment of low/free loans. Another example is suggested replacement of owners with "holders of claims classified as equity" as public sector entity may have equity members without issuing the equity interest.		

SMC 2 Whether there are any signification inconsistencies or other issues between the proposals and the requirements of ASIC RG 230 Disclosing non-IFRS financial information that should be addressed by any resulting standard;

Feedback	***Interaction with Board's view?***	***Staff recommendation***
S3 (ACAG) recommends the IASB restrict the inclusion of non-financial information in the financial statements only to that information 'that is necessary to give a true and fair view, or present fairly, the financial position and performance of an entity".	New feedback. Staff consider that non-financial information is often imperative to the understanding of the financial information. Further, we consider that the provisions and explanation of materiality are sufficient in providing guidance as to when information should be included in the financial statements.	Staff recommend not to include this feedback in the draft comment letter.

SMC 3 whether, overall, the proposals would result in financial statements that would be useful to users;

Feedback	***Interaction with Board's view?***	***Staff recommendation***

S3 (ACAG) believes that it is unlikely the proposals will result in useful public sector financial reporting for the reasons noted above under SMC 1.	See SMC 1	See SMC 1

SMC 4 Whether the proposals are in the best interest of the Australian economy

No additional feedback

SMC 5 Whether the proposals are auditable, or whether they would give rise to any auditing or assurance challenges

Feedback	***Interaction with Board's view?***	***Staff recommendation***
S3 (ACAG) noted some specific audit challenges with the proposals, including that significant judgement is required for the proposals relating to integral/non-integral associates and joint ventures, unusual income and expenses and MPMs. Such judgements may be difficult to audit.	Consistent The Board has already discussed some of the challenges involved in apply the judgements noted by ACAG, and in each case has made suggestions to reduce the amount of judgement required.	Staff recommend no change to the draft comment letter.

SMC 6 Unless already provided in response to specific matters for comment 1 – 5 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

Feedback	***Interaction with Board's view?***	***Staff recommendation***
S2 (HoTARAC) noted that Introducing new line items and reformatting statements of profit or loss will require substantial changes to accounting systems for multiple government agencies. Data will also need to be collected for previous years to ensure time series information is available for the Commonwealth and rating agencies.	Staff do not consider that the changes to accounting systems is an issue specific to the public sector (ie private sector entities would also be required to update systems to implement the proposals). Staff do not propose providing this feedback to the IASB on the basis that the proposals appear to be generally well received, particularly by users, and would bring better comparability to financial	Staff recommend not to include this feedback in the draft comment letter.

	reporting. Therefore, it would appear the cost of changing systems outweighs the benefits.	

APPENDIX A: DETAILED FEEDBACK FROM THE UAC

QUESTIONS ASKED TO UAC (Based on items noted for additional feedback from UAC in the Board's June 2020 meeting).	FEEDBACK FROM UAC	IMPACT OF FEEDBACK ON COMMENT LETTER/STAFF RESPONSE
Integral associates and joint ventures Staff discussed the Board's proposed feedback to the IASB to not require entities to distinguish between integral and non-integral associates and joint ventures, and instead require them to be presented in a single line item outside of operating profit.		
Do UAC members agree with the AASB's recommended approach to require all associates and JVs to be presented in a single line outside of operating profit, but not distinguish between whether the investment is integral or not to the entity?	Members agreed with the AASB's proposed approach, and confirmed previous feedback that: • requiring entities to distinguish between integral and non-integral associates and joint ventures would not provide particularly useful information. • separating equity-accounted associates and JVs from the operating category so as not to mix pre-and post-tax items in the operating category. Some members noted a preference to not mix pre and post-tax items in the statement of profit or loss at all.	Consistent with and supportive of the Board's previous decision in June. Staff recommend no changes to the Board's previous decision in June.
Do UAC members agree that current disclosure requirements (required by AASB 12) provide useful information about associates and joint ventures? If not, are there any additional disclosures you would suggest in respect of associates and joint ventures?	Members generally agreed that more detailed disclosure of associates and joint ventures' financial position and financial performance would be useful. In particular, members would be interested in more information of the debt position of associates and joint ventures.	Staff recommend providing feedback to the IASB to consider whether any improvements are needed to IFRS 12 via the forthcoming PIR, with reference to the feedback noted.

QUESTIONS ASKED TO UAC (Based on items noted for additional feedback from UAC in the Board's June 2020 meeting).	FEEDBACK FROM UAC	IMPACT OF FEEDBACK ON COMMENT LETTER/STAFF RESPONSE
Analysis of operating expenses Staff discussed with the UAC whether they agreed that an entity should be required to analyse operating either by nature or by function, and that mixing the analysis should not be permitted.		
Do UAC members have any further comment on whether you would prefer entities to analyse operating expenses by function, by nature, or to permit the entity to determine itself (which may result in a mixed analysis)?	Members generally agreed that a consistent approach to expenses analysis is preferred to aid comparability, including from period to period within an entity. Some members did not consider an analysis by function to be particularly useful, as the information reported is generally not at a sufficiently granular level to understand the components of particular line items, and whether or not the aggregation is consistent with other entities. Some members suggested that analysis by function can be useful at a segment level, where different business segments are split out that may react to economic factors differently, as opposed to being consolidation on the face of the profit or loss. One member noted that issues with the granularity of information sometimes leads to a focus being shifted to assessing EBIT margins in analysis. On the other hand, some members confirmed that functional analysis can be useful, for example in telecommunications companies, and can also provide useful information when comparing companies.	Consistent with and supportive of the Board's previous decision in June. Staff recommend no changes to the Board's previous decision in June
Would users prefer analysis by nature in notes to ensure comparability? Do you agree with the IASB that mixing natural and functional expenses could distort ratio analysis? Where an analysis by function is performed on the face of the statement of profit or loss, is disaggregation by nature in the notes useful to users?	UAC members did not share any experiences of mixed methods of analysis distorting ratio analysis. However, the majority agreed that a re-analysis of functional analysis by nature in the notes would be useful.	Consistent with and supportive of the Board's previous decision in June. Staff recommend no changes to the Board's previous decision in June

QUESTIONS ASKED TO UAC (Based on items noted for additional feedback from UAC in the Board's June 2020 meeting).	FEEDBACK FROM UAC	IMPACT OF FEEDBACK ON COMMENT LETTER/STAFF RESPONSE
Unusual items of income or expense Staff discussed with the UAC whether they thought the definition should be expanded to include some unusual items that may cross into the next reporting period.		
Do you agree that it would be useful for items of income and expense to be called out as unusual if they are to recur only in a limited time frame (eg the next reporting period)?	UAC members generally raised concerns that expanding the definition may allow companies to report items as unusual or one-off items for many reporting periods, which is not the objective of the disclosure. UAC members consider this is a concern throughout the investor community, and preferred a more restrictive definition to unusual items to reduce scope for inappropriate classification. However, some members noted that the disclosure of restructures that occur in the over two years may be useful to disclose as unusual to assist predict cash flows for the coming year (i.e. second year), but only to the extent that the item is genuinely unusual. UAC members considered an example of how the proposals might apply to COVID-19-related income and expenses, such as government grants. UAC members noted an expectation that entities would report the impact of COVID-19-related items of income and expense, and the extent to which they are unusual, in inconsistent ways. UAC members concluded that it would be descriptive disclosures supporting why an item of income or expense is determined to be unusual by management that would be most useful. This would permit users to make their own assessments as to whether the items are unusual.	Staff still consider that the definition could be improved to more appropriately include unusual items that may cross over the reporting period. However, with UAC feedback in mind, the response to the IASB may need to be clarified that restricting the ability to abuse the definition is extremely important to users. Staff recommend that the response to the IASB may need to be clarified that restricting the ability to abuse the definition is extremely important to users.
Do you support consideration of what has happened in the past with determining whether something is unusual in the future?	UAC members did not raise concern with this proposal.	Consistent with and supportive of the Board's previous decision in June. Staff recommend no changes to the Board's previous decision in June