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|--------------------|---|--------------------------|--|
| <b>Project:</b>    | Presentation and Disclosure in Financial Statements   | <b>Meeting:</b>          | AASB 6-7 June 2024 (M204)              |
| <b>Topic:</b>      | Consideration of AASB's comments on ED/2019/7 <i>General Presentation and Disclosures</i>   | <b>Agenda Item:</b>      | 4.2                                    |
|                    |   | <b>Date:</b>             | 21 May 2024                            |
| <b>Contact(s):</b> | Helena Simkova<br><a href="mailto:hsimkova@asb.gov.au">hsimkova@asb.gov.au</a><br>Angus Thomson<br><a href="mailto:athomson@asb.gov.au">athomson@asb.gov.au</a> | <b>Project Priority:</b> | High                                   |
|                    |   | <b>Decision-Making:</b>  | High                                   |
|                    |   | <b>Project Status:</b>   | Analysis of project outcomes (IFRS 18) |

## Objective of this paper

- 1 The objective of this agenda item is to analyse IFRS 18 *Presentation and Disclosure in Financial Statements* (April 2024) in light of the [AASB's comments on IASB ED/2019/7 General Presentation and Disclosures](#) (December 2019).
- 2 The analysis is intended to help inform the Board in its deliberations on whether to make an Australian Accounting Standard that incorporates IFRS 18.
- 3 Please note that application is to reporting periods ending on or after 1 January 2027 and during this time, the AASB plans to determine whether any modifications might be needed for:
  - (a) entities preparing Tier 2 general purpose financial statements;
  - (b) not-for-profit entities;
  - (c) public sector entities, including whole of government entities; and
  - (d) other entities, such as superannuation entities.

## Background

- 4 The project that has led to the development of IFRS 18 effectively commenced with feedback received on the IASB's Request for Views *2015 Agenda Consultation*. Key themes that emerged from the agenda consultation included feedback on addressing 'alternative' (non-IFRS) performance measures, profit or loss subtotals, and a need for greater clarity on identifying items presented in profit or loss versus OCI.
- 5 The IASB considered various proposals at meetings from 2017 to 2019 and performed a wide range of outreach, including through national standard setters, but a formal Discussion Paper was not published.

6 [ED/2019/7 General Presentation and Disclosures](#) was issued in December 2019 with comments due by September 2020.<sup>1</sup> The IASB received 216 submissions on ED/2019/7.

### Staff analysis

- 7 Staff analysed IFRS 18 and the IFRS 18 Basis for Conclusions to determine how the final documents responded to the matters raised in the AASB’s submission to the IASB on ED/2019/7, which was informed by extensive outreach with Australian stakeholders.
- 8 The table in the Appendix to this staff paper provides a condensed description of the ED/2019/7 proposals, the AASB comments to the IASB, and the IFRS 18 outcomes.
- 9 The table below is a highly-condensed summary of the analysis showing columns for areas in which the AASB’s submission on ED/2019:
- supported the proposals and the proposals are included in IFRS 18;
  - expressed concerns/comments that are largely addressed in IFRS 18; and
  - expressed concerns/comments that are **not** addressed in IFRS 18.

| ED | Supported and in IFRS 18   | Comments largely addressed  | Comments not addressed |
|----|--|---|------------------------|
| Q1 | Present in the statement of P/L a subtotal for ‘operating profit or loss’.   |   |                        |
| Q2 | Classify in ‘operating’ all income and expenses not classified in ‘investing’ or ‘financing’.                                    |   |                        |
| Q3 |  | Classify in ‘operating’ income and expenses from investments made in the course of the entity’s main business activities – guidance added.        |                        |
| Q4 | Entities providing financing to customers as a main business activity – choice in determining amounts classified as ‘operating’. |   |                        |
| Q5 | Definition of ‘investing’ income and expenses.   |   |                        |
| Q6 | Present a ‘profit or loss before financing and income tax’ subtotal in statement of P/L with exceptions.                         |   |                        |
| Q7 |  | Present P/L subtotal for operating profit or loss and income and expenses from integral associates and joint ventures – proposal did not proceed. |                        |
| Q8 |  | Role of primary financial statements and role of the  |                        |

1 Originally by 30 June 2020, but extended due to Covid-19.

| ED  | Supported and in IFRS 18  | Comments largely addressed  | Comments not addressed   |
|-----|---|---|--|
|     |   | notes – requirements made more specific on what constitutes ‘financing’.<br>Principles and general requirements on aggregation/disaggregation – some proposals ‘relaxed’. |  |
| Q9  |   |   | Application guidance on deciding whether operating expenses are presented by nature or function – potential mixed analysis by nature/function.   |
|     |   |   | No clear reason for relative prominence afforded to some operating expense disclosures over others (e.g. impairment losses related to financial assets have more prominence than those related to non-financial assets). |
| Q10 |   | Definition and disclosure of ‘unusual income and expenses’ – proposals did not proceed.   |  |
| Q11 |   | Management Performance Measures – additional guidance on definition.  | Management Performance Measures – why not address this in management commentary?   |
| Q12 | ‘Operating profit or loss’ is starting point for indirect method of reporting ‘operating’ cash flows.<br>No attempt to define EBITDA. |   |  |
| Q13 | Dividend paid = financing cash flows  |   | Interest paid = financing cash flows, with exceptions – potential confusion if classifying interest in more than one P/L category but must use one category in cash flow statement.                                      |
| Q14 |   |   | Inadequate disclosure of management’s assessment of going concern assumption and how to account when not a going concern.  |
|     |   |   | Consider undertaking a fundamental review of P/L versus OCI classification.  |

10 Essentially, of the eleven matters on which the AASB expressed concerns, five have been addressed (through additional guidance or withdrawal) and six have not been addressed when finalising IFRS 18.

- 11 In respect of the six that have not been addressed, staff observe the following:
- (a) the potential for a mixed analysis of operating expenses by nature and function due to certain required line items is not a new issue, as the requirement was carried over from IAS 1;
  - (b) the relative prominence afforded to some disclosures over others is not a new issue and exists under the current standards;
  - (c) addressing Management Performance Measures in management commentary may no longer be possible as the IASB has not decided on the direction of management commentary project yet;
  - (d) the potential for classifying interest in more than one profit or loss category but only one category in the cash flow statement can potentially be mitigated through disclosure;
  - (e) the inadequate disclosure of management's assessment of going concern assumption and how to account when not a going concern is not a new issue and can be mitigated by the auditors' review; and
  - (f) a fundamental review of profit or loss versus OCI classification is a long-running issue.
- 12 While it may be disappointing that IFRS 18 has not seized the opportunity to address all concerns expressed in the submission letter, these are not regarded as fatal flaws.

**Questions for Board members:**

Question 1: Do Board members have any questions or comments on the analysis or on IFRS 18 itself?

**Appendix: Condensed description of the ED/2019/7 proposals,  
AASB comments, and IFRS 18 outcomes**

13 The table below provides a condensed description of:

- the ED/2019/7 proposals – the paragraph references in this column are to the paragraphs in the ED, unless otherwise indicated;
- the AASB comments to the IASB; and
- the IFRS 18 outcomes – the paragraph references in this column are to the paragraphs in IFRS 18, unless otherwise indicated.

| ED/2019/7 proposal |   | AASB comment   | IFRS 18                                       | Staff comment  |
|--------------------|---|--|---|--|
| Q1                 | Present in the statement of profit or loss a <b>subtotal for operating profit or loss</b> [Para 60(a)]  | Agreed   | Same as ED proposal [Para 69(a)]              | No comment   |
| Q2                 | <b>Classify in the operating category all income and expenses not classified in the other categories</b> , such as the investing category or the financing category [Para 46] | Agreed   | Same as ED proposal [Para 52]                 | No comment   |
| Q3                 | <b>Classify in the operating category income and expenses from investments made in the course of the entity's main business activities</b> [Para 48]                          | Agreed – however, the distinction may be difficult to apply and lead to inconsistencies in practice – e.g., whether fair value gains or losses within IAS 41 <i>Agriculture</i> should be 'operating' or 'investing'.<br><br>Acknowledged need for judgement but sought more guidance to determine when an 'investment' is made in the course of main business activities, and suggested examples showing when that typically would (and would not) be the case. | Effectively the same as ED proposal [Para 53] | Amended example in IAS 41 implies fair value changes are classified in operating category.<br><br>More guidance provided on identifying 'investing' activities generally and for entities with 'specified main business activities' and some typical examples are listed as a guide [Paras 53-58 & B43-49] |

|    | ED/2019/7 proposal  | AASB comment | IFRS 18  | Staff comment  |
|----|---|--------------|--|--|
| Q4 | <p><b>Entities providing financing to customers as a main business activity</b> classify as 'operating' either:</p> <ul style="list-style-type: none"> <li>• income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or</li> <li>• all income and expenses from financing activities and all income and expenses from cash and cash equivalents [Para 51]</li> </ul> | Agreed       | <p>When liabilities arise from transactions that involve only the raising of finance:</p> <ul style="list-style-type: none"> <li>• if the liabilities relate to providing financing to customers – income and expenses are 'operating' [Para 65(a)(i)]</li> <li>• if liabilities do not arise from providing financing to customers – policy choice of 'operating' or 'financing' [Para 65(a)(ii)]</li> </ul> <p>When liabilities arise from transactions that do not involve only the raising of finance:</p> <ul style="list-style-type: none"> <li>• if the entity identifies income and expenses as 'financing' for the purposes of other IFRSs – classify as 'financing' [Para 65(b)(i)]</li> <li>• Otherwise classify as 'operating' [Para 65(b)(ii)]</li> </ul> | IFRS 18 is more specific than the proposals – but not inconsistent with the ED proposals that AASB supported |
| Q5 | Classify as 'investing' 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 [Para 47-48]  | Agreed       | Effectively the same as ED proposals [Para 54 & 56]  | No comment   |

| ED/2019/7 proposal |  | AASB comment   | IFRS 18   | Staff comment   |
|--------------------|--|--|---|---|
| Q6                 | Present a <b>profit or loss before financing and income tax subtotal</b> in the statement of profit or loss [Para 60(c)] except when an entity classifies all income and expenses from financing activities and all income and expenses from cash and cash equivalents in the operating category [Para 64]   | Agreed   | Effectively the same as ED proposals [Paras 69(b) & 73]   | No comment  |
| Q7                 | Present in the statement of <b>profit or loss a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures</b> [Para 60(b)]<br><br>In IAS 7 <sup>2</sup> and IFRS 12 <sup>3</sup> , require information about integral associates and joint ventures separately from non-integral associates and joint ventures [Paras 53, 75(a) & 82(g)–82(h)] | Disagreed and recommended instead that all associates and joint ventures accounted for using the equity method are presented in a single, separate category, below operating profit. | An entity classifies as ‘investing’ income and expenses from investments in associates, JVs and unconsolidated subsidiaries [Para 53(a)]<br><br>For investments in associates, JVs and unconsolidated subsidiaries an entity invests in as a main business activity:<br><br>(a) as ‘investing’ if accounted for applying the equity method; or<br><br>(b) as ‘operating’ if not accounted for applying the equity method [Para 55].<br><br>Present in P/L in line item share of the profit or loss of associates and JVs accounted for using the equity method [Para 75(a)(iii)]. | Equity accounted / non-equity accounted distinction used instead of integral / non-integral distinction<br><br>IFRS 18 appears to avoid AASB’s concerns with the ED proposals |

<sup>2</sup> IAS 7 *Statement of Cash Flows*.

<sup>3</sup> IFRS 12 *Disclosure of Interests in Other Entities*.

|    | ED/2019/7 proposal  | AASB comment  | IFRS 18   | Staff comment  |
|----|---|---|---|--|
|    |   | Noted some preparers suggested proportionate consolidation for 'integral' JVs instead of equity accounting, which would be a fundamental change that IASB could consider as part of its Equity Method research project.   | No indication IASB will fundamentally reconsider the use of equity accounting.  | No comment   |
| Q8 | <p><b>Role of primary financial statements</b> is to provide a structured, comparable summary of assets, liabilities, equity, revenue, expenses and cash flows [Para 20]</p> <p><b>Role of the notes</b> to provide further information needed to understand the items in financial statements and meet the objective of financial statements [Para 21]</p>   | <p>Generally agreed with principles and general requirements.</p> <p>Feedback indicated:</p> <ul style="list-style-type: none"> <li>• lack of IAS 1 guidance on presentation of certain items in the statement of financial performance, including a day one gain or loss, the unwinding of a discount or a gain/loss on derecognition of certain types of financial instruments under IFRS 9</li> <li>• challenges classifying interest on a lease liability – while the proposals might help, additional guidance might still be needed (possibly in another project).</li> </ul> | Effectively the same as ED proposals [Paras 16 & 17].   | The more specific IFRS 18 requirements [Paras 59-61] on what constitutes 'financing' probably avoid most of the AASB's concerns with the ED proposals. |
|    | <p><b>Principles and general requirements on aggregation and disaggregation</b> of information:</p> <ul style="list-style-type: none"> <li>• classify and aggregate based on shared characteristics</li> <li>• do not obscure relevant information or reduce understandability [Para 25]</li> <li>• item descriptions to faithfully represent the characteristics of those items [Para 26]</li> </ul> | <p>Generally agreed with principles and general requirements on the aggregation and disaggregation of information. However, recommend linking materiality more closely with aggregation and disaggregation principles. ED is clear materiality drives aggregation and disaggregation in notes, but materiality (especially qualitatively) should drive presentation as well.</p> <p>Questioned whether identifying disclosures for the 'other' category are needed when they are only an aggregation of individually immaterial</p>   | <p>Effectively the same as ED proposals [Para 41]</p> <p>However, the need to describe the composition of an 'other' category of entirely immaterial items is not included in IFRS 18 – instead, other guidance is provided to address an 'other' category [Paras B24-B26].</p> | The IFRS 18 requirements appear to avoid some of the AASB's concerns with the ED proposals.  |



| ED/2019/7 proposal | AASB comment  | IFRS 18  | Staff comment  |  |
|--------------------|---|--|--|--|
|                    | <ul style="list-style-type: none"> <li>aggregated immaterial items still need descriptions that faithfully represent the items [Para 27] or disclosure identifying the composition [Para 28]</li> </ul> | <p>items. If the aggregation and disaggregation principles incorporate materiality (both quantitatively and qualitatively), by definition an ‘other’ category should not require further explanation. However, if retained, the requirement should be illustrated.</p>   |  |  |
| 9(a)               | <p>Application guidance on deciding whether <b>operating expenses are presented by nature or function</b> [Paras 68 and B45]</p>  | <p>Agreed with analysing operating expenses by nature or function, whichever is more appropriate, to achieve comparability for entities with similar activities.</p> <p>However, noted concern that entities analysing by function may be forced to have a mixed analysis because of the minimum line items by nature required by Para 65 (e.g., impairment loss).</p> | <p>Effectively the same as ED proposals [Paras 75 &amp; 78].</p> <p>The requirement to disclose additional information by nature when using a functional presentation is more specific about the particular items to be disclosed [Paras 83-85].</p> | <p>The IFRS 18 requirements appear to avoid only a few of the AASB’s concerns with the ED proposals</p> <p>IFRS 18 has partially addressed AASB’s concerns about the potentially mixed analysis by nature/function as only specific items are required to be presented by nature in the notes.</p> |
| 9(b)               | <p>Require an entity analysing by function in P/L analyse by nature in the notes [Para 72]</p>  | <p>Also noted that Para 65 line items appear carried over from IAS 1 without reconsideration in light of new principles – e.g., unclear why financial asset impairment losses deserve to be line items in the financial statements, whereas other impairment losses can be shown in the statement or a note.</p>   |  | <p>IFRS 18 has not addressed AASB’s concerns about the relative prominence afforded to some disclosures over others, in particular those related to IFRS 9.</p> <p>Relative significance would be expected to be determined based on an entity’s circumstances, not implied by the Standard.</p>   |

| ED/2019/7 proposal |  | AASB comment   | IFRS 18   | Staff comment   |
|--------------------|--|--|---|---|
| 10(a)              | New definition: <b>‘unusual income and expenses’</b> are income and expenses with limited predictive value [it is reasonable to expect that income or expenses that are similar in type and amount will not arise for several future annual periods] | Generally agreed the classification be based on expectations of the future, but should also permit consideration of past to assess the reasonableness expectations of the future.<br><br>Concerned items that occur over multiple reporting periods but are still unusual in substance; e.g., a restructuring program that crosses over two reporting periods – , the expenses would be ‘unusual’ only in the second reporting period and using Para B74 no comparative information would be provided in that year | Proposal did not proceed because of mixed feedback from stakeholders.<br><br>There was no common agreement on a useful definition.<br><br>IASB considers other aspects of IFRS 18 will help shed light on unusual items in any case, including disaggregation, faithful labelling and management-defined performance measure requirements [Paras BC411 to BC413]. | The absence of a definition and related disclosure requirements avoids AASB’s concerns, but does not address its suggestions.           |
| 10(b)              | Disclose all unusual income and expenses in a single note  | Agreed   | As above  | As above  |
| 10(c)              | Application guidance on ‘unusual income and expenses’  | Clarify whether items qualify by being unusually low or high relative to ‘normal’.   | As above  | As above  |
| 10(d)              | Specific information to be disclosed   | Income tax effect and the effect on non-controlling interests should be disclosed for each unusual item.   | As above  | As above  |
| 11(a)              | <b>Management Performance Measures (MPM)</b> information to be disclosed in a single note [Para 106] <sup>4</sup>  | IASB needs to justify how inclusion of MPM information in GPFS (versus Management Commentary) meets the objective of providing information on assets, liabilities, equity, income and expenses that is useful.   | Now labelled <b>‘Management-defined Performance Measures’</b><br><br>Definition and related requirements are in IFRS 18 [Paras 117 to 125].   | No evidence from the Basis for Conclusions that IASB considered including MPM information in management commentary rather than the GPFS |

4 Question 11(b) has been placed before 11(a) based on the nature of the AASB’s comments.

|       | ED/2019/7 proposal  | AASB comment  | IFRS 18  | Staff comment   |
|-------|---|---|--|---|
|       |   | Suggest permitting (but not requiring) MPM disclosure in GPFS when considered material to an understanding of the entity's financial performance – to be cost-beneficial and capable of audit.  |  |   |
| 11(b) | MPMs defined [Para 103]   | <p>Unclear why MPMs need to meet 'faithful representation' criterion</p> <ul style="list-style-type: none"> <li>• no similar restriction applies to segments under IFRS 8</li> <li>• the mandated disclosures and reconciliations provide context</li> </ul> <p>Unclear what MPMs "complement totals or subtotals specified by IFRS Standards" means, since must reconcile to a line item in any case</p> <p>Missed opportunity to focus only on performance MPMs and not balance sheet and cash flow MPMs</p> <p>Clarity needed on what constitute 'public communications'</p> | <p>Rather than requiring an MPM to faithfully represent aspects of the financial performance of the entity to users of financial statements, IFRS 18 requires an entity to label items in a way that faithfully represents its characteristics.</p> <p>There is no requirement in IFRS 18 for MPM to complement totals or subtotals.</p> <p>MPM remains focused on performance only.</p> <p>Greater clarity has been provided on what constitutes 'public communications' [Para B119].</p> | IFRS 18 has responded to the AASB's concerns, other than in respect of taking the opportunity to extend the topic beyond 'performance' (to address balance sheet and cash flows MPM). |
| 11(c) | MPM information to be disclosed [Paras 106(a)–106(d)]   | Consider added disclosure if there is a link between MPMs and 'unusual items'.  | Proposal on 'unusual items' did not proceed.   | No comment  |
| 12    | No EBITDA proposals   | Agreed  | As per ED  | No comment  |
| 13(a) | <b>'Operating profit or loss' being the starting point for indirect method of reporting cash flows from operating activities</b> [new IAS 7.18(b)]. | Agreed  | As per ED  | No comment  |

| ED/2019/7 proposal |  | AASB comment  | IFRS 18   | Staff comment                                   |
|--------------------|--|---|-----------|---|
| 13(b)              | <p><b>Dividend paid classified in financing cash flows</b> [new IAS 7.33A]</p> <p><b>Interest paid classified in financing cash flows</b> unless finance is a main business activity, in which case align classification in total with one of the P/L classifications [new IAS 7.34A-34D]</p> <p>If interest is classified in more than one category in profit or loss – an entity must still include all interest in one cash flow statement classification – the elected category is an accounting policy choice [new IAS 7.34C]</p> | <p>Agreed</p> <p>However, consider better aligning ‘operating’, ‘financing’ and ‘investing’ classifications to avoid potential confusion if an entity classifies interest in more than one category in P/L but must use one category in the cash flow statement.</p>                    | As per ED | IFRS 18 has not addressed AASB’s comments.      |
| 14                 | Any other comments   | <p>Going concern – consider:</p> <ul style="list-style-type: none"> <li>• adequacy of disclosure of management’s assessment of going concern assumption, including interaction with auditing standards</li> <li>• more guidance on accounting to use if not a going concern.</li> </ul> |           | IFRS 18 has not addressed AASB’s comments.      |
|                    |  | <p>Consider undertaking a fundamental review on when items should be classified in P/L versus OCI.</p>  |           | Not mentioned in IFRS 18 Basis for Conclusions. |