August 6, 2020

International Accounting Standards Board
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Dear IASB:

The Financial Reporting Executive Committee (FinREC) of the American Institute of Certified Public Accountants appreciates the opportunity to comment on the IASB's December 2019 Exposure Draft: *General Presentation and Disclosures (Primary Financial Statements)*. As the IASB is keenly aware, U.S. investors are one of the largest user groups of IFRS as they hold many trillions of dollars in securities issued by companies that report under IFRS. Also, many Foreign Private Issuers who list on U.S. exchanges report under IFRS and many U.S. companies file financial statements utilizing IFRS due to statutory or foreign exchange reporting requirements.

FinREC applauds the IASB for attempting to provide structure and guidance on reporting of financial performance in the statement of profit and loss. Performance reporting is and has been an incredibly challenging topic for accounting standard setters for many reasons, with one being the difficulty of providing a framework that works for the variety of stakeholders across different types of business entities. FinREC's comments in this letter focus on public (or listed) companies.

Overall, we believe a final standard needs more structure and guidance to ensure appropriate levels of (1) operability and consistency within a company's reporting, and (2) comparability to other companies' reporting. Further, we believe that the financial reporting nuances of financing activities should be considered more fully in a final standard. Following are our specific comments.

***Question 10—unusual income and expenses***
***Question 11—management performance measures***

FinREC believes that as currently drafted, the proposals to discretely disclose unusual items and management performance measures in audited financial statements would not provide significant incremental benefit to users of the financial statements. FinREC respectfully observes that while the concept of unusual items might be useful, unusual

items likely are a subset of items that would otherwise be contained in management performance measures (or already disclosed pursuant to other guidance), and management performance measures do not need to be included in the audited financial statements to enable some level of assurance to be provided on the measures.

As written, the unusual items guidance is likely to prove difficult to implement and could potentially duplicate disclosures made elsewhere in the financial statements, such as in notes about intangibles, property, plant and equipment, and debt.

Paragraph 100 highlights the highly subjective nature of the unusual items reporting with the use of phrases “reasonably expect” and “several annual periods.” These phrases are not likely to reduce the difficulty in determining which items qualify as unusual versus items that are simply different from the past. Furthermore, we note that the proposed guidance is fundamentally the same as the prior definition of extraordinary items, which were ‘unusual’ transactions not expected to occur again in the ‘foreseeable future’. Ultimately, the extraordinary items guidance proved so difficult to apply in practice that the concept was eliminated from financial statement presentation. We are concerned that the proposed unusual items guidance contains the same fundamental flaws that doomed the extraordinary items guidance.

Paragraph 103 of the exposure draft limits the disclosure of management performance measures to items related to totals and subtotals in the financial statements. FinREC appreciates why the IASB did not attempt to include nonfinancial measures (such as key performance indicators) in the scope, yet many companies and users view nonfinancial measures as critical information and desire some level of assurance over such measures. FinREC observes that International Standard on Assurance Engagements (ISAE) 3000 deals with both reasonable assurance and limited assurance engagements, other than audits or reviews of historical financial information. So, for example, ISEA 3000 can be used by practitioners to obtain reasonable or limited assurance on management performance measures if the marketplace or regulators demand such services. Therefore, we believe assurance is available for all management performance measures, including those in scope of the proposed standard, outside of the audited financial statements. As such, inclusion in the audited financial statements is not needed to provide assurance over management performance measures to investors.

However, FinREC offers that if the IASB continues to pursue the reporting of management performance measures, the IASB could improve such reporting by defining common measures, such as EBITDA, thus potentially reducing the population of companies that choose to define their own measures.

***Questions 2, 3, 4—the operating category***

FinREC believes it is confusing to use cash flow categories (operating, investing, financing) for the statement of profit and loss as defined in the proposed standard because the definitions are different from those used in the statement of cash flows. The disconnect between categories used in these two primary statements as to what is

operating, financing and investing will (a) confound investors, and (b) result in the need for additional disclosures and discussion to explain how the categories reconcile between the two statements.

We also observe that an undefined operating category that effectively is the residual from the other two categories contradicts the spirit of having the statement of profit and loss communicate that which is recurring and nonrecurring. The primacy of the operating category suggests to us that it deserves its own definition, albeit we appreciate how difficult that may be to achieve. Likewise, the lack of a definition for *main business activities* will lead to diversity in practice.

Appreciating the difficult challenges the IASB faces, FinREC discussed the scenario of a commercial entity that earns interest revenue from sales to customers. Some of our members strongly disagreed with categorizing any of that interest as financing rather than operating, even under the definitions provided, thus emphasizing the need to define the operating category and what constitutes a main business activity.

***Question 7—integral and non-integral associates and joint ventures***

FinREC supports separating results from integral and non-integral affiliates and joint ventures in the statement of profit and loss in principle. We believe, however, there is likely to be some level of diversity of practice in defining integral entities. Rather than attempting to refine the definition of integral associates to eliminate diversity, we suggest the final standard include factors to consider in determining if a venture is integral and require disclosure of how the entity viewed such factors in its financial statements as part of disclosures on accounting policy. Such disclosures will allow investors to understand how the entity determined which entities are integral and which are not.

The factors would also be helpful in narrowing the anticipated diversity in determining integral versus non-integral ventures. FinREC discussed some scenarios and, based on the limited guidance provided in the proposed standard, had diversity in opinion on what constitutes integral and non-integral. For example, if a company applies the equity method of accounting to an investment, does that suggest an automatic threshold that the investment is integral, or does integral depend on some level of similar operations, or does integral require some level of interaction with the reporting entity's operations?

***Question 13—Statement of Cash Flows***

FinREC is concerned that moving all interest expense to the financing section contradicts other accounting requirements. For example, if all interest expense is to be shown as financing, then no interest cost will be shown as an investing cash flow as required by IFRS 23 when capitalizing a portion of interest cost attributable to certain capital expenditures. Requiring a different categorization of all interest cost also has the potential to significantly impact the concept of free cash flow. We acknowledge that free cash flow does not currently meet the definition of a management performance measure as the measure is considered a measure of liquidity or cash flows. However, the proposal to

move interest expense completely to financing changes the computation of free cash flow and may not be what investors desire from such a measure.

FinREC also is concerned with the proposed movement of all interest and dividends received to the investing section of the cash flow statement. As noted above, some members strongly disagreed with the movement of interest earned from customers from operating to the investing section of the profit and loss statement. The same reasoning applies to the cash flow statement. Classifying all dividends received as investing cash flows also seems to contradict the desire to split affiliates and joint ventures between integral and non-integral. While we agree dividends from non-integral joint ventures might appropriately be presented in the investing section of the cash flow statement, FinREC believes presenting dividends from integral affiliates in the investing section contradicts the point that such integral entities are considered key components of the entity's ongoing operations.

***General Presentation – Aggregation/Disaggregation (Paragraphs 25-28)***

FinREC does not support the notion of disaggregating dissimilar immaterial items. Either an item is material or it is not. By definition, disclosure of immaterial items is not necessary and, therefore, we believe an accounting standard should not be focused on immaterial items.

Representatives of FinREC are available to discuss our comments with Board members or staff at their convenience.

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Sincerely,

Angela Newell
Chair
FinREC

Bill Schneider
Chair
FinREC Comment Letter Task Force