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3 November 2020

**Re: IASB ED/2019/7 General Presentation and Disclosures**

Dear Mr Hoogervorst,

We are pleased to have the opportunity to provide our comments on the IASB Exposure Draft *General Presentation and Disclosures* (the 'ED').

In general, we welcome the IASB's effort to improve how information is communicated in the financial statements. This letter is also based on comments provided by the Italian companies that have been involved in the IASB field test.

Below, our main comments on the specific sections of the ED:

- *New subtotals and categories in the statement of profit or loss*. OIC highlights the importance of having a clear guidance on the notions of "*main business activity*" and "*in the course of the main business activity*", since the allocation of income and expenses to different categories relies on these notions (as the distinction between integral and non-integral associates and JV).
  Furthermore, we suggest to the IASB to provide more guidance or examples on how entities with different business activities related to different industries (i.e. conglomerates) should present their disaggregated performance within the operating category.
  Finally, some Italian participants highlighted challenges related to the classification of income and expenses that arise from foreign exchange differences, due to the complexity and costs of identifying the underlying items. Our stakeholders noted that current IT systems need to be adapted to collect such information.
- *Integral and non-integral associates and joint ventures.* OIC highlights that a significant judgement is required to distinguish between integral and non-integral associates and joint ventures and, therefore, there is a need for more guidance on this topic e.g. expanding paragraph 20D of IFRS 12 and/or including more illustrative examples.
  In particular, we suggest to introduce, as an indicator of the significant interdependency between the entity and the associates and JV, the strategic nature of the investment in the Management view.

- *Management performance measures ('MPMs').* Limiting the disclosure on MPMs as proposed in the ED (i.e. only income and expenses subtotals) may not add much value in terms of the resulting information for users and the reconciliations required by the ED may be burdensome for preparers. Therefore, we suggest the IASB to reconsider its proposal. Moreover, we would not agree with any extension of these requirements to other APMs as it would introduce significant complexity due to the fact that those metrics would be non-GAAP measures difficult to be audited and reconciled with IFRS financial statements.

Finally, we suggest to the IASB to clarify the interactions between some proposed requirements in the ED and their application in the separate financial statements. For further details, see our answer to *Question 14 – Other Comments*.

Our detailed comments are set out below.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò
(Chairman)

**Questions 1 to 5 - Structure of the statement of profit or loss**

**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.
Paragraph BC53 of the Basis for Conclusions describes 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?

**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?

**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.
Paragraphs 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?

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

**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.
Paragraphs BC48–BC52 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?

OIC acknowledges that the structure and content of the statement of financial performance vary among entities. In particular, the "operating result" is one of the most used subtotals and currently there is lack of consistency in its labelling and content. This might impair the comparability of financial performance of different entities, even in the same industry. Therefore, we support the IASB's efforts to improve the content of the financial performance statement.

On this regard, OIC highlights the importance of having a clear guidance on the notions of "main business activity" and "in the course of the main business activity", since the allocation of income and expenses to different categories relies on these notions (as the distinction between integral and non-integral associates and JV).

Furthermore, we suggest to the IASB to provide more guidance or examples on how entities with different business activities related to different industries (i.e. conglomerates) should present their disaggregated performance within the operating category.

Moreover, we highlight that the IASB proposals (parr 51-52 of the ED) for classifying income and expenses from cash and cash equivalents in the operating category does not capture all the scenarios. In particular, for one Italian participant to the field test it is not clear if one of its main business (which consists, according to the Italian law, in collecting cash from customers and investing in European government bonds, without providing financing to customers and without investing in individually and largely independent financial assets[1]) could be classified in the operating category. In our view, it should be clarified that income and expenses from cash and cash equivalents should be classified in the operating category, when the entity provides financial services to customers as its main business activity, even if it is not providing finance to customers, like in the example described above.

We highlight the need of clarifications on the interactions between the requirements of the ED and IFRS 8 *Operating Segments*, since at the moment there is no link between the new subtotals (and MPMs) required by the ED and segment information. We suggest to the IASB to explain how the proposed requirements interact with any subtotals (and performance measures) already presented under IFRS 8 (e.g. if a reconciliation should be provided between subtotals and segment information).

Some Italian participants to the field test highlighted challenges related to the classification of income and expenses that arise from foreign exchange differences, due to the complexity and costs of identifying the underlying items. Our stakeholders noted that current IT systems need to be adapted to collect such information.

One participant asks to clarify the guidance on grossing up related to the classification of derivatives. In particular, paragraphs 57-59 of the ED and the example in paragraph B42 refer to the circumstance in which one derivative is used to hedge risks arising from items classified in different categories. Based on the feedbacks received from this stakeholder, such circumstance is very rare in practice and the guidance for avoiding the "grossing up" effect on gains and losses could be misleading in other more frequent fact patterns. More specifically, entities could enter into derivatives for hedging net exposure of income and expenses, so that gains or losses on derivatives cannot be attributed to a specific line item (because they refer to a net exposure). Therefore, this participant asks to clarify that such derivatives can be classified in the operating category on a net basis, when the hedged net exposure is referred to revenues and costs related to the main business activity (i.e. when the hedged items are all in the operating category).

[1] This company collects cash and cash equivalents from customers and invests them in European public debt. According to the Italian law, it cannot provide financing to customers (so the fact pattern is different from the one described in par 51 of the ED). Moreover, the cash obtained from customers is collected through the same network used by another main business activity, and so the company does not invest in financial assets that generate a return individually and largely independently of other resources held by the entity (so the fact pattern is different also from the one described in par 52 of the ED).

More guidance and examples have been required by our stakeholders on some topics, as:

- Investing category;
- Hedging instruments (e.g. where to classify the ineffective hedging portion);
- Acquisition-related costs incurred in a business combination;
- Gains or losses arising from disposals of businesses and consolidated subsidiaries;
- Remeasurements of previously held interest in associate and JV due to the obtaining of control over.

Finally, for the one Italian participant belonging to the financial sector, the proposal on new subtotals and categories may not add much value in terms of the resulting information for banks. This is because for other industries (such as manufacturing) the distinction between different categories (ie operating, investing and financing) could give useful information to the users in understanding how each result contributes to the entity's whole performance, while for banks (or bancassurers) almost all income and expenses are included in the operating category.

**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.
Paragraphs BC77–BC89 and BC205–BC213 of the Basis for Conclusions describe the Board's reasons for these 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?

OIC highlights that a significant judgement is required to distinguish between integral and non-integral associates and joint ventures and there is a need for more guidance on this topic e.g. expanding paragraph 20D of IFRS 12 and/or including more illustrative examples.

We deem that the listed examples of interdependency of IFRS 12 are not really representative of the management view and responsibilities in holding an investment in associates or JV. In particular, we suggest to introduce, as an indicator of the significant interdependency between the entity and the associates and JV, the strategic nature of the investment in the Management view.

In any case, we suggest to clarify which perspective should be assessed (ie the investor or the investee) when considering whether there is a significant interdependency between the entity and the associates or joint ventures. In our opinion, it could be preferable to focus on the investor point of view.

Furthermore, the following topics should be clarified:

- the interaction of this assessment (between integral- non integral) and the requirements of IFRS 5. More specifically, if the classification as held for sale of an associate or JV affects the assessment and where to classify in profit or loss any measurement differences (from using the equity method to fair value measurement);
- The classification of income and expenses from financing with JV and associates. More specifically, if the financial income or expenses from financing with JV and associates should be classified in the same category of the related share of profit or loss of associates and JV.

**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?

Regarding the principles and general requirements on the aggregation and disaggregation of information, we find the proposed guidance clear.
Anyway, it should be provided some clarifications on the interaction of the new categories and subtotals required by the ED and new definition of materiality (eg obscuring of material information with the presentation of not material subtotals).

**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.
Paragraphs 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?

OIC welcomes the IASB proposal to continue requiring entities to present analysis of expense either by function or by nature.
The only concern is whether in accordance with paragraph 65 of the ED, entities using the nature of expense method should present the 'cost of sales' line item. Indeed, paragraph B47 of the ED states that: "*An entity shall present in the statement of profit or loss the line items required by paragraph 65 regardless of the method of analysis of expenses used*". The paragraph B46, furthermore, sets out that an entity shall not provide an analysis of expenses classified in the operating category using a mixture of the nature and the function of expense method, except when required to do so by paragraph B47.

**Question 10 — Unusual income and expenses**

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| (a) Paragraph 100 of the Exposure Draft introduces a definition of 'unusual income and expenses'.<br>(b) Paragraph 101 of the Exposure Draft proposes to require all entities to disclose unusual income and expenses in a single note.<br>(c) Paragraphs B67–B75 of the Exposure Draft propose application guidance to help an entity to identify its unusual income and expenses.<br>(d) Paragraphs 101(a)–101(d) of the Exposure Draft propose what information should be disclosed relating to unusual income and expenses.<br>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.<br>Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why? |

Regarding the proposal on unusual items, we highlight that the proposed definition seems too restrictive. It could be argued that the definition is basically restricting the category to one-off items. This would suggest a different treatment of items that an entity might deal with from March to September (unusual income/expenses as it happens in one year) or that run between September and March (not properly an unusual income/expenses according to ED definition, as it happens in two years).

Finally, according to the Italian field test results, significant judgement is required to identity unusual income and expenses. More guidance regarding the period to be considered as "several future years" and the notion of "limited predictive value could be helpful.

**Question 11—Management performance measures**

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| (a) Paragraph 103 of the Exposure Draft proposes a definition of 'management performance measures'.<br>(b) Paragraph 106 of the Exposure Draft proposes requiring an entity to disclose in a single note information about its management performance measures.<br>(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.<br>Paragraphs BC145–BC180 of the Basis for Conclusions describe the Board's reasons for the proposals and discuss approaches that were considered but rejected by the Board.<br>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?<br>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? |

Limiting the disclosure on MPMs as proposed in the ED (i.e. only income and expenses subtotals) may not add much value in terms of the resulting information for users and the reconciliations required by the ED may be burdensome for preparers. Therefore, we suggest the IASB to reconsider its proposal. Moreover, we would not agree with any extension of these requirements to other APMs as it would introduce significant complexity due to the fact that those metrics would be non-GAAP measures difficult to be audited and reconciled with IFRS financial statements.

As previously said for new subtotals in profit or loss, we ask to clarify the interactions of MPMs and the requirements of IFRS 8.

Finally, according to the Italian field test results, more guidance is required on the definition of MPMs in order to avoid differences in practice. In particular, it would be useful to clarify what the IASB intends for "public communications" and how broad the definition is (e.g. if public communications include one-off verbal comments from Management in a public event).

**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.
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?

We highlight that, in accordance with the IASB proposals, both the statement of profit or loss and statement of cash flows will have three different categories with similar labelling (operating, investing and financing), even if they are not perfectly aligned. The differences in contents could be misleading for users of financial statements and could create an additional burden of work for preparers.

**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?

In accordance with the results of the Italian field test, we suggest that the IASB should clarify the interactions between the proposed requirements in the ED and their application in the separate financial statements.

On this regard, we provide you some examples of fact patterns in which the application of the provisions of the ED raises issues in the separate financial statements. For example, it is not clear whether the parent company in its separate financial statements should classify:

- Dividends from subsidiaries, associates and joint ventures (regardless of the measurement basis) in the operating or in the investing category - if the parent's is a holding;
- the share of profit or loss from subsidiaries measured applying the equity method, as allowed by IAS 27, in the operating or in the investing category.

Finally, if the main activity of the parent company is to finance subsidiaries, joint ventures and associates, even if the parent is not a bank, it is not clear where to classify the related financial income and expenses in the separate financial statements (operating or investing).