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Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: Comments on Exposure Draft "General Presentation and Disclosures"

Dear Mr. Hoogervorst:

The Corporate Accounting Committee (CAC) of the Securities Analysts Association of Japan (SAAJ) is pleased to comment on Exposure Draft "General Presentation and Disclosures" (hereinafter referred to as the ED) published on 17 December 2019.

The Securities Analysts Association of Japan (SAAJ) is a not-for-profit organization providing investment education and examination programs for securities analysts. Its certified members number 27,500. The Corporate Accounting Committee (CAC) is a standing committee of the SAAJ composed of 12 members, most of whom are users including equity and credit analysts, and portfolio managers, while a few others are academicians and public accountants. The CAC writes comment letters to accounting standard setters, including the International Accounting Standards Board (IASB) and Accounting Standards Board of Japan (ASBJ), and exchanges opinions with organizations including the ASBJ and Financial Services Agency.

General Comments

Presentation on the primary statements and disclosures in the notes are the key area of interest to financial statement users.

We appreciate the IASB's efforts to improve the general presentation and disclosure of financial statements, particularly statements of financial performance, in order to enhance the usefulness for financial statement users. We strongly support the proposal in this ED to include operating profit or loss in the statement of profit and loss.

That being said, it is such a shame that the ED proposes to define the operating profits as the residual category, instead of defining it more explicitly.

We encourage the IASB to define the operating profits more explicitly with clear disclosure objective. In doing so, we hope that IASB would find it useful to refer to our proposed definition of "the category that includes income and expenses arising from main business activities, except unusual income and expenses", as well as the definition of operating profit or loss as "income and expenses recognized in profit or loss related to activities that an entity has identified as it main operating activities" as proposed by the ASBJ.

We would like to express our opinion below, only to those questions on general presentation and disclosure.

Question 1—operating profit or loss
Paragraph 60(a) of the Exposure Draft proposes that all entities present in the statement of profit or loss a subtotal for operating profit or loss. 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?

Comment

We agree with the ED proposal.

Financial statement users have been seriously frustrated for many years by the lack of a requirement in IAS1 for a reporting entity to present operating profit or loss on the statement of profit and loss.

Operating profit or loss is used globally as a KPI for business segments and companies' mid-term business plans. When valuing a company, financial statement users use operating profit or loss as the normal level of earnings power from the company's main business activities.

When making investment decisions, we do not just analyze one company; we analyze multiple companies and compare them. Comparing a company's operating profit margin, derived by dividing operating profit by sales, against peers and over time is one of the most fundamental techniques of financial statement analysis. Accordingly, operating profit or loss is an essential indicator of profitability when it comes to analyzing and comparing the financial performance of companies.

Unfortunately, the lack of presentation of operating profit or loss has forced us to use EBIT as an alternative to operating profit or to calculate it based upon our own definitions. Meanwhile, the entities recognize the importance of showing their normal level of earnings power to investors, and often disclose their operating profit or alternative performance measures under their own definitions.

Given the above needs of financial statement users and entities, requiring operating profit or loss to be presented on the statement of profit and loss will make it significantly more useful to users.

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?

Comment

We disagree with the ED proposal, because we do not think it is relevant to present operating profit or loss on the statement of profit and loss as the residual category defined by the paragraphs 46 and 61, which states "an entity shall include in operating profit and loss all income and expenses classified in the operating category".

We propose to define the operating category as "income and expenses arising from main business activities, excluding unusual income and expenses" more explicitly. We would like to ask the IASB to reconsider the definition of the "operating category" based upon our proposal and the definition of operating profit or loss as "income and expenses recognized in profit or loss related to activities that an entity has identified as it main operating activities" as proposed by the ASBJ.

We also propose that a reporting entity should judge the scope as to which income and expenses should be include in those arising from the main business activities of each consolidated entity, company-by-company basis, and to simply aggregate them for consolidation purposes.

For example, if there is a financial subsidiary under a parent company that operates a non-financial business, it is appropriate that consolidated operating income shows the combined operating profit or loss from the parent company's non-financial business and from the financial subsidiary's financial business.

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. 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?

Comment

We disagree with the ED proposal.

We propose to amend the "be generated in the course of main business activities" in paragraph 48 of the ED to "arising from main business activities". We also propose to amend the "in the course of main business activities" in Paragraph 52 (a) of the ED to "arising from main business activities".

We expect operating profit or loss to show the results of main business activities, so we believe operating profit or loss should not include income and expenses arising from activities that are ancillary to a company's main business activities such as dividend income from shares held for strategic partnership. Companies manage strategic shareholdings not to maximize dividends, but to enable smooth operation of their main business activities. Therefore, we do not believe such dividend income should be classified as income arising from main business activities.

We are concerned that the wording “in the course of main business activities” would obscure the scope, with companies potentially including income from ancillary activities, like dividend income, in the operating category to make operating profit or loss look better. We propose amending the wording to limit the scope of the operating category more clearly as suggested above.

In addition, we propose to state explicitly that transactions of financial instruments by a non-financial company should not normally be regarded as part of main business activities. A preparer may define its main business activities as broadly as possible to recognize gains and losses from investing activities in the operating category. We believe our proposal above should reduce such risk.

One important exception of this would be hedging transactions that are directly related to the main business, such as those for raw materials and fuel. Gains and losses arising from such transactions would be allowed to be included in operating profit or loss, only when the hedge accounting is applied.

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

Comment

We disagree with the accounting choice proposed by paragraph 51 and the operating category should include only the income and expenses from financing activities and from cash and cash equivalents, that relate to the provision of financing to customers

Paragraph 51 of the ED permits either of two options of classifying the operating category when financing is provided to customers as a main business activity. We think it would be appropriate to classify only income and expenses for providing financing to customers in the operating category. We would like to limit the operating category to only include income and expenses from main business activities as far as possible.

Question 5—the investing category
Paragraphs 47–48 of the Exposure Draft propose that an entity classifies in the investing category income and expenses (including related incremental expenses) from assets that generate a return individually and largely independently of other resources held by the entity, unless they are investments made in the course of the entity's main business activities.
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?

Comment

We disagree with the ED proposal on the investing category.

As with the answer to Question 3, we propose to modify the "be generated in the course of main business activities" in Paragraph 48 of the ED to "arising from main business activities". We are concerned that income and expenses from activities that are ancillary to companies' main business activities will be included in the operating category. We propose amending the wording to make the scope of the operating category clearer.

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?	

Comment

We disagree with the proposal to present a subtotal of "operating profit and income and expenses from integral associates and joint ventures" in the statement of profit or loss.

There are three reasons. First, equity-method income is after-tax income, whereas operating profit is before tax. Second, equity-method income has characteristics of valuation gains or losses on investments. Third, the judgment of whether income is integral or not is highly arbitrary. We do not find it useful to present a subtotal that is the sum of operating profit and equity-method income from integral affiliates from the perspective of financial statement analysis. We are concerned that presenting such a subtotal would make the structure of the statement of profit or loss unduly complicated, damaging comparability. We believe it is sufficient to disclose it as an MPM in the notes, if the entity wants to show it.

We disagree with the ED proposal to require an entity to provide information about integral associates and joint ventures separately from non-integral associates and joint ventures in paragraphs 53 (statement of profit or loss), 75 (statement of comprehensive income), 82 (statement of financial position) and the new paragraph 38A of IAS7(statement of cash flows).

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?

Comment

We agree with the ED proposal on the roles of primary financial statements and notes. That said, we are concerned that the statement of financial position tends to be overly abridged based upon the examples of the line items shown in paragraph 54 of IAS 1. The excessive aggregation of items allows companies to provide too little information, significantly damaging the usefulness of the statement of financial position. We encourage the Board to explore improvement in the presentation of the statement of financial position through a review of the line items to be presented as a new agenda item under the Primary Financial Statement Project.

The current statement of financial position has been simplified to a mere list of assets and liabilities. It is very difficult for financial statement users to adequately understand a company's financial position just from the statement of financial position. We hope that the information presented in the statement is expanded substantially, so that we can understand the changes in a company's financial position over the previous year organically and concretely just through analysis of primary financial statements, i.e. the statement of financial position itself.

In order to increase the usefulness of the statement of financial position, we propose rethinking the degree of aggregation of line items presented in it as follows.

・Buildings, machinery, and land as distinct line items within PPE,

・Investment securities as a distinct line item within financial assets,

・Corporate borrowings, bonds and convertible bonds as distinct line items within financial liabilities,

・Cumulative translation adjustments (CTA) as a distinct line item within accumulated other comprehensive income.

We agree with the ED proposal on the principles and general requirements on the aggregation and dis aggregation of information.

"Other" sometimes accounts for a large share of the breakdown of line items, and benefits from disaggregation are greatly reduced in such cases. We believe the ED proposal would appropriately address this problem.

Question 10—unusual income and expenses	
(a)	Paragraph 100 of the Exposure Draft introduces a definition of 'unusual income and expenses'.
(b)	Paragraph 101 of the Exposure Draft proposes to require all entities to disclose unusual income and expenses in a single note.
(c)	Paragraphs B67–B75 of the Exposure Draft propose application guidance to help an entity to identify its unusual income and expenses.
(d)	Paragraphs 101(a)–101(d) of the Exposure Draft propose what information should be disclosed relating to unusual income and expenses.
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?	

Comment

We agree with defining unusual income and expenses. In calculating profit indicators that show normal profitability, we eliminate so-called temporary gains and losses that are not expected to occur under normal circumstances. The problem is that we have no choice but to rely on voluntary disclosures by the company for financial information on such temporary gains and losses. We therefore enthusiastically welcome the ED proposal to define unusual income and expenses in the accounting standard and require disclosure.

That being said, we think that there is a room to reconsider the definition. For example, there may be cases in which some income and expenses are appearing to be unusual from long-term and qualitative perspectives, and not included in unusual income and expenses.

Such cases would include losses caused by a series of earthquakes or other disasters over multiple years. We are concerned that such losses might not be included in unusual expenses. Definitions of unusual items should be considered based on the attributes of events that generate profit or loss, rather than simply based on the possibility of occurrence in the next fiscal year.

We disagree with the ED proposal to disclose unusual income and expenses in a single note. We propose to newly create an "unusual items category" to present unusual items on the statement of profit or loss. That new category should be placed just above pretax profit. Only the main unusual items should be presented as the breakdown on the statement of profit and loss, with detailed analysis of that category and related qualitative information disclosed in the notes.

If disclosed only in the notes, most financial statement users will have to use the information in the notes to make adjustments, deducting unusual income and expenses from operating profit. If the "unusual items category" is presented as a distinct category on the statement of profit or loss to show temporary gains and losses relate to main business activities, operating profit will function as the measure of the normal level of profits that investors have been seeking.

There are some items, however, which do not have to be presented on the financial statement. Such items include de-recognition and re-recognition of the deferred tax assets due to change in the business performance, and they would be adequate enough to be disclosed in the notes.

We agree with the proposal (d) of Question 10 on what information should be disclosed relating to unusual income and expenses.

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 describe 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?

Comment

We agree with the definition of the "management performance measures" (MPMs) proposed by paragraph 103. MPMs can be useful as measures of financial performance to provide financial statement users with management's views.

That said, we do not agree with paragraph 104 and propose deleting it. If MPMs happen to be identical to the subtotals defined by the IFRS, it is useful for financial statement users to know which metrics the management view as their KPIs.

We agree with the proposals shown in (b) and (c) of Question 11, those proposed in paragraph 106 on how to disclose information about MPMs.

There have been concerns around alternative performance measures because they are too diverse and can be defined too arbitrarily by management. Accordingly, financial statement users need to be very careful when they use APMs. The ED proposes requiring companies to disclose MPMs, when it is relevant to do so, in the notes with reconciliation to the closest line items in the statement of profit or loss. We expect this proposal to address users' concerns, leading the provision useful information by MPM than APMs.

We would propose to require companies to disclose MPMs just below the bottom line of the statement of profit or loss, to enhance usefulness of the disclosure. MPMs are important financial information to explain the performance of a company, and it would be more convenient for the financial statement users if they are placed just below the statement of profit or loss.

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?

Comment

We agree that the accounting standards do not have to define EBITDA uniquely, as various definitions already exist depending on its use.

That said, we do not agree with paragraph BC173 of the ED, which points out the possibility that use as an MPM will be restricted. We think companies may well use EBITDA as an MPM, and we believe it is useful for financial statement users to know what measures management uses as KPIs, even if they happen to match subtotals defined by IFRS.

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?

Comment

We disagree with the ED proposal to require operating profit or loss to be the starting point for the indirect method of reporting cash flows from operating activities.

According to the ED's proposal, operating cash flow would include those residual expenses that cannot be included in either taxes, investing, or financing cash flow. While we propose to explicitly define the operating category on the statement of profit and loss rather than define it as the default category, we do not think the operating category and operating cash flow need to be rigidly interconnected.

We think the current presentation of the cash flow statement is easier for financial statement users to understand. It appears more intuitive and easier to understand for users of financial statements to add back non-cash items to net profits, given that the indirect method entails compilation based on changes to line items in the statement of financial position.

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?

Comment

Paragraph 42 requires companies to present additional subtotals when they are relevant. The ED proposes the presentation of several subtotals including operating profit, and we are concerned that the requirement in paragraph 42 would just make the presentation of the statement of profit or loss overly complex, damaging the understandability of the statement. In addition, the objectives of paragraph 42 could overlap with those of the MPMs. Hence, we propose to delete paragraph 42.

Sincerely yours,

Satoshi Komiyama
Chair
Corporate Accounting Committee