

STAFF PAPER

September 2022

IASB[®] meeting

Project	Primary Financial Statements	
Paper topic	Unusual income and expenses	
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Objective

1. This paper continues the IASB's discussions on unusual income and expenses. It sets out a summary of the IASB's redeliberations on this topic so far, and an analysis of whether the IASB should continue to propose a definition of unusual income and expenses.

Staff recommendations

2. The staff recommend the IASB does not proceed with any specific requirements for unusual income and expenses as part of this project.

Structure of the paper

3. This paper is structured as follows:
 - (a) overview of the proposals in the Exposure Draft and the feedback from the comment letters;
 - (b) summary of work on the topic so far;
 - (c) discussions with individual IASB members after the July IASB meeting;

- (d) staff analysis; and
- (e) two appendices:
 - (i) Appendix A—detailed summary of IASB discussions and outreach on unusual income and expenses December 2021–July 2022; and
 - (ii) Appendix B—staff note used as the basis for discussions with individual IASB members July/August 2022.

Overview of the proposals in the Exposure Draft and the feedback

4. The definition of unusual income and expenses proposed in the Exposure Draft was:

Unusual income and expenses are income and expenses with limited predictive value. Income and expenses have limited predictive value when it is reasonable to expect that income or expenses that are similar in type and amount will not arise for several future annual reporting periods.
5. The disclosures proposed in paragraph 101 of the Exposure Draft were a single note on unusual income and expenses providing:
 - (a) the amount of each unusual item of income or expense recognised in the reporting period;
 - (b) a narrative description of the transactions or other events that gave rise to that item and why income or expenses that are similar in type and amount are not expected to arise for several future annual reporting periods;
 - (c) the line item(s) in the statement(s) of financial performance in which each item of unusual income or expenses is included; and
 - (d) an analysis of the included expenses using the nature of expense method, when an entity presents an analysis of expenses in the statement of profit or loss using the function of expense method.
6. The feedback from the comment letters was:
 - (a) strong support for the IASB to define unusual income and expenses. Feedback was that doing so would provide consistent input for analysis by users of

financial statements and would reduce opportunistic classification of items as unusual.

- (b) however, although most respondents agreed the IASB should define unusual income and expenses, most did not agree with the proposed definition, either because of:
 - (i) concerns over the scope of the items captured in the proposed definition, often indicating an underlying concern over the IASB’s proposed objective for the requirements; or
 - (ii) concerns over the subjectivity inherent in the proposed definition.
- (c) although most respondents did not agree with the proposed definition, there was no clear consensus on an alternative definition.

Summary of work on the topic so far

- 7. A summary of the IASB discussions of unusual income and expenses so far and feedback from related outreach is set out in Appendix A. The work to date has focused on:
 - (a) limiting the population of items captured by the definition—the examples used by the staff to illustrate the outcome of the proposed definition consistently prompted feedback that the definition was too broad;
 - (b) reducing the subjectivity in the definition by being clearer about the periods that need to be considered in assessing the recurrence or not of income and expenses; and
 - (c) exploring the extent to which forward-looking information should be used in the identification and disclosure of unusual income and expenses.
- 8. In the July 2022 paper (see [Agenda Paper 21E](#)), the staff expressed support for continuing with a definition that responded to the feedback received by:
 - (a) revising the definition to exclude changes in ongoing activities (either previous ongoing activities ending or expected new ongoing activities starting), resulting in a significantly narrower definition than that proposed in the

Exposure Draft. That narrower definition would reduce the subjectivity in the definition and mitigate the concerns expressed over the use and disclosure of forward-looking information; and

- (b) introducing some ‘hard lines’ in the definition, as practical expedients to reduce further the subjectivity in the definition.
9. The staff did not ask the IASB for a decision on whether to proceed with a definition at that meeting but set out the questions the IASB would need to resolve in order to do so.
 10. The discussion at the July 2022 IASB meeting indicated that some IASB members wished to narrow the definition suggested in the July 2022 paper (see [Agenda Paper 21E](#)) further. Two issues arose that the staff explored after the meeting:
 - (a) whether the definition of unusual income or expenses should be limited to income and expenses that are unusual by type, ie should not include income and expenses that are unusual only because of their amount; and
 - (b) the relationship between information disclosed about unusual income and expenses and a variance analysis of line items in the statement of profit or loss.
 11. As part of the exploration of these issues, the staff discussed examples of income and expenses that might be regarded as unusual with individual IASB members. Those examples are set out in Appendix B.

Discussions with individual IASB members

12. Many IASB members said that unusual income and expenses should not be defined solely in terms of whether the item of income or expense in the current period has occurred in the past and is expected to recur in the future. Rather, the definition should focus on whether the income or expense has other characteristics that made it ‘unusual’.
13. These IASB members acknowledged that specifying what characteristics (other than the lack of recurrence) would make an item of income and expenses ‘unusual’ was difficult, because what is unusual depends on facts and circumstances that will vary from entity to entity.

14. Some said it was worth exploring a definition based on the non-recurrence of the income or expense, such as the definition suggested in the July 2022 paper (see [Agenda Paper 21E](#)), but limited to income and expenses that meet the definition because of their type, not because of their amount. Such a definition would be (marked-up to show changes from the definition suggested in the July 2022 paper):
- Income and expenses are unusual when it is reasonable to expect that income or expenses that are similar in type ~~and amount~~ will arise in only a few annual periods.
15. Other IASB members said that limiting such a definition to only income and expenses that are dissimilar in type would simply result in confusion, and would not resolve the question of when is an item of income and expenses ‘unusual’. They observed that their answer to whether many of the examples in the staff note (see Appendix B) should be regarded as unusual was ‘it depends’—not on whether the income or expenses could be identified as a different type to recurring income or expenses but on whether the *type* of income or expense was an *unusual type* of income or expense.
16. A few IASB members supported proceeding with a definition based solely on whether the item of income or expenses had occurred in the past and was expected to recur in the future. These IASB members said it would be impossible to specify what other characteristics would make an item of income and expenses unusual.
17. Many IASB members said the definition of unusual income and expenses should not capture the effect of price changes. The reasons they gave included:
- (a) price changes in some economies are not unusual (for example in volatile or emerging economies) and it is not possible to identify what is a ‘usual’ price.
 - (b) the definition of unusual income and expenses should not capture items everyone knows about, for example the effect of gas price spikes. It should capture unexpected or unknown items, for example a spike in revenue due to the Covid pandemic that will not persist.
18. Some IASB members questioned the cost benefit balance of doing more work in this area, especially if that would delay the finalisation of the project as a whole. They

observed that for many entities information about unusual income and expenses would be provided as part of the disclosure of management performance measures.

Staff analysis

19. This section of the paper is structured as follows:
 - (a) context for the analysis (paragraphs 20-22);
 - (b) analysis of IASB members' views (paragraphs 23-31);
 - (c) alternatives to proceeding with a definition (paragraphs 32-48); and
 - (d) staff conclusions (paragraphs 49-53).

Context for the analysis

20. The proposals in the Exposure Draft on unusual income and expenses relate to disclosure only. They do not affect the classification of income and expenses in the categories of operating, investing and financing—in particular, unusual income or expenses cannot be presented as a separate category in the statement of profit or loss.
21. Feedback from stakeholders is that there is great demand for this project to result in an Accounting Standard on a timely basis. The proposals on unusual income and expenses are one aspect of the proposals on disaggregation and not the most important aspect of the project. The IASB needs to balance the benefits of developing requirements in this area against the risk of delay to other aspects of the project that were supported by all stakeholders, such as the categories that create a structure for the statement of profit or loss and the disclosure requirements for management performance measures (see [Agenda Paper 21A](#) of the December 2020 IASB meeting).
22. Feedback on the proposals on unusual income and expenses in the Exposure Draft and on the IASB's redeliberations to date has been consistently mixed. There is strong support for the IASB to develop a definition, but no consensus on what that definition should be. Our discussions with individual IASB members reflected the same message.

Analysis of IASB members' views

23. Two sets of views about the definition of unusual income and expenses emerged from the discussions with IASB members:
- (a) a few support continuing with a definition that focuses on the recurrence of income and expenses without further narrowing it by identifying additional 'unusual' characteristics. The staff discuss such a definition further in paragraphs 24-28 of this paper.
 - (b) most support narrowing the definition by identifying characteristics that would make non-recurring income or expenses 'unusual'. The staff discuss such a definition further in paragraphs 29-31 of this paper.

A definition that focuses solely on the recurrence of income and expenses

24. The objective of the definition proposed in the Exposure Draft was to help users of financial statements identify income and expenses that are unlikely to persist, so they can analyse separately the effect of such income and expenses. Accordingly, the definition depended solely on whether similar income and expenses were expected to arise in the future.
25. However, in the redeliberations and outreach to date, examples developed by the staff to illustrate the proposed definition in the Exposure Draft have consistently prompted feedback from IASB members and stakeholders that the proposed definition, and subsequent revised working definitions, capture too broad a population of items of income and expenses.
26. The most recent revised definition in the July 2022 paper (see [Agenda Paper 21E](#)) was:
- Income and expenses are unusual when it is reasonable to expect that income or expenses that are similar in type and amount will arise in only a few annual periods.
27. This definition reflects feedback from the joint CMAC GPF meeting in June 2022 that the definition should not capture income and expenses from activities that had been ongoing but have now ceased, or income and expenses that are unusual because they are dissimilar from expected new ongoing activities. Accordingly, it captures only

income and expenses that are expected to arise in no more than a few annual periods, considering both past and future periods.

28. The income and expenses that would be required to be disclosed applying this definition will also be limited by the application of materiality. The note on unusual income and expenses would only include income and expenses for which information about their limited predictive value is material¹. If it is reasonable to expect that information about the limited predictive value of the income or expenses would not influence the decisions of users, those income or expenses would not be included in the note. Making clear how materiality applies in the context of the definition of unusual income and expenses would be important in reassuring those who are concerned that the note will capture too many items of income or expenses.

A definition that focuses on other characteristics that would make non-recurring income or expenses ‘unusual’

29. A definition that focused on the identification of other characteristics of income and expenses instead of (or in addition to) their non-recurrence would have a very different outcome from the definition proposed in the Exposure Draft. Many items of income and expenses captured by the definition in the Exposure Draft would not be captured by such a new definition. Such a new definition would accordingly only meet the objective described in the Basis for Conclusions on the Exposure Draft to a limited extent.
30. Further, the staff are not able to identify what characteristics could be used to define unusual income or expenses other than non-recurrence. As discussed in the July 2022 paper (see [Agenda Paper 21E](#)), we could include the list of income and expenses in paragraph B15 of the Exposure Draft (based on paragraph 98 of IAS 1 *Presentation of Financial Statements*)² as examples of income and expenses that might often be

¹ Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users of financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity (paragraph 7 of IAS 1 *Presentation of Financial Statements* that the Exposure Draft proposes to move to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*).

² The income and expenses listed are: (a) impairments and reversals of impairments of inventory and property, plant and equipment, (b) restructuring costs and reversals, (c) disposals of property, plant and equipment, (d) disposals of investments, (e) litigation settlements and (f) reversals of provisions.

considered to be unusual, but they will not always be unusual for all entities. The staff do not think it is possible to develop a principle, or list of characteristics, for identifying unusual income and expenses, especially on a timely basis.

31. The staff also do not think that a workable definition can be developed based on non-recurrence but limited in either of the following ways:
- (a) limited to income and expenses that are dissimilar *in type* to recurring income and expenses (see paragraph 15). The discussions with individual IASB members of examples of what income and expenses might be regarded as dissimilar in type (reproduced in Appendix B) demonstrated such an approach just raised questions about the distinction between dissimilar ‘in type’ and dissimilar ‘in amount’.
 - (b) limited by excluding from the definition income and expenses that are dissimilar to recurring income and expenses because of price changes (see paragraph 17). The discussions with individual IASB members indicated this would not narrow the definition sufficiently.

Alternatives to proceeding with a definition

32. The objective of the proposals in the Exposure Draft on unusual income and expenses was to enable users to identify income and expenses which may not persist and to analyse them separately when predicting an entity’s future cash flows (paragraph BC124 of the Basis for Conclusions for the Exposure Draft). There are two aspects of the objective:
- (a) completeness of information:
 - (i) all income and expenses that may not persist are identified; and
 - (ii) an adequate explanation of such income and expenses is provided.
 - (b) discipline over the use of the label ‘unusual’, so income and expenses that will persist are not described as ‘unusual’.
33. The staff have identified three alternatives to proceeding with a definition and assessed the extent to which they achieve the objective set out in the Exposure Draft:

- (a) Approach A—requiring disclosure of information about unusual income and expenses, including an explanation of why the income or expense is regarded as unusual, but allowing management to determine what is unusual for their entity;
- (b) Approach B—not requiring disclosure of information about unusual income and expenses but, if an entity chooses to describe any income or expenses presented or disclosed as unusual, requiring the entity to provide an explanation of why the income or expense is regarded as unusual; or
- (c) Approach C—not proceeding with the proposal for a requirement to identify and disclose information about unusual income and expenses, thereby leaving disclosure of any such information subject only to the application of the general requirement to disaggregate amounts whenever information about the disaggregated amounts is material, or as a voluntary disclosure.

Assessment of the extent to which the approaches would result in complete identification (paragraph 32(a)(i))

- 34. None of the alternatives would respond to the feedback that the IASB should develop a definition of unusual income and expenses. Accordingly, they all run the risk that the identification of income and expenses that are unlikely to persist will be incomplete. In particular, practice indicates entities are less likely to identify as unusual income or expenses (i) higher income that is unlikely to persist or (ii) low expenses that are unlikely to persist.
- 35. Approach A (requiring disclosure of information about unusual income and expenses but allowing management to determine what is unusual for their entity) would establish a clear principle that unusual income and expenses should be disclosed. The difference between this approach and the proposals in the Exposure Draft is that what is identified as unusual will vary from entity to entity, and may vary from period to period for an individual entity.
- 36. Nonetheless, the principle that unusual income and expenses should be disclosed would give auditors grounds to push for disclosure of an item of income or expenses that seemed unquestionably unusual. However, without a definition, such grounds would be relatively weak, probably no stronger than the grounds given by the general

requirement to disaggregate information whenever that information is material (see paragraphs 37–38). Some entities might never (or only very rarely) identify income or expenses as unusual because they have a very broad view of what is ‘usual’.

37. Approaches B and C leave the identification of unusual income and expenses to the general requirement for an entity to disclose disaggregated amounts whenever doing so provides material information (see [Agenda Paper 21A](#) of the April 2021 IASB meeting). That requirement would result in an entity disaggregating income and expenses with dissimilar predictive values when that information is material. Focusing on this application of the general requirement instead of developing a definition of unusual income and expenses was supported by a few comment letters and by an ASAF member at the July 2022 ASAF meeting (see paragraph A30 of Appendix A).
38. In principle, the general requirement would result in disclosure of any material unusual income and expenses, albeit not necessarily in a single note. However, the staff accept that a specific requirement would probably be easier to apply and enforce than relying on a general requirement. The staff will bring to a future IASB meeting a paper discussing further aspects of the general requirement to disclose disaggregated amounts whenever doing so provides material information. That paper will explore a possible cost constraint, ways of strengthening the application of the requirement when the cost constraint does not apply, and its relationship with specific disclosure requirements.

Assessment of the extent to which the approaches would result in adequate explanation (paragraph 32(a)(ii))

39. To a large extent, the outcome of all three alternatives is likely to be similar in relation to the disclosure of an explanation of income and expenses that have been identified as unusual. Without a definition of unusual income and expenses, in practice under any of the alternatives an entity could identify income and expenses as unusual when it wants to provide information about them and could fail to identify income and expenses as unusual when it does not want to provide such information.
40. Further, it is unclear how often the alternative approaches would provide additional information to that required by the disclosures for management performance

measures. Those disclosures will include information about unusual income and expenses whenever an entity excludes income or expenses that it has identified as unusual from a management performance measure. The staff have analysed:

- (a) how often unusual income and expenses are likely to be excluded from management performance measures (see paragraph 41); and
- (b) the extent to which the disclosures for management performance measures will provide similar information to those proposed for unusual income and expenses (see paragraphs 42–44).

41. The Illustrative Examples in the Exposure Draft combined the disclosures for management performance measures and unusual income and expenses because it was expected that many entities will exclude non-recurring income and expenses (as defined by the entity) as adjusting items in calculating their management performance measures. In the fieldwork the three most common adjusting items were income or expenses that maybe non-recurring—acquisition/disposal income or expenses, impairments, and restructuring. Of the 30 entities in the fieldwork that provided management performance measures disclosures, 26 included at least one of these non-recurring expenses as a reconciling item for a management performance measure.
42. The requirements for disclosure of information about management performance measures include:
- (a) disclosure of how the management performance measure is calculated;
 - (b) disclosure of how the measure provides useful information about the entity’s performance;
 - (c) description of a management performance measure in a clear and understandable manner that does not mislead users; and
 - (d) a reconciliation to the most directly comparable subtotal or total specified by IFRS Accounting Standards.
43. The IASB tentatively decided to include application guidance on how an entity could comply with the requirement to describe a management performance measure in a clear and understandable manner that would not mislead users. The guidance would address the need for an entity to be transparent about the meaning of the terms used

and the methods applied, in particular when they differ from IFRS Accounting Standards (see [Agenda Paper 21C](#) of the November 2021 IASB meeting). Applying this guidance, an entity would explain how it has applied terms such as unusual or non-recurring.

44. The IASB also tentatively decided to (see Agenda Paper 21A of the January 2022 IASB meeting):
- (a) include application guidance explaining that to comply with the requirements described in paragraph 42 of this paper an entity would refer to the individual line items in the reconciliation when necessary for a user to understand why a management performance measure communicates management’s view of performance; and
 - (b) require an entity to disclose, for each reconciling item, the amount(s) related to each line item(s) in the statement(s) of financial performance.
45. As a result, we expect that if an entity excludes unusual income or expenses from a management performance measure, it would disclose how it applies the term ‘unusual’ and disclose where the amounts so described are included in the line items in the statement of profit or loss. Further, if it was not clear why any of the amounts so described were consistent with the explanation of how the term was applied, further explanation would be required.
46. Accordingly, approaches A and B for unusual income and expenses described in paragraph 33 of this paper would result in additional information only if entities identify items of unusual income or expenses but do not use those items as adjustments to arrive at a management performance measure. Approach C (no specific requirements for unusual income and expenses) would not result in any additional information to that resulting from the requirements for management performance measures.

Assessment of the extent to which the approaches would result in discipline over the description of income and expenses as unusual

47. All the approaches described in paragraph 33 would allow an entity to describe income and expenses as unusual as long as the entity regards that description as contributing to a faithful representation of the income and expenses. Approaches A

and B might both provide further discipline over the use of the term ‘unusual’ because they would specifically require an explanation of why the income or expense is regarded as unusual.

48. However, disclosure of an explanation of why income or expenses are described as unusual is part of the required disclosures for management performance measures (see paragraph 43). Accordingly, approaches A and B would provide additional discipline on the use of the term only when an entity identified items of unusual income or expenses but did not use those items as adjustments to arrive at a management performance measure.

Staff conclusions

49. The definition of unusual income and expenses proposed in the Exposure Draft relied solely on the non-recurrence of the income or expenses. Given the discussions with stakeholders and IASB members over the last nine months, the staff conclude that proceeding with such a definition is unlikely to be successful. Such a definition fails to identify the population of income and expenses that stakeholders and IASB members wish to be captured in a single note on unusual income and expenses.
50. Feedback from the comment letters and subsequent redeliberations and outreach have also consistently indicated a lack of consensus on what that population of income and expenses should be. Views vary substantially from all types of stakeholder, including from users of financial statements. The staff conclude it is not possible to develop on a timely basis a definition based on unusual characteristics in addition to or instead of non-recurrence. Such a definition would involve standardising a very subjective idea and we are unlikely to gain additional insight from future outreach at this time.
51. Not proceeding with the proposals on unusual income and expenses risks some loss of information compared to the outcome of the proposals in the Exposure Draft, had a consensus on the definition emerged. However, no such consensus has emerged and any loss of information is substantially mitigated by other disclosure requirements: (i) those relating to management performance measures and (ii) the general requirement to disaggregate amounts when information about the disaggregated amounts is material.

52. These other disclosure requirements also mean that neither of alternative approaches A and B are likely to provide sufficient additional information to warrant developing them further.
53. Accordingly, and given the feedback from stakeholders that other aspects of this project should be finalised as quickly as possible, the staff recommend the IASB do not proceed with any specific requirements for unusual income and expenses as part of this project (approach C).

Question for the IASB

Q1. Does the IASB agree that it should not proceed with any specific requirements for unusual income and expenses as part of this project?

Appendix A—detailed summary of IASB discussions and outreach on unusual income and expenses December 2021–July 2022

- A1. This appendix summarises the IASB’s redeliberations and consequential outreach on unusual income and expenses so far:
- (a) December 2021 IASB meeting (paragraphs A3–A6);
 - (b) March 2022 CMAC meeting (paragraphs A7–A9);
 - (c) May 2022 IASB meeting (paragraphs A10–A13);
 - (d) June 2022 CMAC GPF meeting (paragraphs A14–A24);
 - (e) July 2022 ASAF meeting (paragraphs A25–A38); and
 - (f) July 2022 IASB meeting (paragraphs A39–A41).
- A2. Paragraphs A3–A24 are an extract from the July 2022 IASB paper.

December 2021 IASB meeting

- A3. [AP21A of the December 2021](#) IASB meeting (the December IASB paper) set out the feedback on the proposals in the Exposure Draft on unusual items and provided an analysis of the questions that need to be resolved in order to proceed with a definition.
- A4. The definition proposed in the Exposure Draft was:
- Unusual income and expenses are income and expenses with limited predictive value. Income and expenses have limited predictive value when it is reasonable to expect that income or expenses that are similar in type and amount will not arise for several future annual reporting periods.
- A5. The feedback from the comment letters was:
- (a) strong support for the IASB to define unusual income and expenses. Feedback was that doing so would provide consistent input for analysis by users of financial statements and would reduce opportunistic classification of items as unusual.
 - (b) however, although most respondents agreed the IASB should define unusual items, most did not agree with the proposed definition, either because of:

- (i) concerns over the scope of the items captured in the proposed definition, often indicating an underlying concern over the IASB’s proposed objective for the requirements; or
- (ii) concerns over the subjectivity inherent in the proposed definition.
- (iii) although most respondents did not agree with the proposed definition, there was no clear consensus on an alternative definition.

A6. At the December 2021 meeting, the IASB tentatively decided:

- (a) to explore how to proceed with a definition of ‘unusual income and expenses’.
- (b) to remove the reference to ‘limited predictive value’ from the definition of ‘unusual income and expenses’, and clarify in the IFRS Accounting Standard that it is a necessary characteristic of unusual income and expenses, not the sole characteristic.
- (c) to develop application guidance:
 - (i) to clarify that the definition means that ‘unusual income and expenses’ can be dissimilar *in type or amount* from income and expenses expected in the future;
 - (ii) to help an entity to assess whether similar income or expenses will arise in the future, based on guidance on the assessment of future transactions and other events in other IFRS Accounting Standards; and
 - (iii) to explain that in considering whether income or expenses are similar to expected future income or expenses, an entity would consider characteristics of the income and expenses, including the underlying event or transaction that gives rise to income or expenses.

March 2022 CMAC meeting

A7. Following the December 2021 IASB meeting, at the [CMAC meeting](#) in March 2022, the staff asked CMAC members for their views on the proposed definition of unusual items, in particular whether the IASB should focus on:

- (a) ensuring all ‘unusual’ items are identified; or

- (b) preventing recurring items from being portrayed as ‘unusual’.
- A8. Some members preferred a broad definition that would capture a wide range of non-recurring items. They wanted information about many such items, not just a narrow set of highly exceptional items. Users are also looking for information about varied items, depending on their needs. A broad definition would enable users to choose which items they would exclude from an ongoing earnings calculation. However, a few members would prefer the definition to focus on preventing recurring items from being portrayed as ‘unusual’.
- A9. The staff specifically asked whether:
- (a) the definition should include income and expenses that have occurred in the past (as proposed in the Exposure Draft). Some said the definition should include such income and expenses. A member gave an example of natural disasters that might have occurred in a recent annual financial reporting period, but should still be deemed to be unusual if they occurred again in the current period.
 - (b) the definition should include income and expenses that are expected to occur in a few annual periods (rather than not recurring at all in the future, as proposed in the Exposure Draft). Most members said the definition should include such income and expenses. Some members said information about when such items had occurred in the past and for how long they were expected to continue in the future would be important.

May 2022 IASB meeting

- A10. [AP21B of the May 2022](#) IASB meeting (the May IASB paper) set out feedback from the CMAC meeting in March and staff recommendations on how to proceed with a definition. The IASB tentatively decided:
- (a) to include income and expenses that have arisen in the past in the definition, as proposed in the Exposure Draft.

- (b) to label the items captured by the definition as ‘income and expenses with limited recurrence’. The IASB also decided to consider at a future meeting whether also to restrict the use of the label ‘unusual income and expenses’.
- (c) to amend the definition proposed in the Exposure Draft to include income and expenses that are expected to recur for a few annual reporting periods.
- (d) to reflect the tentative decisions described in (a) to (c) by proceeding with the following definition:

Income and expenses have limited recurrence when it is reasonable to expect that income or expenses that are similar in type and amount will cease, and once ceased will not arise again, before the end of the assessment period.

- (e) to explore how to define the assessment period; for example, by linking it to the period of budgets and forecasts or by specifying a minimum and/or maximum number of years.

A11. The IASB also discussed the disclosure requirement proposed in the Exposure Draft for a narrative description of why income and expenses that are similar in type or amount are not expected to arise for several future annual periods (now the assessment period, to reflect the tentative decision described in paragraph (d)). The IASB decided to consider at a future meeting an analysis of the implications of this disclosure requirement in relation to forward-looking information.

A12. Subject to the outcome of that analysis, the IASB tentatively decided (see [AP21C of the May 2022 IASB meeting](#)):

- (a) to continue to include in the definition income and expenses that are dissimilar to those expected to arise in the future because they are lower in amount.
- (b) to reconfirm the proposal to require, for such items of income and expenses, disclosure of the amount recognised in the period.

A13. The IASB noted that the effect of these requirements would be to provide information for income and expenses only when information about their limited recurrence would be of interest to users of financial statements (that is, when such information would be material).

June 2022 CMAC GPF meeting³

A14. At the [CMAC GPF meeting](#) in June, the staff set out a working definition of items with limited recurrence (unusual items) based on the IASB's tentative decisions in May (see paragraph A10(d) of this paper).

A15. The staff also provided three examples for CMAC and GPF members to consider:

- (a) a one-off restructuring that was expected to give rise to expenses in three annual periods;
- (b) revenue and expenses from a product line that was expected to be discontinued in the next year; and
- (c) revenue and expenses that were expected to increase in the next few years because of expected internal growth or an expected acquisition.

The population of income and expenses captured by the definition

A16. CMAC and GPF members all agreed that the definition of unusual income and expenses should capture only items such as the first example and not items such as the second or third examples. They said that information about the second and third examples is a matter of capital market communication beyond the financial statements. For items such as the first example, some emphasised that the definition should include income and expenses that are unusual because of their amount as well as items that are unusual because of their type.

A17. Some GPF members said the IASB should not try to develop a definition of unusual income and expenses. What is unusual will vary from entity to entity and it is impossible to create a definition that all entities could apply appropriately. These members said the IASB should instead create a principle and require management to use its judgement to determine what is unusual for the entity in the context of that principle. Some GPF members suggested reinstating the requirement in paragraph 97 of IAS 1 *Presentation of Financial Statements* for an entity to disclose the nature and amount of material items of income and expenses.

³ This section in the July IASB paper was based on the draft summary of the CMAC GPF meeting which had not yet been reviewed by CMAC GPF members. It has been revised in this paper to reflect editorial changes in the finalised summary. There were no changes of substance.

- A18. Some CMAC members said the IASB should establish a definition of unusual income and expenses. Without such a definition, the information provided about unusual income and expenses could be incomplete. They agreed that what is unusual will vary from entity to entity. These members said that they can use their judgement to assess how to treat the different items disclosed, but can only assess what has been disclosed.
- A19. Some CMAC and GPF members suggested the IASB establish a list of income and expenses that should be regarded as unusual, for example restructuring expenses, impairments, and litigation expenses.
- A20. Some members warned against having requirements that relied on forward-looking information, especially any requirements for disclosure of such information.

The assessment period

- A21. The staff provided a list of possible ways of determining the assessment period referred to in the definition:
- (a) using the period of budgets and forecasts;
 - (b) using a period or range specified by the IASB (very initial thinking—2-4 years); and
 - (c) using a period decided by entity.
- A22. Members expressed differing views on the assessment period.
- A23. Some said using the period of budgets and forecasts would introduce a lack of consistency, because the periods of budgets and forecasts varies between entities. Others said a reference to budgets and forecasts would be helpful, and regarded getting an appropriate entity-specific period more important than consistency between entities.
- A24. Some said the IASB should not specify a period or range, but others supported such an approach. Suggestions for such a period were 2 years, 2-3 years and less than 5 years. Some said the period might depend on the type of income or expenses being considered.

July 2022 ASAF Meeting

A25. ASAF members provided their views on:

- (a) the way forward in defining income and expenses of limited recurrence ('unusual income and expenses'), based on three examples of income and expenses that are classified as 'unusual' based on the working definition of income and expenses of limited recurrence;
- (b) possible constraints to the working definition; and
- (c) the assessment period that entities would need to consider while classifying items of income and expenses as 'unusual'.

Defining 'unusual income and expenses'

- A26. The AcSB, ANC and EFRAG members said the IASB should develop a definition that only captures items, such as restructuring expenses. A broad definition would be difficult to implement and may not result in useful information for users. The ANC member suggested the IASB reinstate the label of 'unusual income and expenses'.
- A27. The ANC member also raised concerns about the legal implications of determining the classification of 'unusual income and expenses' based on forward-looking information.
- A28. The ARD member suggested the IASB develop a principle-based requirement that allows jurisdictions the discretion to determine unusual income and expenses based on laws and regulations in their respective jurisdictions. The PAFA member said that unusual income and expenses should be non-recurrent in nature and that classifying an item as non-recurrent would depend on entity specific circumstances.
- A29. The GLASS member asked the IASB to provide guidance on how an entity should consider the effect of inflation in determining whether income and expenses are 'unusual income and expenses'.
- A30. The ASBJ member suggested the IASB not proceed with developing a definition of unusual income and expenses and require entities to follow the disaggregation principles when disclosing information with respect to 'unusual income and expenses'.

*Possible constraints to the working definition***Comparison with past income and expenses**

- A31. The ANC, AOSSG, KASB and EFRAG members said the IASB should require entities to do a comparison with past income and expenses when identifying ‘unusual income and expenses’. The ARD member said ARD stakeholders have different views on comparisons with the past, but if a comparison with the past is not introduced, the definition would not be objective. The ANC member said a comparison with the past would help entities to provide evidence supporting their judgement and address the concerns about auditability.

Exclusion of items that are ‘unusual’ only by amount

- A32. The ANC, AOSSG, EFRAG and KASB members said the IASB should limit the definition to include income and expenses that are only unusual by their type because excluding income and expenses that are only unusual by their amount will make the definition clearer and easier to apply.

Sufficient objective evidence of future events

- A33. The ARD member said there are mixed views amongst ARD stakeholders on whether the assessment of ‘unusual income and expenses’ should be based on future events for which there is sufficient objective evidence.
- A34. The KASB member said it would be subjective to assess if future events are supported by sufficient objective evidence.

Assessment period

- A35. The AcSB, ASBJ, ASCG, EFRAG and KASB members said the assessment period should be based on entities’ business models and rely on approved budgets and forecasts. The AcSB member added that if an entity does not have the required information for the assessment period set by the IASB, then the disclosure would not provide useful information. The IASB should provide guidance for entities to determine the assessment period and require that the assessment period used be disclosed.

- A36. The AOSSG member suggested the IASB consider setting up a working group consisting of users and preparers to understand their individual needs and concerns to arrive at a consensus on the assessment period.
- A37. The ARD member said stakeholders have different views about the assessment period. Most stakeholders prefer flexibility, while some stakeholders suggested an assessment period of one year, two years or two to four years. Some stakeholders suggested that, even if the IASB requires a set assessment period, it should still allow some flexibility to entities subject to additional disclosure requirements. The member suggested the IASB conduct more outreach with users and preparers before making decisions on the assessment period.
- A38. The GLASS member suggested considering jurisdictions with climate conditions that change every seven to eight years when determining the assessment period.

July 2022 IASB meeting

- A39. [AP21E](#) of the July 2022 IASB meeting set out feedback from the discussion of unusual income and expenses at the joint meeting of the Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF) in June 2022. It also provided an analysis of the questions the IASB would need to address to proceed with a definition of unusual income and expenses.
- A40. The staff did not make any recommendations or ask the IASB to make any decisions. Rather we asked for IASB’s initial comments on the analysis.
- A41. The discussion at the July 2022 IASB meeting indicated that some IASB members wished to narrow the definition suggested in the July 2022 IASB paper further. Two issues arose that the staff explored with individual IASB members after the meeting:
- () whether the definition of unusual income or expenses should be limited to income and expenses that are unusual by type, ie should not include income and expenses that are unusual only because of their amount; and
 - (a) the relationship between information disclosed about unusual income and expenses and a variance analysis of line items in the statement of profit or loss.

Appendix B—note used by staff as the basis for discussions with individual IASB members July/August 2022

- B1. The staff plan to bring a paper to the September 2022 IASB meeting with recommendations for a definition of unusual income and expenses to be explored as part of the planned targeted outreach in Q4 2022. To develop that paper, we would like to explore two issues that arose in the discussion at the July 2022 IASB meeting with individual IASB members over the next few weeks:
- (a) whether the definition of unusual income or expenses should be limited to income and expenses that are unusual by type, ie should not include income and expenses that are unusual only because of their amount; and
 - (b) the relationship between information disclosed about unusual income and expenses and a variance analysis of line items in the statement of profit or loss.
- B2. Limiting the definition of unusual income and expenses to income and expenses that are unusual by type—some IASB members suggested this would be an appropriate way to limit the definition of unusual income and expenses. However, the staff are concerned that it will not be possible to distinguish easily between (i) income and expenses that are unusual by type and (ii) income and expenses that are unusual only by amount. Nor are we convinced that such a distinction would necessarily capture the most useful population of income and expenses. We have developed some examples we would like to discuss with you (see Appendix A [part of Appendix B of this paper]).
- B3. The relationship between information disclosed about unusual income and expenses and a variance analysis of line items in the statement of profit or loss —some IASB members suggested that information disclosed about unusual income and expenses should not be a variance analysis of line items in the statement of profit or loss. The staff agree that the definition of unusual income and expenses will not, and should not, capture all variances in line items in the statement of profit or loss. However, the staff think there will be overlap between the two sets of items. For example, consider the table in [AP21E](#) of the July 2022 IASB meeting that illustrated how the working definition discussed in that paper would capture income or expenses that arose in three annual periods.

Assessment period									
Period in which item has arisen/is expected to arise	-4	-3	-2	-1	Current period	+1	+2	+3	+4
20X1					x	x	x		
20X2				x	x	x			
20X3			x	x	x				

- B4. The item of income or expenses meets the definition of unusual income and expenses in all three periods. In 20X1, the item of income or expenses would be picked up by a variance analysis of line items in the statement of profit or loss in 20X1 and the comparative period, but it would not in 20X2 or 20X3.
- B5. Conversely, if the item of income expenses in 20X1 were expected to continue beyond the assessment period, it would not meet the definition of unusual income and expenses. But it would be picked up by a variance analysis of line items in the statement of profit or loss in 20X1.

Appendix A of staff note

Transaction	Examples	Unusual by type or amount	Unusual by type only
Transaction of different type (will always be higher amount than usual because usual amount is nil)	Restructuring expenses for an entity that does not restructure often	√	√
	Revenue from one-off contract for an unusual product with an unusual customer	√	√
	Revenue from one-off contract for an unusual product with a usual customer	√	√
	Revenue from one-off contract for usual product with an unusual customer	√	√
Greater number of transactions of similar type	Sales of property, plant and equipment during the Covid pandemic	√	Maybe—the Covid pandemic is unusual event (we hope!). Could identify additional Covid sales as dissimilar in type to usual sales because they have the characteristic of being caused by the pandemic.
	Subscriptions for a specific magazine increase because it is running a feature for a few months that has been recommended by	√	Probably not—could identify new temporary subscribers as different type of subscriber. But recommendation of a feature may not be unusual.

Transaction	Examples	Unusual by type or amount	Unusual by type only
	a celebrity. Subscriptions expected to return to close to previous levels when feature ends.		Is this particular recommendation sufficiently dissimilar to others that investors would want to know?
Fewer transactions of similar type	Reduced hotel bookings because of the Covid pandemic	√	Possibly—could argue that the type of hotel bookings in the period have the characteristic of having been made during a pandemic, and hence are a dissimilar type of booking from those made in non-pandemic periods, but is that pushing dissimilar type too far?
Similar type and number of transactions but at higher price than usual, price expected to return to usual soon.	Power expenses higher than usual because of a price spike	√	Possibly—if price spike caused by an unusual event. Could argue that power expenses in period of price spike are different in type because they have the characteristic of arising in the period of the price spike.
Similar type and number of transactions but at lower price than usual, price expected to return to usual soon.	Purchases of oil at oil prices that dropped substantially at the start of the Covid pandemic but then recovered.	√	Possibly—could argue oil purchases were different in type because they have the characteristic of being made during global lockdowns.

