STAFF PAPER

September 2018

IASB Meeting

Project	**Primary Financial Statements**		
Paper topic	Unusual or infrequent items		
CONTACT(S)	Denise Durant	ddurant@ifrs.org	+44 0 207 246 6469

Purpose of paper

1. This Agenda Paper seeks the Board's views on staff proposals for requirements relating to unusual or infrequent income and expenses in the statement(s) of financial performance (hereafter, 'unusual or infrequent items').

Summary of staff recommendations

2. In summary, the staff recommend:
   (a) requiring separate disclosure of information about unusual or infrequent items irrespective of whether an entity chooses to disclose a management performance measure (MPM);
   (b) requiring separate disclosure of unusual or infrequent items in the notes to the financial statements and that those items should be attributed to line items in the statement(s) of financial performance; and
   (c) developing principle-based guidance to help entities identify items that are 'unusual or 'infrequent'.

Structure of paper

3. This paper is structured as follows:

(a) Background

(i) Why do users find information about unusual or infrequent items useful? (paragraphs 4–5);

(ii) Current practice and concerns raised by users (paragraphs 6–8);

(iii) Feedback received on the Board's preliminary view on unusual or infrequent items (paragraphs 9–12); and

(iv) Feedback received from CMAC and GPF members (paragraphs 13–17).

(b) Staff analysis (paragraphs 18–60)

(i) **Section 1.** Should the Board develop any specific requirements for unusual or infrequent items in addition to the PFS proposals to date? (paragraphs 18–29);

(ii) **Section 2.** Approaches for providing separate information about unusual or infrequent items (paragraphs 30–45); and

(iii) **Section 3.** Should the Board describe unusual or infrequent items or allow management flexibility to identify those items? (paragraphs 46–60).

(c) Appendices:

(i) A— Summary of the feedback on Question 8 in the Disclosure Initiative—*Principles of Disclosure* Discussion Paper.

(ii) B—Illustrations of different approaches for providing information about unusual or infrequent items.

(iii) C— Research on different descriptions of unusual, infrequent, recurring and non–recurring items and characteristics associated to those descriptions.

Background

Why do users find information about unusual or infrequent items useful?

4. Users have told us that they find information about non–recurring, unusual or infrequent items particularly useful to assess the persistence or sustainability of an

entity's financial performance. In academic literature, 'persistence' or 'sustainability' is linked to the following notions:

(a) the extent to which reported earnings will persist or continue into the future. Analysts are interested in the sustainable component of earnings because investors tend to pay less for earnings that are not sustainable[1]; and

(b) whether an item can be used to predict future values of similar items. Researchers have found that 'special items' (eg, restructuring charges, merger costs, impairment write-offs) have 'zero' persistence (ie they are transitory) in terms of predicting future values of similar items[2].

5. The reasons for exclusion often relate to the ability to forecast events or the impact of transactions. Non–persistent items do not enhance users' ability to forecast an entity's future performance as those items may arise unexpectedly (such as natural disasters) or may arise from phenomena that are difficult to forecast so users would often exclude non–persistent items from their analysis to avoid distortions. Separate presentation or disclosure of such items is therefore helpful[3].

Current practice and concerns raised by users

6. During our initial research[4] we found that many entities present operating performance measures that exclude unusual or infrequent items (although they sometimes exclude other types of item). They do this, for example, by presenting adjusted subtotals such as 'normalised earnings', 'underlying earnings' or 'adjusted operating profit' in the statement(s) of performance. Items excluded from those subtotals are commonly labelled as 'non–recurring', 'exceptional', 'special' or 'one–time' items.

---

[1] Penman Stephen H. Sustainable Earnings and P/E Ratios with Financial Statement Analysis (December 2006).

[2] Jones, D and Smith, K. Accounting Review. Nov2011, Vol. 86 Issue 6, p2047-2073.

[3] Barker R., *Reporting Financial Performance*, Accounting Horizons, vol. 8. No 2, June 2004 pp. 157-172.

[4] We refer to our analysis of a sample of financial statements of 25 entities in Agenda Paper 21B of March 2017 (paragraphs 18–20). The staff also conducted further research on 85 companies across different industries to see if we could gain any additional insights into the presentation of unusual or infrequent items. Our findings revealed that only a few companies from a particular jurisdiction report non-recurring income and expenses on a separate line of the statement(s) of financial performance.

7. We have received feedback that most users of financial statements support giving entities flexibility in presenting their own performance measures. However, users have observed that the way entities present information about unusual or infrequent items varies significantly and that it is often not clear how or why items have been identified as unusual or infrequent. The concerns raised by users[5] include:

   (a) there is no clear demarcation between items excluded for other reasons and unusual/infrequent items and some entities tend to combine them into a single line item or group of 'other' items without describing the nature of the items included;

   (b) unusual transactions or events are not identified with the same prominence across all parts of the statement(s) of financial performance. For example, the effects of unusual or infrequent items are commonly distinguished for items of an 'operating' nature, but that distinction is often not made, or not made consistently, for items of a 'financial' nature;

   (c) some entities do not identify and disaggregate unusual or infrequent items at all;

   (d) transactions or events with a negative impact to the entity's financial performance (expenses/losses) are often classified as unusual or infrequent, whereas positive transactions and events (income/gains) are rarely classified in this way, indicating a possible lack of neutrality in approach; and

   (e) transactions or events are classified as 'infrequent' by some entities when in the view of many investors they occur on a regular basis. For example, acquisitive entities or diversified multinational corporations that experience costs on a regular basis nevertheless identify some of those costs as one–off or non–recurring in nature to provide an improved picture of their financial performance.

[5] We reported these concerns at previous Board meetings (in paragraphs 34-35 of Agenda Paper 11B (November 2015); paragraphs 13-14 and 45 in Agenda Paper 21B (March 2017)) and in paragraph 5.13 of the Disclosure Initiative—*Principles of Disclosure* Discussion Paper. We identified additional concerns in some investment reports we consulted. For example, in S&P Ratings Direct: *How Exceptional Accounting Items Can Create Misleading Earnings Metrics* (November 2013).

8. In Sections 1 and 2 we propose different approaches for providing more consistent presentation and/or disclosure on unusual or infrequent items. In Section 3 we provide some initial thoughts on ways the Board could develop guidance to identify unusual or infrequent items. Our proposals may address some of the concerns raised by users in paragraph 7.

Feedback received on the Board's preliminary view on unusual or infrequent items

9. To address the concerns in paragraph 7 above, the Board, in developing the Discussion Paper Disclosure Initiative—*Principles of Disclosure*, suggested making changes to IFRS standards that would provide users with more transparent and comparable information about unusual or infrequently occurring items. The Board's preliminary view was that it should develop definitions of, and requirements for, the presentation of unusual or infrequently occurring items.

10. The Board also sought feedback on the use of the terms 'unusual' and 'infrequently occurring' and whether the Board should prohibit use of other terms, for example 'non-recurring' items. The Board asked for feedback on its views as part of Question 8 of the Discussion Paper.

11. The Board suggested definitions of the terms 'unusual' and 'infrequently occurring' in paragraph 5.24 of the Disclosure Initiative—*Principles of Disclosure* Discussion Paper (which were extracted from the Financial Statements Presentation Staff Draft[6]) and indicated that those definitions could be used as a starting point for future definitions or requirements for unusual or infrequent items. These definitions are as follows:

> Unusual: Highly abnormal and only incidentally related to the ordinary and typical activities of an entity, given the environment in which an entity operates;
>
> Infrequently occurring: Not reasonably expected to recur in the foreseeable future given the environment in which an entity operates

[6] Refer to pages 61 and 63 in the Staff Draft.

12. The staff presented a summary of the comments received at the February 2018 Board meeting. This summary is reproduced in Appendix A. The main points expressed by stakeholders regarding the potential development of definitions and requirements for unusual and infrequently occurring items are as follows:

 (a) users supported the Board developing requirements for the presentation of unusual and infrequently occurring items to introduce more discipline into the use of these items in financial statements and generally agreed with the definition of 'unusual' and 'infrequently occurring items' included in the Disclosure Initiative—*Principles of Disclosure* Discussion Paper. However, a few commented that defining 'unusual' and 'infrequently occurring items' is difficult because these items are sensitive and involve significant judgement; and

 (b) a majority of the non–user respondents disagreed with the Board's preliminary view to develop definitions for 'unusual' and 'infrequently occurring items' because those items vary across entities and industries and their identification involves significant judgement. They suggested that the Board could consider instead developing general requirements for fair presentation and disclosure. For example, requiring such items to be classified and presented consistently over time or labelled in a clear and non–misleading way.

Feedback from CMAC and GPF members

13. In June 2018 we held a joint meeting with members of the Capital Markets Advisory Committee (CMAC) and with members of the Global Preparers Forum (GPF) and asked for their feedback on the development of requirements for the disclosure of unusual or infrequent items[7].

14. CMAC and GPF members were of the view that developing a definition of unusual or infrequent items that is applicable to all entities in all industries would be difficult and some were concerned about litigation risks that could arise from disagreements

[7] A summary of their views is available in https://www.ifrs.org/news-and-events/calendar/2018/june/cmac-and-gpf/

between management and shareholders on what is classified as unusual or infrequent according to an accounting standard.

15. CMAC and GPF members suggested the Board should:

(a) provide principle–based guidance on what items are expected to be disclosed separately; and/or

(b) allow entities to develop their own definitions for unusual or infrequent items but require entities to provide meaningful accounting policies describing which items they consider unusual or infrequent.

16. A few suggested the development of guidance for specific items (mainly 'restructuring expenses'), by requiring the separate presentation of this line item and by defining the type of expenses that could be included within this line item[8].

17. CMAC members were of the view that the Board should require entities to disclose unusual or infrequent items in a single location in the notes, which would make it easier for users to find such items.

Staff analysis

Section 1. Should the Board develop any specific requirements for unusual or infrequent items in addition to the PFS proposals to date?

18. As discussed in this paper (see paragraph 4) as well as in previous meetings users find information about unusual or infrequent items useful as it helps them identify ongoing or sustainable results that can be used to forecast an entity's future performance. At previous meetings, we have also discussed the need to develop explicit requirements for unusual or infrequent items to enhance the discipline and transparency around how entities present and/or disclose those items[9].

[8] In this paper we are not addressing the classification and or presentation of specific items and whether they should be considered unusual or infrequent. The staff plans to bring a paper at a future meeting to discuss the meaning of 'unusual' and/or 'infrequent'. The staff may refer to specific items as part of this discussion.

[9] Refer to paragraph 9 of Agenda Paper 21B (March 2017) and paragraphs 7, 9 and 11 of Agenda Paper 21A (December 2017).

19. Adding requirements for unusual or infrequent items could also help address the concerns raised by users described in paragraphs 7(a)–(d) of this paper (ie about this information not being clearly identified, not being prominent enough in the financial statements or being used by management as a mechanism to 'boost' its financial performance).

20. We acknowledge that providing guidance on how to identify unusual or infrequent items on a consistent and comparable basis might be challenging (in Section 3 of the paper we discuss different approaches for identifying unusual or infrequent items). However, based on our discussion above we think that the Board should consider adding explicit requirements for unusual or infrequent items.

21. We have identified the following possible approaches for providing information about unusual or infrequent items:

    (a) Approach A: Build on the Board's proposals on the MPM and require entities that disclose an MPM to separately identify items that are included in the reconciliation to the most directly comparable subtotal or total required by paragraph 81A of IAS 1 that are unusual or infrequent items; or,

    (b) Approach B: Develop proposals to require separate information about unusual or infrequent items.

22. We discuss below some advantages and disadvantages of both approaches. We provide illustrations of both approaches in Appendix B.

***Approach A:* Build on the Board's MPM proposals**

23. Description: Approach A would require entities that choose to disclose an MPM to categorise the items in the MPM reconciliation into:

    (a) unusual or infrequent income and expenses; and

    (b) other items of income or expense excluded from the MPM.

24. Advantages: The main advantages of this approach are that:

    (a) the proposed categorisation of the items included in the MPM reconciliation would provide useful information for users about some unusual or infrequent items (ie those that management exclude from their management performance measure) and

(b) it would not represent much of an additional burden for preparers as many entities already identify and exclude unusual or infrequent items from their key performance measures.

25. Disadvantages: The main disadvantages of this approach are that:

(a) the disclosure of unusual or infrequent items would depend on whether the entity provides an MPM. Entities that chose not to provide an MPM would not be required to disclose unusual or infrequent items elsewhere in the financial statements. Without a specific requirement to disclose unusual or infrequent items elsewhere (for example in a separate note), users may be unable to obtain information about unusual or infrequent items; and

(b) although many entities adjust for unusual or infrequent items, entities may (and do) choose to provide MPMs that do not exclude (all) unusual or infrequent items; they may instead focus on different adjustments for their MPM.

***Approach B:* require separate information about unusual or infrequent items**

26. Description: Approach B would require separate information about unusual or infrequent items. This requirement would apply irrespective of management's decision to disclose an MPM and irrespective of management's decision to include or exclude unusual or infrequent items from their MPM. If management provides an MPM, this approach would require an entity to provide a 'cross–reference' or 'link' between any unusual or infrequent items included in the MPM reconciliation with the separate information about unusual or infrequent income and expenses.

27. Advantages: The main advantages of this approach are:

(a) even if preparers opt not to present an MPM measure they would still be *required* to provide information about unusual or infrequent items, which would provide useful information to users; and

(b) it would also be more comprehensive (subject to the approach taken to identifying unusual or infrequent items – see Section 3 below).

28. Disadvantages: The main disadvantage of this approach is that it may be more burdensome for preparers as identifying all infrequent or unusual items may be difficult and time consuming.

Staff recommendation

29. We support Approach B because we think this approach would better respond to users' needs for information about unusual or infrequent items. The following section in paragraphs 30–45 discusses different approaches to providing separate information about unusual or infrequent items.

Section 1. Question for the Board
1. Does the Board agree with our recommendation in paragraph 29 to require separate information about unusual or infrequent items irrespective of whether an entity chooses to disclose an MPM?

Section 2. Approaches for providing separate information about unusual or infrequent items

30. The staff has identified the following approaches for how information about unusual or infrequent items could be provided:

(a) Approach B1: in the statement(s) of financial performance. We have identified two variants of this approach as follows:

(i) Approach B1(a): present information about unusual or infrequent items within each proposed category in the statement(s) of financial performance (ie business, investing and financing); or

(ii) Approach B1(b): present information about unusual or infrequent items in a separate column.

(b) Approach B2: in a separate note accompanying the statement(s) of financial performance.

31. The staff envisages that under all of the approaches identified above we would require appropriate disaggregation and labelling to clearly communicate the nature and meaning of unusual or infrequent items. For example, items should not be aggregated under one heading of 'one–off' or 'unusual items' and instead each material unusual or infrequent item would have to be separately presented or disclosed.

32. The staff have considered the advantages and disadvantages of Approaches B1(a)–(b) and Approach B2 below. Illustrations of these approaches are provided in Appendix B.

<u>Approach B1(a):</u> within each proposed category in the statement(s) of financial performance

33. <u>Description:</u> Approach B1(a) would require an entity to present unusual or infrequent items separately within each one of the categories in the statement(s) of financial performance proposed by the Board as part of its work on the Primary Financial Statements project (ie investing, financing and a business category).

34. <u>Advantages:</u> The main advantages of this approach are that:

    (a) information about unusual or infrequent items would be easier to identify in the statement(s) of financial performance than if the information were disclosed in the notes; and

    (b) users would be able to better understand the nature of those items as they would be required to be separately presented within each proposed category in the statement(s) of financial performance.

35. <u>Disadvantages:</u> The main disadvantages of this approach are:

    (a) stakeholders may have concerns about 'elevating' unusual or infrequent item by presenting them as prominently as Board–defined measures.

    (b) even though unusual or infrequent items would be associated with some of the relevant line items within the statement(s) of financial performance this association will not be as clear as in Approach B1(b) proposes (ie by separating those items in a column).

<u>Approach B1(b):</u> Presentation using a columnar approach in the statement(s) of financial performance

36. <u>Description:</u> Similar to Approach B1(a), Approach B1(b) would require the presentation of information about unusual or infrequent items in the statement(s) of financial performance. However, unlike Approach B1(a), Approach B1(b) would require that this information be presented in a separate column of the statement(s) of financial performance and attributed to the relevant line item within each component of financial performance. So, if an entity presents an analysis of income and expenses by function (in accordance with paragraph 99 of IAS 1), the entity would be required to attribute the unusual or infrequent item to a functional line and present the unusual or infrequent item separately in a column.

37. For example, if restructuring expenses are identified as unusual expenses and these expenses are related to the functional line item of selling, general or administrative expenses (SG&A) an entity would present restructuring expenses in a separate column next to SG&A expenses in the statement(s) of financial performance.

38. <u>Advantages:</u> The main advantages of this approach are that:

    (a) similar to Alternative B1(a), information about unusual or infrequent items would be easy to identify in the statement(s) of financial performance and be attributed to the categories in the statement(s) of financial performance; and

    (b) unlike Approach B1(a), Approach B1(b) would provide a better understanding of the line items in the statement(s) of financial performance that are affected by unusual or infrequent items.

39. <u>Disadvantages.</u> The main disadvantages of this approach are that:

    (a) similar to Approach B1(a), stakeholders may have concerns about 'elevating' unusual or infrequent item by presenting then as prominently as Board–defined measures.

    (b) whilst columnar presentation is already used in some jurisdictions, it does not appear to be used in many others. Consequently, it would be a significant change in some jurisdictions and may meet resistance. Furthermore, the regulators in some jurisdictions prohibit columnar presentation (although presumably these restrictions would be removed if IFRS Standards specifically permitted or required a columnar approach).

(c) columns would add complexity to the statement(s) of financial performance and may detract from the ability of the statement(s) to provide a clear overview of an entity's income/expenses which allows for quick comparisons between entities. The presentation of comparative information for the preceding period for each column would further add to the complexity.

Approach B2: Unusual or infrequent items disclosed in a separate note

40. Description: Approach B2 would require the disclosure of unusual or infrequent items in a separate note. In this note an entity would be required to attribute information about unusual or infrequent items to the line items in the statement(s) of financial performance.

41. Advantages: The main advantages of this approach are that:

(a) unlike Approach B1(a) and Approach B1(b), it may avoid concerns about giving more prominence to information about unusual or infrequent items than to another information in the statement(s) of financial performance.

(b) a comprehensive disclosure of infrequent items is easiest in the notes as it allows more flexibility in how the information is provided and explained.

42. Disadvantages: The main disadvantage of this approach is that information on unusual or infrequent items could be more difficult to find in the notes.

Staff recommendation

43. We do not support Approach B1(a) as it would not provide sufficient information about the derivation of the unusual/infrequent items in terms of line items as Approach B1(b) proposes.

44. We could, in principle, support adding a column to the statement(s) of financial performance (as Approach B1(b) proposes) for the advantages noted. However, we

think that this approach may add complexity to the statement(s) of financial performance and represent a radical change in practice for some entities.

45. We support Approach B2 (disclosure in the notes), in spite of the disadvantage noted, because as long as the information presented in the notes is comprehensive, appropriately labelled and presented fairly users would obtain the information they need. Disclosing the information in a note would also mean that users can have easy access in a single location to the information about the items and how they relate to the complete income statement/line items within the statement of financial performance.

Section 2. Question for the Board
1. Does the Board agree with our recommendation in paragraph 45 that the Board should require separate disclosure of unusual or infrequent items in the notes to the financial statements and that those items should be attributed to line items in the statement(s) of financial performance (Approach B2)?

Section 3: Should the Board describe unusual or infrequent items or allow management flexibility to identify those items?

46. As mentioned in paragraph 11 of this paper, the Board suggested definitions of the terms ‘unusual’ and ‘infrequently occurring’ in the Disclosure Initiative—*Principles of Disclosure* Discussion Paper where it indicated that those definitions could be used as a starting point of future definitions or requirements for unusual or infrequent items.

47. The feedback received on the Discussion Paper reflected two main views:

(a) Approach A (‘management’s view’): allowing management to define and identify its own unusual or infrequent items.

(b) Approach B (‘principle–based approach’): developing principles about what constitutes unusual or infrequent items. Management will follow these principles in identifying those items.

48. We have not considered as an additional approach developing strict definitions of unusual or infrequent items because:

(a) during our outreach activities users and preparers told us that they were generally not supportive of developing strict definitions of 'unusual' or 'infrequently occurring' items, as some thought it would be difficult to develop definitions that would be satisfactory or meaningful for most entities[10];

(b) previous standard setting attempts that tried to define unusual and infrequent items in a prescriptive way have not been successful. For example, some respondents to the joint IASB-FASB Discussion Paper Preliminary Views on Financial Statement Presentation (published in October 2008) found the exposed definitions of 'unusual' and 'infrequently occurring', 'too restrictive', 'too strict' or 'too prescriptive'[11]; and

(c) jurisdictions where definitions have already been developed for unusual or infrequent items[12] have had difficulties implementing those definitions. For example, at our joint meeting with FASB in April 2017, FASB staff provided an analysis about why their definitions of 'unusual nature' and 'infrequency of occurrence' in USGAAP are difficult to implement[13].

Approach A: *'Management's view'*

49. Description: This approach would allow management flexibility to identify unusual or infrequent items.

50. Whilst this approach would not imply adding specific guidance for identifying unusual or infrequent items, entities would be required to provide meaningful accounting policies describing what items they consider unusual or infrequent and why. In addition, the existing general requirements for the presentation and

---

[10] As mentioned in paragraphs 9(a) and 11 in this paper.

[11] For example, we looked at comment letters 9A, 88, 172 and 186. The definitions of 'unusual' and 'infrequently occurring' were included in paragraph 4.51 of the Discussion Paper *Preliminary Views on Financial Statement Presentation* and were based on APB Opinion No. 30 *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions.*

[12] For example, USGAAP provides prescriptive definitions of 'unusual nature' and 'infrequence of occurrence', Included as part of our analysis in Appendix C.

[13] Refer to paragraphs 36-39 of Agenda Paper 28B of April 2017 and the USGAAP definitions in Appendix C.

disclosure of information in IAS 1 will apply. For example, the requirement that information must present fairly the financial performance of an entity or the requirement for consistency of information over time, as well as any future guidance developed by the Board in this respect (ie principles on aggregation or disaggregation in the financial statements).[14]

51. Advantages: The main advantages of this approach are that:

(a) it is consistent with the approach taken by the Board for an MPM where an entity is allowed flexibility to identify which items should be treated as being part of this measure or outside this measure; and

(b) it would allow management to identify items as infrequent or unusual according to their business or industry, which would address concerns that the nature of unusual or infrequent items varies across entities and industries and their identification involves significant judgement.

52. Disadvantages: The main disadvantages of this approach are that:

(a) allowing flexibility may result in inconsistent and non–comparable information across entities (and even within the same industry); and

(b) it also risks failing to address users' concerns that unusual or infrequent items are sometimes identified inappropriately and with bias (for example, income is rarely identified as infrequent or unusual).

***Approach B:* Principle-based approach**

53. Approach B would develop principle-based guidance to help entities identify items that are 'unusual or 'infrequent'. Potential guidance in this respect could also require an entity to explain the reasons why unusual or infrequent items have been treated as such by the entity. This explanation should enable users to determine whether the identified unusual or infrequent item is relevant and faithfully represents the entity's financial performance. The objective of this guidance would be to introduce some consistency in the identification of unusual or infrequent items and provide users with

[14] We are referring to paragraphs 15 and 45-46 of IAS 1. The Board discussed staff proposals on principles of aggregation and disaggregation at the March 2017 (Agenda Paper 21C) and May 2018 (Agenda Paper 21A) meetings.

a better understanding about how unusual or infrequent items are identified by an entity.

54. The staff has not developed formal proposals for principle-based guidance on unusual or infrequent items. However, the staff has performed a preliminary analysis of the guidance issued by some standard-setters and regulators on the identification of 'unusual' or 'infrequent' items and has found some examples of principle-based guidance in UKGAAP and in the former IASC's IAS 8 *Net profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies* (ie the predecessor of IAS 1). These examples are shown in Appendix C[15].

55. Advantages: Some advantages of a principle-based approach are that:

(a) it would encourage preparers to take a more neutral approach to unusual or infrequent items, for example requiring income/gains to be identifies as infrequent/unusual rather than just expenses/losses;

(b) the resulting information could potentially be more comparable between entities, which may help users in their analysis; and

(c) it would provide further understanding of the requirements of IAS 1 to identify (separate) components of financial performance on the basis of their 'frequency' and how unusual or infrequent items are different from extraordinary items, the latter being a specific request from respondents to the Disclosure Initiative—*Principles of Disclosure* Discussion Paper [16].

56. In spite of the advantages mentioned, developing principle-based guidance may pose some challenges as we explain below.

57. Providing principle-based guidance may meet resistance from preparers as it could potentially reduce the flexibility that management currently has in identifying unusual or infrequent items.

[15] Refer to notions listed as #3 and #4.

[16] Refer to paragraph A15 in Appendix A.

58. Identifying the main attributes of unusual or infrequent items also poses challenges. However, our analysis in Appendix C shows that standard-setters and regulators commonly use three main attributes to identify unusual or infrequent items:

(a) unusual in nature because the item is unrelated to the entity's ordinary business activities;

(b) infrequent (ie whether similar items will recur or continue into the future); and

(c) unusual in size.

59. We think that these three attributes could be used as a basis for developing principle-based guidance on the identification of unusual or infrequent items. The staff could bring a paper that discusses these attributes to a future meeting if the Board agrees to pursue Approach B. Questions that could be considered as part of this discussion are:

(a) should the Board specify how frequently 'infrequent' items are expected to occur?

(b) should a threshold be developed to help determine the size of an unusual item? or

(c) should factors or indicators be developed to help an entity identify the unusual nature of item?

Staff recommendation

60. In spite of the challenges identified for Approach B, we support this approach because it would provide more discipline on how entities currently identify unusual or infrequent items. This is unlike Approach A, where we think there is a risk that the items identified as unusual or infrequent may not be comparable amongst entities because entities may classify items differently even in the same industry and this information would not be useful for users.

Section 3. Question for the Board

1. Does the Board agree with our recommendation in paragraph 60 that the Board should develop principle–based guidance to help entities identify items that are 'unusual or 'infrequent' (ie Approach B)?

Appendix A—Summary of the feedback on Question 8 in the Disclosure Initiative—*Principles of Disclosure* Discussion Paper

A1. This appendix contains a summary of the responses received to question 8 in the Disclosure Initiative—*Principles of Disclosure* Discussion Paper. It reproduces:

(a) paragraphs 57–63 of Agenda Paper 11B of February 2018 (paragraphs B1(b)–A8 below); and

(b) paragraphs 20–28 of Agenda Paper 11I of February 2018 (paragraphs B1(a)0–B1(a)8 below)

Question 8 as extracted from the Discussion Paper

The Board's preliminary views are that it should:

…

- **develop definitions of, and requirements for, the presentation of unusual or infrequently occurring items in the statement(s) of financial performance, as described in paragraphs 5.26–5.28.**

(a) Do you agree with the Board's preliminary views? Why or why not? If you do not agree, what alternative action do you suggest, and why?

(b) Should the Board prohibit the use of other terms to describe unusual and infrequently occurring items, for example, those discussed in paragraph 5.27?

(c) Are there any other issues or requirements that the Board should consider in addition to those stated in paragraph 5.28 when developing requirements for the presentation of unusual or infrequently occurring items in the statement(s) of financial performance?

The feedback on Question 8 will be considered as part of the Board's Primary Financial Statements project.

Views from users

A2. Most users supported the Board developing definitions of, and requirements for the presentation of, unusual or infrequently occurring items. These users commented that when entities use their own definitions of these terms they can sometimes be misleading, or be used inconsistently either across entities or across different reporting periods.

A3. Many generally agreed with the definition of unusual or infrequently occurring items as described in the Discussion Paper. Some users thought that the Board could be more specific in defining unusual or infrequently occurring items – for example by defining how often an event must occur to be considered infrequent, and how far into the past and future an entity should consider the occurrence of another similar event.

A4. A few users commented that defining unusual or infrequently occurring items is difficult because these items are sensitive and involve significant judgement. Nevertheless, some of these users still supported the Board developing requirements for the presentation of these items because they thought this would introduce more discipline to the use of these items in financial statements.

A5. Most users said that clear explanations of unusual or infrequently occurring items are essential. Some added that they want to see as much disaggregated information as possible about items that are unusual or infrequently occurring. Users also thought that the Board should require an entity to disclose their policy for distinguishing between frequently and infrequently occurring items.

A6. A few users suggested ways in which the Board could isolate particular items for entities to disaggregate in the financial statements. These suggestions included making distinctions between ‘core’ and ‘non–core’ items, ‘recurring’ and ‘non–recurring’ items and ‘operating’ and ‘non–operating’ items.

A7. A few users thought the Board should supplement any guidance relating to unusual or infrequently occurring items with the idea that these include items that have both positive and negative effects on entity results. These users were concerned about entities only identifying unusual or infrequently occurring costs.

A8. A few users thought the Board should consider developing sector–specific guidance about what items are unusual or infrequently occurring. For example, entities might consider inventory write–downs unusual in some industries but not others.

Depiction of unusual or infrequently occurring items in the statement(s) of financial performance

Definitions and requirements

A9. The Board's preliminary view was that it should develop definitions of, and requirements for, the presentation of unusual or infrequently occurring items. Respondents expressed mixed views: some agreed with the Board's preliminary view (including most users—see Agenda Paper 11B of February 2018) and some disagreed.

A10. A few of the respondents that agreed with the Board's preliminary view did so because they said:

(a) the separate presentation or disclosure of unusual or infrequently occurring items is important to help users in making forecasts about future cash flows; and

(b) definitions and requirements developed by the Board could make such items more transparent and comparable across entities and could reduce opportunistic adjustments.

A11. A few of the respondents that agreed with the Board's preliminary view said that the definitions for unusual or infrequently occurring items should be principle–based, allowing entities some flexibility in determining what they consider to be 'unusual' or 'infrequently occurring'.

A12. Those respondents that did not agree with the Board developing definitions of unusual or infrequently occurring items provided the following views:

(a) many said that developing such definitions would be difficult for the Board. Many of these respondents thought that assessing whether items are unusual or infrequently occurring requires significant judgement and depends on entity–specific circumstances. Consequently, they thought it would be difficult to develop a definition that is applicable to all entities, in all industries. A few respondents referred to failed past attempts by the Board and other standard–setters to develop such definitions.

(b) a few said any definition of 'unusual' or 'infrequently occurring' would be difficult to audit. However, the International Auditing and Assurance Standards Board said that the Board developing definitions and requirements for the presentation of unusual or infrequently occurring items would provide further clarity and enhance the auditability of such items.

A13. Some respondents suggested that the Board should consider developing more general requirements for the fair presentation and disclosure of unusual, infrequently occurring or similar items than those described in paragraphs 5.26–5.28 of the Discussion Paper. These respondents suggested requirements that were similar to the proposed requirements for fair presentation of *all* performance measures in the financial statements in paragraph 5.34 of the Discussion Paper. For example, respondents suggested requiring such items to be:

(a) classified and presented consistently over time; and

(b) labelled in a clear and non–misleading way.

A14. Some respondents asked the Board to clarify:

(a) how the separate presentation of unusual or infrequently occurring items is different in principle from the presentation of extraordinary items, which is prohibited by paragraph 87 of IAS 1.

(b) how the separate presentation of unusual or infrequently occurring items would interact with the requirement in IAS 1, paragraph 99 to present expenses either by nature or by function. Some of these respondents referred to the Board's view expressed in IAS 1, paragraph BC63 that:

> The nature or function of a transaction or other event, rather than its frequency, should determine its presentation within the income statement.

A15. A few respondents said that, in addition to providing guidance for the presentation of unusual or infrequently occurring items in the statement(s) of financial performance, the Board should also consider:

(a) developing guidance for other types of adjustments that entities make to performance measures, such as constant–currency adjustments; and

(b) the presentation of unusual or infrequently occurring items in the other primary financial statements—specifically the statement of cash flows and statement of financial position—and segment reporting.

Prohibiting the use of other terms to describe unusual and infrequently occurring items

A16. The Discussion Paper asked respondents whether the Board should prohibit the use of other terms to describe unusual and infrequently occurring items. Many respondents—including most accountancy bodies and most preparers—disagreed with prohibiting the use of other terms. This was because, in their view:

(a) entities should have flexibility in selecting the terms they use to describe such items.

(b) entities would bypass such a prohibition by using other terms. Respondents said this is what happened when the Board prohibited the presentation of extraordinary items.

(c) such a prohibition would not be in line with the principle–based nature of the Standards.

(d) such a prohibition would be difficult to implement from a translations perspective.

A17. Some respondents—including most regulators—held the opposite view and supported prohibiting the use of other terms such as ‘non–recurring’ to describe unusual and infrequently occurring items. A few of these respondents said that a variety of different terms may confuse users.

Appendix B– Illustrations of different approaches for providing information about unusual or infrequent items

B1. Appendix B illustrates the approaches identified in paragraphs 21 and 30 of this paper, as follows:

(a) Approach A: Build on the Board's proposals on the MPM and require entities that disclose an MPM to separately identify items that are included in the reconciliation to the most directly comparable subtotal or total required by paragraph 81A of IAS 1 that are unusual or infrequent items; and

(b) Approach B: Develop proposals to require separate information about unusual or infrequent items, as follows:

(i) Approach B1: in the statement(s) of financial performance.

- Approach B1(a): present information about unusual or infrequent items within each proposed category in the statement(s) of financial performance (ie business, investing and financing); or

- Approach B1(b): present information about unusual or infrequent items in a separate column.

(ii) Approach B2: in a separate note accompanying the statement(s) of financial performance.

B2. In the illustrations for Approach A we assume that the entity:

(a) has identified 3 main unusual/infrequent items ('restructuring expenses', 'litigation costs' and 'loss on disposal of an investment in another company'). 'Restructuring expenses' include an inventory obsolescence write-down, rebranding costs, redundancy payments, and IT costs;

(b) presents its analysis of income and expenses by function; and

(c) chooses to present its own MPM and presents an MPM reconciliation in the notes; all unusual or infrequent items are adjusted for in the MPM.

B3. In the illustrations for Approach B, we make the same assumptions as in (a) – (b) from Approach A, but for simplicity purposes we assume that the entity does not choose to present an MPM.

Approach A—unusual or infrequent items provided as part of the MPM reconciliation

Statement(s) of financial performance (by function)

Revenue	10,000
Cost of goods sold	(4,000)
Gross profit	6,000
SG&A	(3,000)
Profit before investing, financing and income tax	3,000
Share of profit of non–integral associate	500
Other investing expense	(200)
Profit before financing and income tax (or EBIT)	3,300
Interest income from cash and cash equivalents calculated using effective interest method	80
Other income from cash and cash equivalents and financing activities	20
Expenses from financing activities	(1,000)
Other finance income	50
Other finance expense	(350)
Net finance income (expense)	(1,200)
Profit before tax	2,100
Income tax expense	(600)
Profit or loss	**1,500**

Management performance measure reconciliation

Profit before financing and tax	**3,300**
Unusual or infrequent items	
Restructuring expenses (CU 25 is part of cost of sales and CU 725 is part of SG&A)	750
Litigation costs (part of SG&A)	40
Losses on disposal of an investment in another company (part of other investing expense)	50
Other adjusted items	
Share of profit of non–integral associate	(500)
Net interest income on net defined benefit asset (part of other finance income)	35
Management performance measure	3,675

Approach B1(a)— unusual or infrequent items provided within each category in the statement(s) of financial performance

Statement(s) of financial performance (by function)

Revenue	10,000
Cost of goods sold (excluding unusual or infrequent items)	(3,975)
Restructuring expenses (inventory write-down)	(25)
	4,000
Gross profit	6,000
SG&A (excluding unusual or infrequent items)	(2,235)
Restructuring expenses (rebranding, redundancy payments, IT costs)	(725)
Litigation costs	(40)
	(3,000)
Profit before investments, financing and income tax	3,000
Share of profit of non-integral associate	500
Other investing expense (excluding unusual or infrequent items)	(150)
Losses on disposal of an investment in another company	(50)
	(200)
Profit before financing and income tax (or EBIT)	3,300
Interest income from cash and cash equivalents calculated using effective interest method	80
Other income from cash and cash equivalents and financing activities	20
Expenses from financing activities	(1,000)
Other finance income	50
Other finance expense	(350)
Net finance income (expense)	(1,200)
Profit before tax	2,100
Income tax expense	(600)
Profit or loss	**1,500**

Approach B1(b)— unusual or infrequent items provided in a separate column

Statement(s) of financial performance (by function)

	Before unusual or infrequent items	Restructuring expenses	Litigation costs	Disposals of investments	Total
Revenue	10,000				10,000
Cost of goods sold	(3,975)	(25)			(4,000)
Gross profit	6,000				6,000
SG&A	(2,235)	(725)	(40)		(3,000)
Profit before investing, financing and income tax	3,765				3,000
Share of profit of non–integral associate	500				500
Other investing expense	(150)			(50)	(200)
Profit before financing and income tax (or EBIT)	4,115				3,300
Interest income from cash and cash equivalents calculated using effective interest method	80				80
Other income from cash and cash equivalents and financing activities	20				20
Expenses from financing activities	(1,000)				(1,000)
Other finance income	50				50
Other finance expense	(350)				(350)
Net finance income (expense)	(1,200)				(1,200)
Profit before tax	2,915				2,100
Income tax expense	(600)				(600)
Profit or loss	**2,315**				**1,500**

Approach B2— unusual or infrequent items provided in the notes

	Before unusual or infrequent items	Restructuring expenses	Litigation costs	Disposals of investments	Total
Cost of goods sold	(3,975)	(25)			(4,000)
SG&A	(2,235)	(725)	(40)		(3,000)
Other investing expense	(150)			(50)	(200)

Note: This is a minimum possible presentation. Alternatively, preparers could produce a more comprehensive note which could reproduce the statement(s) of financial performance in full (as in Approach B1(a)).

Appendix C – Research on different descriptions of unusual, infrequent, recurring and non–recurring items and characteristics associated to those descriptions

	Notion	References	Extracts of paragraph references (emphasis added)	Unusual in nature (unrelated to the ordinary business activities)	Infrequent: not expected to recur in the future based on past occurrence	Unusual in size
	Standard–setters					
1	Unusual nature	FASB Accounting Standards Codification® Master Glossary and Topic 225 Income Statement 225–20–45–16	"The underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates". "..The environment in which an entity operates is a primary consideration in determining whether an underlying event or transaction is abnormal and significantly different from the ordinary activities of the entity"…	X		
2	Infrequency of occurrence	FASB Accounting Standards Codification® Master Glossary and Topic 225 Income Statement 225–20–55–2	The underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates'. …' Determining the probability of recurrence of a particular event or transaction in the foreseeable future should take into account the environment in which an entity operates. Accordingly, a specific transaction of one entity might meet that criterion and a similar transaction of another entity might not because of different probabilities of recurrence. The past occurrence of an event or transaction for a particular entity provides evidence to assess the		X	

	Notion	References	Extracts of paragraph references (emphasis added)	Unusual in nature (unrelated to the ordinary business activities)	Infrequent: not expected to recur in the future based on past occurrence	Unusual in size
			probability of recurrence of that type of event or transaction in the foreseeable future			
3	Exceptional items	UK FRS 3 Reporting Financial Performance (October 1992) (par. 5)	Material items which derive from events or transactions that fall within the ordinary activities of the reporting entity and which individually or, if of a similar type, in aggregate, need to be disclosed by virtue of their size and incidence if the financial statements are to give a true and fair view.		X	X
4	Separate disclosure of items and income and expense	IASC's IAS 8 Net profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies (revised 1993)	When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.		X	X
5	Other operating income and expenses	French ANC's Recommandation n° 2013–03 du 7 novembre 2013	[Free translation] 'Other operating income and expenses' – This line item is only used for major events occurring during the reporting period which are likely to distort interpretation of the entity's operating performance. It therefore includes a very limited number of unusual, abnormal or infrequent items of income or expense that are highly material, which the entity discloses separately to facilitate understanding of its sustainable operating performance and to give users of the financial statements relevant information for predicting future performance, in accordance with the principles set out in the [IASB's] Conceptual Framework.		X	X
	Regulators					
6	Unusual, infrequent or non recurring items	U.S. SEC Regulation G	A registrant must not adjust a non–GAAP performance measure to eliminate or smooth items identified as non–recurring, infrequent or unusual, when the nature of the charge or gain is such that it is reasonably likely to recur		X	

	Notion	References	Extracts of paragraph references (emphasis added)	Unusual in nature (unrelated to the ordinary business activities)	Infrequent: not expected to recur in the future based on past occurrence	Unusual in size
			within two years or there was a similar charge or gain within the prior two years.			
7	Nonrecurring, infrequent or unusual items	ESMA Guidelines on Alternative Performance Measures (par 25.)	'Issuers or persons responsible for the prospectus should not mislabel items as nonrecurring, infrequent or unusual. For example, items that affected past periods and will affect future periods will rarely be considered as non–recurring, infrequent or unusual (such as restructuring costs or impairment losses)		X	
8	Recurring items	IOSCO's Statement On NON–GAAP Financial Measures (par. 11)	In presenting non–GAAP financial measures, issuers sometimes seek to adjust for items that are reasonably likely to recur in the foreseeable future or are activities that affected the entity in the recent past. In IOSCO's experience there are rarely circumstances where a sufficient explanation could be provided that results in restructuring costs or impairment losses being described as nonrecurring. Such items should not be described as non–recurring, infrequent or unusual without sufficient explanation.		X	
9	Non–recurring items	Disclosing non–IFRS financial information (Regulatory Guide 230) Australian Securities and Investments Commission (ASIC)	'Items that have occurred in the past or are likely to occur in a future period should not be described as 'one–off' or 'non–recurring' 'Non–recurring' items—describing items such as impairment losses and restructuring costs as 'non–recurring' when they are generally of a recurring nature in many businesses (albeit they may only arise in some years)'		X	