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Project	**Primary Financial Statements**
Paper topic	Income and expenses classified in the investing category

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Objective of this paper

1. This paper redeliberates the IASB's proposals in the Exposure Draft *General Presentation and Disclosures* relating to income and expenses classified in the investing category.

2. This paper discusses the proposals for entities other than those with specified main business activities of investing and the provision of financing to customers.

3. In future papers, we plan to discuss:

   (a) incremental expenses incurred generating income and expenses from investments;

   (b) whether a general principle or further guidance is needed to clarify the classification of income and expenses arising from transactions which result in a change in the category in which income and expenses from assets are classified (for example, where to classify gains and losses that arise when an associate or joint venture becomes a subsidiary);

   (c) how an entity would apply the proposals if the investing category were sufficiently small that its separate presentation did not enhance an understanding of financial performance;

   (d) minimum line items in the primary financial statements; and

(e) the classification of income and expenses for entities with specified main business activities of investing and the provision of financing to customers.

Summary of staff recommendations

4. The staff recommend the IASB:

   (a) retain the proposal to classify in the investing category income and expenses from assets that generate returns individually and largely independently of other resources held by an entity;

   (b) retain the proposed, and add further, application guidance to help entities determine when income and expenses arise from assets that generate returns individually and largely independently, with further application guidance stating that:

      (i) income and expenses on individual assets classified as held for sale would be generated individually and largely independently of other resources held by an entity, and income and expenses from disposal groups classified as held for sale would not;

      (ii) income and expenses arising from business combinations would not be generated individually and largely independently of other resources held by an entity; and

      (iii) negative returns, such as those arising from unfavourable exchange rates or negative interest rates are classified in the same category as positive returns arising from the asset or liability;

   (c) classify income and expenses from associates and joint ventures in the investing category;

   (d) revise the objective of the investing category to be to communicate information about returns on investments which users of financial statements generally analyse separately from operating profit, remove the discussion of the objective from the requirements in the Standard and instead discuss it in the Basis for Conclusions;

(e) retain the label 'investing category' for that category; and

(f) do not continue with the proposal to define 'income and expenses from investments'.

Structure of the paper

5. This paper is structured as follows:

   (a) background (paragraphs 6–19):

      (i) proposals in the Exposure Draft (paragraphs 6–7);

      (ii) extract of the feedback on the proposals in the Exposure Draft (paragraphs 8–15);

      (iii) summary of related tentative IASB decisions from its redeliberations to date (paragraphs 16–19);

   (b) staff analysis, staff recommendations, and questions for the IASB (paragraphs 20–73):

      (i) whether the IASB should confirm the proposal to classify in the investing category income and expenses from assets that generate returns individually and largely independently of other resources held by an entity (paragraphs 21–26);

      (ii) whether further application guidance is needed to help entities determine when income and expenses arise from assets that generate returns individually and largely independently (paragraphs 27–49);

      (iii) income and expenses from associates and joint ventures (paragraphs 50–56);

      (iv) whether the IASB should revise the objective of a single category and remove the discussion of the objective from the requirements in the Standard and instead discuss it in the Basis for Conclusions (paragraphs 60–64);

      (v) how such a category should be labelled (paragraphs 65–71);

(vi) whether the IASB should confirm the proposal to define the term 'income and expenses from investments' (paragraph 72); and

(c) Appendix—Extracts from the Exposure Draft relating to investing category classification (paragraphs 47, B32 and B33).

Background

Proposals in the Exposure Draft

6. The Exposure Draft proposed that the objective of the investing category is to communicate information about returns from investments that are generated individually and largely independently of other resources held by an entity. An entity shall classify in the investing category income and expenses from investments (including from non-integral associates and joint ventures) and incremental expenses incurred generating income and expenses from investments—unless these income and expenses are generated in the course of its main business activities (paragraphs 47–48 of the Exposure Draft).

7. In addition, the Board has proposed application guidance with regards to the investing category (see Appendix for paragraphs B32 and B33).

Extract of the feedback on the proposals in the Exposure Draft

Comment letter feedback

8. Most feedback relating to the investing category was on topics the IASB has either discussed or will discuss in future papers:

   (a) whether to require a separate investing category (discussed in Agenda Paper 21B of the May 2021 IASB meeting);

   (b) the interaction with the proposals relating to investments made in the course of main business activities; and

   (c) clarifications in relation to incremental expenses incurred generating income and expenses from investments.

9. Of the respondents who provided comments on the definition of income and expenses from investments, most agreed with it.

10. Some respondents that agreed with the definition in general asked for more guidance and examples, with a few specifically asking for an illustration of the application of the 'largely independently' aspect of the definition.

11. A few respondents disagreed with how the definition was interpreted in the Exposure Draft because they thought that gains and losses on disposal of property, plant and equipment arise individually and largely independently of other resources held by an entity and should therefore be classified in the investing category.

12. A few respondents asked for clarification of:

    (a) whether specific items should be classified in the investing category, in particular:

        (i) income and expenses from non-current assets or disposal groups when they qualify as 'held for sale', but not as 'discontinued operations';

        (ii) fair value changes on contingent consideration, a gain on a bargain purchase or acquisition related costs from a business combination;

        (iii) negative returns, for example due to unfavourable exchange rates or negative interest rates;

    (b) the classification of income and expenses arising from transactions which result in a change in the category in which income and expenses from assets are classified (for example, where to classify gains and losses that arise when an associate or joint venture becomes a subsidiary);

    (c) how the definition of 'income and expenses from investments' relates to the definition of a cash-generating unit in IAS 36 *Impairment of Assets*.

13. Stakeholders did not raise concerns about whether a financial asset generates a return individually and largely independently of the other resources held by an entity. However, a few respondents asked for clarification on whether income and expenses on equity investments held in strategic investments should be in the operating category, rather than the investing category. The staff think that this issue relates to

whether the equity investment is made in the course of an entity's main business activities and not to whether the equity investment generates a return individually and largely independently of the other resources held by an entity. This feedback will be addressed in a future paper on entities with specified main business activities.

14. Many respondents commented on the relationship between the investing category in the statement of profit or loss and the cash flows from investing activities in the statement of cash flows. They expressed concern about the lack of alignment. Some of them suggested:

    (a) aligning the categories of the two statements; or

    (b) changing the labelling, for example changing the label for the category in the statement of profit or loss to 'non-operating' or 'returns from investments' to avoid confusion.

Feedback from fieldwork participants

15. In the fieldwork[1], all but one participant identified income and expenses from investments. Feedback received suggested it was clear for most participants how to apply the definition of income and expenses from investments. However, some raised questions relating to the application of the concept of main business activities, in particular on identifying investing as a main business activity.

Summary of related tentative IASB decisions from its redeliberations to date

16. In May 2021, the IASB tentatively decided to:

    (a) retain the proposal to introduce separate investing and financing categories in the statement of profit or loss;

    (b) retain the proposal to define the 'profit or loss before financing and income tax' subtotal and require it to be presented in the statement of profit or loss; and

[1] Paragraphs 26–35 in Agenda Paper 21A of the December 2020 IASB meeting describe the methodology of the fieldwork.

(c) require an entity to classify income and expenses from cash and cash equivalents in the investing category rather than the financing category (see Agenda Paper 21B of the May 2021 IASB meeting).

17. In July 2021, the IASB tentatively decided to:

(a) change the 'default category' for the classification of fair value gains and losses on derivatives and hedging instruments used for risk management from the investing category to the operating category; and

(b) change the classification of fair value gains or losses on derivatives not used for risk management from the investing category to the operating category (see Agenda Paper 21B of the July 2021 IASB meeting).

18. In October 2021, the IASB tentatively decided to:

(a) proceed with the proposal to require an entity to classify income and expenses from equity-accounted associates and joint ventures outside the operating category;

(b) not to proceed with the proposal to require an entity to present the subtotal 'operating profit or loss and income and expenses from integral associates and joint ventures'; and

(c) not to proceed with the proposal to require an entity to identify and present income and expenses from integral associates and joint ventures separately from income and expenses from non-integral associates and joint ventures (see Agenda Paper 21A of the October 2021 IASB meeting).

19. In addition, the IASB tentatively decided in October 2021 to require an entity to include income and expenses from equity-accounted associates and joint ventures in the statement of profit or loss after the subtotal 'operating profit or loss' and before the subtotal 'profit or loss before financing and income tax', but not to specify that such income and expenses should be presented immediately after operating profit or loss. The IASB deferred a decision on whether to include such income and expenses in the investing category until it considers the definition of the investing category (see Agenda Paper 21A of the October 2021 IASB meeting).

Staff analysis, staff recommendations, and questions for the IASB

20. In this paper we analyse:

    (a) whether the IASB should confirm the proposal to classify in the investing category income and expenses from assets that generate returns individually and largely independently of other resources held by an entity (paragraphs 21–26);

    (b) whether further application guidance is needed to help entities determine when income and expenses arise from assets that generate returns individually and largely independently (paragraphs 27–49);

    (c) income and expenses from associates and joint ventures (paragraphs 50–56);

    (d) whether the IASB should revise the objective of a single category and remove the discussion of the objective from the requirements and instead discuss it in the Basis for Conclusions (paragraphs 60–64);

    (e) how such a category should be labelled (paragraphs 65–71); and

    (f) whether the IASB should confirm the proposal to define the term income and expenses from investments (paragraph 72).

Classifying in the investing category income and expenses from assets that generate returns individually and largely independently of other resources held by an entity?

21. The Exposure Draft requires that 'income and expenses from assets that generate a return individually and largely independently of other resources held by the entity' be classified in the investing category. The Exposure Draft further proposed that such income and expenses be defined as 'income and expenses from investments'.

22. In this section of the paper, we discuss whether the IASB should confirm the proposal that 'income and expenses from assets that generate a return individually and largely independently of other resources held by the entity' are classified in the investing category. In paragraph 72 of the paper, we discuss whether to confirm the proposal

that such income and expenses be defined as 'income and expenses from investments'.

23. Most respondents agreed with the proposal that income and expenses from assets that generate a return individually and largely independently of other resources held by the entity be classified in the investing category (paragraph 9), while a few either disagreed with how the proposal was interpreted in the Exposure Draft (paragraph 11) or asked for further application guidance (paragraphs 10 and 12).

24. Paragraphs 27–49 of this paper address the comments made by those respondents that either disagreed with how the Exposure Draft interpreted what assets generate a return individually and largely independently of other resources held by the entity, or asked for further application guidance. That analysis does not indicate a need to change the classification of income and expenses from such assets.

25. Hence, we recommend that the IASB confirm the proposal that income and expenses from assets that generate a return individually and largely independently of other resources held by an entity should be classified in the investing category.

26. The consequences of this proposal for income and expenses from associates and joint ventures is discussed in paragraphs 50–56 of this paper.

Question for the IASB
Q1 Does the IASB agree to confirm the proposal that income and expenses from assets that generate a return individually and largely independently of other resources held by an entity shall be classified in the investing category?

Do we need further application guidance?

27. This section analyses whether further application guidance is needed to help entities determine whether an asset generates returns individually and largely independently of other resources held by an entity. In particular, we address:

(a) whether the IASB should provide specific guidance for applying the 'largely independently' aspect of the proposals (paragraphs 30–31);

(b) whether specific guidance is needed on:

(i) gains and losses on the disposal of non-financial assets (paragraphs 32–36);

(ii) income and expenses arising from business combinations (paragraphs 37–40);

(iii) negative returns (paragraphs 41–44); and

(c) how the proposals relate to the definition of a cash-generating unit in IAS 36 *Impairment of Assets* (paragraphs 45–49).

28. Stakeholders did not raise concerns about the application guidance for financial instruments.

29. We will discuss in a future paper the issue raised by a few respondents asking for more clarification on the classification of income and expenses arising from transactions which result in a change in the category in which income and expenses from assets are classified (for example, where to classify gains and losses that arise when an associate or joint venture becomes a subsidiary) (paragraph 12(b)).

Applying the 'largely independently' aspect of the proposals

30. The staff think the IASB should not provide specific guidance with regards to the application of the 'largely independently' aspect of the proposals. Doing so might create a conflict with other standards where such terminology is also used but not defined. Other standards that use the terminology 'largely independently' are:

(a) IAS 40 *Investment Property* which uses it to distinguish investment property from owner-occupied property (paragraph 7 of IAS 40)[2];

[2] Paragraph 7 of IAS 40 *Investment Property* states that 'Investment property is held to earn rentals or for capital appreciation or both. Therefore, an investment property generates cash flows largely independently of the other assets held by an entity.'.

(b) IAS 36 *Impairment of Assets* which uses it in the definition of a cash-generating unit (paragraph 6 of IAS 36).[3]

31. However, we note:

(a) the proposal also refers to returns being generated individually, which requires less judgement to apply and reduces the pressure on the largely independently aspect of the proposal;

(b) the Exposure Draft already includes application guidance with examples of when such largely independent returns may or may not arise (see Appendix for paragraphs B32 and B33 of the Exposure Draft); and

(c) further application examples are discussed in the sections that follow, including interaction with the definition of cash-generating unit (paragraphs 45–49).

Can gains and losses on the disposal of non-financial assets be generated individually and largely independently of other resources held by an entity?

32. The application guidance in paragraph B33 of the Exposure Draft clarifies that income and expenses from property, plant and equipment (for example, gains or losses on its disposal) are classified in the operating category.

33. As discussed in paragraph 11, some respondents disagreed with this interpretation and thought that gains and losses on disposals are returns that are generated individually and largely independently of other resources held by an entity and should therefore be classified in the investing category.

34. The staff disagrees with the interpretation that all gains and losses on disposal of non-financial assets are generated individually and largely independently of other resources held by an entity. This is because the income and expenses are linked to the underlying asset and it is the underlying asset that is assessed as to whether it generates returns individually and largely independently of other resources held by an

[3] Paragraph 6 of IAS 36 *Impairment of Assets* states that 'A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.'.

entity. If the asset is assessed as giving rise to returns individually and largely independently of other resources held by an entity, all income and expenses from the asset would be classified in the investing category. We consider disposals in three scenarios:

(a) property, plant and equipment—such assets give rise to returns in combination with other resources held by an entity and as such do not generate returns individually and largely independently of other resources held by an entity.

(b) an individual asset classified as 'held for sale' in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, for example an asset which no longer meets the definition of property, plant and equipment—such an asset could be considered to give rise to returns individually and largely independently of other resources held by an entity. An asset held for sale is not expected to be recovered through continued use but principally through a sale transaction. It generates a return in isolation akin to a financial asset. Most financial assets are expected to generate income and expenses individually and largely independently of other resources held by an entity (unless they are receivables from customers).

(c) a disposal group, that is 'a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction'—because a disposal group is a group of assets and may also contain liabilities, income and expenses from a disposal group are not a return generated by an asset individually and largely independently of the other resources held by an entity.

35. The Exposure Draft provided guidance on disposals of property, plant and equipment, but it does not provide specific guidance on where to classify income and expenses from non-current assets or disposal groups when they qualify as 'held for sale', but not as 'discontinued operations'.

36. The staff recommend the IASB retain the proposed guidance on disposals of property, plant and equipment and provide additional application guidance on assets and disposal groups held for sale stating that:

    (a) income and expenses on individual assets classified as held for sale would be considered to be generated individually and largely independently of other resources held by an entity; and

    (b) income and expenses from disposal groups classified as held for sale would not.

Is application guidance needed for income and expenses arising from business combinations?

37. A few respondents said that they interpreted changes in the fair value of contingent consideration, a gain on a bargain purchase and acquisition related costs from a business combination to be 'one-off' income and expenses which, in their view, are better suited to the investing category because they are non-recurring and not directly linked to operating activities.

38. The staff note that the IASB has confirmed that the operating category comprises all income and expenses arising from an entity's operations, including volatile and unusual income and expenses. Hence, non-recurrence is not a basis for excluding income or expense from the operating category (see Agenda Paper 21A of the March 2021 IASB meeting).

39. The staff analysed each of the three types of income and expenses mentioned in paragraph 37 and concluded that such income and expenses do not arise from assets that generate returns individually and largely independently of the other resources held by an entity because:

    (a) changes in the fair value of contingent consideration recognised as an asset or liability arise from events after the acquisition date, such as meeting an earnings target, reaching a specified share price or reaching a milestone in a research and development project (paragraph 58 of IFRS 3 *Business Combinations*), meaning they are assets or liabilities linked with other resources and as such are not a return generated by an asset individually and largely independently of other resources held by an entity, so they do not meet the requirements to be classified in the investing category.

(b) a gain on a bargain purchase is generated from the underlying assets acquired and liabilities assumed in a business combination and, hence, is not a return generated by an asset individually and largely independently of other resources held by an entity, so it does not meet the requirements to be classified in the investing category.

(c) similarly, acquisition related costs do not meet the requirements to be classified in the investing category as costs to acquire a business are not a return.

40. The staff recommend the IASB clarify in the application guidance that income and expenses arising from business combinations would not be generated individually and largely independently of other resources held by an entity and hence are expected to be classified in the operating category.

Is application guidance needed for negative returns?

41. A few stakeholders asked the IASB to clarify:

(a) that income and expenses from an investment in the investing category includes investments that are subject to a negative interest rate or unfavourable foreign exchange rate; and

(b) how entities should classify negative interest payments, including the rationale for including them in the investing category.

42. In July 2021, the IASB tentatively decided to require an entity to classify foreign exchange differences included in the statement of profit or loss in the same category of the statement of profit or loss as the income and expenses from the items that gave rise to the foreign exchange differences, except when doing so would involve undue cost or effort (see Agenda Paper 21C of the July 2021 IASB Meeting). This principle applies equally to positive and negative exchange differences. Hence, negative returns arising from an unfavourable exchange rate on an asset with income and expenses

recognised in the investing category would also be recognised in the investing category, unless doing so would involve undue cost or effort.

43. Similarly, income and expenses from investments covers positive and negative returns, for example it covers both fair value gains and fair value losses on assets measured at fair value. Hence, interest on an asset that generates income and expenses classified in the investing category would be classified in the investing category regardless of whether the interest generated by that asset is positive or negative. In addition, interest on a liability that is classified in the financing category is classified in that category regardless of whether the interest is positive or negative.

44. Hence, the staff recommend clarifying in the application guidance that negative returns, such as those arising from unfavourable exchange rates or negative interest rates are classified in the same category as positive returns arising from the asset or liability.

Relationship between the proposals and the definition of a cash-generating unit

45. The staff acknowledge that the terminology used in the proposals is similar to that used in the definition of a cash-generating unit in paragraph 6 of IAS 36.[4]

46. However, the proposals relate to income and expenses whereas the definition in IAS 36 relates to cash flows. In addition, the purposes of the two definitions are different:

(a) the purpose of the definition in the proposals is to determine which income and expenses arising from assets to classify in the investing category; whereas

(b) the purpose of the definition in IAS 36 is to identify a cash-generating unit for which an impairment test is to be carried out.

47. In applying IAS 36, assets within a cash-generating unit ‘generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets’. Hence, one could argue that income and expenses arising from the cash-generating

[4] Paragraph 6 of IAS 36 Impairment of Assets states that ‘A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.’.

unit might be returns generated 'largely independently of other resources held by an entity' (and hence be classified in the investing category).

48. However, the income and expenses arise from the combination of *individual* assets within the group of assets that represent a cash-generating unit, not from the assets individually. In classifying income and expenses in the investing category an entity would generally have to assess the individual assets with regards to their ability to generate returns largely independently of other resources held by an entity. This means that a cash-generating unit comprising a single asset could give rise to income and expenses classified in the investing category and a cash-generating unit comprising a group of assets is unlikely to.

49. The staff think it is clear from the proposals that the unit of account for the purposes of classifying income and expenses in the statement of profit or loss is the *individual asset* and that no further clarification by the IASB is needed. We plan to discuss the expected relationships with the cash-generating units in the effects analysis accompanying the Standard.

Question for the IASB

Q2 Does the IASB agree with the staff recommendation to retain the proposed application guidance and provide further application guidance stating that:

(a) income and expenses on individual assets classified as held for sale would be generated individually and largely independently of other resources held by an entity, and income and expenses from disposal groups classified as held for sale would not;

(b) income and expenses arising from business combinations would not be generated individually and largely independently of other resources held by an entity; and

(c) negative returns, such as those arising from unfavourable exchange rates or negative interest rates are classified in the same category as positive returns arising from the asset or liability?

Income and expenses from associates and joint ventures

50. In this section, we discuss whether income and expenses from associates and joint ventures should be classified in the same category as income and expenses from assets that generate returns individually and largely independently of other resources held by an entity.

51. Given the tentative decisions made so far (that is, to include income and expenses from *all* associates and joint ventures after 'operating profit or loss' but before 'profit or loss before financing and income tax'), the IASB could classify income and expenses from associates and joint ventures either:

    (a) in a separate 'associates and joint ventures' category; or

    (b) in a single category with income and expenses from assets that generate returns individually and largely independently of other resources held by an entity.

52. The staff think the IASB should *not* introduce a separate category for income and expenses from associates and joint ventures because:

    (a) the only practical effect of such a separate category would be that it would mandate a specific location for presentation of income and expenses from associates and joint ventures[5]; and

    (b) the IASB tentatively decided it would not mandate a specific location for income and expenses from associates and joint ventures at its October 2021 IASB meeting.

53. In addition:

    (a) users have said that they analyse income and expenses from equity-accounted associates and joint ventures *separately* from all other income and expenses because of its measurement basis (see paragraph BC49 of the Basis for

[5] In the redeliberations, the IASB decided to not require entities to present a subtotal of operating profit or loss and income and expenses from investments. The required subtotal after the investing category (profit or loss before financing and income tax) is cumulative and as such unaffected by whether income and expenses from associates and joint ventures are in a separate or in a combined category.

Conclusions). This would be achievable regardless of whether income and expenses from associates and joint ventures would be classified in a separate category or within a single category with income and expenses from investments, because an entity would present them separately from income and expenses from investments.

(b) income and expenses from some associates and joint ventures would be considered income and expenses from assets that generate returns individually and largely independently of an entity’s other resources. It would be counterintuitive to classify such income and expenses in a separate category from income and expenses from other assets that generate returns individually and largely independently of an entity’s other resources.

54. In relation to paragraph 53(b), we acknowledge that, conversely, some income and expenses from associates and joint ventures would not be considered income and expenses from assets that generate returns individually and largely independently of an entity’s other resources, and as such it may be counterintuitive to classify these income and expenses in same category as income and expenses from assets that generate returns individually and largely independently of an entity’s other resources.

55. However, the IASB has decided not to require a split of associates and joint ventures depending on whether they arise from assets that generate returns individually and largely independently, so we need to classify all income and expenses from associates and joint ventures in the same category. We think the benefit of simplicity of classification in a single category of (a) income and expenses from associates and joint ventures and (b) income and expenses from assets that generate returns individually and largely independently of an entity’s other resources outweighs disadvantages of such an approach, in particular considering that income and expenses in this category would often not be significant.

56. Hence, an entity would classify in a single category:

(a) income and expenses from assets that generate returns individually and largely independently from an entity’s other resources;

(b) incremental expenses incurred generating such income and expenses; and

(c) income and expenses from associates and joint ventures.

Question for the IASB
Q3 Does the IASB agree with the staff recommendation to classify income and expenses from associates and joint ventures in the same category as income and expenses from assets that generate returns individually and largely independently of other resources held by an entity?

Objective and labelling

57. The staff recommendations so far result in a single category comprising:

    (a) income and expenses from assets that generate returns individually and largely independently from other resources held by an entity;

    (b) incremental expenses incurred generating income and expenses from those assets; and

    (c) income and expenses from associates and joint ventures.

58. The staff acknowledge that the income and expenses described in paragraphs 57(a) and 57(c) may overlap—some associates and joint ventures may be investments that generate returns individually and largely independently of other resources held by an entity. That potential overlap does not matter in the context of defining the population of the investing category because we do not intend to require separate presentation or disclosure of the two types of income and expenses.

59. In this section, we discuss:

    (a) do we need to revise to the objective of the single category and should the objective remain part of the requirements? (paragraphs 60–64);

    (b) does the label of investing category remain appropriate? (paragraphs 65–71); and

    (c) should we confirm the proposal to define the term income and expenses from investments? (paragraphs 72–73).

Objective of the single category

60. We considered whether the proposed objective of the category remains appropriate given its revised content:

(a) we think the first part of the objective remains appropriate, that is ‘communicate information about returns on investments’.

(b) the second part of the objective, that is ‘that are generated individually and largely independently of other resources held by entity’ would no longer be appropriate, as some associates and joint ventures generate returns that are dependent on other resources held by an entity.

(c) we think this could be replaced with ‘for which users of financial statements generally analyse separately from operating profit’. We think this is appropriate because the shared characteristic between income and expenses in paragraph 57 is that users of financial statements have said they to want to analyse them separately from operating profit.

61. The staff also considered the feedback from some respondents on aligning the investing category in the statement of profit or loss with the investing category in the statement of cash flows. In the Exposure Draft, the IASB did not seek alignment between the statement of profit or loss and the statement of cash flows. As explained in paragraph BC51 of the Basis for Conclusions:

> The investing category in the statement of profit or loss is different from investing activities as defined in IAS 7. The objective of the IAS 7 classification is to identify investments made in long-term assets that will generate future returns. Some of these investments may include assets whose returns would be classified in the investing category in the statement of profit or loss. However, the definition of investing activities in IAS 7 would also include investments in operating assets, such as property, plant and equipment. Because income and expenses related to such assets reflect an entity’s main business activities, they would be classified in the operating category of the statement of profit or loss.

62. The staff think that it is clear from the proposals that the objective of the investing category in the statement of profit or loss is different from investing activities as

defined in IAS 7 *Statement of Cash Flows*. Further, the feedback received does not suggest that the potential alignment would provide useful information. Hence, we do not think the Board should reconsider aligning the two categories.

63. In conclusion, the staff think the objective for the category could be ‘to communicate information about returns on investments which users of financial statements generally analyse separately from operating profit’ rather than the proposed ‘communicate information about returns from investments that are generated individually and largely independently of other resources held by an entity’.

64. The Exposure Draft proposed that the objective is included in the requirements. This worked for the objective proposed in the Exposure Draft because there was no risk that the objective could be used to override specific definitions of income and expenses to be classified in the category, because the objective was identical to the definition of income and expenses from investments. With the revised objective there is a risk that some entities might base their judgement of which income and expenses should be classified in the investing category solely on the objective. We therefore recommend that the objective is not included in the requirements but discussed in the Basis for Conclusions. This is consistent with the staff recommendation in relation to the objective of unusual income and expenses, discussed in Agenda Paper 21A for this meeting.

Label for the single category

65. Given the recommended revised objective and the population of items captured, the staff have considered how best to label this category. The staff considered the feedback on the Exposure Draft on the labelling of the investing category, as well as the proposed changes in the scope of the category.

66. Some respondents to the Exposure Draft had suggested changing the labelling of the investing category to indicate it is different from investing activities in the statement of cash flows, for example changing the label for the category in the statement of profit or loss to ‘non-operating’ or ‘returns from investments’ to avoid confusion (paragraph 14).

67. Before discussing the feedback on labelling, it is worth giving some background to the labelling of the categories:

(a) the proposed categories are a drafting construct used to communicate the location of specific income and expenses (e.g., whether income or expenses are to be presented after 'operating profit or loss' or before 'profit or loss before financing and income tax');

(b) there is no requirement or expectation that the labels of categories would be presented in the paper-based primary financial statements (that is we do not expect headings of operating, investing and financing), although we are still to discuss whether the categories in which income and expenses are classified should be captured in digital reporting;

(c) whilst the labels of the operating category and the financing category are presented indirectly because they feature in the labels of the required subtotals 'operating profit or loss' and 'profit or loss before financing and income tax', there would be no such required subtotal that comprises items in the investing category.

68. On the basis of this background, we conclude that similar labelling of the investing category in the statement of profit or loss and the investing activities category in the statement of cash flows would not be confusing because the labelling of the investing category is only used in the wording of the requirements in the Standard. These requirements will be accompanied by an explanation of the differences between the categories in the statement of profit or loss and the statement of cash flows.

69. However, we also need to consider whether the label 'investing category' faithfully represents a category that includes not only (a) income and expenses from assets that generate returns individually and largely independently of other resources held by an entity, but also (b) incremental expenses and (c) income and expenses from associates and joint ventures.

70. The staff observe that:

(a) assets that generate returns individually and largely independently of other resources held by an entity are investments, and were described as such in the Exposure Draft; and

(b) associates and joint ventures are also a type of investment, referred to as such in the required line item in IAS 1 *Presentation of Financial Statements* (net investment in associates and joint ventures) and in various other places in IFRS Standards (for example, in IAS 28 *Investments in Associates and Joint Ventures*).

71. Hence, the staff think the label 'investing category' would provide a faithful representation of the items captured in this category.

Should we confirm the proposal to define the term income and expenses from investments?

72. We think the IASB should not confirm the proposal to define 'income and expenses from investments' as income and expenses from assets that give rise to returns individually and largely independently of other resources held by an entity. This is because, having concluded in paragraph 70(b) that income and expenses from associates and joint ventures are also a type of income and expenses from investments, such a label could be misleading. This recommendation would mean income and expenses from investments would not be a defined term, which would have no practical implications and only affect drafting of the requirements.

Staff recommendations and question for the IASB

73. The staff recommend the IASB:

(a) revise the objective of the category to be to communicate information about returns on investments which users of financial statements generally analyse separately from operating profit, and remove the discussion of the objective from the requirements and instead discuss it in the Basis for Conclusions (paragraphs 60–64);

(b) confirm the proposal to label that category as 'investing category' (paragraph 65–71); and

(c) do not continue with the proposal to define ‘income and expenses from investments’ (paragraph 72);

Question for the IASB
Q4 Does the IASB agree with the staff recommendations in paragraph 73?

Appendix—Extracts from the Exposure Draft relating to investing category classification (paragraphs 47, B32 and B33)

Investing

47 The objective of the investing category is to communicate information about returns from investments that are generated individually and largely independently of other resources held by an entity. Except as required by paragraph 48, an entity shall classify in the investing category:

(a) income and expenses from investments, including from non-integral associates and joint ventures (see paragraphs B32–B33).

(b) incremental expenses incurred generating income and expenses from investments. Incremental expenses are expenses that the entity would not have incurred had the investments giving rise to the income and expenses from investments not been made.

Investing

B32 Paragraph 47 requires an entity to classify income and expenses from investments in the investing category except when paragraph 48 requires the entity to classify them in the operating category. Income and expenses from investments would typically include:

(a) income and expenses from financial assets, except for income and expenses from cash and cash equivalents, such as:

(i) interest revenue;

(ii) impairment losses and reversals of impairment losses;

(iii) gains and losses on disposal;

(iv) fair value gains and losses;

(v) dividends from equity investments;

(vi) the share of profit or loss of non-integral income and expenses from associates and joint ventures; and

(vii) income and expenses from associates and joint ventures not accounted for using the equity method; and

(b) income and expenses from other investments such as:

(i) income and expenses on investment property;

(ii) impairment losses and reversals of impairment losses;

(iii) income or expenses from speculative investments, such as investments in artwork held for capital appreciation; and

(iv) gains and losses on disposal.

B33 Income and expenses from investments do not include income and expenses from assets used by an entity in the production of goods and delivery of services. Income and expenses derived from such assets result from the combination of those assets with other resources of the entity, such as employees, raw materials or intangible assets, and not from the individual assets on their own. Examples of such income and expenses not from investments include:

(a) interest revenue from trade receivables, which would be classified in the operating category;

(b) income and expenses from property, plant and equipment and intangible assets, including depreciation, amortisation, impairment and disposal gains and losses, which would be classified in the operating category; and

(c) gains or losses on disposal of a discontinued operation, which would be classified in the discontinued operations category.