



IFRS® Foundation

Primary Financial Statements

Accounting Standards Advisory Forum meeting

ASAF Agenda Paper 6
July 2022

Purpose of this session

Agenda ref 6

Offers to conduct targeted outreach (slides 4–6)

- At the 31 March – 1 April 2022 meeting some ASAF members offered to conduct targeted outreach on some proposals. The staff will provide an overview and ask whether other ASAF members would like to conduct targeted outreach.

Disclosure of operating expenses by nature (slides 7–8)

- The staff will update ASAF members on discussions with the IASB in April and GPF and CMAC members in June on the analysis of operating expenses by nature in the notes when an entity reports operating expenses by function in the statement of profit or loss.

Income and expenses of limited recurrence (slides 9–29)

- The staff will seek advice from ASAF members on the IASB's recent discussions on, and proposed direction for, income and expenses with limited recurrence (unusual income and expenses).

Agenda Paper 6A for this meeting provides the summary of proposals, feedback received and tentative decisions.

Questions for ASAF members

Agenda ref 6

Offers to conduct targeted outreach (slides 4–6)

1. Would you like to conduct targeted outreach?
2. Do you have any comments on the proposed topics and timing for targeted outreach?

Disclosure of operating expenses by nature (slides 7–8)

3. Do you have any comments on the basis for the way forward and next steps being explored for the analysis of operating expenses by nature in the notes when an entity reports operating expenses by function in the statement of profit or loss?

Income and expenses of limited recurrence (slides 9–29)

4. Do you have any comments on the possible constraints to the working definition of income and expenses of limited recurrence?
5. Do you have any comments on the assessment period?

A grayscale world map is the background, showing continents and a grid of dotted lines. Overlaid on the left side are several thick, curved, light-gray lines that sweep across the map from the bottom left towards the top right.

Offers to conduct
targeted outreach from
ASAF members



Objective

- Assess whether changes from the ED will function as intended, including costs and benefits of proposals not in the ED



Timing

- H2 2022



Stakeholders

- All stakeholders through ASAF members



Proposed Topics


- **Income and expenses of limited recurrence (unusual income and expenses)**
- **Disclosure of operating expenses by nature**
- Management performance measures – rebuttable presumption
- Change in approach for classifying income and expenses within the financing category
- Aspects of proposals for entities with specified main business activities (to be discussed at a future IASB meeting)

Project status by topic

Agenda ref 6

Topic	Proposals redeliberated	Remaining to be discussed
Subtotals	Required subtotals; Classification in categories, general model; Associates and joint ventures; Some of the proposals for entities with specified main business activities	Remaining proposals for entities with specified main business activities*; remaining issues for investing and financing categories
Management performance measures	Scope and definition; Disclosure of reconciliation, including tax and non-controlling interests; Single note and cross-referencing	Remaining aspects of disclosure of tax and non-controlling interests Use of columns*, relationship with segments and other
Disaggregation and other issues	Roles of primary financial statements and notes; General principles Direction for and aspects of definition of income and expenses with limited recurrence (unusual income and expenses); Presentation of operating expenses; Direction for disclosure of operating expenses Statement of cash flows	Remaining aspects of definition of income and expenses with limited recurrence and related disclosures; Disclosure of operating expenses*; Proposals relating to 'other' and other small issues left, including relating to the statement of cash flows

* Expected to be discussed at June and July IASB meetings



Update on disclosure of
operating expenses by
nature in the notes

- At the April 2022 meeting, the IASB discussed the feedback from ASAF members and other stakeholders on the analysis of operating expenses by nature in the notes when an entity reports operating expenses by function in the statement of profit or loss (see [Agenda paper 21A](#)).
- ✓ **Basis for the way forward:** Feedback received and discussion at the April 2022 IASB meeting suggests that requiring an entity to disclose, at a minimum, the amounts of depreciation, amortisation, and employee benefits included in each line item(s) in the statement of profit or loss could be an alternative to the proposal in the ED that better balances costs and benefits.
- ✓ **Next steps to explore:**
 - 1) whether additional expense items could be added to a requirement to disclose amounts included in each line item in the statement of profit or loss; and
 - 2) Whether, for the expense items selected, the requirement should be to disclose any related line items in the statement of profit or loss, or any related functions (whether presented or disclosed).
- Breakout sessions exploring these next steps are being held with GPF and CMAC members at their joint meeting on 16-17 June 2022 (see [Agenda paper 2](#)).
- The staff will provide ASAF members with an oral update of these discussions and seek advice from ASAF members on the basis for the way forward and the next steps being explored.



Income and expenses of limited recurrence

Background (see slides 11–14)

Working definition of income and expenses with limited recurrence (see slides 15–16)

The assessment period (see slides 17–19)

Appendix – Examples to facilitate discussion (see slides 20–29)

What was proposed in the ED—unusual income and expenses

Agenda ref 6

Definition



Income and expenses with **limited predictive value**.

Income and expenses have limited predictive value when it is reasonable to expect that income or expenses that are similar in **type and amount** will not arise for several future annual reporting periods.

Income and expenses from the recurring remeasurement of items measured at a current value would not normally be classified as unusual.

Disclosures

Amount & narrative description

Amount disaggregated by:

- line items presented in statement of profit or loss; and
- line items disclosed in analysis of operating expenses by nature, if the entity analyses expenses by function in the statement of profit or loss

- Many respondents, including almost all users, agreed the IASB should define unusual items
 - users want to identify recurring or normalised earnings but currently have to rely on voluntary disclosures by an entity to do so
 - definition would provide discipline and reduce opportunistic classification of items as unusual
- Most, mainly preparers, but also some users, did not agree with the proposed definition. Concerns over
 - the scope of the items captured in the proposed definition, for example
 - comparison with the past as well as the future
 - items that are expected to arise in more than one reporting period
 - the subjectivity inherent in the proposed definition
 - more guidance needed

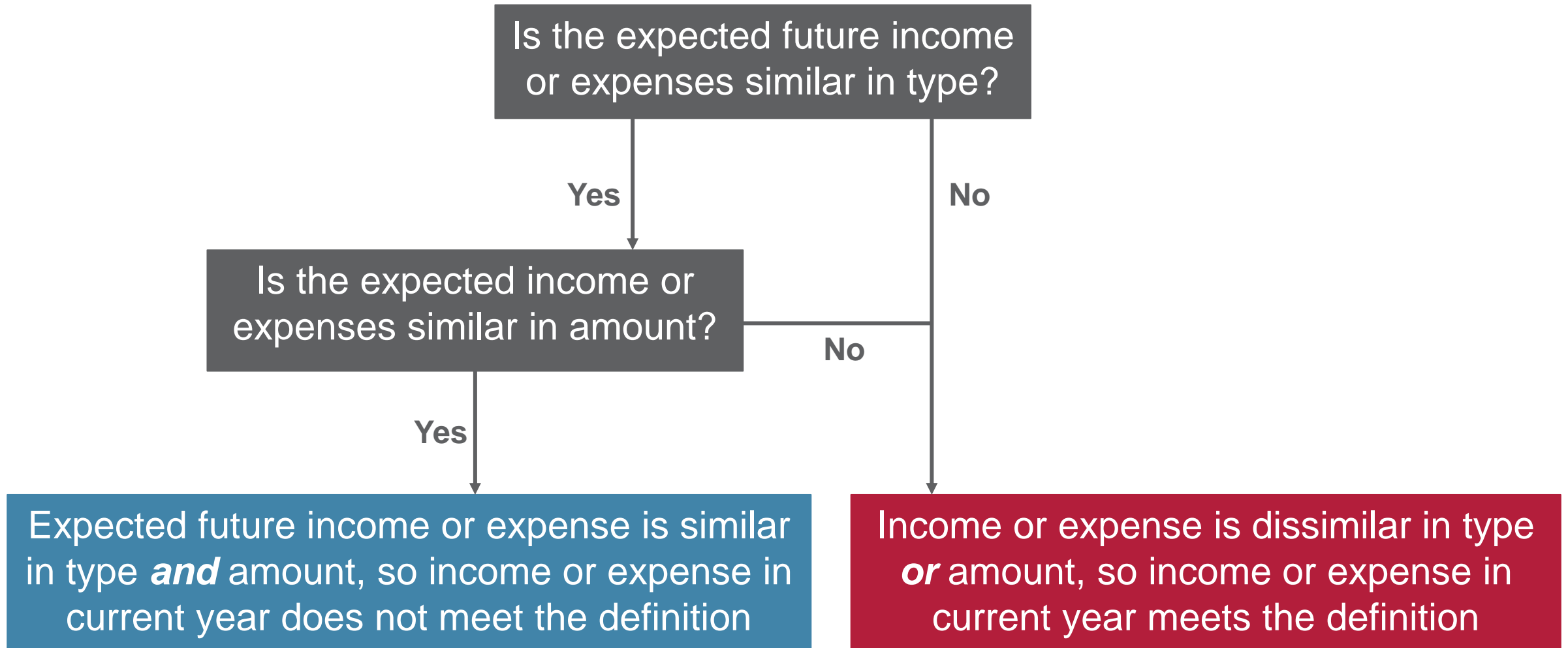
IASB redeliberations to date—December 2021 and May 2022 meetings

Agenda ref 6

- Tentatively decided to explore how to proceed with a definition of unusual items
 - acknowledged that a ‘perfect’ answer may not be possible
- Identified two main questions to address first
 - Topic 1: whether an item must be ‘unusual’ compared to income and expenses in the past to meet the definition
 - Topic 2: how to deal with items that arise in a few reporting periods, not just a single reporting period
- Feedback from limited outreach with users
 - Mostly supportive of a definition that captures a broad range of items
 - Strong support for including items that arise in a few reporting periods, not just a single reporting period

Not similar in type *and* amount = dissimilar in type *or* amount

Agenda ref 6



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

- Similar income and expenses can have arisen in the past, consistent with the proposal in the Exposure Draft
- Similar income and expenses can be expected to arise within the assessment periods, as long as they cease by the end of the assessment period, a change from the Exposure Draft
- Income and expenses will be captured by the definition if they are dissimilar in type or amount to expected ongoing income or expenses, consistent with the proposal in the Exposure Draft
- Broad definition that captures many items of income and expenses with limited recurrence
 - Responds to feedback from those that wanted information about a broad range of items
 - IASB also exploring splitting the note that provides the information to allow users of financial statements to identify easily items with different recurrence characteristics

Is the working definition too broad?

Agenda ref 6

- Discussion at the May IASB meeting about the required disclosures indicated some potential concerns about some items that would meet the definition
 - For example, revenue lower than expected in the future because of an expected future acquisition
- Indicates we may need to consider possible constraints on the definition, for example one or more of:
 - Requiring a comparison with past income and expenses
 - Limiting the definition to income and expenses that are dissimilar to future expected income or expenses *in type*, ie do not include income and expenses that are only dissimilar *in amount*
 - Requiring the comparison to future income and expenses to be based on future events for which there is sufficient objective evidence, consistent with the requirements in IAS 37 on when future events should be reflected in a provision
- See examples in the appendix (slides 20–29)

- The future period in which the entity needs to make an assessment of whether similar income or expenses are expected to arise
 - Too short a period would:
 - exclude items even though they are expected to arise over only a few annual periods (because they do not cease soon enough), ie be too restrictive and
 - capture items that are expected to arise in the future but not immediately (because they do not arise again soon enough), ie be too broad
 - Too long a period would:
 - capture items that are expected to arise for many periods, ie be too broad and
 - exclude items that are not expected to arise again for many years, ie be too restrictive

- Period too short, for example just one year in the future
 - Would exclude expenses from a one-off restructuring that starts shortly before the end of the current period and is expected to last for only 18 months
 - Would capture an expense that regularly occurs every other year
- Period too long, for example six years in the future
 - Would capture expenses from a restructuring that starts at the beginning of the current period and is expected to last five years
 - Would exclude a one-off expense that arose this year and then is not expected to arise again for at least 4 years, but is expected to arise at some point before the end of six years

- Possible ways of setting the period:
 - Link to period of budgets and forecasts
 - Period or range specified by the IASB (very initial thinking—2-4 years)
 - Period decided by entity

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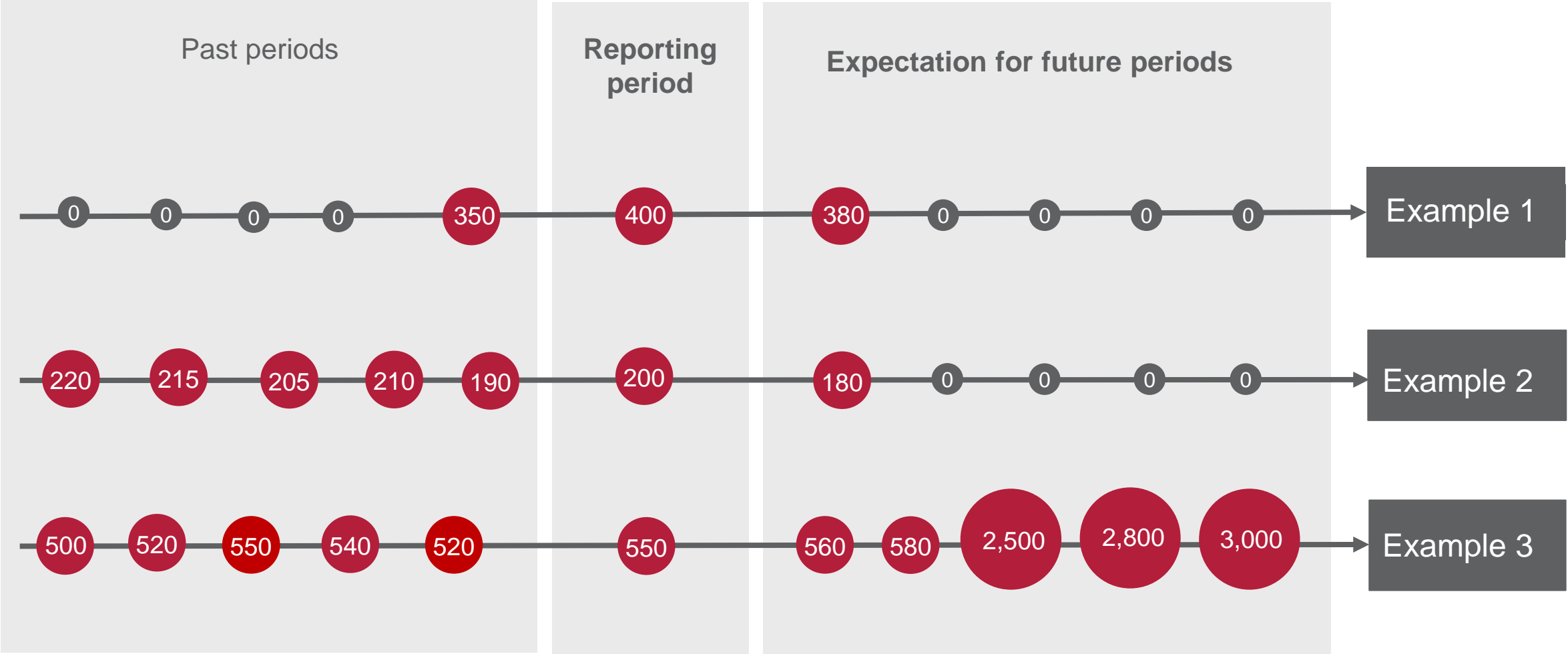
Appendix – Examples to facilitate discussion

Examples of items captured by the definition

Agenda ref 6

- Examples for discussion:
 - Example 1: Restructuring expenses
 - Example 2: Revenue and expenses higher than expected in the future because of the expected end of existing activities
 - Example 3: Revenue and expenses lower than expected in the future because of the expected start of new activities in the future
- Examples explore:
 - The effect of the entity's circumstances
 - Income and expenses expected in the future are not similar if they have sufficient dissimilar characteristics that information about the limited recurrence of the income or expenses in the current period is material (ie could affect investors' decisions)
 - The effect of three possible constraints on the definition (slide 16)
 - Requiring a comparison with past income and expenses
 - Limiting the definition to income and expenses that are dissimilar to future expected income or expenses *in type*
 - Requiring the comparison to future income and expenses to be based on future events for which there is sufficient objective evidence

Overview of the examples



Example 1 – restructuring expenses

Agenda ref 6

- **Fact pattern**
 - An entity is restructuring its activities in jurisdiction X, to align them with its activities in other jurisdictions. The restructuring started 1 year ago and is expected to continue for a further 6 months after the end of the current reporting period. (Assume the assessment period is at least three years.)
- **Effect of entity-specific circumstances**
 - Are similar restructurings expected to occur in the future (ie any expected future restructurings do not have sufficient dissimilar characteristics that information about the limited recurrence of the income or expenses in the current period is material)?
 - If not, the expenses have limited recurrence
 - If so, the expenses do not have limited recurrence

Example 1 – possible changes to (or constraints on) the definition

Agenda ref 6

- **Comparison with the past**
 - Have similar restructurings (in type and amount) occurred in the past?
 - If no, the expenses could have limited recurrence if similar expenses are expected to cease and then not recur in the assessment period
 - If yes, the expenses do not have limited recurrence
- **Limited recurrence by type only, not amount**
 - Are similar restructuring expenses by type expected to recur in the assessment period, after having ceased?
 - If yes, the restructuring expenses this year would not meet the amended definition, even if the amounts are dissimilar to those expected in the future
 - If no, restructuring expenses this year would meet the amended definition
- **Only compare this year's restructuring expenses with future restructuring expenses for which there is sufficient objective evidence**
 - We assume there is sufficient objective evidence that the current restructuring will cease before the end of the assessment period
 - If there is insufficient objective evidence that similar restructurings will occur in the future, the definition would be met
 - In this case, such an amendment to the definition could in fact expand the scope because similar restructurings might be expected to recur in the assessment period, but no objective evidence for the future expected restructurings is available

Example 2 – Revenue and expenses higher than expected in the future because of the expected end of existing activities Agenda ref 6

- **Fact pattern**

- An entity is planning to discontinue a product in the next few years, resulting in expected reduced revenue and expenses.

- **Effect of entity-specific circumstances**

- Is the entity expecting to replace the product with a similar type of product?

- If no, the revenue and expenses have limited recurrence

- If so, are the future revenue and expenses from the similar type of product expected to be similar amounts to the amounts in the current year?

- If no, the revenue and expenses have limited recurrence

- If yes, the revenue and expenses do not have limited recurrence

Example 2 – possible changes to (or constraints on) the definition

Agenda ref 6

- **Comparison with the past**
 - Assume revenue and expenses similar in type have occurred in the past
 - Have revenue and expenses similar in amount occurred in the past?
 - If yes, the revenue and expenses this year would not meet the amended definition
 - If no, the revenue and expenses this year would meet the amended definition (assuming they already met the working definition)
- **Limited recurrence by type only, not amount**
 - Is similar revenue and expenses by type expected not to recur in the assessment period, after having ceased?
 - If yes, the revenue and expenses this year would not meet the amended definition, even if the amounts are dissimilar to those expected in the future
 - If no, the revenue and expenses this year would meet the amended definition
- **Only compare this year's revenue and expenses with future revenue and expenses for which there is sufficient objective evidence**
 - Is there sufficient objective evidence that the product will be discontinued?
 - If yes, consider whether a similar product will replace it.
 - If no, the existing revenue and expenses would be regarded as continuing and the definition would not be met
 - Is there sufficient objective evidence that the product will be replaced by a similar product?
 - If no, amended definition will be met
 - If yes, consider whether the amounts of revenue and expenses will be similar.
 - If amounts not similar, amended definition will be met
 - If amounts similar, amended definition will not be met

Example 3 – Revenue and expenses lower than expected in the future because of the expected start of new activities

Agenda ref 6

- **Fact patterns**

- **A:** the existing revenue-generating activities are expected to continue but the entity is planning to introduce a new product in the next few years, resulting in increased revenue and expenses.
- **B:** the existing revenue-generating activities are expected to continue but the entity is expecting higher revenue and expenses in the future because of an expected acquisition

- **Effect of entity-specific circumstances**

- **A:** is the new product similar in type to existing products?
 - If no, the current revenue and expenses will not have limited recurrence because they are expected to continue
 - If yes, the revenue and expenses could have limited recurrence if their amount is expected to be dissimilar in the future
- **B:** Will the expected acquisition result in new products that are similar to existing products?
 - Outcomes the same as for A

Example 3 – possible changes to (or constraints on) the definition

Agenda ref 6

- **Comparison with the past**
 - Assume revenue and expenses similar in type have occurred in the past
 - Have revenue and expenses similar in amount occurred in the past?
 - If yes, the revenue and expenses this year would not meet the amended definition
 - If no, the revenue and expenses this year would meet the amended definition, if they met the working definition
- **Limited recurrence by type only, not amount**
 - the revenue and expenses this year would be excluded from the note, because the existing type of revenue and expenses are expected to continue
- **Only compare this year's revenue and expenses with future revenue and expenses for which there is sufficient objective evidence**
 - Assume there is sufficient objective evidence that the existing product will continue to generate similar revenue and expenses
 - Accordingly, this year's revenue and expenses would meet the amended definition only if there were sufficient objective evidence of future changes resulting in revenue and expenses similar in type but dissimilar in amount

Possible and likely effects of possible constraints Agenda ref 6

	Require comparison with the past	Include only items that are dissimilar in type	Require future income and expenses to be based on events with sufficient objective evidence
Example 1- restructuring expenses	Often the same outcome, but could be narrower	Often the same outcome, but could be narrower	Could be the same, but might be broader
Example 2 – existing product line expected to be discontinued	Could be the same, but often would be narrower	Could be the same, but often would be narrower	Same or broader or narrower (outcome depends on stage in process)
Example 3 – existing revenue-generating activity continuing, new product/acquisition expected in near future	Could be the same, but often would be narrower	Excluded from definition	Could be the same, but often would be narrower

* Same – refers to same as outcome as the working definition without constraints

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