STAFF PAPER

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IASB® meeting

Project	Primary Financial Statements	
Paper topic	Unusual income and expenses (income and expenses with limited recurrence)	
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Objective

1. This paper continues the IASB's redeliberations on the proposals set out in the Exposure Draft *General Presentation and Disclosures* relating to unusual income and expenses. The paper asks the IASB to make decisions on how to proceed with a definition for such income and expenses and how to disclose information about them.

2. This paper focuses on the definition and the disclosure of information in a single note. Agenda Paper 21C *Income and expenses with limited recurrence—disclosure* considers the structure of the note, and should be read in conjunction with this paper. Future Agenda papers will consider more detailed aspects of the proposals, for example:

   (a) whether the definition should apply only to income and expenses in the operating category or all income or expenses;

   (b) whether the definition should focus on *transactions and events* with limited recurrence rather than *income and expenses* with limited recurrence; and

   (c) detailed aspects of the information required to be disclosed, including requirements for information about expenses with limited recurrence analysed by nature.

Summary of staff recommendations

3. The staff recommend the IASB:

   (a) develop an approach of:

      (i) establishing a broad definition for income and expenses to be included in a single note about limited recurrence; and

      (ii) requiring the note that provides information about income and expenses that meet the definition to be divided so income and expenses with different recurrence characteristics can be identified easily (recommendations on how to divide the note are given in Agenda Paper 21C);

   (b) establish the broad definition by:

      (i) continuing to include in the definition income and expenses that have occurred in the past, as proposed in the Exposure Draft;

      (ii) as a consequence of (i), relabelling income and expenses meeting the definition as 'income and expenses with limited recurrence' rather than 'unusual income and expenses'; and

      (iii) amending the definition proposed in the Exposure Draft to include income and expenses that are expected to arise for a few annual periods (but see also the staff recommendation in (c));

   (c) reduce the subjectivity associated with a broad definition by requiring approved budgets and forecasts to form the basis of the assessments about future income and expenses required by the definition. The assessments are of:

      (i) whether similar income and expenses are expected to arise for only a few annual periods; and

      (ii) whether they are not expected to arise thereafter for several future annual periods.

   As a consequence, the definition would refer only to 'the period of approved budgets and forecasts' and not to 'a few annual periods' and 'several future annual periods'.

(d) adds application guidance on how the definition should apply when expectations about future income and expenses are subject to high levels of uncertainty. The application guidance would state that an item of income or expense would fall within the definition of income and expenses with limited recurrence if an entity cannot conclude whether, within the period of approved budgets and forecasts, it is reasonable to expect that similar income or expenses will (a) continue or (b) will cease and then not recur.

Structure of the paper

4. This paper is structured as follows:

   (a) background;

      (i) proposals in the Exposure Draft (paragraphs 6–9);

      (ii) feedback on the proposals in the Exposure Draft (paragraphs 10–12); and

      (iii) IASB discussion at its December 2021 meeting (paragraphs 13–15).

   (b) identification of priority questions on the definition to be addressed first (paragraphs 16–23);

   (c) feedback from outreach with users of financial statements on a broad or narrow definition and the priority questions (paragraphs 24–27); and

   (d) staff analysis and recommendations (paragraphs 28–49).

5. This paper includes three appendices:

   (a) Appendix A—extracts from the application guidance and the Basis for Conclusions of the Exposure Draft;

   (b) Appendix B—extract from Agenda Paper 21A of the December 2021 IASB meeting setting out the feedback on the proposals in the Exposure Draft; and

   (c) Appendix C—detailed feedback from outreach with users of financial statements.

Background

Proposals on unusual items in the Exposure Draft

6. The IASB proposed:

   (a) a definition of 'unusual income and expenses' (paragraph 100 of the Exposure Draft):

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

   (b) a requirement to disclose in a single note (paragraph 101 of the Exposure Draft):

      (i) the amount of each item of unusual income or expense recognised in the reporting period;

      (ii) a narrative description of the transactions or other events that gave rise to that item and why income or expenses that are similar in type and amount are not expected to arise for several future annual reporting periods;

      (iii) the line item(s) in the statement(s) of financial performance in which each item of unusual income or expense is included; and

      (iv) an analysis of the included expenses using the nature of expense method, when an entity presents an analysis of expenses in the statement of profit or loss using the function of expense method.

   (c) application guidance to help an entity to identify its unusual income and expenses (paragraphs B67–B75 of the Exposure Draft, reproduced in Appendix A).

7. Paragraph BC124 of the Basis for Conclusions explains that the objective of the requirements is to provide information about the persistence of income and expenses, specifically to enable users of financial statements to:

   (a) identify income and expenses which may not persist; and

(b) to analyse those income and expenses separately when predicting an entity's future cash flows.

8. Paragraph BC129 of the Basis for Conclusions goes on to explain that defining unusual items as income and expenses with limited predictive value would:

    (a) address the need of users of financial statements for information about income and expenses that are likely to persist and so have limited predictive value; and

    (b) help preparers of financial statements identify unusual income and expenses by providing them with a concept that underpins the identification of unusual income and expenses.

9. Paragraphs BC130–BC136 of the Basis for Conclusions explain specific aspects of the definition and are reproduced in Appendix A.

Feedback on the proposals in the Exposure Draft

10. As described in Agenda Paper 21G of the December 2020 IASB meeting (feedback section reproduced in Appendix B), there was strong support for the IASB to define unusual income and expenses. Feedback was that doing so would provide consistent input for analysis by users of financial statements and would reduce opportunistic classification of items as unusual.

11. However, although most respondents agreed the IASB should define unusual items, most did not agree with the proposed definition, either because of:

    (a) concerns over the scope of the items captured in the proposed definition, often indicating an underlying concern over the IASB's proposed objective for the requirements; or

    (b) concerns over the subjectivity inherent in the proposed definition.

12. Although most respondents did not agree with the proposed definition, there was no clear consensus on an alternative definition.

IASB discussion at its December 2021 meeting

13. At the December 2021 meeting, the IASB considered whether to explore how to proceed with a definition of unusual income and expenses. It acknowledged the strong support for such a definition but also the difficulty and extent of questions about the definition that would need to be resolved.

14. The IASB tentatively decided:

    (a) to explore how to proceed with a definition of ‘unusual income and expenses’.

    (b) to remove the reference to ‘limited predictive value’ from the definition of ‘unusual income and expenses’, and clarify in the IFRS Accounting Standard that it is a necessary characteristic of unusual income and expenses, not the sole characteristic.

    (c) to develop application guidance accompanying the definition of ‘unusual income and expenses’:

        (i) to clarify that the definition means that ‘unusual income and expenses’ can be dissimilar *in type or amount* from income and expenses expected in the future;

        (ii) to help an entity to assess whether similar income or expenses will arise in the future, based on guidance on the assessment of future transactions and other events in other IFRS Accounting Standards; and

        (iii) to explain that in considering whether income or expenses are similar to expected future income or expenses, an entity would consider characteristics of the income and expenses, including the underlying event or transaction that gives rise to income or expenses.

15. IASB members also asked the staff:

    (a) to consider whether the objective of the definition should be:

        (i) to capture in a single note as much information as possible about income and expenses that are not expected to arise in the future (a broad definition); or

(ii) to prevent income and expenses that may arise in the future being inappropriately described as 'unusual' (a narrow definition).

(b) to identify the most important questions that must be resolved in order to proceed with a definition and address them first (priority questions), before spending time considering other more detailed questions.

Identification of priority questions

16. Following the December 2021 IASB meeting, the staff considered which questions were essential to proceeding with a definition. The staff identified two such questions:

(a) whether the definition should include income and expenses that are expected to arise over a few annual periods (see paragraphs 17–18); and

(b) whether the definition should exclude income and expenses that have arisen in the past (see paragraphs 19–23).

Should the definition include income and expenses that are expected to arise over a few annual periods?

17. The first priority question is whether the definition should include income and expenses that are expected to arise over a few annual periods. The proposal in the Exposure Draft excluded any income or expenses that was expected to arise in the future ('for several future annual reporting periods'). Some respondents to the Exposure Draft said that the definition should include income or expenses that might arise in a few annual periods, but then not recur. Views ranged between those that:

(a) noted that it was simply chance whether income or expenses straddle an annual reporting date and hence wanted the definition to be amended to allow for that; and

(b) wanted to include in the definition items that are expected to continue for a few annual reporting periods and then cease, for example some restructuring costs.

18. The staff acknowledged in Agenda Paper 21A of the December 2021 IASB meeting that it seems arbitrary to exclude items simply because they straddle an annual reporting period. However, including income and expenses that are expected to arise for a few annual reporting periods raises the question of what we mean by 'a few annual reporting periods'. Do we mean just two, to avoid the issue of straddling across one annual reporting date, or up to say five, to include ongoing but typically not permanent items such as restructuring? Would we give guidance on this in the IFRS Accounting Standard, or just specify a number of annual reporting periods?

Should the definition exclude income and expenses that have arisen in the past?

19. The second priority question on the definition is whether it should exclude income or expenses that have arisen in the past. The proposed definition in the Exposure Draft would have required an entity only to consider whether the income or expense was expected to arise in the future. If an item of income or expenses had regularly arisen in the past but was not expected to arise in the future, it would meet the definition in the Exposure Draft.

20. That definition follows from the objective stated in the Basis for Conclusions (paragraph BC124) of enabling users of financial statements to:

    (a) identify income and expenses which may not persist; and

    (b) to analyse those income and expenses separately when predicting an entity's future cash flows.

21. Identifying income and expenses which may not persist requires a comparison with income and expenses that are expected in the future. Whether similar income or expenses have arisen in the past may provide information that helps an assessment of whether the income or expenses are expected to arise in the future. However, if income or expenses are *not* expected to arise in the future, information about them meets the objective stated in the Basis for Conclusions, even if they arose frequently in the past.

22. Some respondents to the Exposure Draft explicitly supported this aspect of the definition and agreed with the objective set out in the Exposure Draft. However,

some respondents wanted a definition that would capture only items that had not arisen in the past and were not expected to arise in the future. They gave two reasons:

(a) some want to capture only 'unusual' aspects of 'ongoing activities', not the cessation of previous ongoing activities, which they do not regard as 'unusual'; and

(b) some said a requirement to compare with the past as well as the future substantially reduces the subjectivity in the definition.

23. In Agenda Paper 21A of the December 2021 IASB meeting, the staff noted that amending the definition in the Exposure Draft to exclude items that have arisen in the past would depart from the objective set by the IASB, which was explicitly supported by some respondents. However, amending the definition so it captures only items that have not arisen in the past and are not expected to arise in the future might be a pragmatic way of reducing concerns about the subjectivity inherent in the definition.

Feedback from limited outreach with users on the objective of the definition and priority questions

24. Following the December 2021 IASB meeting, the staff conducted outreach with the Capital Markets Advisory Committee (CMAC) and a few other users. The staff asked users for their views on:

(a) whether more useful information would be provided by a broad or a narrow definition (see paragraph 15(a)); and

(b) the two priority questions on the definition the staff identified as being essential to resolve (see paragraphs 16–23).

25. The staff consulted with users of financial statements only at this time because we were seeking feedback about what information would be useful. We will consider doing limited outreach on the application of any approach once the IASB reaches a tentative decision.

26. The users we consulted gave varying feedback, which is set out in detail in Appendix C. In summary:

(a) some users indicated information about a wide range of non-recurring income and expenses would be useful. They would use the explanation of why the income or expense was not expected to arise in the future to identify how to treat the item of income or expense in their analysis.

(b) a few users indicated they would prefer a narrow definition because they wanted discipline over what income and expenses were described as unusual.

27. On the priority questions, the discussion of an example (reproduced in paragraph C13) indicated a clear consensus that the definition should include income and expenses that are expected to arise for a few annual periods (including income and expenses that arise for a longer period than those that just straddle an annual reporting date). There was also support from some for a definition including income and expenses that have arisen in the past (that is, not requiring an entity to exclude income and expenses that have arisen in the past). Further, those who wanted a narrow definition did not focus on excluding income or expenses that had occurred in the past but rather on whether the income or expenses would recur frequently in the future.

Staff analysis

28. This section of the paper is structured as follows:

(a) a potential way forward on whether the definition should be broad or narrow and the priority questions (paragraphs 29–43); and

(b) situations of high levels of uncertainty about expected future income and expenses (paragraphs 44–49).

Potential way forward on whether the definition should be broad or narrow and related key questions

29. It is clear from the discussions with CMAC and other users of financial statements that various users want different information about non-recurring income and expenses. The staff recommend a way forward that will provide useful information to the widest range of users. The staff think this can be done by:

(a) establishing a broad definition for income and expenses with limited recurrence—to respond to the feedback from users of financial statements who wanted information about limited recurrence of a broad range of items; and

(b) requiring the note that provides information about such income and expenses to be divided into sections so that income and expenses with different recurrence characteristics can be identified easily—to respond to feedback from users who were interested in only a narrow group of items. Such users would be able to easily identify the groups of items they were interested in.

30. Paragraphs 32–43 of this paper discuss what income and expenses a broad definition would include, by considering the two priority questions:

(a) whether the definition should include income and expenses that are expected to arise over a few annual periods; and

(b) whether the definition should exclude income and expenses that have arisen in the past.

31. Agenda Paper 21C discusses how to divide the note that provides information about items that meet the broad definition.

Question for the IASB
Q1 Does the IASB agree in principle with the approach of establishing a broad definition and requiring the note that provides information about income and expenses that meet the definition to be divided so income and expenses with different recurrence characteristics can be identified easily?

Establishing a broad definition—income and expenses that have arisen in the past

32. The Exposure Draft proposed a broad definition in that it did not exclude income and expenses that have arisen in the past. Feedback from the comment letters (see paragraph 22) and from the recent outreach with users of financial statements (see paragraph 27) indicates that useful information results from including income and

expenses that have arisen in the past. Such information allows users to make the necessary adjustments for their assessments of future performance.

33. The concerns about including income and expenses that have arisen in the past in the definition are set out in paragraphs 22(a) and 22(b). The staff think they can be addressed:

    (a) for those who wanted to capture only 'unusual' aspects of 'ongoing activities', not the cessation of previous ongoing activities, which they do not regard as 'unusual' (paragraph 22(a)):

        (i) by requiring the note providing information about such income and expenses to be divided into sections about income and expenses that have arisen in the past and income and expenses that have not (see Agenda Paper 21C)—so users can easily identify the information they are interested in; and

        (ii) relabelling the income and expenses captured by the definition as 'income and expenses with limited recurrence' rather than 'unusual income or expenses'—to avoid any perceived conflict between the label for the income and expenses and the fact some of them may have occurred in the past.

    (b) for those who said a requirement to compare with the past as well as the future would substantially reduce the subjectivity in the definition (paragraph 22(b))—by amending the definition to reduce the subjectivity in other ways (see paragraphs 35–41).

Establishing a broad definition—income and expenses that are expected to arise for a few annual periods

34. The definition could be broadened further by an amendment to the proposed definition to include income and expenses that are expected to arise for a few annual periods. As noted in paragraph 27, there was a clear consensus from members of CMAC and other users that the definition should capture income and expenses that arise over a few annual periods (including income and expenses that arise over a

longer period than those that just straddle an annual reporting date). Excluding such items would result in the loss of useful information about their limited recurrence.

Establishing a broad definition—reducing subjectivity by referring to approved budgets and forecasts

35. An amendment to the definition to include income and expenses that arise over a few annual periods would result in an entity having to make two assessments about expected future income and expenses:

    (a) an assessment of whether similar income and expenses are expected to arise for only a few annual periods (not proposed in the Exposure Draft); and

    (b) an assessment of whether they are not expected to arise thereafter for several future annual periods (proposed in the Exposure Draft).

36. Feedback on the definition proposed in the Exposure Draft raised concerns about the subjectivity over the assessment described in paragraph 35(b). Adding an extra assessment (that described in paragraph 35(a)) would add to the subjectivity, and having different periods for each assessment could be confusing. Accordingly, the staff considered how best to amend the definition to avoid complexity and subjectivity.

37. In December 2021, the IASB tentatively decided to respond to the concerns about the subjectivity of the definition in the Exposure Draft by developing application guidance on the assessment of whether similar income and expenses *are expected to arise in the future*, based on requirements relating to assessments about future cash flows on other IFRS Accounting Standards. The staff have built on that tentative decision to:

    (a) focus on the requirement in IAS 36 *Impairment of Assets* to base cash flow projections to determine value in use on approved budgets and forecasts; and

    (b) to use the period of approved budgets and forecasts for both the assessments described in paragraph 35.

38. Requiring the assessments about future income or expenses to be based on approved budgets and forecasts would provide clear requirements on what an entity needs to consider and would help ensure that the assessments would be made using reasonable

and supportable information (ie the information from the budgets and forecasts). (Paragraphs 44–49 of this paper discuss the situation when the level of uncertainty about the future is so high that information from budgets and forecasts does not exist or does not enable an entity to conclude on an assessment of future income or expenses.)

39. Linking both the assessments described in paragraph 35 with the period of approved budgets and forecasts would reduce the complexity of the definition by focusing on only one period of time—that covered by approved budgets and forecasts.

40. For example, the definition could be:

> 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 period of approved budgets and forecasts.

41. Using a single period for both assessments means that the period 'several annual future periods' will vary depending on how long in the future similar income or expenses are expected to arise. For example, if an entity has a period of approved budgets and forecasts of 5 years and expects a one-off restructuring to give rise to expenses for 1 year in the future, the period for which the entity needs to consider whether future similar restructuring might occur would be 4 years. However, if the entity expects the one-off restructuring to give rise to expenses for 3 years in the future, the period for which the entity needs to consider whether future similar restructuring might occur would be 2 years. Further, the definition would include items of income and expenses expected to cease just before the end of the period of approved budgets and forecasts, with essentially no assessment of whether they will subsequently recur (other than the fact they have been assessed as having ceased).[1] However, the staff think this is an inevitable consequence of linking both the assessments about the future to approved budgets and forecasts—and we think the benefits of doing so in terms of reduced complexity and subjectivity outweigh any disadvantages.

[1] The disclosures proposed in Agenda Paper 21C will enable a user to easily identify such items.

42. The staff also considered whether to require the assessment of whether similar income or expenses will arise in the future to be based on 'reasonable and supportable information', consistent with some assessments required by IAS 36, IFRS 9 *Financial Instruments* and IFRS 17 *Insurance Contracts*. However, part of the need here is to establish a limited time period for the assessments. The assessments that refer to the use of reasonable and supportable information in IFRS 9 and IFRS 17 relate to cash flows that arise over the entire life of a contract, however long, and those in IAS 36 to cash flows over the remaining use of the asset or cash-generating unit. In contrast, the assessments relating to the identification of income and expenses with limited recurrence are intended to focus on limited periods. Paragraph BC132 of the Basis for Conclusions explains that the IASB did not intend to require an entity to consider all possible future reporting periods because doing so would be impractical and would result in relatively few cases of income or expenses being identified as unusual with a resulting loss of useful information.

43. Accordingly, the staff think the assessment of whether similar income or expenses will arise in the future will be based on reasonable and supportable information because it will be based on approved budgets and forecasts. But the staff do not think 'reasonable and supportable information' is itself the right concept to use for the assessment of whether similar income or expenses will arise in the future because it potentially captures information about periods too far in the future.

Questions for the IASB

Q2 Does the IASB agree the definition should include income and expenses that have arisen in the past, as proposed in the Exposure Draft (paragraphs 32–33)?

Q3 Does the IASB agree that the items captured by the definition should be labelled 'income and expenses with limited recurrence' (paragraph 33(b))?

Q4 Does the IASB agree that the definition proposed in the Exposure Draft should be amended to include income and expenses that are expected to recur for a few annual reporting periods (paragraph 34)?

Q5 Does the IASB agree with requiring approved budgets and forecasts to form the basis of the assessments about future income and expenses required by the definition? The assessments are: (a) the assessment of whether similar income and expenses are expected to arise for only a few annual periods; and (b) the assessment of whether they are not expected to arise thereafter for several future annual periods. As a consequence, the definition would refer to 'the period of approved budgets and forecasts' and not 'a few annual periods' and 'several future annual periods'.

High levels of uncertainty about future income and expenses

44. In Agenda Paper 21A of the December 2021 IASB meeting, the staff analysed feedback from a few respondents who said that it is not possible to assess or verify whether it is reasonable to expect similar income and expenses in the future. The staff observed that other IFRS Accounting Standards require an entity to make assessments of future cash flows, and hence of the occurrence of future transactions and other events.

45. In December 2021, the IASB tentatively decided to develop application guidance to help an entity to assess whether similar income or expenses will arise in the future, based on guidance on the assessment of future transactions and other events in other IFRS Accounting Standards. In this paper, the staff recommend requiring the assessment to be based on approved budgets and forecasts, consistent with the requirements in IAS 36 for determining value in use (see paragraphs 38-41).

46. While developing this link with approved budgets and forecasts, the staff considered how the requirements would apply when future income and expenses are subject to very high levels of uncertainty. For example, for entities in some industries, setting budgets and forecasts during Covid may have involved dealing with high levels of uncertainty over future income and expenses.

47. The staff think that in some cases, the level of uncertainty surrounding future income and expenses could be such that an entity is unable to conclude for some items of income and expenses whether, within the period of approved budgets and forecasts, it is reasonable to expect that similar income or expenses will (a) continue or (b) will cease and then not recur. Without application guidance, in such circumstances, it is unclear whether those items of income and expenses should be regarded as within the definition or not.

48. The staff think that such items of income and expenses should be treated as income and expenses with limited recurrence. The fact that their recurrence is subject to such uncertainty would be useful information for users of financial statements. Hence, the staff think it would be helpful to add application guidance to the Accounting Standard that in such circumstance, these items of income or expenses would fall within the definition of income and expenses with limited recurrence. Accordingly, entities would be required to disclose the uncertainty surrounding the recurrence of the items of income and expenses. An example of such disclosure is given in Appendix A of Agenda Paper 21C.

49. The staff also considered an alternative approach to deal with cases of such high levels of uncertainty that an entity is unable to conclude whether similar income or expenses will arise in the future. That approach would be to require the entity to assess whether the income or expenses had limited recurrence by considering only whether similar income or expenses have arisen in the past. If so, the income or expenses would not be regarded as having limited recurrence. The staff rejected such an approach because the occurrence of similar income or expenses in the past does not mean that users of financial statements would not find information useful about the uncertainty about the recurrence of the income or expenses in the future. It would also be inconsistent with the objective of the note, as discussed in paragraphs 19–21 of this paper.

Questions for the IASB

Q6 Does the IASB agree that application guidance should be added on how the definition should apply when expectations about future income and expenses are subject to high levels of uncertainty?

Q7 Does the IASB agree such application guidance should state that an item of income or expense would fall within the definition of income and expenses with limited recurrence if an entity cannot conclude whether, within the period of approved budgets and forecasts, it is reasonable to expect that similar income or expenses will (a) continue or (b) will cease and then not recur.

Appendix A— extracts from the application guidance and the Basis for Conclusions of the Exposure Draft

Unusual income and expenses

EDB67 Paragraph 101 requires an entity to disclose information in the notes about unusual income and expenses. An entity classifies income and expenses as unusual if and only if they have limited predictive value. Hence, income and expenses cannot be classified as unusual if it is reasonable to expect that income or expenses similar in type and amount will arise in any of several future annual reporting periods.

EDB68 In determining whether income or expenses are unusual, an entity shall consider both the type of the income or expense and its amount. For example, an impairment loss resulting from a fire at an entity's factory is normally an unusual type of expense and hence would be classified as an unusual expense because in the absence of other indicators of impairment another similar expense would not reasonably be expected to recur for several future annual reporting periods.

EDB69 Income and expenses that are not unusual by type may be unusual in amount. Whether an item of income or expense is unusual in amount is determined by the range of outcomes reasonably expected to arise for that income or expense in several future annual reporting periods. For example, an entity that incurs regular litigation costs that are all of a similar amount would not generally classify those litigation expenses as unusual. However, if in one reporting period, that entity incurred higher litigation costs than reasonably expected, because of a particular action, it would classify the costs from that action as unusual if litigation costs in several future annual reporting periods were not expected to be of a similar amount. The higher litigation costs are outside the range of reasonably expected outcomes and not predictive of future litigation costs.

EDB70 Income or expenses are classified as unusual based on expectations about the future rather than past occurrences. Hence, it is possible for income or expenses similar to income or expenses reported in previous reporting period(s) to be classified as unusual. For example, an entity may incur an impairment loss resulting from a fire at one of its factories in one period. At the end of that period, the entity classifies the impairment as an unusual expense because it has a reasonable expectation that it will not suffer an impairment loss for several future annual reporting periods. In the next period, the entity once again incurs an impairment loss resulting from a fire at another one of its factories. If the two fires in close succession are not indicative of a developing pattern of fires and impairments, it may be possible for the entity to have a reasonable expectation at the end of the second reporting period that similar expenses will not arise for several future annual reporting periods. If this is the case, the second impairment is also classified as unusual.

EDB71 Expectations about the future will depend on the facts and circumstances of an entity. For example, an entity that undertakes a restructuring programme spanning several reporting periods or that makes regular acquisitions that result in restructuring expenses would not classify these expenses as unusual. However, an entity that undertakes a restructuring programme and that does not expect to incur expenses of a similar type and amount in the next several reporting periods would classify these expenses as unusual.

EDB72 Income and expenses from the recurring remeasurement of items measured at current value would not normally be classified as unusual. Income and expenses from the remeasurement of such items are expected each reporting period and are expected to vary from period to period.

EDB73 When an entity identifies unusual income or expenses it does not classify related income or expenses as unusual unless those related income and expenses are themselves unusual. For example, an entity may identify a sale that gives rise to unusual revenue. In earning that revenue, the entity may incur several related costs, including employee benefit expense, inventory cost and taxes. An entity would only identify as unusual those related costs that meet the definition of unusual.

EDB74 When an entity discloses comparative information about unusual income and expenses it shall only classify amounts that met the definition of unusual income and expenses in the comparative period as unusual income and expenses.

EDB75 An entity’s management performance measure(s) may include some, or all, of its unusual income and expenses. In such cases, the entity may disclose the required information about those unusual income and expenses in the same note that it uses to disclose information about management performance measures provided the entity either:

(a) includes in that note all of the information required by paragraph 101 for unusual income and expenses; or

(b) provides a separate note that includes all of the information required for unusual income and expenses.

Basis for Conclusions on Exposure Draft *General Presentation and Disclosures*

…

Unusual income and expenses

…

EDBC130 Though most unusual items currently disclosed are unusual expenses, entities can have unusual income. Disclosure of both unusual income and unusual expenses contributes to a faithful representation of an entity's performance, helping to ensure that entities provide information that is neutral and complete. Therefore, the definition of unusual items refers to both income and expenses. The Board considered specifying that information about unusual items should be neutral but rejected this as unnecessary because neutrality applies to all items included in the financial statements.

EDBC131 The proposed definition of unusual income and expenses requires an entity to assess whether it is reasonable to expect that income and expenses similar in type or amount will not arise for several future annual reporting periods. The Board proposes using the term 'reasonable to expect' because this term is used in other IFRS Standards and so should be familiar to entities applying the requirement.

EDBC132 The Board did not indicate a specific period over which an entity should assess whether it is reasonable to expect that similar income or expenses will not arise. However, it did not intend to require an entity to consider all possible future reporting periods nor to consider only a short period. Considering all possible future reporting periods would be impractical and would result in few cases of income or expenses being identified as unusual and resulting in a loss of potentially useful information. Considering only a short period could result in income and expenses that have predictive value being identified as unusual. Specifying the period over which an entity should consider whether a similar income or expense will arise would be arbitrary and might not lead to the identification of all income and expenses that have limited predictive value.

EDBC133 The Board recognises that, when assessing whether income and expenses are unusual, it may be helpful to consider the nature of transactions or other events that gave rise to the income or expenses. For example, an entity might conclude that income or expenses (for example, impairment losses) are:

(a) not reasonably expected to arise for several future annual reporting periods and, therefore, should be classified as unusual income or expenses because the transactions or other events that gave rise to the income or expenses are unusual in nature (for example, an earthquake in a non-earthquake prone zone); and

(b) reasonably expected to arise for several future annual reporting periods and, therefore, should not be classified as unusual income or expenses because the transactions or other events that gave rise to the income or expenses are usual in nature (for example, a drop in product prices).

EDBC134 However, the Board concluded that although unusual income or expenses often result from transactions or other events that are unusual in nature, this is not always the case. Transactions or other events that are unusual in nature can give rise to 'usual' income or expenses. For example, an earthquake may give rise to increased costs that are expected to arise for a number of years, and as such are not unusual expenses. Therefore, the Board did not include reference to the nature of underlying transactions and other events in the definition of unusual income and expenses.

EDBC135 The Board noted than an entity need not consider individual transactions when assessing whether income or expenses are unusual. A type of income or expense arising from a group of transactions may be assessed as unusual income or expense.

EDBC136 The proposed definition requires entities to consider whether similar income or expense will recur in the future. It does not require entities to consider whether a similar income or expense has occurred in the past. The occurrence of income or expense in the past does not necessarily indicate that similar income or expense will occur in the future. Therefore, an item of income or expense that occurred in a previous period but is not reasonably expected to recur for several future reporting periods would be identified as an unusual income or expense.

Appendix B— extract from Agenda Paper 21A of the December 2021 IASB meeting setting out the feedback on the proposals in the Exposure Draft

B1. This Appendix reproduces the feedback set out in Agenda Paper 21A of the December 2021 IASB meeting.

Should the IASB define unusual items?

B2. Most respondents commented on this question. Of those that commented, most, mainly from Europe, including almost all users, agreed that the IASB should define unusual items. Some respondents, including a few users, did not agree with the IASB defining unusual items.

Agreement

B3. Users explained that they wish to identify recurring or normalised earnings but have to rely on voluntary disclosures by an entity to do so. Defining unusual items and requiring their disclosure would provide consistent input for users' analysis. Other respondents also indicated they expected defining unusual items would provide useful information.

B4. A few respondents specifically supported the discipline that they expected a definition would provide, thus reducing opportunistic classification of items as unusual.

Concerns

B5. Those respondents that did not support the IASB defining unusual items gave the following reasons:

(a) some, including a few users, said that any definition would be too restrictive—an entity should disclose information about any material income or expenses, not just those that meet the definition of unusual. They said that principles of disaggregation should be strengthened to help ensure that all material items of income or expenses are disclosed.

(b) some said that any definition would inevitably be subject to a large degree of judgement, and that the proposals on management performance measures are sufficient to provide the information that users want.

(c) a few said that previous experience of entities presenting items as extraordinary demonstrated that requiring or allowing items to be labelled as extraordinary/unusual is likely to lead to opportunistic use of the term by entities.

Is the proposed definition appropriate?

B6. Although most respondents agreed the IASB should define unusual items, most, mainly preparers, but also some users, did not agree with the proposed definition. Some, including many users, agreed with the proposed definition.

Agreement

B7. Respondents that agreed with the proposed definition said it would identify income and expenses that are not recurring which would help users assess future cash flows. Some explicitly supported the scope of the definition because they expect it to provide discipline and prevent opportunistic classification of items as unusual. Some explicitly supported the definition referring to income and expenses—they thought this was important to avoid a focus solely on unusual expenses.

Concerns

B8. The staff have grouped the reasons respondents gave for not agreeing with the proposed definition into:

(a) concerns over the scope of the items captured in the proposed definition, often indicating an underlying concern over the IASB's proposed objective for the requirements (see paragraph 21); and

(b) concerns over the subjectivity inherent in the proposed definition (see paragraph 22).

B9. Although most respondents did not agree with the proposed definition, there was no clear consensus on an alternative definition. A few said management should define what is unusual for their specific entity and some suggested aligning the definition of unusual items with definitions and guidance from various regulators, for example the Canadian Securities Administrator, the US Securities and Exchange Commission or the European Securities and Markets Authorities.

B10. The concerns expressed over the scope of the items captured in the proposed definition, often indicating an underlying concern over the IASB's proposed objective for the requirements, were:

(a) some questioned the role of 'limited predictive value';

(b) a few questioned whether unusual items could be dissimilar in type or amount;

(c) some said the definition should include a reference to past occurrence as well as future occurrence;

(d) some said the definition should include items spanning a few annual reporting periods, for example restructuring costs, or unusual income and expenses arising because of the Covid-19 pandemic;

(e) some said unusual items should be defined in terms of income and expenses arising from events or transactions that are non-recurring or unusual in nature rather than focusing on the income or expenses;

(f) a few said the definition should be symmetric, that is that income or expense can meet the definition of unusual if their amounts are either higher or lower than expected;

(g) some questioned whether the unusual item is the whole item of income or expenses or the portion that is different from that expected in the future;

(h) a few said the definition should only apply to items of operating income or expenses, or items that are unusual for an entity's main business activities; and

(i) some said the definition should be explicitly limited to material or significant unusual items.

B11. The concerns expressed over the subjectivity inherent in the definition were:

(a) a few said the definition was highly judgemental and unverifiable, to the extent that it would not result in predictive or complete information. They argued that it is not possible to assess or verify whether it is reasonable to expect similar income and expenses in the future; and

(b) many requested further guidance on, for example:

    (i) similar in type; and

(ii) several future annual reporting periods.

Appendix C—Detailed feedback from outreach with users of financial statements

Extracts from CMAC meeting summary

Unusual income and expenses

Using information about unusual income and expenses

C1. CMAC members described various ways they would use information about unusual items, including:

(a) as an input for their forecasts;

(b) to help them better understand the entity's performance; and

(c) as a screening tool to help them to assess the quality of earnings.

C2. Many members commented on the importance of a narrative description of the unusual income or expenses, especially an explanation of why the item was unusual and whether (and, if so, when) it had occurred in previous periods.

Importance of disclosing information in a single note and using the label 'unusual' for the defined items

C3. All members agreed that the information should be disclosed in a single note. If the information were included in varied locations, it could be hard to find, and comparing various entities' information could be difficult.

C4. Some members commented that it was important that entities were disciplined in using the label 'unusual'. Describing income and expenses that recur routinely as unusual could be misleading.

Basis for the definition of 'unusual income and expenses'

C5. Some members preferred a broad definition that would capture a wide range of non-recurring items. They wanted information about such items, not just a narrow set of highly exceptional items. Users are also looking for information about varied things, depending on their needs. A broad definition would enable users to choose which items they would exclude from an ongoing earnings calculation. However, a few members would prefer the definition to focus on preventing recurring items from being portrayed as 'unusual'.

C6. On the specific topics raised by the IASB staff:

(a) some members said the definition should include income and expenses that have occurred in the past (as proposed in the Exposure Draft). A member gave an example of natural disasters that might have occurred in a recent annual financial reporting period, but should still be deemed to be unusual if they occurred again in the current period.

(b) most members said the definition should include income and expenses that occur in a few annual periods (rather than just the current period, as proposed in the Exposure Draft). Some members said information about when such items had occurred in the past and for how long they were expected to continue in the future would be important.

Other comments

C7. Some members commented on the relationship between unusual income and expenses as defined by the IASB and items excluded from management performance measures:

(c) one member said that there would not be a loss of information if the IASB establishes a narrow definition of unusual items because items not defined as 'unusual' would be identified in the management performance measures.

(d) other members did not want to rely on items being picked up by management performance measures because those measures were decided by the entity, and information about unusual income and expenses could be lost if the entity did not use management performance measures to report on them.

(e) other members said that useful information was provided by comparing unusual income and expenses as defined by the IASB and items excluded from management performance measures.

C8. A few members stressed the importance of applying the definition consistently in different accounting periods.

C9. One member suggested a more restrictive definition for 'unusual expenses' and a broader definition for 'unusual income'.

C10. One member suggested including information on tax and non-controlling interests for each unusual item.

C11. Similar feedback was given by other users in a separate meeting.

Example discussed with users

C12. Fact pattern: expenses relating to a one-off restructuring exercise are expected to arise over years 1-3. No other restructuring has occurred for many years, nor is another expected for many years.

C13. Summary of outcomes of whether the restructuring expenses would meet the definition of unusual expenses in the Exposure Draft and possible amended definitions:

	Year 1	**Year 2**	**Year 3**
Proposals in ED	***Not unusual*** (expected to recur)	***Not unusual*** (expected to recur)	***Unusual*** (not expected to recur)
Amendment to require comparison with past but not to include expenses arising over a few periods	***Not unusual*** (expected to recur)	***Not unusual*** (happened in past and expected to recur)	***Not unusual*** (happened in past)
Amendment to include expenses arising over a few periods but not to require a comparison with past	***Unusual*** (expected to recur for only a few periods)	***Unusual*** (expected to recur for only a few periods)	***Unusual*** (not expected to recur)
Amendment to require comparison with past and to include expenses arising over a few periods	***Unusual*** (expected to recur for only a few periods)	***Unusual*** (expected to recur or has occurred for only a few periods)	***Unusual*** (not expected to recur and has occurred in the past for only a few periods)

C14. There was strong support from all users who expressed a view for information about the restructuring expenses to be given in the note on unusual items in each of the three years.