



STAFF PAPER

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Project	Primary Financial Statements	
Paper topic	Income and expenses with limited recurrence—disclosure	
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Objective

1. This paper accompanies Agenda Paper 21B *Unusual income and expenses (income and expenses with limited recurrence)*. It considers how to structure the note on income and expenses with limited recurrence. It also considers what disclosures should be required for income and expenses that meet the definition of income and expenses with limited recurrence *because of their amount*, and as part of that discussion whether income and expenses that are lower than those expected in the future should be included in the definition.

Summary of staff recommendations

2. The staff recommend the IASB:
 - (a) require the note on income and expenses with limited recurrence to be divided into sections so income and expenses with different recurrence characteristics can be identified easily. The sections would be:
 - (i) income and expenses that are expected to arise only in the current annual reporting period;
 - (ii) income and expenses that are expected to arise for a few annual reporting periods; and

- (iii) other income and expenses with limited recurrence, being income and expenses that (i) meet the definition of income and expenses with limited recurrence and (ii) are expected to have occurred for more than the period of approved budgets and forecasts by the time they cease.
- (b) in determining which items fall into which of these groups, require an entity to use an equivalent period for assessing whether similar income or expenses have *arisen in the past* to the period it considers in assessing whether similar income or expenses *are expected to arise in the future*, that is the period of approved budgets and forecasts (see paragraph 10).
- (c) continue with the disclosure requirements proposed in the Exposure Draft, reworded to reflect the staff recommendations in Agenda Paper 21B:
 - (i) the amount of the item with limited recurrence recognised in the reporting period;
 - (ii) a narrative description of the transaction or other events that gave rise to the item and why 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; and
 - (iii) the line item(s) in the statement (s) of financial performance in which the item is included.
- (d) add disclosure requirements:
 - (i) disclosure of the period covered by approved budgets and forecasts;
 - (ii) for items that that have arisen or are expected to arise for only a few annual periods, disclosure of any past periods in which they have arisen and any future periods in which they are expected to arise; and
 - (iii) for items that have arisen for more than a few annual periods in the past, disclosure of any future periods in which they are expected to arise.
- (e) continue to include in the definition income and expenses that are dissimilar to those expected to arise in the future because they are lower in amount; and

- (f) for such items of income and expenses, reconfirm the proposal to require disclosure of the amount recognised in the period and an explanation of why that amount has limited recurrence.

Structure of the paper

- 3. This paper is structured as follows:
 - (a) Staff analysis
 - (i) staff analysis on how to divide the note on income and expenses with limited recurrence (paragraphs 4–22); and
 - (ii) disclosures for income and expenses that have limited recurrence because of their amount (paragraphs 23–32); and
 - (b) Appendix A—Example of a note on income and expenses with limited recurrence divided into sections

Staff analysis

Division of the information given in the note

- 4. In Agenda Paper 21B the staff recommended:
 - (a) establishing a broad definition for income and expenses with limited recurrence; and
 - (b) requiring the note which provides information about such income and expenses to be divided into sections so that users can easily identify income and expenses with different recurrence characteristics. Hence, if users were interested in only a narrow set of items, they would be able to easily identify them.
- 5. Establishing a broad definition responds to the feedback from many users who want information about a broad range of non-recurring items. Possible wording for the definition recommended in Agenda Paper 21B 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.

6. To respond to the feedback from users who wanted some discipline and transparency over amounts described by an entity as ‘unusual’, the staff have developed a way of dividing the information provided in the note.
7. The division would require the income and expenses captured by the definition to be split into:
 - (a) income and expenses that are expected to arise only in the current annual reporting period (see paragraphs 9–11);
 - (b) income and expenses that have arisen or are expected to arise for only a few annual reporting periods (see paragraphs 12–13); and
 - (c) other income and expenses that meet the definition of income and expenses with limited recurrence (the residual group) (see paragraphs 14–15).
8. An example of the periods in which an item in each of the groups described in paragraph 7 could arise is illustrated in this table, and an example of a note divided into such sections is given in Appendix A.

Annual reporting period	-4	-3	-2	-1	Current	1	2	3
Items expected to arise only in the current period					X			
Items that have arisen or are expected to arise only in a few annual periods				X	X	X		
Other items with limited recurrence	X – and also in prior periods	X	X	X	X	X	X	

9. Items expected to arise only in the current period are items that:
 - (a) have not arisen in several immediate past annual periods (see paragraph 10); and
 - (b) are not expected to arise in future periods covered by approved forecasts and budgets.

10. The question of how far back an entity should look to determine whether an item has arisen in the past is similar to the question of how far forward the entity should look in the future to identify whether similar income or expenses are expected to arise in the future. It is not possible to require these items simply to not have arisen in the past, because doing so would exclude any item that had ever arisen at any time in the existence of the entity, resulting in an increasingly tiny population of items that would be included in this section of the note. The staff recommends using the same length of period (the period of approved budgets and forecasts) to look back as to look forward to avoid the complexity of having to specify periods of different lengths.

11. Identifying items expected to arise in only the current period responds to feedback from those who wanted the definition of unusual items to require a comparison with income and expenses that have arisen in the past and those who wanted to impose discipline on the items reported as ‘unusual’.

12. An item that has arisen or is expected to arise for only a few annual periods is an item:
 - (a) that is expected to cease by the end of the period of approved budgets and forecasts;
 - (b) that when ceased, is not expected to arise again in the period of approved budgets and forecasts; and
 - (c) for which the total of (i) the annual periods in which the items has arisen in the past and (ii) the annual periods it is expected to arise in the future does not exceed the period of approved budgets and forecasts.

13. Such an item can have arisen only in a limited number of past annual periods. Identifying such items responds to feedback from those who wanted the definition of unusual items to exclude income and expenses that have arisen in the past—this group of items only includes income and expenses that have arisen in the past to the extent of the amendment to the definition to include items that are expected to arise for a few

annual periods, as recommended in paragraph AP21B. Accordingly, those who wanted such an amendment but did not want the definition to include income and expenses that have arisen in the past beyond those few annual periods would find the information about the items they would be interested in by looking at the sections of the note covering the items in the first two groups described in paragraph 7.

14. Other items that meet the definition is a residual group. It includes items that:
 - (a) have arisen in the past in more than a few annual reporting periods; but
 - (b) are now expected to cease by the end of the period of approved budgets and forecasts, and when ceased will not arise again in the period of approved budgets and forecasts.

15. As discussed in Agenda Paper 21B, the inclusion in the definition of income and expenses that have arisen in the past is consistent with the proposed definition in the Exposure Draft and responds to feedback from those who wanted information about a broad range of non-recurring items. Reporting these items of income and expenses separately in the note responds to feedback from users that wanted a narrower definition—they can identify the items that would meet a narrower definition by looking at the other groups of items in the note.

Information required for each group of items with limited recurrence

16. Dividing the income and expenses captured by the definition allows the IASB to require different information to be disclosed for each type of income and expenses.

17. The information proposed to be disclosed in the Exposure Draft (paragraph 101) was:
 - (a) the amount of each item of unusual income or expense recognised in the reporting period;
 - (b) a narrative description of the transactions or other events that gave rise to the item and why income or expenses that are similar in type and amount are not expected to arise for several future annual periods;
 - (c) the line item(s) in the statement(s) of financial performance in which the item is included; and
 - (d) where in the analysis of operating expenses by nature the item is included.

18. The staff will consider what information should be given about the nature of income and expenses with limited recurrence (paragraph 17(d)) after the IASB has completed its redeliberations on the disclosure of information about operating expenses by nature.
19. Other than that requirement, the staff think the same general information remains relevant for items in all three groups, reworded to reflect the new label and definition:
 - (a) the amount of each item of income or expense with limited recurrence recognised in the reporting period;
 - (b) a narrative description of the transactions or other events that gave rise to the item and why 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; and
 - (c) the line item(s) in the statement(s) of financial performance the item is included.
20. The staff recommendations in Agenda Paper 21B result in the period of approved budgets and forecasts playing an importance role in the definition of income and expenses with limited recurrence. Accordingly, the staff recommend the IASB also require disclosure of what that period is.
21. For items that have arisen or are expected to arise for only a few annual periods, the staff think an entity should also provide information about the expected total duration of the items by disclosing:
 - (a) in which past periods the item has already arisen—to provide an explanation of the inclusion of the item in this group of items (rather than the residual group); and
 - (b) in which future periods the item is expected to arise—to provide information users might use as input for their models.
22. For the residual group, the staff think an entity should also disclose the future periods in which the item is expected to arise, again to provide information users might use as input for their models.

Questions for the IASB

Q5 Does the IASB agree that the note on income and expenses with limited recurrence should be divided so different types of income and expenses can be identified:

- (a) income and expenses expected to arise only in the current annual reporting period;
- (b) income and expenses that have arisen or are expected to arise for only a few annual reporting periods; and
- (c) other income and expenses with limited recurrence.

Q6 In determining which items fall into which of these groups, does the IASB agree that the period an entity should consider in assessing whether similar income or expenses *have arisen in the past* should be equivalent to the period it considers in assessing whether similar income or expenses *are expected to arise in the future*, that is the period of approved budgets and forecasts (see paragraph 10)?

Q7 Does the IASB agree to retain the disclosure requirements proposed in the Exposure Draft:

- (d) the amount of each item with limited recurrence recognised in the reporting period;
- (e) a narrative description of the transaction or other events that gave rise to the item and why the item meets the definition of an item with limited recurrence; and
- (f) the line item(s) in the statement(s) of financial performance the item is included.

Q8 Does the IASB agree to add requirements to disclose:

- (g) the period covered by approved forecasts and budgets;
- (h) for items that that have arisen or are expected to arise for only a few annual periods, disclosure of any past periods in which they have arisen and any future periods in which they are expected to arise; and

- (i) for items that have arisen for more than a few annual periods in the past, disclosure of any future periods in which they are expected to arise.

Disclosure of income and expenses with limited recurrence because of their amount

23. In considering the structure of the note on income and expenses, the staff also considered questions relating to the disclosure of income and expenses with limited recurrence because of their amount. Agenda Paper 21A of the December 2021 IASB meeting explained that the definition of unusual items proposed in the Exposure Draft included income and expenses that were unusually low, as well as income and expenses that were unusually high. Such a symmetric definition is appropriate because otherwise the information disclosed about unusual income and expenses would not be neutral. The staff think that the conclusion remains valid when considering the broad definition proposed in Agenda paper 21B for income and expenses with limited recurrence—information about the limited recurrence of a low amount of income or expense could be just as useful as information about the limited recurrence of a high amount of income and expense.
24. Agenda Paper 21A of the December 2021 IASB meeting also explained that including ‘unusually’ low amounts in the definition raises questions about the amount that should be required to be disclosed. Is the amount to be disclosed as the unusual item the whole amount or the difference from the amount that is expected to arise in the future? For example, if travel expenses were 100, which because of Covid is much lower than expected to arise in the future, does the entity disclose unusual expenses of 100 or is it required to determine either:
- (a) what specific amount of travel expenses would have arisen had Covid not happened; or
 - (b) what specific amount of travel expenses is reasonably expected in future?
25. In fact, this question arises not just for amounts that are lower than expected in the future but also for amounts that are higher than expected in the future, that is, the

question arises for any income and expenses that are dissimilar *in amount* to those expected in the future.¹

26. Agenda Paper 21A of the December 2021 IASB meeting described an approach consistent with the proposals in the Exposure Draft whereby the amount disclosed for the unusual item would be the amount recognised in the period, not the difference between the recognised amount and the amount expected to arise in the future or the amount that would have ‘usually’ arisen.
27. Applying that approach to the example in paragraph 24 of this paper, applying the disclosure requirements proposed in the Exposure Draft the entity would disclose 100 as unusual travel expenses, and give a narrative explanation of why that is unusual, for example, travel expenses are usually expected to be significantly higher, or are usually expected to be in the range of 1000-1500.
28. Agenda Paper 21A of the December 2021 IASB meeting explained that such an approach avoids an entity being required to determine a subjective single hypothetical amount. However, it might not give the most intuitive answer—the unusual amount is the difference between the 100 and the 1000-1500. Such an approach also potentially makes less direct the relationship between the items meeting the definition and adjustments made to IFRS Accounting Standard numbers to determine management performance measures, thereby potentially making any combined disclosure for them difficult.
29. The staff think that relabelling the items as ‘income and expenses with limited recurrence’ rather than ‘unusual’ helps with these concerns because the amount that has limited recurrence is 100, not the difference between 100 and the amounts expected in the future. In relation to the 100 not being the amount of an adjustment that management or users of financial statements might make to determine recurring or normalised earnings, it was never the IASB’s intention to identify such an earnings number. Rather it was to provide information to help users of financial statements

¹ It does not arise for income and expenses that are dissimilar in type to those expected in the future because for those income and expenses the whole amount recognised is dissimilar to that expected in the future.

make their own adjustments. The *explanation* of why income and expenses have limited recurrence is essential to knowing what adjustments might be needed, not just the amount of the income and expenses.

30. The staff also observe that adding together amounts recognised for items with limited recurrence because of their amount provides limited information. For example, if in the example in paragraph 24 there were another unusually low expense of 500 (usual amount between 3000-4000), the total of 100 plus 500 is not an amount that could be used as an adjustment to arrive at ‘recurring’ or ‘normalised’ earnings.
31. However, the staff observe that the objective of the note is not to provide a total that can be used as a single adjustment to arrive at ‘normalised’ earnings, and there will be no requirement to give totals of amounts in the note. Rather it is to provide users with information about the different recurrence characteristics of income and expenses. As noted in paragraph 29, it is the explanation of why income and expenses have limited recurrence that provides useful information.
32. Accordingly, the staff conclude that:
 - (a) income or expenses that are lower than those expected to arise in the future should continue to be captured by the definition; and
 - (b) disclosure of the amount recognised and an explanation of why that amount has limited recurrence should continue to be required.

Question for the IASB

Q9 Does the IASB agree that:

- (c) income or expenses that are lower than those expected to arise in the future should continue to be captured by the definition; and
- (d) disclosure of the amount recognised and an explanation of why that amount has limited recurrence should continue to be required?

Appendix A—Example of a note on income and expenses with limited recurrence divided into sections

A1 This appendix sets out a simplified illustration (without comparatives) of what the note on income and expenses with limited recurrence divided into sections might look like.

Income or expenses with limited recurrence

Expenses expected to arise only in the current period

Income or expense	Amount recognised	Line item in statement of profit or loss in which income or expense included
Impairment of holiday complex X	1000	Impairment of property, plant and equipment
<p>Holiday complex X is situated in Y which has suffered severe environmental damage from an oil spill. The clean-up from the spill is expected to take a few years. We bear no responsibility for the clean-up or any associated costs. However, demand for holidays at the complex is expected to be very low throughout the clean-up period. Accordingly, we have closed the complex until the clean-up operation is completed. That closure has resulted in an impairment loss of 1000 relating to the carrying amount of the holiday complex. Further information on the effect of the closure is given below.</p>		
Income tax reform	2000	Tax expense
<p>Jurisdiction X enacted a tax reform this year that results in an additional one-off tax expense in this period. Further details of the tax reform are given in note y on income taxes.</p>		

Expenses expected to arise for only a few annual periods

Income or expense	Amount recognised	Line item in statement of profit or loss in which income or expense included
Restructuring	500	Restructuring
<p>We are in the process of restructuring our activities in jurisdiction Y to align with our activities in other jurisdictions. We expected this process to take four years. We are now in the second year and the process is progressing as expected. A similar amount was recognised in 20X0 and is expected to arise in each of 20X2 and 20X3.</p>		
Temporary closure of holiday complex X	400	Revenue 950
		Cost of sales (500)
		Admin expenses (50)
<p>As described above, we have temporarily closed the holiday complex at X until the environmental clean-up is complete. The amounts recognised this year arose only in the first quarter of the year before the closure. They are substantially lower than the annual amounts we have recognised in the past and that we expect to arise when we re-open the holiday complex. We expect to re-open the complex in early 20X3 [two years after the current annual reporting period].</p>		

Other income and expenses with limited recurrence

Income or expense	Amount recognised	Line item in statement of profit or loss in which income or expense included
Activities in jurisdiction W	250	Revenue 550
		Cost of sales (200)
		Admin expenses (100)
<p>Jurisdiction W is suffering from severe political instability to the extent we are unable to assess the extent of our activities there in the future. Accordingly, we are unable to assess whether or not similar revenue and expenses will arise in future periods.</p>		