Staff paper

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IASB® meeting

Date	**October 2023**
Project	**Primary Financial Statements**
Topic	**Sweep issues related to aggregation and disaggregation and other topics**
Contacts	Dennis Deysel (ddeysel@ifrs.org) Yoshiki Kashioka (yoshiki.kashioka@ifrs.org) Roanne Hasegawa (rhasegawa@ifrs.org) Aida Vatrenjak (avatrenjak@ifrs.org)

Objective of this paper

1. In July 2023, the IASB gave the staff permission to start the balloting process for the publication of the new IFRS Accounting Standard, IFRS 18 *Presentation and Disclosure in Financial Statements*. During the pre-ballot, the staff have identified issues related to aggregation and disaggregation and other topics on which we would like the IASB's input. The issues identified are:

   (a) presentation of cost of sales;

   (b) hierarchy of characteristics for the statement of financial position; and

   (c) transitional relief for additional comparative information.

2. We have also identified other minor sweep issues that we have addressed in drafting. Appendix A summarises the issues and approaches taken to address them in drafting. The issues discussed in Appendix A are:

   (a) accounting policy choices for entities that provide financing to customers as a main business activity;

(b) classification of income and expenses from specific hybrid contracts by entities that provide financing to customers as a main business activity;

(c) classification of gains and losses on a derivative not used to manage identified risks and related to a transaction that involves only the raising of financing by entities that provide financing to customers as a main business activity;

(d) classification of income and expenses on assets or disposal groups held for sale;

(e) classification of expenses arising from increases in the present value of the costs to sell a non-current asset (or disposal group) held for sale that arise from the passage of time;

(f) specified subtotal comprising operating profit and all income and expenses in the investing category;

(g) requirement to present separately each material class of similar items in IAS 1 *Presentation of Financial Statements*;

(h) disclosure of specified expenses by nature—scope of entities required to provide the disclosure and scope of line items subject to the requirement;

(i) disclosure of specified expenses by nature—scope of employee benefits;

(j) requirement to disclose a reconciliation of the statement of profit or loss in interim financial statements;

(k) whether to provide relief for paragraph 28(g) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in transition to IFRS 18; and

(l) relationship between the requirements of IFRS 14 *Regulatory Deferral Accounts* with the requirements in IFRS 18 and amendments to IAS 33 *Earnings per Share.*

Summary of staff recommendations

3. We recommend that the IASB:

(a) require an entity to present a line item for cost of sales separately from any other expenses classified by function if the entity classifies operating expenses by function that include cost of sales;

(b) include a hierarchy for the characteristics for presentation in the statement of financial position by explaining in IFRS 18 that:

(i) nature or function are characteristics used to aggregate assets and liabilities into separate line items in the statement of financial position—other characteristics, like duration, liquidity, measurement basis, type and tax effects, assist an entity to determine the nature or function of an item; and

(ii) the duration and timing of recovery and settlement are characteristics that are used when classifying assets and liabilities as either current and non-current and liquidity is a characteristic that is used to classify assets and liabilities by order of liquidity.

Structure of the paper

4. This paper is structured as follows:

(a) presentation of cost of sales (paragraphs 5–27)

(b) hierarchy of characteristics for the statement of financial position (paragraphs 28–37);

(c) transitional relief for additional comparative information (paragraphs 38–48);

(d) other minor sweep issues (paragraph 49);

(e) Appendix A—Other minor sweep issues; and

(f) Appendix B—Application guidance on the characteristics of nature or function.

Presentation of cost of sales

Background

5. Based on the IASB's tentative decisions to date, IFRS 18 would require an entity that presents one or more line items for operating expenses classified by function in the statement of profit or loss to:

   (a) present a line item for its cost of sales; and

   (b) include inventory expense as specified in paragraph 36(d) of IAS 2 *Inventories* in that line item.

6. The requirement described in paragraph 5(a) is based on a similar requirement in IAS 1 which requires an entity that presents expenses using the function of expense method to disclose its cost of sales separately from other expenses.[1] The IASB tentatively decided to add the requirement described in paragraph 5(b) to help reduce diversity in practice about which costs are included in cost of sales and thereby improve comparability between entities that present cost of sales.[2]

7. However, we have identified some circumstances in which the tentative decision described in paragraph 5(a) could be problematic when considered in conjunction with the IASB's tentative decision to withdraw the proposed prohibition on presenting operating expenses with some classified by function and others classified by nature (a mixed presentation).[3]

Staff analysis, staff recommendation and question for the IASB

8. In practice, an entity that presents some or all line items for expenses classified by function commonly presents a line item for cost of sales (or a similarly described line

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[1] See paragraph 103 of IAS 1 *Presentation of Financial Statements*.

[2] See paragraphs 19–22 of Agenda Paper 21F of the September 2022 IASB meeting and IASB and joint IASB–FASB Update September 2022.

[3] See IASB and joint IASB–FASB Update September 2022.

item, such as cost of goods sold). Those entities that use a mixed presentation typically classify operating expenses mainly by function but also present separate line items for specific types of expenses by nature, such as impairment of goodwill and disposal gains or losses.[4]

9. However, in some cases, entities classify and present operating expenses unrelated to cost of sales by function (for example selling and distribution, exploration, research and development) and classify expenses related to cost of sales by nature (for example purchases, materials or energy consumed).

10. IFRS 18 will require an entity to use the characteristics of nature or function to classify and aggregate its operating expenses into line items, in a manner that provides the most useful information about those expenses. IFRS 18 will also contain application guidance on whether to present line items for operating expenses classified by nature or by function (or some expenses by nature and other expenses by function) (see Appendix B). That application guidance includes considering what line items would provide the most useful information about the main components or drivers of the entity's profitability. The guidance provides examples of situations when presenting a line item for cost of sales could provide relevant information.

11. However, when applying the application guidance on whether to classify operating expenses by nature or function (or use a mixed presentation), it is possible that an entity might conclude that to provide the most useful information, it should present most of its operating expenses classified by nature, except for expenses relating to a specific activity that is not part of the entity's main revenue-generating activities for the period. For example, an entity might conclude that it should present a line item for expenses relating to its research and development activities, with the remainder of its line items presented by classifying expenses by nature.

12. In this situation, the entity would be faced with an inconsistency between:

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[4] See paragraph 35 of Agenda Paper 21F of the December 2020 IASB meeting for expenses presented separately by nature by fieldwork participants using a mixed presentation.

(a) its conclusions on how to present operating expenses to provide the most useful information, which indicates that cost of sales should not be presented; and

(b) the requirement to present cost of sales when an entity presents one or more line items for operating expenses classified by function.

13. It may be unclear whether the entity should resolve that inconsistency by:

(a) presenting a line item for cost of sales—notwithstanding that doing so would result in its statement of profit or loss not providing the most useful information about its operating expenses and could give rise to practical difficulties (for example, allocating expenses to cost of sales could be difficult if there is not a direct link between revenue and costs incurred to generate that revenue and the entity does not report internally by function); or

(b) reconsidering its conclusion that it should present a function line item for operating expenses relating to its research and development activities and instead classify those expenses by nature—notwithstanding that doing so would mean its statement of profit or loss would not provide the most useful information about those expenses.

14. Although we do not expect that the situation described in paragraphs 11–13 to be common, we think it could be a reasonably possible situation and have observed such situation in practice today (see paragraph 9). We have identified two options to resolve this issue for the IASB to consider:

(a) Option 1: remove the specific requirement for an entity that presents one or more line items for operating expenses classified by function to present cost of sales and instead rely on other requirements in IFRS 18 (paragraphs 15–17); or

(b) Option 2: retain the specific requirement to present cost of sales but modify its application (paragraphs 18–23).

Option 1: remove the specific requirement

15. Option 1 is the simplest solution to the issue described in paragraphs 11–13. Although withdrawing the specific requirement to present cost of sales could raise concerns about the potential loss of useful information in the statement of financial performance, we think the risk of such loss is limited. This is because an entity would still need to apply other applicable requirements in IFRS 18 on the presentation of operating expenses, including the requirements for an entity to:

    (a) present operating expenses in a manner that provides the most useful information about those expenses;

    (b) consider the factors set out in the application guidance when determining how to present operating expenses to provide the most useful information, including considering whether presenting a line item for cost of sales would provide relevant information; and

    (c) aggregate and disaggregate items in the primary financial statements to fulfil the role of the primary financial statements[5].

16. We expect that when applying those requirements in practice, an entity that currently presents cost of sales would continue to do so. For example, a manufacturing entity that currently presents cost of sales would likely conclude that it should continue doing so upon application of IFRS 18 because, for example, presenting cost of sales would provide the most useful information about the main components or drivers of its profitability. Other factors in the application guidance on operating expenses are also likely to support that conclusion for such an entity. We also expect that the general and specific requirements on aggregation and disaggregation in IFRS 18 would further support the conclusion that the entity should continue to present cost of

[5] The role of the primary financial statements is to provide a structured summary of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows, which is useful for:

(a) obtaining an understandable overview of the entity's recognised assets, liabilities, equity, income, expenses and cash flows;

(b) making comparisons between entities, and between reporting periods for the same entity; and

(c) identifying items or areas about which users of financial statements may wish to seek additional information in the notes.

sales separately, rather than aggregating cost of sales with any other expenses classified by function.

17. Therefore, it could be argued that retaining a specific requirement to present cost of sales separately from other expenses when an entity presents operating expenses classified by function is not necessary.

Option 2: modify the specific requirement

18. Option 2 would retain the requirement to present cost of sales, but would modify its application, so that the requirement does not apply in all cases when an entity presents one or more line items for operating expenses classified by function.

19. To identify the circumstances in which the requirement to present cost of sales should apply, we considered the rationale for the requirement in IAS 1. Although the Basis for Conclusions to IAS 1 does not include a discussion of that rationale, we think the rationale can be inferred from paragraph 103 of IAS 1, which describes the function of expense method and states:

> The second form of analysis is the 'function of expense' or 'cost of sales' method and classifies expenses according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities. At a minimum, an entity discloses its cost of sales under this method separately from other expenses. This method can provide more relevant information to users than the classification of expenses by nature, but allocating costs to functions may require arbitrary allocations and involve considerable judgement. […]

20. We think that the requirement in IAS 1 to present cost of sales *separately from other expenses* was to ensure that an entity that classifies expenses by function does not aggregate its cost of sales with other expenses classified by function. Consistent with that rationale, we think that if the operating expenses classified by function include

expenses relating to cost of sales, the IASB could require the entity to present a line item for cost of sales separately from any other expenses classified by function.

21. That approach would mean that the requirement to present cost of sales would not apply in the situation described in paragraphs 9 and 11–13. Instead, the requirement would apply only when an entity, having considered the requirements in IFRS 18 on classifying and presenting operating expenses, concludes that it should classify and present expenses by function that include cost of sales.

22. Furthermore, we think that Option 2 would be operational in a more complex situation in which an entity has two different types of revenue-generating activities and decides to classify some expenses by their function and other expenses by their nature to provide information about the main drivers of its profitability. The requirement to present cost of sales separately from other expenses classified by function would apply only to those expenses classified by function, not those classified by nature.

23. Option 2 therefore would address the issue discussed in paragraphs 11–13. It also would:

    (a) retain the existing requirement in IAS 1, as proposed in the Exposure Draft *General Presentation and Disclosures* (Exposure Draft), while clarifying the application of that requirement so that it works with other requirements of IFRS 18.

    (b) avoid any unintended changes to existing practice, which could occur under Option 1. For example, entities might think the removal of the specific requirement to present cost of sales separately from other expenses indicates that the IASB no longer thinks it important for entities to present cost of sales separately.

Including inventory expense in cost of sales

24. Irrespective of whether the IASB chooses Option 1 or Option 2, we think that the IASB's tentative decision to require inventory expense to be included in cost of sales

need not be revisited. That specific requirement applies only to those entities that present a line item for cost of sales.

Staff recommendation and question for the IASB

25. In the staff view, Option 2 provides a more targeted response to the issue described in paragraphs 11–13. Cost of sales is a key line item when operating expenses relating to the entity's revenue-generating activities are classified and presented by function, which facilitates the calculation of some performance metrics, such as margins. That suggests a more targeted response is appropriate, whereas Option 1 could be viewed as an overreaction to the issue described in paragraphs 11–13.

26. We also think Option 2 is consistent with the IASB's approach to other specific line items IAS 1 requires entities to present in the statement(s) of financial performance, where the IASB has decided to retain the specific requirements, with the clarification that they are subject to roles of primary financial statements.

27. We therefore recommend Option 2, that is, if an entity classifies operating expenses by function that include cost of sales, the IASB should require the entity to present a line item for cost of sales separately from any other expenses classified by function.

Question for the IASB
1. Does the IASB agree with the staff recommendation in paragraph 27?

Hierarchy of characteristics for the statement of financial position

Background

28. For the line items to be presented in the statement of financial position, the IASB decided that IFRS 18 would:[6]

[6] Appendix B of Agenda Paper 21 of this meeting summarises the IASB decisions in response to comments received on the December 2019 Exposure Draft *General Presentation and Disclosures* (Exposure Draft).

(a) include the requirements of IAS 1 for the classification of assets and liabilities between current and non-current assets and current and non-current liabilities or based on an order of liquidity.

(b) include, almost unchanged, the list of line items in paragraph 54 of IAS 1. The only change would be the requirement to present goodwill separately from other intangible assets.

(c) require an entity to present in its statement of financial position the line items listed in paragraph 54 of IAS 1 (as amended) unless doing so does not fulfil the role of the primary financial statements. Conversely an entity shall present additional line items in the statement of financial position if such presentations are necessary to fulfil the role of the primary financial statements (see footnote 5 added to paragraph 15(c)).

(d) explain that an entity bases its judgement in paragraph (c) on an assessment of whether the items have similar or dissimilar characteristics.

(e) include as application guidance a list of characteristics for aggregation or disaggregation of line items.

29. Paragraph 22 of Agenda Paper 21D of the September 2021 IASB meeting includes a list of the characteristics referred to in paragraph 28(e) for aggregation or disaggregation of line items (the list was not intended to be exhaustive):

(a) characteristics relating to all items in the financial statements:

(i) nature;

(ii) function;

(iii) measurement basis;

(iv) size of the item;

(v) geographical location or regulatory environment;

(vi) type (for example, type of good, service or customer);

(vii) tax effects (for example, if assets or liabilities have different tax bases); and

(b) characteristics relating particularly to assets, liabilities and equity:

(i) duration and timing (including current/non-current and whether part of the operating cycle);

(ii) liquidity;

(iii) measurement uncertainty or outcome uncertainty (ie risks associated with an item); and

(iv) restrictions on the use of an asset.

30. To date, the IASB has not decided whether there should be a hierarchy for these characteristics. Therefore, an entity would consider all the characteristics (including others not listed in the Standard) on an equal basis.

Staff analysis, staff recommendation and question for the IASB

31. Applying IAS 1, an entity determines the line items to present in its statement of financial position considering:

(a) the duration and timing of recovery or settlement of, or the liquidity of, the entity's assets and liabilities. Paragraph 60 of IAS 1 requires an entity to classify its assets and liabilities between current and non-current assets and current and non-current liabilities, except when a presentation based on liquidity provides information that is reliable and more relevant. Paragraph 64 of IAS 1 permitted an entity to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations.

(b) the line items required by paragraph 54 of IAS 1. Paragraph 57 of IAS 1 explains that the items listed in paragraph 54 of IAS 1 warrant separate presentation because they are sufficiently different in nature or function, unless (according to paragraph 29 of IAS 1) a line item is individually not material.[7]

(c) whether additional line items (or additional subclassifications) would be relevant to an understanding of the entity's financial position. Paragraph 57(a) of IAS 1 explains that separate line items are included when the size, nature or function of an item (or aggregation of similar items) is such that separate presentation is relevant to an understanding of the entity's financial position. Paragraph 78 of IAS 1 also explains that detail provided in subclassifications of line items depends on the requirements of IFRS Accounting Standards and on the size, nature and function of the amounts involved. An entity also uses the factors set out in paragraph 58 to decide the basis of subclassification.

(d) paragraph 58 of IAS 1 says an entity makes the judgement about whether to separately present additional line items on the basis of an assessment of:

(i) *for assets*—their nature and liquidity, and their function within the entity. Paragraph 59 of IAS 1 says the use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, an entity presents them as separate line items.

(ii) *for liabilities*—their amount, nature and timing.

32. Comparing IAS 1 to IFRS 18 for presenting line items in the statement of financial position, we note that under both IAS 1 and IFRS 18, an entity is required to consider:

(a) the duration and timing of recovery or settlement of, or the liquidity of, the entity's assets and liabilities and classify them between current and non-current assets and current and non-current liabilities or present them in an order of liquidity.

[7] See minor sweep issue 'Requirement to present separately each material class of similar items in IAS 1' in Appendix A of this paper.

(b) characteristics of items to subclassify assets and liabilities into line items (that is, further disaggregating assets and liabilities into line items of similar items).

(c) an underlying objective with presenting additional line items in the statement of financial position. IAS 1 requires the resulting presentation to be relevant to an understanding of the entity’s financial position. IFRS 18 would require the resulting presentation to fulfil the role of the primary financial statements (see paragraph 28(c)).

33. In addition, IAS 1 requires an entity to particularly consider the size, nature and function of an item (or aggregated similar items) when determining the line items to present. Other characteristics (for example, measurement basis) are said to assist the entity in identifying if items have dissimilar natures or functions.

34. We note that for presenting line items in the statement of profit or loss, the IASB decided that IFRS 18 would require an entity:

(a) to classify income and expenses within in one of five categories (operating, investing, financing, income tax and discontinued operations)—these categories determine the structure of the statement of profit or loss;

(b) to disaggregate operating expenses into line items in the statement of profit or loss using the nature of the expenses and their function within the entity;

(c) to consider characteristics of items to further disaggregate income and expenses into line items; and

(d) to consider the role of the primary financial statements when determining the line items to present.

35. We note that the requirement in paragraph 34(b) to disaggregate operating expenses emphasises the nature and function (as opposed to other characteristics) of operating expenses in order to determine the line items to present in the statement of profit or loss.

36. We recommend that the IASB include a hierarchy for the characteristics for presentation in the statement of financial position by explaining in IFRS 18 that:

(a) nature or function are the characteristics used to aggregate similar assets and liabilities into separate line items in the statement of financial position—other characteristics, like duration, liquidity, measurement basis, type and tax effects, assist an entity to determine the nature or function of an item; and

(b) the duration and timing of recovery and settlement are characteristics that are used when classifying assets and liabilities as either current and non-current and liquidity is a characteristic that is used to classify assets and liabilities by order of liquidity.

37. The reasons that support our recommendation include:

(a) IFRS 18 would then retain the emphasis on classification of assets and liabilities as either current and non-current or by order of liquidity which determines the structure for the assets and liabilities sections of the statement of financial position.

(b) IFRS 18 would then also retain the emphasis for presentation of line items in the statement of financial position that IAS 1 places on the nature and function of assets and liabilities.

(c) the other characteristics, for example, duration, liquidity, measurement basis, type of good or service, and tax effect, conceptually provide evidence of the nature and/or function of an asset or liability. Clarifying this relationship between characteristics increases understandability within the presentation requirements of IFRS 18. A hierarchy of the characteristics would clarify how the characteristics of items support the role of the primary financial statements.

(d) the emphasis for presentation of the nature and function of items is not unique to the statement of financial position—IFRS 18 would (as did IAS 1) refer to nature or function when aggregating operating expenses.

Question for the IASB
2. Does the IASB agree with the staff recommendation in paragraph 36?

Transitional relief for additional comparative information

Background

38. In the July 2023 IASB meeting (see Agenda Paper 21B), the IASB decided:

    (a) to require an entity to apply IFRS 18 for annual periods beginning on or after 1 January 2027; and

    (b) to confirm the proposal in the Exposure Draft to require an entity to apply the Standard retrospectively in accordance with IAS 8.

39. IFRS 18 will carry forward paragraph 38A of IAS 1 which requires an entity to present, as a minimum, a current reporting period and preceding period in each of its primary financial statements and in the notes. IFRS 18 will also carry forward paragraph 38C of IAS 1 which permits an entity to present comparative information in addition to minimum comparative information required by IFRS Accounting Standards, as long as that additional comparative information is prepared in accordance with IFRS Accounting Standards.

40. Laws, regulations and stock exchange rules in some jurisdictions require an entity to provide two years of comparative information in its financial statements. For example, at the September 2023 ASAF meeting (see Agenda Paper 5):

    (a) one member mentioned that in their jurisdiction an entity is generally required to provide two years of comparative information in its annual filings; and

    (b) some members mentioned that in their jurisdictions an entity is required to provide two years of comparative information if the entity is in the process of an Initial Public Offering (IPO).

41. Assuming the IASB issues IFRS 18 in the first half of 2024, entities in jurisdictions that require an entity to present two years of comparative information would have less than one year until the start of the earliest comparative period (1 January 2025 if the entity has a calendar year end and initially applies IFRS 18 from the effective date of 1 January 2027).

42. The IASB has provided transitional relief for additional comparative information in other IFRS Accounting Standards, by permitting, but not requiring, an entity to present adjusted comparative information and related disclosures for earlier periods than the annual period immediately preceding the date of initial application of the Standard.[8] IFRS Accounting Standards that provide such transitional relief also require an entity to:

   (a) clearly identify the information that has not been adjusted; and

   (b) disclose that the information that has not been adjusted has been prepared on a different basis and explain that basis (see paragraph C6B of IFRS 10 *Consolidated Financial Statements*, paragraph C13B of IFRS 11 *Joint Arrangements* and paragraph C27 of IFRS 17 *Insurance Contracts*).

Staff analysis, staff recommendation and question for the IASB

43. Considerations on transition to a new IFRS Accounting Standard and any transitional relief provided are unique to each IFRS Accounting Standard. We note that the IASB has provided transitional relief for comparative information in other IFRS Accounting Standards (see paragraph 42) when the transition period has been short or when the changes resulting from new measurement requirements would be complex to apply retrospectively in earlier periods than the annual period immediately preceding the initial period of application. If transitional relief were not provided an entity would

[8] For example, IFRS 17 *Insurance Contracts* permits but does not require an entity to present adjusted comparative information applying IFRS 17 for any earlier periods presented than the annual reporting period immediately preceding the date of initial application (see paragraph C25 of IFRS 17). Similar transitional reliefs are included in such as paragraph C6A of IFRS 10 *Consolidated Financial Statements*, paragraph C13A of IFRS 11 *Joint Arrangements*.

have applied the requirements in IAS 8 on initial application of an IFRS Accounting Standard. (see paragraphs 19, 23 and 28(h) of IAS 8).

44. One possible way to allow entities that are required by law, regulation or stock exchange requirements to provide two years of comparative information sufficient time to prepare for IFRS 18 would be to consider introducing similar transitional relief from retrospective application of IFRS 18 for any earlier periods than the annual period immediately preceding the initial period of application. One could argue that providing such transitional relief is not consistent with the conclusion of the July 2023 IASB meeting on why IFRS 18 should be applied retrospectively (see Agenda Paper 21B of the July 2023 IASB meeting).

45. Providing such transitional relief could result in three possible outcomes in the financial statements for the initial year of application of IFRS 18:

(a) some entities would not apply the transitional relief—such entities would apply IFRS 18 in the reporting period, the immediately preceding comparative period and any additional comparative periods presented;

(b) some entities would not provide additional comparative information—such entities would only present the reporting period and the immediately preceding comparative period in accordance with IFRS 18; and

(c) some entities would present the reporting period and the immediately preceding comparative period in accordance with IFRS 18 and present additional comparative information in accordance with IAS 1.

46. The outcome in paragraph 45(a) means that transitional relief would not be required. Feedback from outreach for the IASB’s discussion on the effective date in July 2023 suggests that some entities would be able to achieve this outcome (see Agenda Paper 21B of the July 2023 IASB meeting).

47. The outcome in paragraph 45(b) is likely to depend on the laws, regulations and stock exchange requirements that require entities to provide two years of comparative

information and whether they permit entities not to provide additional comparative information when they transition to new IFRS Accounting Standards.

48. The outcome in paragraph 45(c) would add complexity to the financial statements and reduce comparability of the information. There is also a risk that information may be misleading—for example, an operating profit subtotal presented based on an entity's own definition of operating profit in an additional comparative period applying IAS 1 is not likely to be comparable to the operating profit subtotal presented in the reporting period and the immediately preceding comparative period applying the requirements in IFRS 18. This risk could be reduced by a requirement to disclose that additional comparative information is not presented and disclosed in accordance with the requirements of IFRS 18 and to explain the basis that has been used.

Question for the IASB
3. Does the IASB want to: (a) provide transitional relief that permits but does not require an entity to present additional comparative information and related disclosures applying IFRS 18 for earlier periods than the annual period immediately preceding the beginning of the annual reporting period for which IFRS 18 is applied for the first time; and (b) require an entity that applies the transitional relief in (a): (i) to clearly identify the information that is not presented and disclosed in accordance with IFRS 18; and (ii) to disclose that the information has been prepared on a different basis, and explain that basis?

Other minor sweep issues

49. Appendix A summarises minor sweep issues and approaches taken to address them.

Question for the IASB
4. Does the IASB have any comments on the minor sweep issues in Appendix A of this paper?

Appendix A—Other minor sweep issues

A1. The following table outlines minor sweep issues and approaches taken in drafting to address them:

	Issue	How we addressed in drafting
Sweep issues relating to subtotals and categories in the statement of profit or loss		
Accounting policy choices for entities that provide financing to customers as a main business activity	An entity that does not invest in assets as a main business activity but provides financing to customers as a main business activity has an accounting policy choice on the extent to which it classifies in the operating category income and expenses from cash and cash equivalents. The IASB did not specifically discuss whether the accounting policies selected by an entity for classification of income and expenses from cash and cash equivalents and classification of income and expenses from liabilities that arise from transactions that involve only the raising of finance should be the same (see Agenda Paper 21F of the March 2023 IASB meeting).	We think that the IASB should clarify that an entity that provides financing to customers as a main business activity but does not invest in financial assets as a main business activity is required to select the same accounting policy choice for classification of income and expenses from cash and cash equivalents as it does for income and expenses from liabilities that arise from transactions that involve only the raising of finance. This would be consistent with the accounting policy as proposed in the Exposure Draft.

	Issue	How we addressed in drafting
Classification of income and expenses from specific hybrid contracts by entities that provide financing to customers as a main business activity	All income and expenses after initial recognition from specific hybrid contracts with host liabilities that contain a non-separated embedded derivative are classified in the financing category (see Agenda Paper 21E of the March 2023 IASB meeting). The income and expenses arise from liabilities that do not arise from transactions that involve only the raising of finance. However, income and expenses after initial recognition other than interest income and expense and the effects of changes in interest rates are classified in the financing category for practical reasons only.	In drafting, we have not made these instruments eligible for classification in the operating category by an entity that provides financing to customers as a main business activity—consistent with the IASB's tentative decisions on classification of income and expenses from liabilities that do not arise from transactions that involve only the raising of finance held by these entities.

	Issue	How we addressed in drafting
Classification of gains and losses on a derivative not used to manage identified risks and related to a transaction that involves only the raising of finance by entities that provide financing to customers as a main business activity	In the redeliberations, the IASB tentatively decided to: (a) require an entity to classify gains and losses on derivatives not used to manage identified risks in the financing category, if the derivative is part of a transaction that involves only the raising of finance (see Agenda Paper 21A and Agenda Paper 21B of the July 2021 IASB meeting); and (b) confirm the proposed accounting policy choice to classify in the operating category all income and expenses from liabilities that arise from transactions that involve only the raising of finance when an entity provides financing to customers as a main business activity (see Agenda Paper 21B of the July 2022 IASB meeting). In drafting we noted that the IASB did not specifically consider whether an entity that provides financing to customers as a main business activity would apply the accounting policy choice to gains and losses on derivatives not used to manage identified risks and related to a transaction that involves only the raising of finance. An example of such a derivative is a conversion option embedded in a foreign currency convertible bond (see Agenda Paper 21B of the July 2021 IASB meeting).	We think that the IASB's intention is that gains and losses on these derivatives would be classified in the same category as the other income and expenses on transactions that involve only the raising of finance. Therefore, we have drafted the accounting policy choice for entities that provide financing to customers as a main business activity to also be applied to gains and losses on a derivative that is not used to manage identified risks and relates to a transaction that involves only the raising of finance. As a result, entities that provide financing to customers as a main business activity would classify gains and losses on these derivatives in the operating category unless: (a) the entity's accounting policy is to classify only income and expenses from liabilities arising from transactions that involve only the raising of finance that relate to providing financing to customers in the operating category; and (b) the derivative is not related to providing financing to customers.

	Issue	How we addressed in drafting
Classification of income and expenses on assets or disposal groups held for sale	In the redeliberations, the IASB tentatively decided: (a) to add further application guidance stating that income and expenses arising from individual assets and disposal groups classified as held for sale would not be classified in the investing category (see Agenda Paper 21B of the December 2021 IASB meeting); and (b) to clarify that in the statement of profit or loss income and expenses arising from a transaction or other event that changes the classification of income and expenses from an asset or liability (without affecting the recognition of the asset or liability) are classified in the category in which income and expenses were classified immediately before the transaction or other event (see Agenda Paper 21A of the June 2023 IASB meeting). It is not clear from these decisions whether an entity would continue to classify income and expenses in the investing category if an asset (or all assets other than income tax assets in a disposal group) generated income and expenses that were classified in the investing category immediately before the classification as held for sale.	We have drafted IFRS 18 to require an entity to classify in the investing category income and expenses arising from an asset held for sale (and disposal group held for sale), if the asset (or all assets other than income tax assets in the disposal group) generated income and expenses that were classified in the investing category immediately before the classification as held for sale. This will result in a consistent classification outcome for the gain or loss on disposal of an asset with income and expenses classified in the investing category regardless of whether an entity classifies it as held for sale prior to disposal.

	Issue	How we addressed in drafting
Classification of expenses arising from increases in the present value of the costs to sell a non-current asset (or disposal group) held for sale that arise from the passage of time	Paragraph 17 of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* requires an entity to measure the costs to sell at their present value in the calculation of fair value less cost to sell of a non-current asset (or disposal group) classified as held for sale when the sale is expected to occur beyond one year. The Exposure Draft proposed to require an entity to classify in the financing category expenses arising from increases in the present value of the costs to sell a non-current asset (or disposal group) held for sale that arise from the passage of time (see paragraph B37(d) of the Exposure Draft). In the July 2021 IASB meeting (see Agenda Paper 21A), the IASB tentatively decided to require an entity to classify in the financing category of the statement of profit or loss: (a) all income and expenses from liabilities that arise from transactions that involve only the raising of finance; and (b) specified income and expenses from other liabilities.	The cost to sell is an input used to measure the fair value less cost to sell of a non-current asset (or disposal group) classified as held for sale. A non-current asset (or disposal group) classified as held for sale is not a liability and therefore does not meet the requirements to be classified in the financing category. To align with the tentative decision in the July 2021 IASB meeting, we removed expenses arising from increases in the present value of the costs to sell a non-current asset (or disposal group) held for sale that arise from the passage of time from the examples of income and expenses which would be classified in the financing category. This means that such expenses would be classified in the operating category or investing category together with other income and expenses from the non-current asset (or disposal group) held for sale.

	Issue	How we addressed in drafting
Sweep issues relating to management-defined performance measures		
Specified subtotal comprising operating profit and all income and expenses in the investing category	IFRS 18 sets out a requirement for an entity that classifies in the operating category all income and expenses from liabilities arising from transactions that involve only the raising of finance. Such an entity does not present the subtotal ‘profit before financing and income taxes’, but presents a subtotal comprising operating profit and all income and expenses in the investing category if necessary to provide a useful structured summary.	We have clarified in IFRS 18 that this subtotal is a specified subtotal and, hence, not a management-defined performance measure.
Sweep issues related to aggregation and disaggregation		
Requirement to present separately each material class of similar items in IAS 1	Paragraph 29 of IAS 1 requires an entity to present separately each material class of similar items. The Exposure Draft revised the requirements to present or disclose each material class of assets, liabilities, income or expense, equity or cash flow (see paragraph 25 of the Exposure Draft). In the discussion of ‘Principles of aggregation and disaggregation and their application in the primary financial statements and the notes’ in the September 2021 IASB meeting (see Agenda Paper 21D), the IASB asked staff to consider in drafting whether ‘class’ is the best term to use in all situations.	In drafting IFRS 18, we have not included a reference to material classes. However, we have added two requirements which are expected to achieve the same outcome. They are requirements to: (a) disclose any disaggregation of items if the resulting information is material; and (b) present items if necessary to fulfil the role of the primary financial statements to provide a useful structured summary of an entity’s assets, liabilities, equity, income and expenses.

	Issue	How we addressed in drafting
Disclosure of specified expenses by nature—scope of entities required to provide the disclosure and scope of line items subject to the requirement	In October 2021 (see Agenda Paper 21B) the IASB tentatively decided not to retain the prohibition on classifying and presenting expenses within the operating category using a mixture of line items by nature and by function (a mixed presentation). In March 2023 (see Agenda Paper 21A) the IASB tentatively decided that an entity would be required to disclose the amount of depreciation, amortisation, employee benefits, write-down of inventories and impairments (referred to as specified expenses by nature) included in each function line item in the statement of profit or loss. In drafting IFRS 18, we noted that it was not clear from these decisions: (a) the scope of entities that are required to provide the disclosure for specified expenses by nature; and (b) whether an entity should disclose the amounts of specified expenses by nature included in all line items, rather than just function line items, in the statement of profit or loss—for example, whether an entity should disclose amounts of specified expenses by nature classified in line items outside the operating category, such as depreciation on an investment property classified in the investing category.	In drafting IFRS 18 we have clarified that: (a) an entity that presents one or more line items comprising expenses classified by function in the statement of profit or loss is required to provide the disclosure for specified expenses by nature. As a result, the disclosure requirement will also be applicable to entities that present expenses within the operating category using a mixture of line items by nature and by function. (b) an entity is required to disclose the amounts of the specified expenses by nature included in any line item presented in the statement of profit or loss. We think that this would lead to a complete picture of the entity's specified expenses by nature.

	Issue	How we addressed in drafting
Disclosure of specified expenses by nature—scope of employee benefits	In March 2023 (see Agenda Paper 21A) the IASB tentatively decided that the disclosure requirement for specified expenses by nature would include employee benefits. IAS 19 *Employee Benefits* applies to all employee benefits, except those to which IFRS 2 *Share-based Payment* applies (see paragraph 2 of IAS 19). IFRS 2 applies to both employee and non-employee services and includes a defined term of 'employees and others providing similar services'[9], but it does not require an entity to distinguish between them.	In drafting IFRS 18 we have clarified that the total amount disclosed for employee benefits included in each line item in the statement of profit or loss includes amounts recognised applying: (a) IAS 19; and (b) IFRS 2 for services received from employees. We also considered in drafting whether IFRS 18 should include guidance on the meaning of 'employees' for the purpose of the disclosure, such as any differences between 'employees' and 'employees and others providing similar services' as defined in IFRS 2. However, any such guidance could have unintended consequences for the application of IFRS 2 and/or IAS 19. Therefore, we think the IASB should not provide guidance on the meaning of 'employees' for the purpose of the disclosure. Instead, entities would use their judgement to determine which individuals are 'employees' for the purpose of the disclosure.

[9] Appendix A of IFRS 2 defines employees and others providing similar services as 'Individuals who render personal services to the entity and either (a) the individuals are regarded as employees for legal or tax purposes, (b) the individuals work for the entity under its direction in the same way as individuals who are regarded as employees for legal or tax purposes, or (c) the services rendered are similar to those rendered by employees. For example, the term encompasses all management personnel, ie those persons having authority and responsibility for planning, directing and controlling the activities of the entity, including non-executive directors.'.

	Issue	How we addressed in drafting
Sweep issues related to transition		
Requirement to disclose a reconciliation of the statement of profit or loss in interim financial statements	In the July 2023 IASB meeting (see Agenda Paper 21B), the IASB tentatively decided, subject to drafting, to require an entity to disclose in interim financial statements for interim periods in the first year of applying IFRS 18 the reconciliation for line items in the statement of profit or loss presented for the comparative period immediately preceding the period in which IFRS 18 is first applied. In drafting we considered clarifying that the reconciliation should be required for both the comparable current interim period and the comparable year-to-date period of the immediately preceding financial year as discussed during the meeting.	The reconciliation is provided as part of the information required by paragraph 16A(a) of IAS 34 *Interim Financial Reporting*. Paragraph 16A of IAS 34 states that the information shall normally be reported on a financial year-to-date basis. In drafting we have clarified that the reconciliation should be required for both the comparable current interim period and the comparable year-to-date period of the immediately preceding financial year. This is because the new requirements relating to subtotals and categories in IFRS 18 may significantly change presentation in the statement of profit or loss for interim periods. This approach aligns with the requirement in IFRS 1 *First-time Adoption of International Financial Reporting Standards*. IFRS 1 requires a first-time adopter of IFRS Accounting Standards to disclose a reconciliation to its total comprehensive income for both current and year to date in its interim financial report (see paragraph 32(a)(ii) of IFRS 1).

	Issue	How we addressed in drafting
Whether to provide relief for paragraph 28(g) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in transition to IFRS 18	In the July 2023 IASB meeting (see Agenda Paper 21B), the IASB tentatively decided to replace the disclosure required in paragraph 28(f) of IAS 8. IFRS 18 will require an entity in the first year of applying IFRS 18 to disclose a reconciliation between each line item in the statement of profit or loss presented by applying IAS 1 and each line item presented by applying IFRS 18 for the comparative period immediately preceding the period in which IFRS 18 is first applied. In the discussion, some IASB members asked the staff to consider whether the IASB should provide relief for paragraph 28(g) of IAS 8 in transition to IFRS 18.	Paragraph 28(g) of IAS 8 requires an entity to disclose the amount of the adjustment relating to periods before those presented, to the extent practicable. As IFRS 18 would not affect the amount of each asset, liability, equity, income and expense,[10] we think that in most cases there would not be anything to disclose in accordance with paragraph 28(g) of IAS 8 and that such relief would be unnecessary.

[10] Except for entities that elect to measure investments in associates or joint ventures at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* when the investment is held by, or is held through, an entity that is a venture capital organisation, a mutual fund, unit trust and similar entities including investment-linked insurance funds on initial application of IFRS 18 (see Agenda Paper 21A of the May 2023 IASB meeting).

	Issue	How we addressed in drafting
Sweep issues related to other topics		
Relationship between the requirements of IFRS 14 *Regulatory Deferral Accounts* with the requirements in IFRS 18 and amendments to IAS 33 *Earnings per Share*	IFRS 18 will contain requirements for classification and presentation in primary financial statements. Paragraphs 20–26 of IFRS 14 include presentation requirements for regulatory deferral account balances that are recognised in accordance with that Standard. In drafting IFRS 18, we noted that the relationship between the presentation requirements in IFRS 14 and IFRS 18 are unclear and that conflicts in applying the requirements would arise.[11] In addition, in the Exposure Draft the IASB proposed to amend IAS 33 to specify that adjusted earnings per share amounts can only be disclosed in the notes and cannot be presented in the primary financial statements. In drafting we noted that this amendment would not be consistent with paragraph 26 of IFRS 14 which requires an entity that presents earnings per share in accordance with IAS 33 to present additional basic and diluted earnings per share amounts which are calculated using the earnings per share amounts in IAS 33 excluding the movements in regulatory deferral account balances.	In light of the IASB's current project about [Rate-regulated Activities] that will replace IFRS 14, we have clarified in drafting as a consequential amendment to IFRS 14 that: (a) an entity applies the presentation requirements of IFRS 14 to its deferral account balances and net movements in those balances regardless of the requirements in IFRS 18; and (b) an entity applies the requirement in IFRS 14 to present the specified additional basic and diluted earnings per share amounts regardless of the amendments to IAS 33.

[11] Paragraph 21 of IFRS 14 says that when an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify the totals of regulatory deferral account balances as current or non-current. Instead, the regulatory deferral account balances shall be distinguished from other assets and liabilities by the use of sub-totals, which are drawn before the regulatory deferral account balances are presented. Paragraph 23 of IFRS 14 requires an entity to present a separate line item in the statement of profit or loss for the remaining net movement in all regulatory deferral account balances for the reporting period, excluding movements that are not reflected in profit or loss, such as amounts acquired. This separate line item shall be distinguished from the income and expenses that are presented in accordance with other Standards by the use of a sub-total, which is drawn before the net movement in regulatory deferral account balances.

Appendix B—Application guidance on the characteristics of nature or function

B1. The following is an illustration of the application guidance that the IASB has tentatively decided to provide in assessing whether to present operating expense by their nature or their function.

In deciding how to use the characteristics of nature or function to provide the most useful structured summary as required by paragraph X, an entity shall consider:

(a) what line items provide the most useful information about the main components or drivers of the entity's profitability. For example, for a retail entity a main component or driver of profitability might be cost of sales. Presenting a cost of sales line item might provide relevant information about whether the revenue generated from the sale of goods covers what, for retailers, are mainly direct costs, and by what margin. However, cost of sales is unlikely to provide relevant information about the important components or drivers of profitability if the link between revenue and costs is less direct. For example, for some service entities, information about operating expenses classified by nature, such as employee benefits, might be more relevant to users of financial statements because these expenses are the main drivers of profitability.

(b) what line items most closely represent the way the business is managed and how management reports internally. For example, a manufacturing entity managed on the basis of major functions might classify expenses by function for internal reporting purposes. In contrast, an entity that has a single predominant function, such as a financing activity, may find line items comprising expenses classified by nature provides useful information for internal reporting purposes.

(c) what is standard industry practice. If expenses are classified in the same way across an industry, users of financial statements can more easily compare expenses across entities in the same industry.

(d) whether the allocation of particular expenses to functions would be arbitrary to the extent that the line items presented would not provide a faithful representation of the functions. In such cases, an entity shall classify these expenses by nature.