STAFF PAPER

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IASB® meeting

Project	**Primary Financial Statements**
Paper topic	Unusual income and expenses

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Objective

1. This paper initiates the Board's redeliberations on the proposals set out in the Exposure Draft *General Presentation and Disclosures* relating to unusual income and expenses. This paper sets out initial staff analysis and recommendations on the definition of unusual income and expenses.

2. Future papers will analyse further the aspects of this topic the IASB decides to explore, in particular aspects of definition and the specific disclosure requirements for unusual income and expenses.

Summary of staff recommendations

3. The staff recommend the IASB explores how to proceed with a definition for unusual items.

4. As part of that process, the staff recommend the IASB:

   (a) removes the reference to 'limited predictive value' from the definition of unusual items, whilst retaining in the Basis for Conclusions an explanation of how that idea supports the definition (paragraphs 32–36);

   (b) develops application guidance that:

(i) clarifies that the definition captures income or expenses that are dissimilar in type *or* amount from income or expenses expected in the future (paragraphs 37–39);

(ii) helps entities to assess whether similar income or expenses will arise in the future, to be developed based on guidance on the assessment of future transactions and other events in other IFRS Accounting Standards (paragraphs 42–45); and

(iii) explains that in considering whether income or expenses are similar, an entity would consider characteristics of the income and expenses, including the underlying event or transaction that gives rise to income or expenses (paragraphs 46–50).

Structure of the paper

5. This paper is structured as follows:

   (a) proposals on unusual items in the Exposure Draft (paragraph 7–11);

   (b) feedback on the proposals in the Exposure Draft (paragraph 12–22); and

   (c) initial staff analysis of questions and concerns about the definition of unusual items (paragraphs 23–51).

6. This paper includes two appendices:

   (a) Appendix A reproduces the application guidance on unusual items proposed in the Exposure Draft.

   (b) Appendix B sets out detailed analysis of more complex questions and concerns over the definition of unusual items.

Proposals on unusual items in the Exposure Draft

7. 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 unusual item 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 and expenses 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).

8. This paper focuses on the definition of unusual income and expenses. The specific disclosure requirements will be considered at a future IASB meeting.

9. Paragraph 24 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.

10. 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.

11. Paragraphs BC130–B136 of the Basis for Conclusions then explain specific aspects of the definition:

(a) paragraph BC130 explains that for the definition to provide neutral information, unusual items can be income or expenses.

(b) paragraph BC131 explains that ‘reasonable to expect’ is a phrase used in other IFRS Accounting Standards, so should be familiar to entities applying the requirement.

(c) paragraph BC132 explains that the IASB did not indicate a specific period over which an entity should assess whether it is reasonable to expect that similar income or expenses will arise. Specifying a period would be arbitrary. Such a period should not be all possible future reporting periods nor should it be only a short period.

(d) paragraphs BC133–BC134 explains that the definition of unusual items does not include a reference to whether the underlying transaction or other event is unusual. Although it can be helpful to consider whether the underlying transaction or other event is unusual, unusual events can give rise to income or expenses that is not unusual, for example an earthquake could give rise to costs that are expected to arise for several years, and hence are not unusual applying the proposed definition.

(e) paragraph BC135 explains that an entity need not consider individual transactions when assessing whether income or expenses are unusual. A type of income or expenses arising from a group of transactions may be assessed as unusual.

(f) paragraph BC136 explains that the proposed definition does not require an entity to consider whether similar income or expenses have occurred in the past. Income or expenses that are similar to those that have occurred in the past would be identified as unusual if they are not expected to recur for several future reporting periods.

Feedback on the proposals in the Exposure Draft

12. This section of the paper reproduces the feedback set out in Agenda Paper 21G of the December 2020 IASB meeting, reorganised slightly to bring out themes addressed in the staff analysis.

Should the IASB define unusual items?

13. 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

14. 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.

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

Concerns

16. 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?

17. 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

18. 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

19. 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).

20. 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.

21. 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.

22. 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.

Initial staff analysis of questions and concerns about the definition of unusual items

23. This section of the paper comprises:

(a) an analysis of whether the IASB should explore how to proceed with a definition of unusual items (paragraphs 24–30); and

(b) if the IASB decides to explore how to proceed with a definition of unusual items, analysis and staff recommendations on questions and concerns about the definition that the staff think can be resolved relatively easily (paragraphs 31–51).

Should the IASB explore how to proceed with a definition of unusual items?

24. To enable the IASB to make a decision on whether to explore how to proceed with a definition of unusual items, the staff have undertaken an initial analysis of the questions and concerns that need to be explored, with possible approaches to resolving them.

25. The table in this paragraph shows how the questions and concerns identified in the feedback set out in paragraphs 21 and 22 are covered by the analysis, and whether the staff think they are relatively easy to resolve or more complex.

Paragraph reference	**Question and concern from feedback**	**Relatively easy to resolve**	**More complex**
21(a)	Role of limited predictive value	Paragraphs 32–36	
21(b)	Dissimilar in type *or* amount	Paragraphs 37–39	
21(c)	Reference to past as well as future		Paragraphs 4–10
21(d)	Items spanning a few annual periods		Paragraphs 11–13
21(e)	Focus on unusual transactions and other events		Paragraphs 14–15
21(f)	Symmetric definition		Paragraphs 16–17
21(g)	Whole of item or unusual portion		Paragraphs 18–21
21(h)	Only apply to operating items		Paragraphs 22–26
21(i)	Explicitly limit to material or significant items	Paragraphs 40–41	
(a)	Not possible to assess or verify future expectations	Paragraphs 42–45	
(i)	Guidance on similar in type	Paragraphs 46–50	
(ii)	Guidance on several future periods		Paragraphs 27–31

26. As identified in the table, the staff think the IASB could address some of the questions and concerns relatively easily, without affecting the objective of the proposals (see paragraph 9), and the resulting scope of the definition. An analysis of these questions and concerns, and the related staff recommendations are set out in paragraphs 31–51.

27. However, there are other questions and concerns that are more complex and would require substantial work to explore. Detailed initial analysis and potential solutions are set out in Appendix B, but that analysis does not reach definitive conclusions or

recommendations. The table in this paragraph summarises the potential solutions identified by the staff.

Question and concern from feedback	**Potential solution**	**Detailed analysis**
Possible amendments to definition		
Reference to past as well as future	Require comparison with past experience	Paragraphs 4–10
Items spanning a few annual periods	Capture items that arise over a few periods	Paragraphs 11–13
Focus on unusual transactions and other events	Add such a focus if definition amended to capture items that arise over a few periods	Paragraphs 14–15
Only apply to operating items	Capture only operating income and expenses	Paragraphs 22–26
Possible application guidance		
Symmetric definition	The definition captures amounts lower than expected to arise in the future	Paragraphs 16–17
Whole item or unusual portion	The unusual item is the whole amount, not the unusual portion	Paragraphs 18–21
Guidance on several future annual periods	Several future annual periods should be the period for which budgets/forecasts approved by management exist	Paragraphs 27–31

28. Exploring these potential solutions fully will involve substantial work. Further, given the extent of the questions to be addressed and the lack of consensus in the feedback on what the definition should be, there is a risk that the staff will not be able to develop a definition that the IASB feels able to proceed with. In particular, the staff think it will be challenging to strike the right balance between:

(a) retaining the objective of identifying non-recurring items; and

(b) reducing the extent of judgement required to apply the definition to achieve a high degree of comparability between entities.

29. An alternative approach, supported by some respondents, would be to remove the definition of unusual items and explore additional application guidance around the

requirement to disaggregate income or expenses with different characteristics relating to predictive value.

30. However, the feedback on establishing a definition is very positive. Hence the staff's initial assessment is that it is worth undertaking the work necessary to proceed with a definition. The staff therefore recommend the IASB explore how to proceed with a definition for unusual income and expenses.

Question for the IASB
Q1 Does the IASB agree it should explore how to proceed with a definition of unusual income and expenses?

Staff analysis and recommendations on questions and concerns about the definition that can be resolved relatively easily

31. This section of the paper assumes the IASB answers yes to Q1. It provides staff analysis and recommendations on questions and concerns about the definition that the staff think can be resolved relatively easily. The questions and concerns are:

(a) the role of 'limited predictive value' in the definition (paragraph 32–36).

(b) can unusual items be dissimilar in type or amount from expected future income or expenses (paragraph 37–39)?

(c) should the definition be limited explicitly to material or significant unusual items (paragraph 40–41)?

(d) is it possible to assess or verify whether it is reasonable to expect similar income and expenses in the future (paragraph 42–45)?

(e) the need for further guidance on similar in type (paragraph 46–50).

The role of 'limited predictive value'

32. Some respondents said that limited predictive value is not the same as non-recurring. For example:

(a) fair value remeasurements are recurring but have limited predictive value; and

(b) gains and losses from disposals of assets may recur but have limited predictive value.

33. These respondents said that equating the two in the definition creates confusion. The definition is:

> 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.

34. Respondents said items could:

(a) have limited predictive value, so meet the first sentence of the definition; but

(b) be expected to recur in future annual periods, so not meet the second sentence of the definition.

35. The staff agree. The second sentence of the definition of unusual items captures only specific items (essentially income and expenses that are not expected to recur), not all items with limited predictive value. Further, the disclosure of unusual items is not the only requirement relating to information about the predictive value of income and expenses. The general requirement to give disaggregated information about items with dissimilar characteristics whenever that disaggregated information is material also applies, with persistence being a characteristic identified as applying particularly to income and expenses.

36. To resolve any confusion caused by conflict between the two sentences in the definition, we could remove the reference to 'limited predictive value'. Instead, the Basis for Conclusions could explain how the concept of predictive value relates to both the definition of unusual items and the disaggregation of income and expenses with a dissimilar characteristic of persistence.

Must unusual items be dissimilar in type and amount?

37. A few respondents questioned whether an item had to be dissimilar from future expected items in both type and amount.

38. The proposed definition in the Exposure Draft is that income or expenses are unusual 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. The outcome of the proposed definition is set out in the table.

Expected future income or expenses	**Similar in type**	**Not similar in type**
Similar in amount	Not unusual	Unusual
Not similar in amount	Unusual	Unusual[1]

39. As illustrated, income or expenses that are similar in type to that expected in the future but not in amount would be captured by the definition. That view is supported by the application guidance in B69 of the Exposure Draft which states 'Income and expenses that are not unusual by type may be unusual in amount'. The staff will explore ways of drafting the Standard to make this aspect of the definition clear.

Should the definition be limited explicitly to material or significant unusual items?

40. Some said the definition should be limited explicitly to material or significant unusual items—they said that the proposals in the Exposure Draft could be interpreted as applying to immaterial items, which would be costly and add unhelpful clutter.

41. Requirements in IFRS Accounting Standards do not apply to immaterial items. Specifying a particular requirement does not apply to immaterial items undermines the general applicability of that principle. Hence the staff does not recommend exploring such an explicit limit. Neither does the staff recommend adding some other limit such as significant to the definition. If an item meets the definition and is material, it should be disclosed. We could explain this in the Basis for Conclusions.

[1] If there are no expected future income or expenses similar in type, it is not necessary to consider whether there are any such expected future income or expenses that are also dissimilar in amount.

Is it possible to assess or verify whether it is reasonable to expect similar income and expenses in the future?

42. A few respondents 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. For example, in relation to the illustrative example that depicted the outcome of a tax reform as an unusual item (note 2 of the Illustrative Examples accompanying the Exposure Draft), they questioned whether an entity could develop a reasonable expectation that tax reforms will not occur in several future annual reporting periods, across many jurisdictions?

43. The staff observe 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. For example:

    (a) IAS 36 *Impairment of Assets* requires an entity to estimate the future cash flows to be derived from the use and ultimate disposal of an asset or cash generating unit to determine its value in use. IAS 36 requires an entity to base these cash flow projections on the most recent financial budgets or forecasts approved by management.

    (b) IFRS 9 *Financial Instruments* requires an entity to apply the expected credit loss impairment model by considering all reasonable and supportable information that is available without undue cost or effort, including information that is forward looking. Information that is available for financial reporting purposes is considered to be available without undue cost or effort.

    (c) IFRS 17 *Insurance Contracts* requires an entity to estimate future cash flows of insurance contracts. IFRS 17 requires an entity to consider all reasonable and supportable information available without undue cost or effort. Reasonable and supportable information available at the reporting date without undue cost or effort includes information about past events and current conditions, and forecasts of current conditions. Information available from an entity's own information systems is considered to be available without undue cost or effort.

44. The IASB could explore similar approaches for the assessment of whether similar income or expenses are reasonably expected to arise for several future annual periods. For example, if we followed the approach in IAS 36, the answer to the question raised on the assessment of whether it was reasonable to expect tax reforms in the future would be answered by whether the effects of any such tax reforms were included in the most recent financial budgets or forecasts approved by management.

45. The staff recommend the IASB develop application guidance on what information to use in the assessment of whether similar income or expenses are reasonably expected to arise for several future annual periods. Without such guidance, the extent of judgement involved in the assessment is such that comparability between entities could be impaired. If the IASB agrees with this recommendation, the staff will bring to a future IASB meeting proposals based on the requirements in other IFRS Accounting Standards.

Further guidance on similar in type

46. Some respondents requested guidance on what income or expenses should be regarded as similar in type. For example:

(a) would legal expenses relating to one event be similar or dissimilar to expected future legal expenses relating to another event?

(b) would the expense from a restructuring for one reason be similar or dissimilar to an expected future restructuring for a different reason?

47. The staff think the answer forms part of an entity's assessment of whether information is material. Our general principles on aggregation and disaggregation require an entity to aggregate information based on shared characteristics to enhance understandability but to disaggregate information based on dissimilar characteristics if the resulting disaggregated information is material (see Agenda Paper 21D of the September 2021 IASB meeting).

48. In this case, the assessment is not solely whether information about income and expenses recognised in the period needs to be disaggregated to provide material information about different types of income and expenses. That assessment is the first step, because an entity should not disclose an unusual item that is not material. But the entity needs to go on to assess whether the characteristics of an item of income or

expenses recognised in the period are dissimilar to the characteristics of income or expenses expected in the future. If they are sufficiently dissimilar, material information would be provided by treating as unusual the item of income or expenses recognised in the period.

49. For example:

(a) in the example in paragraph 46(a) the two legal expenses share the characteristic of being legal expenses but have dissimilar characteristics of being caused by different events. If the dissimilar characteristics are such that treating the legal expenses recognised in the period as an unusual item provides material information, then an entity should provide that information. If treating the legal expenses as an unusual item does not provide material information, then an entity should not provide it.

(b) in the example in paragraph 46(b), the two restructuring expenses share the characteristic of being restructuring expenses but have dissimilar characteristics of the reasons for the restructuring. If the dissimilar characteristics are such that treating the restructuring expenses in the period as an unusual item provides material information, then an entity should provide that information. If treating the restructuring expenses in the period as an unusual item does not provide material information, then an entity should not provide it.

50. Accordingly, the staff recommends that the IASB add application guidance that explains that in considering whether income or expenses are similar, an entity would consider characteristics of the income and expenses, including the underlying event or transaction that gives rise to income or expenses.

Staff recommendations

51. If the IASB agrees to explore how to proceed with a definition for unusual items, based on the analysis in paragraphs 31–50, the staff recommend the IASB:

(a) removes the reference to ‘limited predictive value’ from the definition of unusual items, whilst retaining in the Basis for Conclusions an explanation of how that idea supports the definition (paragraphs 32–36);

(b) develops application guidance to:

(i) clarify that the definition means that unusual items can be dissimilar in type *or* amount from that expected in the future (paragraphs 37–39);

(ii) help entities 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 (paragraphs 42–45); and

(iii) explains that in considering whether income or expenses are similar, an entity would consider characteristics of the income and expenses, including the underlying event or transaction that gives rise to income or expenses (paragraphs 46–50).

Questions for the IASB
Q2 Does the IASB agree with the recommendations in paragraph 51?

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Appendix A—Extracts of application guidance on unusual items in the Exposure Draft *General Presentation and Disclosures*

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.

Appendix B—Initial analysis of more complex questions and concerns about the definition of unusual items

B1. This Appendix sets out initial staff analysis of the more complex questions and concerns expressed about the definition of unusual items. The analysis gives an initial indication of possible approaches to resolving those questions and concerns. If the IASB decides to explore ways of proceeding with a definition, the staff will undertake further analysis of the consequences of the identified approaches.

B2. The questions and concerns are:

(a) should the definition refer to past occurrence as well as expected future occurrence (paragraphs 4–10)?

(b) income or expenses spanning two or more annual periods (paragraphs 11–13).

(c) should unusual items be defined by reference to events or transactions that are non-recurring or unusual (paragraphs 14–15)?

(d) should the definition include income or expenses that are lower than usually expected (paragraphs 16–17)?

(e) is the unusual item the whole item of income or expenses or the portion that different from that expected in the future (paragraphs 18–21)?

(f) should the definition only apply to items of operating income or expenses (paragraphs 22–26)?

(g) guidance on several future annual reporting periods (paragraphs 27–31).

Should the definition refer to past occurrence as well as expected future occurrence?

B3. Some respondents said that the definition should refer to whether similar income or expenses have occurred in the past as well as whether similar income or expenses are expected to occur in the future. Their comments indicated different perspectives on what items the definition should capture, and different reasons for those perspectives.

B4. Items of income and expenses can be analysed as:

(a) income or expenses that are not similar to income or expenses in both the past and the future—this indicates they are an unusual aspect of 'ongoing activities', not the start or end of any aspect of activities.

(b) income or expenses that are not similar to income or expenses expected in the future but are similar to income or expenses that have occurred in the past—this indicates they relate to the end of a previous aspect of 'ongoing activities'.

(c) income or expenses that are not similar to those incurred in the past but are similar to those expected to recur in the future—this indicates they relate to the start of a new aspect of 'ongoing activities'.

(d) income or expenses that are similar to those that occurred in the past and to those that are expected to recur in the future—this indicates nothing unusual, nor the start or end of any aspect of 'ongoing activities'.

B5. The proposed definition in the Exposure Draft captured the items described in paragraphs B4(h) and B4(i). That definition follows from the objective stated in the Exposure Draft 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.

B6. Some respondents explicitly supported this aspect of the definition and agreed with the objective set out in the Exposure Draft.

B7. Some respondents wanted a definition that would capture only the items described in paragraph (h). 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.

B8. A few wanted a definition that would capture the items described in paragraphs (h), (i) and (j). They regard the proposed definition as too restrictive, and want it too include anything that is not just 'ongoing activities'.

B9. Amending the definition in the Exposure Draft would depart from the objective set by the IASB and which was explicitly supported by some respondents. However, amending the definition so it captures only the items described in paragraph (h) might be a pragmatic way of reducing concerns about the subjectivity inherent in the definition (see further discussion in paragraphs 42–45). The staff does not recommend exploring a definition that that would capture the items described in paragraphs (h), (i) and (j). Such an approach would depart from the objective set by the IASB without reducing the subjectivity inherent in the definition.

Income or expenses spanning two or more annual periods

B10. Some respondents said that the definition should include income or expenses that might occur for a few annual periods, but then not recur. Views ranged between those that:

(a) noted that it was simply arbitrary chance whether income or expenses straddle an annual reporting date and hence wanted the definition to be amended slightly 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 restructuring costs.

B11. The staff acknowledge that it seems arbitrary to exclude items simply because they straddle an annual reporting period. To avoid this, the staff have considered amending the definition to say:

> 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:
>
> <u>(a) recur for more than a few annual reporting periods; and</u>
>
> <u>(b) when ceased</u>, will not arise <u>again</u> for several future annual reporting periods.

B12. Of course, such an amendment raises the question of what do 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 not permanent items such as restructuring? Would we give guidance in the Accounting

Standard, or just specify a number? The staff will consider these questions in a future IASB paper if the IASB decides to explore an amendment to the proposed definition of this type.

Should unusual items be defined by reference to events or transactions that are non-recurring or unusual?

B13. 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. Paragraphs BC133–BC134 of the Basis for Conclusions explain why the definition of unusual items does not include a reference to whether the underlying transaction or other event is unusual. The paragraphs explain that, although it can be helpful to consider whether the underlying transaction or other event is unusual, unusual events can give rise to income or expenses that is not unusual, for example an earthquake could give rise to costs that are expected to arise for several years, and hence are not unusual applying the proposed definition.

B14. The staff think this question is linked to the question of whether the definition should capture income and expenses that arise over more than one annual period (see paragraphs 11–13). If the IASB wishes to retain the proposed objective of the definition, then the explanation in the Basis for Conclusions for the Exposure Draft will remain valid. However if the IASB wishes to explore capturing income and expenses that arise over more than one period, the staff think there could also be benefits for the clarity of the requirements in also exploring whether the definition should refer to unusual transactions or other events. In any case, the staff are recommending including application guidance that the transaction or other event that causes the unusual income or expenses is a characteristic of the income and expenses (see paragraphs 46–50).

Should the definition include income or expenses that are lower than usually expected?

B15. A few comment letters asked whether income or expenses could be unusual in amount if they were lower than usually expected. The staff think such income or expenses is captured by the definition proposed in the Exposure Draft. Lower amounts (or nonoccurrence) of items usually expected to occur implies there is income and expenses that are not similar in type and amount to that reasonably expected in several future annual reporting periods.

B16. The staff also think that having a definition that includes unusually low income or expenses as well as unusually high income and expenses is appropriate. Otherwise the definition would not provide neutral information. However, the staff acknowledge that including unusually low income or expenses in the population of unusual items raises questions about what amounts are required to be disclosed and the potential for having to determine hypothetical amounts. For example, if a type of expenses is unusually low in a period because of a specific event, would an entity have to determine what the expenses would have been had that event not happened, because the unusual item is the amount of expenses that is missing? This question is discussed in paragraphs 18–21.

Is the unusual item the whole item of income or expenses or the portion that is different from that expected in the future?

B17. A few respondents asked whether the amount to be disclosed as the unusual item is the whole amount or the difference from the amount that is expected to recur 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 occurred had Covid not happened; or

(b) what specific amount of travel expenses is reasonably expected in future?

B18. One approach would be to state the unusual item is 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.

B19. Applying that approach to the example, under 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 in the range of 1000-1500.

B20. 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 unusual items and adjustments made to IFRS Accounting Standard numbers to determine management performance measures, thereby potentially making any combined disclosure for them difficult. Finally, such an approach might potentially result in information that is less useful for users of financial statements trying to determine recurring earnings.

Should the definition only apply to items of operating income or expenses?

B21. A few respondents 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. Some of these respondents wanted to present them as a separate line item in the statement of profit or loss, allowing a subtotal 'operating profit before unusual items'.

B22. The proposals in the Exposure Draft apply to all items of income or expenses, including those included in other comprehensive income. There is no reason in principle why users of financial statements would not want to analyse separately items of income and expenses that are not expected to persist in categories other than operating.

B23. However, there is a question on whether the specific requirements on unusual items should apply to income and expenses in categories other than the operating category, rather than just the application of the general requirement to disaggregate information if the disaggregated information is material (see the suggestion from some respondents in paragraph 28). For example, an important aspect of the proposals in the Exposure Draft is the disclosure of information about unusual items in a single note. The staff acknowledge there is a question over whether it is helpful to have information about unusual items from categories other than operating profit in a single note together with unusual items from the operating category. Given that income and expenses in categories other than operating are likely to be analysed separately from operating income and expenses, it might be more helpful to include information about unusual items from these other categories in the notes for the line items for the other categories.

B24. The staff will bring a paper discussing the details of the disclosure requirements for unusual items to a future IASB meeting but we could also explore limiting the scope of unusual items to income and expenses in the operating category and leaving income and expenses with dissimilar persistence characteristics in other categories to be covered by the general disaggregation requirements.

B25. One category of income and expenses that is likely to meet the proposed definition of unusual items in its entirety is income and expenses from discontinued operations. Such income and expenses are classified in a separate category of the statement of profit or loss (paragraph 55 of the Exposure Draft). Regardless of the approach the IASB decides for other categories of income and expenses, the staff think it would be helpful to specifically exclude income and expenses from discontinued operations from the definition of unusual items. IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* provides sufficient disclosure requirements for such income and expenses.

Guidance on several future annual reporting periods

B26. Some respondents asked for guidance on how many is several future annual reporting periods.

B27. Paragraph BC132 of the Basis for Conclusions states:

(a) ‘several’ is not all possible future reporting periods or only a short period; and

(b) specifying a period would be arbitrary.

B28. The staff have considered whether it would be possible to link the meaning of ‘several future annual reporting periods’ to the requirements in IAS 36 for cash flow projections used to measure value in use. As noted in paragraph 43 of this paper, IAS 36 requires cash flow projections to be based on the most recent financial budgets or forecasts approved by management. As noted in paragraph 43 of this paper, IAS 36 requires cash flow projections to be based on the most recent financial budgets or forecasts approved by management. IAS 36 goes on to state that those budgets or forecasts shall cover a maximum of five years unless a longer period can be justified.

B29. Similarly, it would be possible to require an entity to consider whether similar income or expenses are expected to arise in the periods covered by the most recent budgets or forecasts approved by management, up to a maximum of five years unless a longer period can be justified. Such an approach would have the advantage of reducing the subjectivity in both the periods being assessed and in the assessment of the income and expenses expected to arise in those periods.

B30. If the IASB wishes to explore such an approach, the staff will need to undertake further analysis of its consequences.