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## IASB® meeting

Date	<b>March 2023</b>
Project	<b>Primary Financial Statements</b>
Topic	<b>Disclosure of operating expenses by nature in the notes</b>
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## Objective of this paper

1. This paper is a follow up paper to the IASB's tentative decision on the July 2022 [Agenda Paper 21C](#) to revise the proposal in paragraph 72 of the Exposure Draft *General Presentation and Disclosures* (Exposure Draft). Paragraph 72 required that an entity that presents operating expenses using the function of expense method disclose in the notes an analysis of total operating expenses by nature. At the July 2022 meeting, the IASB tentatively decided to revise the proposal to require that an entity disclose the amount of depreciation, amortisation and employee benefits included in each line item in the statement of profit or loss—the 'revised proposal'.
2. The analysis and recommendations in this paper relate to the proposed requirements for entities that present function line items in the statement of profit or loss.

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## Summary of staff recommendations in this paper

3. We recommend the IASB:
- (a) amend the specific disclosure requirement for operating expenses by nature to require an entity to disclose the amounts of depreciation, amortisation, employee benefits, impairments and write-downs of inventory included in each line item in the statement of profit or loss;
  - (b) confirm the proposal in the Exposure Draft that the information required by the specific disclosure requirement for operating expenses by nature be given in a single note;
  - (c) provide application guidance clarifying that expense amounts would not be required;
  - (d) provide application guidance requiring that when the amounts disclosed include amounts that have been included in the carrying amount of assets an entity provide a qualitative explanation indicating:
    - (i) that the amounts disclosed include amounts that have been included in the carrying amount of assets; and
    - (ii) the assets in which those amounts have been included;
  - (e) expand the scope of the proposed exemption from the general requirement to disaggregate material information, as tentatively agreed in January 2023, to include the disaggregation of amounts of nature expenses required to be disclosed by other IFRS Accounting Standards into the function line items in the statement of profit or loss in which they are included.

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## Structure of the paper

4. This paper is structured as follows:
  - (a) background (paragraphs 5–14);
  - (b) staff analysis, recommendations and questions for the IASB (paragraphs 15–74);
  - (c) Appendix A—Research on impairments and write-downs of inventory;
  - (d) Appendix B—Illustrations of the specific disclosure requirement for operating expenses by nature; and
  - (e) Appendix C—Illustration of the FASB’s recent decision on operating expenses.

## Background

5. This section includes:
  - (a) the proposal in the Exposure Draft and feedback received (paragraphs 6–8);
  - (b) the revised proposal and feedback received during targeted outreach (paragraphs 9–12); and
  - (c) other related IASB tentative decisions (paragraphs 13–14).

### ***Proposal in the Exposure Draft and feedback received***

6. The proposal in paragraph 72 of the Exposure Draft required that an entity that presents operating expenses using the function of expense method disclose in the notes an analysis of total operating expenses by nature.
7. Comment letter feedback from many preparers disagreed with the proposal for cost reasons, while many users generally agreed that the proposal would provide useful information (paragraphs 13 and 15 of the October 2021 [Agenda Paper 21C](#)). However, feedback from a few users was that requiring entities to disclose the

amounts of specific nature expenses included in function line items would provide users with more benefits than the proposal (paragraphs 17–18 of the October 2021 [Agenda Paper 21C](#)).

8. During the outreach phase of its redeliberations, the IASB explored with preparers and users whether requiring entities to disclose the amounts of specific nature expenses included in function line items would achieve a better cost–benefit balance than the proposal—an ‘alternative approach’.<sup>1</sup>

### ***Revised proposal and feedback received during targeted outreach***

9. At the April 2022 and July 2022 meetings of the IASB, the staff presented feedback on the feasibility and usefulness of different variants of the alternative approach suggested by stakeholders (paragraph 7).<sup>2</sup>
10. At the July 2022 meeting, the IASB tentatively decided to revise the proposal in the Exposure Draft and require that an entity disclose, for depreciation, amortisation and employee benefits the amounts included in each line item in the statement of profit or loss. The revised proposal is expected to achieve a better *cost–benefit balance* compared to the proposal in the Exposure Draft. The IASB also decided to explore in targeted outreach during October to December 2022 whether to expand the revised proposal to also include impairments and write-downs of inventory or to expand the revised proposal into a general requirement together with a cost relief.<sup>3</sup>
11. Feedback from targeted outreach was that most stakeholders agreed with the revised proposal as a compromise between the costs for preparers and the information needs of users (although some preparers still raised cost concerns).<sup>4</sup> Some preparers asked

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<sup>1</sup> For example, we discussed alternative approaches at the [March 2022 Capital Markets Advisory Committee meeting](#), the [March/April 2022 Accounting Standards Advisory Forum meeting](#) and the [June 2022 Joint Capital Markets Advisory Committee and Global Preparers Forum meeting](#).

<sup>2</sup> The alternative approaches discussed and the feedback received on those approaches from both preparers and users are described further in the April 2022 [Agenda Paper 21A](#) and the July 2022 [Agenda Paper 21C](#).

<sup>3</sup> A general requirement would apply to all nature expenses an entity discloses. An entity would be required to disclose for each disclosed item the amounts included in each function line item in the statement of profit or loss.

<sup>4</sup> Feedback from targeted outreach is described in more detail in paragraphs 48–56 of the January 2023 [Agenda Paper 21A](#).

whether the disclosure of costs incurred, rather than expenses recognised in the period, would meet the disclosure requirement.

12. Some users said expanding the requirement to include impairments and write-downs of inventory would provide useful information, while some preparers said providing such information would not be costly because these expenses are typically included in a single line item in the statement of profit or loss. Feedback did not indicate support for a general requirement—many preparers viewed a general requirement to be too costly, while users acknowledged that the cost constraints limit what information would be practical for an entity to provide.

#### ***Other related IASB tentative decisions***

13. In September 2021 (see [Agenda Paper 21D](#)), the IASB tentatively decided on a general requirement for a qualitative explanation of how a class of disclosed items is included in line items in the primary financial statements. In October 2021 (see [Agenda Paper 21B](#)), the IASB's tentative decisions included proposals to require an entity to disclose narrative information to explain the composition of cost of sales and other function line items in the statement of profit or loss.
14. In January 2023 (see [Agenda Paper 21C](#)), the IASB tentatively decided to add an exemption to the general requirement to disaggregate material information. The exemption would apply to information about the nature of operating expenses included in a function line item in the statement of profit or loss. Specific disclosure requirements in IFRS Accounting Standards relating to operating expenses would still apply. The IASB asked the staff to consider in a future paper whether it should extend the exemption to cover the disaggregation of these required specific nature expenses into the function line items in which they are included.

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## Staff analysis, recommendations and questions for the IASB

15. This section discusses:
- (a) the scope of a specific disclosure requirement for operating expenses by nature (paragraphs 16–33);
  - (b) other outstanding issues related to the specific disclosure requirement (paragraphs 34–63); and
  - (c) whether the IASB should add a specific disclosure requirement for operating expenses by nature for interim financial reporting periods (paragraphs 64–74).

### ***Scope of a specific disclosure requirement for operating expenses by nature***

16. This section includes:
- (a) a discussion on setting the context with regard to a specific disclosure requirement for operating expenses by nature (paragraphs 17–23);
  - (b) a discussion on whether impairments should be included in the scope of the specific disclosure requirement (paragraphs 24–28);
  - (c) a discussion on whether write-downs of inventory should be included in the scope of the specific disclosure requirement (paragraphs 29–31); and
  - (d) a staff recommendation and a question for the IASB (paragraphs 32–33).

### ***Setting the context***

17. Any disclosure requirement the IASB considers should maintain the cost–benefit balance achieved with the revised proposal at the July 2022 IASB meeting as discussed in paragraph 10, by limiting the items included in the scope of the specific disclosure requirement for operating expenses by nature.
18. Preparer feedback from targeted outreach was that a general requirement would be too costly and user feedback did not indicate that a general requirement was needed if the

costs of obtaining such information were too high (paragraph 12). We therefore do not further consider a general requirement because it would *not maintain the cost–benefit balance*.

19. In contrast, it appears that including impairments and write-downs of inventory in the scope of a specific disclosure requirement is *likely to maintain the cost–benefit balance* (their inclusion is likely to provide some incremental benefits to users and involve some incremental costs for preparers). We do not expect the IASB’s decision to expand (or not to expand) the scope to have significant implications for the implementation of the specific disclosure requirement in the IFRS Accounting Taxonomy.
20. The benefits of including additional nature expenses in the scope are greatest when the items are in *more than one line item in the statement of profit or loss*. The incremental benefit of including items in the scope is limited when items are only included in one line item. This limited incremental benefit is because entities would already be required to give a qualitative explanation of:
  - (a) how disclosed nature expenses are included in line items in the statement of profit or loss; and
  - (b) the composition of function line items (paragraph 13).
21. At the July 2022 IASB meeting, we recommended the scope of a specific disclosure requirement include depreciation, amortisation and employee benefits because:
  - (a) users said having information on these items would be useful; and
  - (b) we expect these items to be in more than one line item in the statement of profit or loss.<sup>5</sup>

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<sup>5</sup> At that meeting we did not recommend adding impairments and write-downs of inventory to the scope because of our expectation that those items would often be included in a single line item in the statement of profit or loss (paragraph 50(b) of the July 2022 [Agenda Paper 21C](#)).

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22. Expanding the scope could put pressure on the question of why specific nature expenses are included in the scope but not others.<sup>6</sup> However, with a specific disclosure requirement for operating expenses by nature the IASB decided to require more information on specific nature expenses rather than develop a principles-based approach because of the costs associated with a principles-based approach (see paragraph 12 and paragraph BC112 of the Basis for Conclusions on the Exposure Draft).
23. We think the IASB will need to make a balanced decision with regard to adding (or not adding) impairments and write-downs of inventory to the scope because there is no single conceptual basis that would be applicable to all items. We therefore first analyse whether the scope should be expanded to include impairments (paragraphs 24–28). We then analyse whether the scope should be expanded further to also include write-downs of inventory (paragraphs 29–31).

*Should impairments be included in the scope?*

24. The impairments the IASB could potentially consider adding to the scope are impairments within the scope of IAS 36 *Impairment of Assets* that are classified in the operating category of the statement of profit or loss (see also paragraph 45 of the July 2022 [Agenda Paper 21C](#)).
25. When compared to depreciation, amortisation, and employee benefits, the benefits of including impairments in the scope might be more limited because:
- (a) some entities might present all or some impairments separately in the statement of profit or loss (no need for a specific disclosure requirement);<sup>7</sup> or

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<sup>6</sup> For example, some consider items such as outsourced labour to be similar to employee benefits, yet they would not be included in the scope.

<sup>7</sup> Research indicates that some entities present impairments separately in the statement of profit or loss (see Appendix A for more detail).



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- (b) some entities might include impairments in a single line item in the statement of profit or loss (current disclosure requirement in IAS 36 would provide sufficient information)<sup>8</sup>.
26. However, some entities might include impairments in more than one line item in the statement of profit or loss. Hence, having information on the amount of impairments included in function line items would provide users with a *better understanding of relationships*—specifically:
- (a) the composition of function line items (which is useful for users when performing margin analysis);
  - (b) how information presented in primary financial statements relates to information disclosed in the notes; and
  - (c) how non-cash items included in function line items in the statement of profit or loss relate to the statement of cash flows.
27. Even in cases in which impairments would only be included in a single line item in the statement of profit or loss, including them in the scope would make such information more easily accessible for users—especially if the IASB continues with its proposal to require the information about operating expenses by nature be given in a single note (we recommend the IASB continue with the single note proposal—see paragraph 40).<sup>9</sup>
28. In addition, some stakeholders view impairments to be similar to depreciation or amortisation (for example, due to their non-cash nature). Our research shows that many entities already provide (some) information on the amount of impairments included in function line items (see Appendix A for more detail). The research findings supplement the feedback received during outreach—some entities are able to

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<sup>8</sup> Paragraph 126 of IAS 36 requires that an entity discloses for impairments and reversals of impairments the line item(s) of the statement of comprehensive income in which those impairments or reversals of impairments are included.

<sup>9</sup> In contrast, if impairments are not included in the scope, a user would have to identify the information in the respective notes and it is likely that the information will be presented differently from entity to entity.

provide information on impairments by function while users find such information useful.

*Should write-downs of inventory also be included in the scope?*

29. When compared to depreciation, amortisation, and employee benefits, the benefits of including write-downs of inventory in the scope might be more limited because some entities might include write-downs in a single line item in the statement of profit or loss (proposed disclosure requirements would provide sufficient information)<sup>10</sup>.
30. However, the IASB could also consider adding write-downs of inventory to the scope for the same reasons as discussed for impairments, that is:
- (a) some entities might include write-downs of inventory in more than one line item in the statement of profit or loss—hence, adding them to the scope would provide users with better ‘relationship-information’ (paragraph 26);
  - (b) information on write-downs of inventory would be more easily accessible, even in cases where they are only included in a single line item in the statement of profit or loss (paragraph 27); and
  - (c) our research shows that some entities already provide (some) information on the amount of write-downs of inventory included in function line items (see Appendix A for more detail).
31. It could also be argued that write-downs of inventory are similar to impairments (and depreciation and amortisation)—for example, due to their non-cash nature—hence they should be included in the scope.

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<sup>10</sup> Applying the IASB’s tentative decisions, entities would be required to give a qualitative explanation of how a disclosed nature expense item is included in the line items in the statement of profit or loss (paragraph 13).

*Staff recommendation and question for the IASB*

32. We recommend the IASB expand the scope of the specific disclosure requirement for operating expenses by nature to also include impairments and write-downs of inventory because it would:
- (a) provide users with incremental benefits for their analysis, while maintaining the cost–benefit balance (paragraphs 26 and 30); and
  - (b) improve the accessibility of such information for users (paragraphs 27 and 30).
33. The resulting specific disclosure requirement for operating expenses by nature would be to require an entity to disclose the amounts of depreciation, amortisation, employee benefits, impairments and write-downs of inventory included in each line item in the statement of profit or loss.

Question for the IASB

1. Does the IASB agree with the staff recommendation to expand the scope of the specific disclosure requirement for operating expenses by nature to also include:
- (a) impairments; and
  - (b) write-downs of inventory?

***Other outstanding issues related to the specific disclosure requirement***

34. In this section of the paper, we discuss whether the IASB should:
- (a) confirm the proposal in the Exposure Draft that the information required by the specific disclosure requirement for operating expenses by nature be given in a single note (paragraphs 35–40);
  - (b) provide application guidance on how an entity could fulfil the disclosure requirement for operating expenses by nature (paragraphs 41–50); and
  - (c) expand the scope of the proposed exemption from the general requirement to disaggregate material information to include the disaggregation of amounts of nature expenses required to be disclosed by other IFRS Accounting Standards

into the function line items in the statement of profit or loss in which they are included (paragraphs 51–63).

### *Disclosure in a single note*

35. Paragraph 97 of the Exposure Draft (carried forward from IAS 1 *Presentation of Financial Statements*) requires that an entity present its notes in a *systematic manner*. In determining a systematic manner, the entity is required to consider the effect on the *understandability and comparability* of its financial statements. Paragraph B66 of the Exposure Draft (carried forward from IAS 1) gives examples of systematic grouping or ordering of the notes, such as:
- (a) grouping together information about particular business activities or items measured similarly; or
  - (b) following the order of the line items in the statement(s) of financial performance and the statement of financial position.
36. However, in some instances IFRS Accounting Standards set specific requirements for:
- (a) the location of information in the notes (for example, whether information should be given in a single note or separate section);<sup>11</sup> or
  - (b) the format in which information should be given (for example, whether information should be given in a tabular format).
37. The disclosure of an analysis of total operating expenses by nature (as proposed in the Exposure Draft) could have only been given in a single note—as it required an entity to give an analysis of its operating expenses by reconciling individual nature expenses to total operating expenses.
38. With regard to the revised proposal (irrespective of how the IASB decides on impairments and write-downs of inventory), we think providing the information in a

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<sup>11</sup> Examples include paragraphs 52 and 54 of IFRS 16 *Leases* and paragraph 21B of IFRS 7 *Financial Instruments: Disclosures*. Paragraph 106 of the Exposure Draft proposed to require that an entity discloses information about management performance measures in a single note.

single note makes the information more understandable. Also, all entities disclosing the information consistently in the notes to the financial statements would make it easier to compare the information across entities.<sup>12</sup>

39. Specifically, we expect users would generally *analyse information on operating expenses by nature together* rather than separately in the respective notes (for example, depreciation in a property, plant and equipment note). If the information is in a single note, it would be easier to analyse. Similarly, it would be easier for preparers to tag the information in their digital reports, in particular the text block that will represent the whole disclosure requirement.
40. We therefore recommend the IASB confirm the proposal in the Exposure Draft that the information required by the specific disclosure requirement for operating expenses by nature be given in a single note because of the incremental benefits it provides to users. We do not expect such a requirement to be burdensome for preparers.

#### Question for the IASB

2. Does the IASB agree with the staff recommendation to confirm the proposal in the Exposure Draft that the information required by the specific disclosure requirement for operating expenses by nature be given in a single note?

#### *Application guidance on the specific disclosure requirement for operating expenses by nature*

41. Common practice of entities presenting operating expenses by nature is that line items presented in the statement of profit or loss are *not necessarily expense<sup>13</sup> amounts recognised in the statement of profit or loss in the period.*<sup>14</sup> Such presentation is illustrated in paragraph 102 of IAS 1 (and is not expected to change when IAS 1 is superseded by IFRS X). Paragraph 102 of IAS 1 gives the following example of how

<sup>12</sup> Appendix B provides illustrations of how an entity could fulfil the specific disclosure requirement for operating expenses by nature in a single note.

<sup>13</sup> With 'expenses' we mean decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims as defined in paragraph 4.69 of the Conceptual Framework.

<sup>14</sup> We have heard from preparers that presenting expense amounts is not feasible for some entities.

an entity that presents operating expenses by nature could fulfil the requirement in paragraph 99 of IAS 1 that requires an entity to present an analysis of expenses recognised in profit or loss:

Revenue		X
Other income		X
Changes in inventories of finished goods and work in progress	X	
Raw materials and consumables used	X	
Employee benefits expense	X	
Depreciation and amortisation expense	X	
Other expenses	X	
Total expenses		(X)
Profit before tax		X

42. In this example, some of the line items include a combination of both (a) amounts recognised as an expense in the statement of profit or loss in the period and (b) amounts that have been included in the carrying amount of assets (and that will be recognised as expenses in future periods). To reconcile to total (operating) expenses recognised in the statement of profit or loss in the period entities presenting such items present a ‘changes in inventories of finished goods and work in progress’ or similarly labelled (balancing) line item as illustrated in the example.
43. With regard to the specific disclosure requirement for operating expenses by nature, preparer feedback was that:
- it is feasible to provide an allocation to function line items of a total nature amount that is a combination of amounts recognised as an expense in the period, and amounts included in the carrying amount of assets; but
  - it is not feasible to provide an amount that represents the amount of a nature expense recognised in the period that is included in a function line item (paragraph 12).
44. Furthermore, users have told us that having a reasonable approximation of the amounts included in each function line item would provide them with sufficient information.<sup>15</sup>

<sup>15</sup> See paragraphs 32 and 53 of the April 2022 [Agenda Paper 21A](#).

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45. Preparers also said that having clarity about the information required to be given to fulfil the specific disclosure requirement would be important—specifically, whether entities would be required to disclose expense amounts (paragraph 11).<sup>16</sup>
46. We recommend the IASB clarify that expense amounts would not be required in order to fulfil the specific disclosure requirement for operating expenses by nature because such a requirement would not maintain:
- (a) the cost–benefit balance achieved in July 2022 (paragraph 10); and
  - (b) the balance between entities presenting operating expenses by nature and those that present by function (paragraphs 41–42).
47. As described in paragraph 42, entities that present operating expenses by nature typically present a ‘changes in inventories of finished goods and work in progress’ or similarly labelled line item. Therefore, it is implicitly clear for a user that the line items presented are not necessarily expense amounts.
48. Entities that present operating expenses by function would not provide a ‘changes in inventories of finished goods and work in progress’ line item when disclosing the information required by the specific disclosure requirement for operating expenses by nature—because they would not be required to disclose a complete analysis of total operating expenses by nature. However, because disclosed amounts would not necessarily be expense amounts and may also include amounts that have been included in the carrying amount of assets clarifying the composition of those disclosed amounts may provide useful information.
49. Therefore, we recommend that when the amounts disclosed include amounts that have been included in the carrying amount of assets, the IASB require an entity to provide a qualitative explanation indicating:
- (a) that the amounts disclosed include amounts that have been included in the carrying amount of assets; and

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<sup>16</sup> See also paragraph 49 of the April 2022 [Agenda Paper 21A](#), paragraph 32 of the July 2022 [Agenda Paper 21C](#) and paragraph 81 of the January 2023 [Agenda Paper 21A](#).

- (b) the assets in which those amounts have been included.

Appendix B provides illustrations of how an entity could give such a qualitative explanation.

50. We think such an explanation would often be needed for depreciation, amortisation and employee benefits as these items are often included in the carrying amount of assets. In contrast, we do not think such an explanation would be needed for impairments and write-downs of inventory as they would not be included in the carrying amount of assets. We do not expect providing such a qualitative explanation to be burdensome for preparers.

#### Question for the IASB

3. Does the IASB agree with the staff recommendation to provide application guidance clarifying that expense amounts would not be required?
4. Does the IASB agree with the staff recommendation to provide application guidance requiring that when the amounts disclosed include amounts that have been included in the carrying amount of assets an entity provide a qualitative explanation indicating:
- (a) that the amounts disclosed include amounts that have been included in the carrying amount of assets; and
- (b) the assets in which those amounts have been included?

#### *Relationship with the general requirement to disaggregate material information*

51. In this section of the paper, we consider further the relationship between the general requirement to disclose material information and the proposed specific disclosure requirement for operating expenses by nature discussed by the IASB in January 2023 (see [Agenda Paper 21C](#)).

#### *Exemption discussed by the IASB in January 2023*

52. The specific disclosure requirement for operating expenses by nature limits the required information on the nature of expenses included in function line items to those nature expenses specified by the IASB (for example, depreciation, amortisation and



employee benefits). However, the general requirement to disaggregate material information could lead an entity to conclude that it needs to provide further information on the nature of expenses included in function line items.

53. Feedback from preparers was that providing such information was not feasible as it would require changes to systems and processes (see, for example, paragraph 50 of the April 2022 [Agenda Paper 21A](#)). Therefore, in January 2023 the IASB tentatively decided to add an exemption to the general requirement to disaggregate material information. That exemption would apply to information about the nature of operating expenses included in a function line item in the statement of profit or loss because of the costs associated with determining the amount of nature expenses included in each function line item (paragraph 14).
54. The implications of the IASB's tentative decision in January 2023 are that, with regard to disaggregating function line items into nature expenses, an entity is *not* required to provide material information other than that *specifically required* by the specific disclosure requirement—regardless of whether obtaining that additional material information would be costly for an entity or not.
55. At its January 2023 meeting, the IASB noted that it would need to consider whether the exemption should also include the disaggregation of nature expenses required to be disclosed by other IFRS Accounting Standards into the function line items in which they are included (paragraph 14). The issue was not discussed further at that meeting because the IASB had not yet discussed the feedback on expanding the specific disclosure requirement for operating expenses by nature to a general requirement to include all nature expenses disclosed in the notes (paragraphs 12 and 14).

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***Analysis and evidence to support whether the exemption should or should not be expanded***

56. In this section we discuss whether the IASB should expand the exemption in January 2023 to also include the disaggregation of nature expenses required to be disclosed by other IFRS Accounting Standards. The analysis and evidence to support whether the exemption should be expanded is mixed.
57. On the one hand, we could not specifically identify examples of nature expenses required to be disclosed by other IFRS Accounting Standards for which information on the function line items in which they are included would provide useful information for users *but* for which obtaining the information would be too costly for entities—indicating an exemption from the general requirement to provide material information might be unnecessary in this case.
58. On the other hand, targeted outreach feedback from preparers was mixed. Most preparers said that providing an allocation to function line items was feasible for a limited number of additional nature expenses. However, providing such an allocation for all nature expenses disclosed was not considered feasible by preparers (paragraph 12). There was also no clear consensus among preparers regarding specific nature expenses for which it would be too costly to provide an allocation to function line items.
59. User feedback was also mixed. Some users said that they would prefer as much information about the allocation of nature expenses to function line items as practically possible—while others acknowledged the cost constraints of some entities of providing such information (paragraph 12).
60. We do not think that additional outreach with preparers and users would lead to a more conclusive picture because of the entity-specific nature of what information would be material and therefore be required to be given under a general requirement that would apply to all nature expenses an entity discloses in the notes.

**Staff recommendation and question for the IASB**

61. Stakeholders have expressed strong and diverse views on the general topic of disclosure of operating expenses by nature. We have worked together with stakeholders throughout the redeliberations to develop a set of specific disclosures around which consensus has largely been achieved. Although we remain unsure that expanding the exemption is necessary for cost relief reasons, we think it is important to maintain the consensus we have built for that ‘package’ of specific disclosure requirements. Without that consensus there is a risk that we may need to conduct further outreach and delay the finalisation of the project.
62. Accordingly, on balance, we recommend the IASB expand the scope of the proposed exemption from the general requirement to disaggregate material information, as tentatively agreed by the IASB in January 2023, to include the disaggregation of amounts of nature expenses required to be disclosed by other IFRS Accounting Standards into the function line items in the statement of profit or loss in which they are included.
63. We recommend the exemption in conjunction with the recommendation in paragraph 32 to expand the scope of the specific disclosure requirement for operating expenses by nature to also include impairments and write-downs of inventory. If the IASB does not agree with the recommendation in paragraph 32, we think introducing an exemption would risk the loss of material information which could be provided without undue cost.

**Question for the IASB**

5. Does the IASB agree with the staff recommendation in paragraphs 62–63?

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***Should the IASB add a specific disclosure requirement for operating expenses by nature for interim financial reporting periods?***

*Feedback received on the disclosure of operating expenses by nature in interim financial reporting periods*

64. The proposal in paragraph 72 of the Exposure Draft would have only applied to annual financial reporting periods. The IASB did not require information on operating expenses by nature for interim financial reporting periods because this would be *inconsistent with the objective of condensed financial statements*—which is to provide an update on the latest complete set of annual financial statements (paragraph BC224 of the Basis for Conclusions on the Exposure Draft).
65. However, some user feedback indicated that having information on operating expenses by nature in interim periods would be useful.<sup>17</sup> A few users said they would prefer the IASB limit the disclosure requirements on operating expenses by nature to what is feasible for entities in interim periods rather than not require any such information for interim periods.<sup>18</sup>

*What is the objective of condensed financial statements?*

66. In the Exposure Draft, the IASB did not require information on operating expenses by nature for interim periods because this would be *inconsistent with the objective of condensed financial statements*—which is to provide an update on the latest complete set of annual financial statements (paragraph BC224 of the Basis for Conclusions on the Exposure Draft).
67. Paragraph 8 of IAS 34 states that an interim financial report shall include, at a minimum, (a) condensed financial statements and (b) selected explanatory notes.

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<sup>17</sup> See paragraph 9(d) of the January 2021 [Agenda Paper 21C](#).

<sup>18</sup> See paragraph 25 of the meeting summary of the [October 2022 Capital Markets Advisory Committee meeting](#).

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68. In the condensed financial statements an entity shall, at a minimum, present each of the headings and subtotals that were included in its most recent annual financial statements and present additional line items if their omission would make the condensed interim financial statements misleading (paragraph 10 of IAS 34).
69. The role of selected explanatory notes is to give an update on the latest complete set of annual financial statements—focusing on new activities, events, and circumstances rather than duplicating information previously reported (paragraph 6 of IAS 34).
70. An entity is also required to give an explanation of events and transactions that are significant to an understanding of the changes in financial performance of the entity since the end of the last annual reporting period (paragraph 15 of IAS 34). Paragraph 15B of IAS 34 gives examples of events and transactions for which disclosures would be required if they are significant (such as, impairments and write-downs of inventory).

*Should there be a specific disclosure requirement for operating expenses by nature for interim financial reporting periods?*

71. The benefit of a disclosure requirement for operating expenses by nature for interim periods would be limited if an entity does not present the respective line items in the statement of profit or loss (for example, cost of sales)—although we acknowledge that some entities might present such additional line items in order to comply with paragraph 10 of IAS 34 (paragraph 68).
72. However, we continue to think that a requirement to disclose such information in interim periods would be *inconsistent with the objective of selected explanatory notes of providing an update* on the latest complete set of annual financial statements (paragraph 69). For example, we do not expect the composition of function line items to change substantially between the last annual period and the interim period (for example, the percentage of depreciation included in cost of sales).

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73. The list of events and transactions for which disclosures would be required (if significant to an understanding of the changes in financial performance) does not include depreciation, amortisation and employee benefits—presumably because no substantial change compared to the last annual period is expected (paragraph 70). In contrast, a user would continue to receive information on impairments and write-downs of inventory as this is a specific requirement in IAS 34 (paragraph 70).
74. We therefore think the IASB should not add a specific disclosure requirement for operating expenses by nature for interim financial reporting periods (no change compared to the Exposure Draft).

**Question for the IASB**

6. Does the IASB have any comments on the staff analysis in paragraphs 64–74?

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## Appendix A—Research on impairments and write-downs of inventory

- A1. This appendix gives a summary of the research we have done on impairments and write-downs of inventory. We conducted research on the 100 sample companies we used in the analysis of the effects in the Exposure Draft. For their 2021 financial statements we analysed:
- (a) how many entities, that present operating expenses by function or use a mixed presentation method, present impairments or write-downs of inventory separately in the statement of profit or loss; and
  - (b) how many entities, that present operating expenses by function, provide (some) quantitative information on the amount of impairments and write-downs of inventory included in (function) line items(s).

### ***Separate presentation of impairments in the statement of profit or loss***

- A2. The research shows that 9 out of 69 entities, that present operating expenses by function or use a mixed presentation method, present impairments separately (of which 1 entity presented separately impairment of goodwill). No entity presented write-downs of inventory separately.

### ***Disaggregation of (function) line items***

- A3. For impairments, the research shows that 28 out of 47 entities, that present operating expenses by function, provide (some) quantitative information on the amount of impairments included in (function) line items(s). Of those entities, 9 entities disclosed that impairments had been included in **more than one line item**. Table 1 gives an overview of the (function) line items in which impairments are included.

(Function) line items in which impairments are included in		Tab 1
(Function) line item		Number of entities
Cost of sales		7
Selling, general and administrative <sup>19</sup>		11
Research and development expenses		4
Restructuring expenses		2
Other (income) and expenses		18

- A4. The research shows that 5 out of 47 entities, that present operating expenses by function, provide (some) quantitative information on the amount of write-downs of inventory included in (function) line item(s). Of these entities, 1 entity disclosed that write-downs of inventory had been included in **more than one line item**. Table 2 gives an overview of the (function) line items in which write-downs of inventory are included.

(Function) line items in which write-downs of inventory are included in		Tab 2
(Function) line item		Number of entities
Cost of sales		2
Other (income) and expenses		4

<sup>19</sup> Line items such as 'administrative expenses' or 'marketing and sales/distribution' were subsumed under 'selling, general and administrative expenses'.



## Appendix B—Illustrations of the specific disclosure requirement for operating expenses by nature

Example 1

### (1) Operating expenses by nature

Tab 1 shows an allocation of total depreciation, amortisation, employee benefits, impairments and write-downs of inventory to function line items.

The amounts disclosed for depreciation, amortisation and employee benefits include amounts that have been included in the carrying amount of assets (such as inventory or property, plant and equipment).

Operating expenses by nature		Tab 1	
(in currency units)		20X2	20X1
<b>Depreciation</b>		<b>175</b>	...
Cost of goods sold		100	...
General and administrative expenses		25	...
Research and development expenses		50	...
<b>Amortisation</b>		<b>100</b>	...
Research and development expenses		100	...
<b>Employee benefits</b>		<b>375</b>	...
Cost of goods sold		150	...
Selling expenses		100	...
General and administrative expenses		50	...
Research and development expenses		75	...
<b>Impairments</b>		<b>80</b>	...
Research and development expenses		80	...
<b>Write-downs of inventory</b>		<b>50</b>	...
Cost of goods sold		30	...
Other operating expenses		20	...

### (2) Reconciliation of property, plant and equipment (in currency units)<sup>20</sup>

Carrying amount 1.1.20X2	...	Impairment losses	Depreciation	...	Carrying amount 31.12.20X2
<b>1,000</b>	...	<b>60</b>	<b>175</b>	...	<b>765</b>

### (3) Reconciliation of intangible assets (in currency units)<sup>22</sup>

Carrying amount 1.1.20X2	...	Impairment losses	Amortisation	...	Carrying amount 31.12.20X2
<b>900</b>	...	<b>20</b>	<b>100</b>	...	<b>780</b>

<sup>20</sup> Required disclosure in accordance with paragraph 73(e) of IAS 16 and paragraph 118(e) of IAS 38 *Intangible Assets*.

Example 2

(1) Operating expenses by nature

Tab 1 shows an allocation of total depreciation, amortisation, employee benefits, impairments and write-downs of inventory to function line items.

Operating expenses by nature		Tab 1	
(in currency units)	20X2	20X1	
<b>Depreciation</b>	<b>130</b>	...	
Cost of goods sold	90	...	
General and administrative expenses	10	...	
Research and development expenses	30	...	
<b>Amortisation</b>	<b>70</b>	...	
Research and development expenses	70	...	
<b>Employee benefits</b>	<b>375</b>	...	
Cost of goods sold	150	...	
Selling expenses	100	...	
General and administrative expenses	50	...	
Research and development expenses	75	...	
<b>Impairments</b>	<b>80</b>	...	
Research and development expenses	80	...	
<b>Write-downs of inventory</b>	<b>50</b>	...	
Cost of goods sold	30	...	
Other operating expenses	20	...	

(2) Reconciliation of property, plant and equipment (in currency units)<sup>21</sup>

Carrying amount 1.1.20X2	...	Impairment losses	Depreciation	...	Carrying amount 31.12.20X2
<b>1,000</b>	...	<b>60</b>	<b>175</b>	...	<b>765</b>

(3) Reconciliation of intangible assets (in currency units)<sup>23</sup>

Carrying amount 1.1.20X2	...	Impairment losses	Amortisation	...	Carrying amount 31.12.20X2
<b>900</b>	...	<b>20</b>	<b>100</b>	...	<b>780</b>

<sup>21</sup> Required disclosure in accordance with paragraph 73(e) of IAS 16 and paragraph 118(e) of IAS 38.

Example 3

(1) Operating expenses by nature

Tab 1 shows an allocation of total employee benefits to function line items. For information on how depreciation, amortisation, impairments and write-downs of inventory have been allocated to function line items see notes (2) Inventory, (3) Property, plant and equipment and (4) Intangible assets.

The amounts disclosed for depreciation, amortisation and employee benefits include amounts that have been included in the carrying amount of assets (such as inventory or property, plant and equipment).

Employee benefits (in currency units)	20X2	20X1
<b>Total employee benefits</b>	<b>375</b>	...
Cost of goods sold	150	...
Selling expenses	100	...
General and administrative expenses	50	...
Research and development expenses	75	...

(2) Inventory

Total write-downs of inventory are CU50 of which CU30 are included in cost of goods sold and CU20 are included in other operating expenses. Wastages are allocated to cost of goods sold. Write-downs allocated to other operating expenses relate to inventory that was disposed of due to the earthquake in Country X.

(3) Property, plant and equipment

Reconciliation of property, plant and equipment (in currency units) <sup>22</sup>					
Carrying amount 1.1.20X2	...	Impairment losses	Depreciation	...	Carrying amount 31.12.20X2
<b>1,000</b>	...	<b>60</b>	<b>175</b>	...	<b>765</b>

Impairment of CU60 is included in research and development expenses. Depreciation of CU100 is allocated to cost of goods sold. Depreciation of CU25 is allocated to general and administrative expenses and depreciation of CU50 is allocated to research and development expenses.

(4) Intangible assets

Reconciliation of intangible assets (in currency units) <sup>24</sup>					
Carrying amount 1.1.20X2	...	Impairment losses	Amortisation	...	Carrying amount 31.12.20X2
<b>900</b>	...	<b>20</b>	<b>100</b>	...	<b>780</b>

Impairment of CU20 is included in research and development expenses. Amortisation of CU100 is allocated to research and development expenses.

<sup>22</sup> Required disclosure in accordance with paragraph 73(e) of IAS 16 and paragraph 118(e) of IAS 38.

## Appendix C—Illustration of the FASB’s recent decision on operating expenses

C1. This appendix gives on an overview of the FASB’s recent decision on operating expenses. The FASB proposed a requirement for operating expenses at their January 2023 FASB meeting where an entity would be required to provide, in a single note, a disaggregation of cost of products sold (or cost of services) and selling, general and administrative expenses (illustrated for costs of products sold in the tables below).<sup>23</sup>

Cost of products sold (in currency units)	20X2	20X1
Inventory expense	(400)	...
Employee compensation	(30)	...
Depreciation	(20)	...
Amortisation	(10)	...
Other cost of products sold	(150)	...
<b>Total cost of products sold</b>	<b>(610)</b>	...

expensed as  
incurred

Costs of products sold: Inventory expense (in currency units)	20X2	20X1
Purchases of inventories	(100)	...
Employee compensation	(170)	...
Depreciation	(230)	...
Amortisation	(30)	...
Other inventory costs	(50)	...
Change in inventories	180	...
<b>Total inventory expense</b>	<b>(400)</b>	...

capitalised as  
incurred

<sup>23</sup> For more information see <https://www.fasb.org/Page/PageContent?pagelid=/meetings/pastmeetings/01-11-23.html>.