7 September 2020

The Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Chair

Re: Exposure Draft: ED 2019/7 General Presentation and Disclosures

On behalf of the Institute of Public Accountants (IPA), I am writing to comment on the Exposure Draft ED 2019/7 *General Presentation and Disclosures.*

As noted in our responses to the questions in the ED, the IPA supports many of the proposals. However, we have concerns with some of the proposals and offer suggestions to improve together with projects that we believe should be considered in your work program.

1. **Unusual Items of Income and Expense**

We are concerned that the introduction of the term "unusual items" will legitimise the practice of adjusting operating profit for to report "underlying profit" or "cash profit". In our opinion, the adjustments to operating profit for "non-cash", "one-off", "transformation charges" etc are often nothing more than management attempting to skirt accountability and justify remuneration and bonuses.

Many unusual items are either within management's control or that management has the ability and responsibility to mitigate. Typically, such adjustments include impairments, hedge ineffectiveness, various types of restructuring charges, acquisition costs, integration costs, foreign currency movements, employee share-based payments and fair value movements. Many of these adjustments appear to be attempts by management to eliminate volatility from the result despite the fact that many of the adjustments are within management's ability to mitigate.

While we acknowledge the proposed definition and guidance for "unusual items" should theoretically reduce the inclusion of some categories of adjustments, we are of the view there remains the risk of abuse of such a category. Accordingly, we recommend:

- The time horizon for the assessment of whether an item is unusual should be over the economic cycle. The variation of certain categories of unusual items such as impairments and redundancies are often related to the economic cycle. We believe such a time horizon is consistent with management's responsibility to manage risk and return across the economic cycle.

- Items can be unusual by nature but not necessarily by size. Items that exhibit uncharacteristic size should be disclosed as significant items in the notes on the basis of materiality.
- One of the characteristics of unusual items is that such items are not within management control and they are unable to mitigate the causes of such items e.g. natural or manmade disaster such as fire and flood or certain types of government interventions. These considerations should be reflected in the guidance relating to unusual items.
- We are deeply concerned with the characterisation of restructuring costs as unusual items as not only are restructuring costs under the control of management, they are often directly initiated by management. The treatment of restructuring as an unusual item is asymmetrical as restructuring is often presented by management as delivery future benefits to the entity, the benefits of which are not considered unusual. The guidance for unusual items should indicate that restructuring costs are only considered unusual items in very limited circumstances.
- The guidance should make it clear that items such as impairment, employee share-based remuneration, fair value movements and foreign currency movements are highly unlikely to be unusual items.
- The guidance should be clear that unusual items are not to be included on the face of the Profit or Loss (P&L) statement.

2. Restructuring Costs

Restructuring costs are often presented by management as cost required to be incurred to obtain benefits in future periods. In these circumstances, as these expenditures are instigated by management, management should be held accountable the effectiveness of such expenditure.

Material restructuring should be disclosed together with the expected benefits (both quantitative and qualitative) and the time period for such benefits are expected to emerge. In succeeding periods, management should be required to disclose costs incurred to date and the extent to which planned benefits have been achieved.

3. Management Performance Measures (MPM)

We do not support the proposal in respect to MPM. We recognise the MPMs are frequently used in public communication of the entity's performance often with more prominence that IFRS operating profit. Furthermore, there is little transparency on the formulation and comparability.

We agree that there is a need to improve transparency and comparability of such measures, however we disagree with the scope of the IASB's proposals. As an alternative is proposed:

- Included MPMs are any total, subtotal or ratio derived from IFRS reported figures (including where a ratio or metric that uses an IFRS reported as at least one input into the calculation of the ratio), and
- MPMs included in public information released with the annual report, interim reporting (e.g. half yearly and quarterly reports) and earnings releases.

4. EBITDA/Cash Earnings

We disagree with IASB decision not to define EBITDA. EBITDA is widely used as surrogate cash earnings. The IPA has observed there has been an increased incidence in diversity in the calculation of EBITDA since the introduction of IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*. The IASB should define EBITDA to ensure transparency and comparability of usage.

EBITDA is inferior as measure of cash earnings as concepts such as free-cashflows or the concept of cash flows required to maintain operating activities from IAS 7 *Statements of Cash Flows* paragraphs 50(c) and 51. As such, the IASB should explore disclosure of free-cashflow or a similar metric and the method for determining it.

5. Performance Reporting

We are disappointed that an ED focused on the P&L does not appropriately address performance reporting. ‘Operating Profit’ is a “raw” metric and needs context to be meaningful. MPMs such as Return on Equity (ROE) and Return on Invested Capital (ROIC) provide some insight on profit performance, as does margin analysis. The current proposals do not address such basic measures, let alone risk adjusted returns.

We strongly recommend the IASB take steps to develop a comprehensive framework for performance measurement, including consideration of economic profit and risk adjusted performance metrics.

6. IAS 7 *Statement of Cash Flows* (SOCF)

We have identified a number of issues relating to IAS 7 and the SOCF, which the IASB should address:

- There is a potential conflict, or a least potential confusion, between the categories specified in IAS 7 and the similar terminology used for the P&L in the ED. The IASB should consider additional guidance in the relevant standards to avoid confusion for preparers and users.
- The current definition and associate guidance for “cash and cash equivalents need to be revisited. In particular, we are concerned, regardless of jurisdiction, for the existing guidance in an IASB standard supporting an assertion that a financial asset that can be accessed in 90 days is a cash equivalent (IAS 7.7). Such a financial asset would not be available to meet short-term liquidity requirements and, therefore, should not be classified as a cash equivalent.
- The suggested disclosures at IAS 7.50-52 should be mandatory, as they would provide useful information to users of the financial report.

7. Guidance for Financial Institutions

We have observed diversity in practice, particularly, amongst second-tier financial institutions, neo-banks and other “fintech” entities in the presentation of the results from operations in the P&L and the presentation of cash flows from operating activities in the SOCFs.

In relation to the P&L, the issue relates to the inclusion or otherwise of interest expense in relation to borrowings with the consequent impact on net interest margin including a lack of which, if any interest-bearing liabilities are included in net interest margin.

In relation to the SOCFs, the issue relates to what borrowings if any are included in the subtotal “changes in operating assets and liabilities arising from cash flow movements”. The subtotal usually includes the “net movements in advances and loans”, but there is a lack of consistency and transparency in relation to the inclusion borrowings in “net movements in deposits and borrowings”.

Given the importance of financial institutions to economies, the IASB should provide financial institution specific additional guidance on existing SOCF requirement as well as the proposals in the ED (affecting both the P&L and SOCFs) for financial institutions to address existing inconsistencies in practice and lack of transparency and to ensure such issues do not arise in respect of the new requirements.

Our detailed comments on the ED are attached in the Appendix to this letter.

If you would like to discuss our comments, please contact me or our technical advisers Mr Stephen La Greca (stephenlagreca@aol.com) or Mr Colin Parker (colin@gaap.com.au) (a former member of the AASB), GAAP Consulting.

Yours sincerely

Vicki Stylianou
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Cc Chair, Australian Accounting Standards Board

About the IPA

The IPA, formed in 1923, is one of Australia's three legally recognised professional accounting bodies. In late 2014, the IPA acquired the Institute of Financial Accountants in the UK and formed the IPA Group, with more than 38,000 members and students in over 80 countries. The IPA Group is the largest SME focused accountancy organisation in the world. The IPA is a member of the International Federation of Accountants, the Accounting Professional and Ethical Standards Board and the Confederation of Asian and Pacific Accountants.

Appendix

Question 1 – operating profit and loss

Paragraphs 60(a) of the Exposure Draft proposes that all entities present in the statement of profit or loss a subtotal for operating profit or loss.

Paragraph BC53 of the Basis of Conclusions describes the Board's reasons for this proposal.

Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

IPA response

We support the proposal to require entities to report an operating profit subtotal in the statement of profit or loss (P&L). Reporting of operating profit provides a comparable metric to assess management performance.

However, the proposal could be enhanced by:

- Providing specific guidance for financial institutions – we are aware of significant diversity in presentation, particularly amongst second-tier financial institutions, neo-banks and other "fintech" entities when reporting operating performance, and
- Addressing potential confusion arising from the proposed nomenclature for the P&L and the similar titles used in the Statement of Cash Flow (SOCF). The terminology should consistent between the two statements and if this cannot be achieved in the short-term guidance should be included to clarify the usage in each statement.

In addition, while we support the proposals, there is merit is requiring entities to report the total "trading performance" (i.e. gross profit, net interest margin, underwriting profit) on the face of the P&L. Just as operating profit is an essential measure in assessing performance and prospects, the disclosure of this metric, including the basis for calculation provides information critical to users' assessment of performance and management.

Question 2 – the operating category

Paragraphs 46 of the Exposure Draft propose that entities classify in the operating category all income and expenses not classified in the other categories such as the investing category or the financing category

Paragraphs BC54-BC57 of the Basis for Conclusions describe the Board's reasons for this proposal.

Do you agree with these proposals? Why or why not? If you not, what alternative approach would you suggest and why?

IPA response

We support the proposals as a means to ensure consistency and comparability in the reporting of operating profit.

However, the definition of operating profit in the ED is inconsistent with the definition of operating activities in IAS 7 *Statement of Cash Flows*. As noted in our response to Question 1, the IASB should take steps to ensure the consistency in terminology between primary statements.

We also have concerns about defining operating profit in the context of "main business activity". There is lack of clear guidance in respect of what an entity's main business activity in the ED. In addition to enhanced guidance on the definition of "main business activity", we strongly recommend entities be required to describe their business models as a method of identifying the entity's main business activity.

Question 3 – the operating category: Income and expenses from investments made in the course of the entity's main business activities

Paragraph 48 of the Exposure Draft proposes that an entity classifies in the operating category investments made in the course of the entity's main business activities.

Paragraphs BC58-BC61 of the Basis for Conclusions describe the Board's reasons for this proposal.

Do you agree with this proposal? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you not, what alternative approach would you suggest and why?

IPA response

While we broadly support the proposal as a means of ensuring comparability and enhancing performance reporting, the we have a number of reservations.

While there a guidance on the application of this proposal in the application guidance and the Basis of Conclusions, given the significant degree of judgement required to be exercised the level of guidance is inadequate. Further guidance should be provided.

In addition, as noted in our response to Question 2, requiring an entity to describe its main business activities in the context of its business model could be used to support the decision whether investments are made in accordance with entity's main business activity and included in the operating category.

Given the limited level guidance currently proposed and the existing diversity in practice among second-tier financial institutions, neo-banks and other "fintech" entities, the proposals could give rise to more diverse reporting of operating performance. Specific guidance should be provided for financial institutions. In particular, the guidance should address the inclusion of funding costs as part of operating profit and the nature and type of funding to be included.

Question 4 – the operating category: an entity that provides financing to customers as a main business activity

Paragraphs 51 of the Exposure Draft proposes that an entity that provides financing to customers as a main business activity classify in the operating category either:

- *Income and expense from financing activities and from cash and cash equivalents that relate to the provision of financing to customers; or*
- *All income and expenses from financing activities and all income and expenses from cash and cash equivalents.*

Paragraphs BC62-BC69 of the Basis for Conclusions describe the Board's reasons for the proposals.

Do you agree with the proposal? Why or why not? If you not, what alternative approach would you suggest and why?

IPA response

We support the proposal to classify income and expenses from financing activities (including cash and cash equivalents) in the operating category where the entity provides financing to customers as a main business activity. This classification would provide important performance metrics and address diversity in preparation of financial statements, enhancing comparability.

As noted in our response to questions above, we have observed inconsistent reporting of operating performance particularly by second-tier financial institutions, neo-banks and other “fintech” entities. One of the issues identified is the manner and extent of inclusion of interest expense and other funding costs as part of the operating result. Guidance in required to ensure funding/financing cost associated with financing activities are appropriately included in operating profit to ensure appropriate and comparable performance reporting.

As noted in our response to Question 2, requiring an entity to describe its main business activities in the context of its business model could be used to support the decision whether the provision of finance to customers represents a main business activity and should therefore be included in the operating category.

We note that paragraph 51 proposes a choice on how to determine the extent to which results relating to the provision of finance to customers is reported. There is already diversity in practice as such we do not support a provision that promotes such diversity and reduces comparability.

Question 5 – the investing category

Paragraphs 47-48 of the Exposure Draft propose the entity classifies in the investing category income and expenses (including related incremental expenses) from assets that generate a return individually and largely independently of other resources held by the entity, unless they are investments made in the course of the entity’s main busines activities.

Paragraphs BC48-BC52 of the Basis for Conclusions describe the Board’s reasons for the proposal.

Do you agree with the proposal? Why or why not? If you not, what alternative approach would you suggest and why?

IPA response

We support the proposal as it should provide useful information to users and decrease diversity in practice and increase comparability.

We have reservations in relation to the lack of specificity in the concept of “main business activity”. An entity should describe its main business activities in the context of its business model to support the decision whether investment return is outside the entity’s main business activity and should, therefore, be included in the operating investing category.

The proposal will introduce similar terminology as IAS 7 but with different meanings. Such inconsistent use of terminology is confusing to both prepares and users. The IASB should take steps to ensure consistency in the application of terminology across the primary statements.

Question 6 – profit and loss before financing and income tax and the financing category

(a) *Paragraphs 60(c) and 64 of the Exposure Draft propose that all entities, except for some specified entities (see paragraph 64 of the Exposure Draft), present a profit and loss before financing and income tax in the statement of profit and loss*
(b) *Paragraph 49 of the Exposure Draft proposes which income and expenses an entity classifies in the financing category.*

Paragraphs BC33-BC45 of the Basis for Conclusions describe the Board’s reasons for the proposals.

Do you agree with these proposals? Why or why not? If you not, what alternative approach would you suggest and why?

IPA response

We broadly support the proposals.

The proposal closely resembles the practice of reporting EBIT (earnings before interest and tax) and as such would provide consistency and comparability in reporting this metric.

As noted above, we have observed inconsistent reporting of operating performance particularly by second-tier financial institutions, neo-banks and other "fintech" entities. One of the issues identified is the manner and extent of inclusion of interest expense and other funding costs as part of the operating result. The proposed guidance needs to specifically address when interest and other financing costs are related to the provision of finance to customers and when they are not.

Question 7 – Integral and non-integral associates and joint ventures

(a) *The proposed new paragraphs 20A-20D of IFRS 12 would define "integral associates and joint ventures" an "non-integral associates and joint-venture".*
(b) *Paragraph 60(b) of the Exposure Draft proposes to require that an entity present in the statement of profit or loss a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures.*
(c) *Paragraphs 53, 75(a) and 82(g)-82(h) of the Exposure Draft, the proposed new paragraph 38A if IAS 7 and the proposed new paragraph of IFRS 12 would require an entity to provide information about integral associates and joint ventures separately from non-integral associates and joint ventures.*

Paragraphs BC77-BC89 and BC205-BC213 of the Basis of Conclusions describes the Board's reasons for these proposals and discuss approaches that were considered but rejected by the Board.

Do you agree with these proposals? Why or why not? If you not, what alternative approach would you suggest and why?

IPA response

We agree with the proposal to require the distinction between integral and non-integral associates and joint ventures. These proposals will address a diversity in practice and enhance comparability.

Nonetheless, the introduction of new term "significant interdependency" will require the exercise of significant judgement. While the revisions to IFRS 12 *Disclosure of Interest in Other Entities* provide some guidance, linking the concept of significant interdependency with the business model of the entity and further examples beyond those proposed for IFRS 12.20D are needed.

Also, there is merit for disclosure outlining the business model and the role integral associates and joint ventures play in meeting the objectives of the business model as described by the entity.

Question 8 – roles of the primary financial statements and the notes, aggregation and disaggregation

(a) *Paragraphs 20-21 of the Exposure Draft set-out the proposed description of the roles of the primary financial statements and the notes*
(b) *Paragraphs 25-28 and B5-B15 of the Exposure Draft set out proposals for the principles and general requirements on the aggregation and disaggregation of information.*

Paragraphs BC19-BC27 of the Basis of Conclusions describe the Board's reasons for these proposals.

Do you agree with these proposals? Why or why not? If you not, what alternative approach would you suggest and why?

IPA response

We welcome the IASB addressing the purpose of the primary financial statements, the role of the notes and the requirements of aggregation and disaggregation. However, the role of the primary financial statements (ED paragraph 20) make no mention of:

- The assessment of management performance i.e. stewardship, and
- Information to enable users to assistance users in assessing the performance of an investment in the entity i.e. the assessment and allocation of scare resources.

These matters should be addressed as part of the role of the primary financial statements.

Question 9 – analysis of operating expenses

Paragraphs 68 and B45 of the Exposure Draft propose requirements and application guidance to help an entity to decide whether to present its operating expenses using the nature of expense method or the function of expense method of analysis. Paragraph 72 of the Exposure Draft proposes requiring an entity that provides an analysis of its operating expenses by function in the statement of profit or loss to provide an analysis using the nature method in the notes.

Paragraphs BC109-BC114 of the Basis of Conclusions describe the Board's reasons for these proposals.

Do you agree with these proposals? Why or why not? If you not, what alternative approach would you suggest and why?

IPA response

We do not support the proposals as the requirements of ED paragraphs 65 and B15 effectively retain mixed basis of presentation of operating expenses. Regardless of the entity's choice of preferred presentation, an entity will be required to disclose (paragraph 65 and B15) expenses by nature. We are of the view that the preferable approach would be to mandate the presentation of expenses on the face of the P&L by nature, with the option to disclose expenses by function as a note.

Question 10 unusual income and expenses

(a) Paragraph 100 of the Exposure Draft introduces a definition of "unusual income and expense".
(b) Paragraph 101 of the Exposure Draft proposes to require all entities to disclose unusual income and expenses in a single note.
(c) Paragraphs B67-B75 of the Exposure Draft propose application guidance to help the entity to identify its unusual income and expenses.
(d) Paragraphs 101(a)-101(d) of the Exposure Draft propose what information should be disclosed relating to unusual income and expenses.

Paragraph BC122-BC144 of the Basis of Conclusions describe the Board's reasons for these proposals.

Do you agree with these proposals? Why or why not? If you not, what alternative approach would you suggest and why?

IPA response

We have concerns for the introduction of the concept of unusual items income and expenses.

There has been a marked increase in the reporting of headline results using "underlying earnings" or similar terms that attempt to strip out of an entity's results unusual or "one-off" items. We are highly sceptical of such metrics of performance as they are open to management manipulation and bias which may be seen as a method to mitigate management accountability.

While the proposal has attempted to implement restrictive criteria for the idenftication of unusual items, we are concerned the IASB is enabling management to skirt accountability by legitimising the concept of one-off item and management is not responsible for the effects of such items.

Unusual items should be exceptional in nature and we are concerned that many items that would be deemed at unusual are within management control or management has the ability to mitigate the risks (e.g. restructuring expenses, disposals, product recall, remediation costs, financial penalties for compliance breaches).

We support the disclosure of significant transactions but not there characterisation as unusual unless they are truly exceptional e.g. natural disaster or government intervention. Furthermore, we do not support the characterisation of unusual transactions by size, as size may be affected by the economic cycle e.g. impairment of financial assets such as loans and receivable. We support the disclosure of such items as significant items based on the principles of materiality.

The time horizon in the proposed guidance is too short. Certain expenses in particular are a function of the economic cycle (e.g. redundancies and increases impairment charges). For an item to be an unusual item it should be unlikely to reoccur within an economic business cycle. Such a timeframe would be consistent with management's responsibility to manage risk and return regardless of the economic cycle. In addition, this would address claims that variability related to the economic cycle are unusual items.

We are deeply concerned with the characterisation of restructuring costs as unusual items. Such costs are within the purview of management to control and are instigated by management to obtain a benefit in future periods.

It is naïve to consider restructuring costs as unusual items. Given restructuring "initiatives" are often multi-period, the rate of change, effects of new technology and disrupters in the modern business environment, restructuring of some nature is ongoing characteristics of many businesses.

Restructuring costs should be specifically excluded as "unusual" item, unless management can demonstrate that no restructuring has occurred in the last economic cycle. Furthermore, significant restructuring costs should be required to be disclosed with the expected benefit to be derived (both quantitative and qualitative), over what period the benefits are expected to be realised. In succeeding periods, management should disclose costs incurred to date and the extent to which planned benefits have been achieved.

We do not support the inclusion of "unusual items" as a line item on the face of the P&L and any proposed guidance should unequivocally prohibit such presentation.

Question 11 – management performance measures

(a) *Paragraph 103 of the Exposure Draft proposes a definition of "management performance measures".*
(b) *Paragraph 106 of the Exposure Draft proposes requiring an entity to disclose in a single note information about its management performance measures.*

(c) *Paragraph 106(a)-106(d) of the Exposure Draft propose what information an entity would be required to disclose about its management performance measures.*

Paragraph BC145-BC180 of the Basis of Conclusions describe the Board's reasons for these proposals and discuss approaches that were considered but rejected by the Board.

Do you agree that information about management performance measures as defined by the Board should be included in the financial statements? Why or why not?

Do you agree with these proposal disclosure requirements for management perform measures? Why or why not? If you not, what alternatives disclosures would you suggest and why?

IPA response

We are disappointed that the proposal to report management performance measures (MPM) is limited to measures related to IFRS total and subtotals and explicitly excludes ratios. We do not support the proposal in current form.

There are many MPMs that are to some extent derived from IFRS figures, including ratios that contain IFRS derived inputs that would be excluded from the proposed disclosure such as: Net Interest Margin ratios, Return on Equity, Comparable Store Sales, Sales per Square, Average Revenue Per User, Gearing Ratio etc. There is a lack of transparency in respect to these measures and they are often important indicators of growth and performance. It would be a benefit to users and increase comparability if such measures were subject to the disclosures required by ED paragraph 106.

Therefore, MPM disclosures proposed in the ED be amended as follows:

- Included MPMs in any total, subtotal or ratio derived from IFRS reported figures (including where a ratio or metric that uses an IFRS reported as at least one input into the calculation of the ratio), and
- MPMs included in public information released with the annual report, interim reporting (e.g. half yearly and quarterly reports) and earnings releases.

Question 12 – EBITDA

Paragraphs BC172-BC173 of the Basis of Conclusions explain why the Board has not proposed requirements relating to EBIDA.

Do you agree? Why or why not? If you not, what alternative approach would you suggest and why?

IPA response

We disagree with the IASB's position that it should not include requirements in relating to EBITDA.

EBITDA is considered a proxy for cash earnings and as such is widely used but there is a diversity in practice. We have observed an increasing number of variants to EBITDA particularly since the introduction of IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* as entities try and maintain the "cash-like" nature of EBITDA. With the increasing diversity in measures of EBITDA, we urge the IASB to define EBITDA.

As noted above, EBITDA is often used as proxy for cash earnings and that such its use is inferior to the concept "free-cashflow" or the concept of cash flows to maintain operating capacity suggested to be disclosed by IAS 7.50(c) & 51.

Many entities have taken to reporting "cash earnings" as superior measure of earnings than those derived from IFRS reported operating profit. In many cases such measures bear little resemblance to "true" cash earnings and are often used to avoid management accountability for unfavourable "unusual items" such as impairments, fair value movements and hedge ineffectiveness.

The IASB should further explore the mandatory requirement to disclose free-cash flow or a similar metric of free-cashflow generated from operations including the method for determination of such a metric.

Question 13 – statement of cash flows

(a) The proposed amendment to paragraphs 18(b) of IAS 7 would require operating profit or loss to be the starting point for the indirect method of reporting cash flows from operating activities.

(b) The proposed new paragraphs 33A and 34A-34D of IAS 7 would specify the classification of interest and dividend cash flows.

Paragraph BC185-BC208 of the Basis of Conclusions describe the Board's reasons for these proposals and discuss approaches that were considered but rejected by the Board.

Do you agree with the proposals? Why or why not? If you not, what alternative approach would you suggest and why?

IPA response

We support the proposals in respect to mandating the starting point for the indirect method and proposed classification of dividend and interest as these proposals will address diversity in practice and enhance comparability.

There is diversity in practice in the financial sector particularly by second-tier financial institutions, neo-banks and other "fintech" entities. Typically, when presenting the cash flow from operating activities many financial institutions present to sub-totals; cash flows from operating activities before changes in operating activities; and changes in operating assets and liabilities arising from cash flow movements. Changes in operating assets and liabilities arising from cash flow movements usually include net movements loan and advance and net movements in deposits and borrowings among other items. We have observed in relation to some preparers, the following:

- The inclusion of no net movement in deposits or borrowings included in the changes in operating asset and liability subtotal while net movement in loans and advances (or the equivalent) is included. All borrowings are considered financing cash flows; and
- There is a lack of clarity as to which borrowings are included in net movements from operating asset and liabilities and those which are considered financing.

While some of this disparity can be attributed to differences in business models and funding arrangements, this and other factors are not apparent from the notes to the Statement of Cash Flows. The IASB should provide more comprehensive guidance on the application of IAS 7 to financial institutions (including additional appropriate disclosures such as the impact business/funding models on the cash flow statement) to address such diversity in practice and enhance comparability.

We are concerned that the usage of the terminology proposed in the ED for the P&L could be a cause of confusion for preparers and users. The IASB should review the use of terminology between the proposals in the ED and that used in IAS 7.

In addition, as stated in our response to Question 12, the IASB should expand on the provisions in IAS 7.50(c) & 51 to provide guidance on the disclosure and measurement of a free-cashflow metric.

We suggest the following improvements to IAS 7:

- The current definition and associate guidance for "cash and cash equivalents need to be revisited. In particular, we are concerned, regardless of jurisdiction, for existing guidance in IASB standards to include a statement that supports an assertion that a financial asset that can be accessed in 90 days is a cash equivalent (IAS 7.7). Such a financial asset would not be available to meet short-term liquidity requirements and should not be considered a cash equivalent, and
- The suggested disclosures at IAS 7.50-52 should be mandatory, as they would provide useful information to users of the financial report.

Question 14 – other comments

Do you have any other comments on the proposals in the Exposure Draft, including the analysis of the effects (paragraphs BC232-BC312 of the Basis of Conclusions including Appendix) and Illustrative Examples accompanying the Exposure Draft?

IPA response

In addition to our comments above and issues highlighted in our covering letter, we recommend the following matters be addressed:

- Liquidity is currently poorly addressed, by the body of existing standards. Liquidity considerations are spread out across a number of standards including IFRS 7 *Financial Instruments: Disclosure* and IFRS 16 *Leases*. In addition, the liquidity risk requirements of IFRS 7 are often uninformative boilerplate. The IASB should revisit the adequacy of the liquidity related disclosure and guidance currently included in IASB standards to ensure they are sufficient to meet use requirements and the guidance is robust enough to ensure appropriate outcomes.
- Similarly, the outside financial institutions the disclosures in relation to IAS 1.134-135 capital management requirements are rudimentary at best and more often than not uninformative boilerplate. The IASB should review the existing requirements and guidance with a view to enhance the poor state of reporting of capital management.
- We are disappointed that given the emphasis of the ED on the P&L that performance reporting has not been more fully addressed. The reporting of operating profit is a "raw" metric and needs to be put in context. IASB should develop a comprehensive framework for performance measurement including economic profit and risk adjusted performance metrics.

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