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IFRS Foundation
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**Comments on the Exposure Draft ED/2019/7, *General Presentation and Disclosures***

**Dear Colleagues,**

The Saudi Organization for Certified Public Accountants (SOCPA) appreciates the continued efforts of the International Accounting Standards Board and welcomes the opportunity to comment on the Exposure Draft ED/2019/7, *General Presentation and Disclosures*.

Attached are our comments on the questions regarding the ED.

Please feel free to contact Dr. Abdulrahman Alrazeen (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,

**Dr. Ahmad Almeghames**

**Secretary General**

**SOCPA Comments on ED/2019/7, General Presentation and Disclosures**

**Question 1—operating profit or loss**
Paragraph 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 for 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?

**SOCPA response:** SOCPA supports the introduction of 'operating profit' subtotal, which will help users to compare entities' performance according to their main course of operation. This, however, needs to be supplemented by detailed disclosures about the main course of operation that leads to such 'operating profit'.

**Question 2—the operating category**
Paragraph 46 of the Exposure Draft proposes 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 this proposal? Why or why not? If not, what alternative approach would you suggest and why?

**SOCPA response:** SOCPA would like the Board to define the operating category directly instead of making it as a residual amount after excluding other categories. As suggested in the response to question 1 above, the main course of operation (source of operating profit) should be disclosed in sufficient details, therefore the related expense can be allocated reliably with minimum arbitration.

**Question 3—the operating category: income and expenses from investments made in the course of an entity's main business activities**
Paragraph 48 of the Exposure Draft proposes that an entity classifies in the operating category income and expenses from 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 the proposal? Why or why not? If not, what alternative approach would you suggest and why?

**SOCPA response:** SOCPA supports this clarification. This confirms the needs to define the operating category directly with link to the entity's main course of operation.

**Question 4—the operating category: an entity that provides financing to customers as a main business activity**
Paragraph 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 expenses 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 not, what alternative approach would you suggest and why?

**SOCPA response:** SOCPA supports this clarification. This confirms the need to define the operating category directly with link to the entity's main course of operation. However, there is no pressing need to offer the option for entities in financing sector to include other financing activities (not related to main course of business) in the operating category. Such an option will reduce comparability between entities.

**Question 5—the investing category**
Paragraphs 47–48 of the Exposure Draft propose that an 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 business 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 not, what alternative approach would you suggest and why?

**SOCPA response:** SOCPA supports the proposal. However, it is not clear, and no explanation in the ED about why income and expenses from cash and cash equivalents are classified in the financing category although the ED states that income and expenses from cash and cash equivalents include:
(a) interest revenue; and
(b) gains or losses on disposal of cash equivalents.
The above definition of income and expenses from cash and cash equivalents makes them among the investing category. Therefore, we suggest linking investing activities to those related to assets, while financing activities should be linked to those related to liabilities. This will make it easier to link information in the statement of performance (income statement) to the information in the statement of cash flows.
With regards to the related incremental expenses incurred generating income and expenses from investments, SOCPA would like the Board to consider allocation of other cost shared by the investment function in the entity such as corporate cost. It is more useful to assess the entity's investment activity as a standalone function.

**Question 6—profit or 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 or loss before financing and income tax subtotal in the statement of profit or 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 the proposals? Why or why not? If not, what alternative approach would you suggest and why?

**SOCPA response:** SOCPA supports the proposal. However, and as mentioned in our comments on Question 5 above, it is not clear, and no explanation in the ED about why income and expenses from cash and cash equivalents are classified in the financing category although the ED states that income and expenses from cash and cash equivalents include:
(a) interest revenue; and
(b) gains or losses on disposal of cash equivalents.
The above definition of income and expenses from cash and cash equivalents makes them among the investing category. Therefore. We suggest linking investing activities to those related to assets, while financing activities should be linked to those related to liabilities. This will make it easier to link information in the statement of performance (income statement) to the information in the statement of cash flows.
SOCPA also notices that, on the contrary to expenses associated with investing activities (para. 47(b) of the ED), the ED has not prescribed a requirement for the incremental expenses associated with financing activities. SOCPA suggests that the Board consider the usefulness of presenting such expenses in the financing category, if material.

**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' and 'non-integral associates and joint ventures'; and require an entity to identify them.
(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 of IAS 7 and the proposed new paragraph 20E 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 for 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 not, what alternative approach would you suggest and why?

**SOCPA response:** SOCPA supports the proposal of reporting income and expense from integral associates and joint ventures separately from income and expenses from other investments. This will help users with the assessment of the entity investment management and performance and will enhance the comparability criteria of financial information.
SOCPA also supports the combination of operating profit with income and expenses from integral associates and joint ventures in one subtotal, which provides useful information about the performance of the entity. SOCPA also appreciates the proposed amendment to IAS 7, where cash flows from investments in integral associates and joint ventures are presented separately from cash flows from investments in non-integral associates and joint ventures.
SOCPA, however, encourages the Board to require entities to disclose their policies relating to identifying integral associates and joint ventures and to apply such policies consistently.

**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 principles and general requirements on the aggregation and disaggregation of information.

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

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

**SOCPA response:** The Board has clearly indicated in the ED that the comparability criterion is part of the role of the primary financial statements. To attain this, the Board may consider requiring entities to use specific labels for the line items in the primary financial statements and specific order of presenting such line items. SOCPA notices variations in this regard, especially in the presentation of the statement of financial position.

With regards to the subject of the aggregation and disaggregation of information, SOCPA asserts the need to consider the nature of transactions when disaggregating amounts in the financial statements. For example, interest can arise from different sources, e.g., interest income from lending money, installment sales, investing in bonds, leasing, discounting… etc. Users would benefit more if such different sources are disclosed separately.

**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 of expense method in the notes. Paragraphs BC109–BC114 of the Basis for Conclusions describe the Board's reasons for the proposals.

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

**SOCPA response:** SOCPA welcomes the additional guidance on when to present operating expenses using the nature of expense method or the function of expense method. SOCPA, however, notices that the ED requirements apply only to the operating category of the statement of profit or loss. According to paragraph 47(b) of the ED, an entity is required to present the incremental expenses incurred generating income and expenses from investments. Therefore, the Board may consider providing guidance on how to present such expenses within the investment category. Furthermore, as long as the analysis of expense by nature would be disclosed in the notes, the ED should allow mixed presentation in the statement of performance. This mixed presentation is long established in entities where cost of sale and gross margin are material to the entity operation and perceived to be very effective in communicating a summary of the entity's performance to users.

**Question 10—unusual income and expenses**
(a) Paragraph 100 of the Exposure Draft introduces a definition of ‘unusual income and expenses’.
(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 an 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.
Paragraphs BC122–BC144 of the Basis for Conclusions describe the Board’s reasons for the proposals and discuss approaches that were considered but rejected by the Board.
Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

**SOCPA response:** SOCPA supports introducing a definition for ‘unusual income and expenses’ and the required disclosures. SOCPA also supports that such income and expenses not to be presented separately in the statement of financial performance, which will prevent potential bias in determining which income and expenses are considered unusual. However, it is not clear why the ED links such items only to its occurrence in the future, which is very subjective to determine. SOCPA suggests evaluation of whether an item is unusual to be linked to the main course of operation and the frequency of such item in the past and the expectation in the future. Moreover, the Board may consider whether the term ‘extraordinary’ would be defined with the same definition given to unusual items or not. If not, it may be appropriate to address both items in the standard.

**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) Paragraphs 106(a)–106(d) of the Exposure Draft propose what information an entity would be required to disclose about its management performance measures.
Paragraphs BC145–BC180 of the Basis for Conclusions describe the Board’s reasons for the 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 the proposed disclosure requirements for management performance measures? Why or why not? If not, what alternative disclosures would you suggest and why?

**SOCPA response:** SOCPA appreciates the Board step to establish some requirements to link management performance measures to information presented in the financial statements. However, the requirements stated in the ED are most suitable to be part of stock market regulations, where companies’ announcements, press releases and other publications (on which such management performance usually appear) are regulated by such authorities. The ED implies, through the requirements of paragraph 106 of the ED, that such measures do not have one of the important qualitative characteristics of financial information, i.e., Comparability. Therefore, disclosure about such measures will not enhance qualitative

characteristics of financial information and should not be part of the audited financial statements.
The best approach to serve the users of financial statements is to search for the most common management performance measures that are used around the world and select those that can be regulated through a reporting standard similar to Earning Per Share Standard.

**Question 12—EBITDA**
Paragraphs BC172–BC173 of the Basis for Conclusions explain why the Board has not proposed requirements relating to EBITDA.
Do you agree? Why or why not? If not, what alternative approach would you suggest and why?

**SOCPA response:** Please refer to our suggestion provided in the response to Question 11. EBITDA may be the top candidate that can be regulated through a reporting standard similar to Earning Per Share Standard since such performance measure is widely used and provides useful information to users.

**Question 13—statement of cash flows**
(a) The proposed amendment to paragraph 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.
Paragraphs BC185–BC208 of the Basis for Conclusions describe the Board's reasons for the proposals and discusses approaches that were considered but rejected by the Board.
Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

**SOCPA response:** SOCPA supports the ED proposed starting point for the indirect method of reporting cash flows from operating activities to be the operating profit. Please consider our suggestion in the response to Question 5 relating to classification in the statement of financial performance to be closely aligned with the statement of cash flows, including investing and financing categories.
SOCPA also welcomes the ED removal of the option to classify income from dividends and interest either as operating or investing activities, as such removal is consistent with the purpose of statement of cash flows and will enhance the comparability of financial statements across entities.

**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 for Conclusions, including Appendix) and Illustrative Examples accompanying the Exposure Draft?

SOCPA suggests that the ED include a requirement that an entity shall disclose whether its operation is subject to any externally imposed requirements that may affect its main business activities and/or the manner it describes or labels the outcomes of its transactions. SOCPA believes such disclosure is very useful to the users of financial statements. For example, Islamic Banking Institutions, which are subject to Islamic rules, enter into transactions where the bank collects money from depositors for investment on Mudarabah basis (a profit-sharing arrangement contracts between the bank and investors/depositors other than common shareholders). In such arrangements, profit from the investment is shared based on a pre-agreed ratio and losses, if any, is borne by the investors/depositors).

According to IAS 32, such a transaction would be classified as a liability, while according to Islamic banking rules, it is closer to equity than to liability and must be disclosed accordingly. In such situation, and to comply with IFRS, an Islamic Bank would create a subcategory to liability section of its statement of financial position called "quasi equity" and classify such transaction as "investment accounts" within that category. Without disclosing the effect of outside requirements on the entity main business activities, users may not be able to understand some contents of the financial statements and the rationale behind some labeling and classifications.

Therefore, SOCPA suggests adding subparagraph (ba) to paragraph 99 to read as follows:

> 99(ba) whether its operation is subject to any externally imposed requirements that may affect its main business activities and/or the manner it describes or labels the line items that reflect the outcomes of its transactions in its financial statements. Details of such an effect shall be sufficiently disclosed.