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Our ref: RJ-IASB 492 I
Date: Amsterdam, 28 September 2020
Re: Comments on ED/2019/7 'General Presentation and Disclosures'

Dear members of the International Accounting Standards Board,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to offer its views on the Exposure Draft 'General Presentation and Disclosures' (ED).

In doing so, we also refer to EFRAG's draft comment letter dated 24 February 2020 (Draft Comment Letter). We generally agree with the comments provided by EFRAG, unless indicated otherwise in this letter including appendix.

The DASB welcomes the IASB's efforts to improve the presentation and disclosure of information in an entity's financial statements, with a focus on the statement of profit or loss, in response to the strong demand from users in particular to improve performance reporting. We generally support standardisation as it enhances consistency over time and comparability between entities. At the same time, we also emphasise the trade-off with allowing management enough flexibility to convey its view of the entity's performance.

Overall, we believe that the ED strikes a reasonable balance, but we do have concerns with regard to certain proposals and suggest some potential improvements. In particular (in the same order as the ED):

- While we agree with the proposal to define the operating category as a default category, we encourage the IASB to provide additional guidance on the notion of "an entity's main business activities" and to clarify the interplay with the notion of "an entity's ordinary activities" used in other IFRS Standards.
- We believe that a 'free' accounting policy choice to classify *all* income and expenses from financing activities and from cash and cash equivalents in the operating category, whenever an entity provides financing to customers as a main business activity, may not always be appropriate, particularly for non-financial institutions.
- We recommend that the IASB better explains the interaction between the proposals to require the use of predefined categories and subtotals in the statement of profit or loss and the notion of materiality.

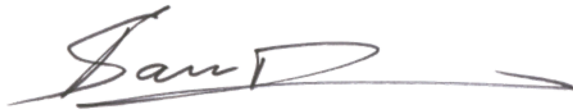
- We encourage the IASB to explicitly address the classification of incremental expenses related to financing activities (similar to incremental expenses related to investments) and to further clarify the meaning of "incremental".
- We believe that the IASB should (more clearly) require separate presentation or disclosure of the main financing category items.
- We consider the wording "and hence do not generate a return individually and largely independently of the other assets of the entity" in the proposed definition of integral associates and joint ventures too restrictive and recommend that the IASB removes this. In addition, we understand from some preparers who tested the proposed definitions in practice, that these result in outcomes that are difficult to reconcile to their understanding of the business.
- While we see merit in requiring the use of a single method of operating expense analysis, some DASB members note that a mixture of both methods could also be beneficial in certain circumstances. Further comments are provided in the appendix.
- While we agree with the proposed definition of unusual income and expenses, we do not agree with the proposed removal of the contents of paragraph 97 of IAS 1. In our view, 'unusual items' and 'material items' are different concepts and we believe that both should be disclosed.
- We believe that the requirement to identify *all* unusual income and expenses could be an onerous task and recommend to limit the scope of the related disclosure requirements to significant unusual income and expenses.
- We recommend that the IASB clarifies whether entities may (separately) present unusual items in the primary financial statements, either within the defined categories or through the use of columns, and whether this answer depends on the method of analysis of operating expenses used.
- We believe that the definition of MPMs should not be restricted to subtotals of income and expenses, but encompass all (financial) non-IFRS measures. At the same time, we believe that the scope of the MPM requirements in IFRS Standards should be limited to MPMs presented or disclosed within the financial statements. For MPMs presented elsewhere in the same report containing the financial statements, we propose to include similar guidance on MPMs in IFRS Practice Statement 1 'Management Commentary' and leave the decision whether its application is required to the competent authorities.
- We encourage the IASB to clarify the interaction between the proposed MPM requirements and the existing segment disclosures under IFRS 8.
- We understand the rationale for not defining EBITDA and EBIT, and agree with not describing some of the newly defined subtotals as such, but believe that EBITDA and EBIT should unequivocally be included in the scope of the IASB's proposals regarding MPM disclosures.
- We believe that the IASB should clarify whether operating profit or loss before depreciation and amortisation includes or excludes impairments (and reversals thereof).
- We find the proposed classification approach with regard to interest and dividend cash flows for "financial" entities rather technical (i.e., complex to read) and are not convinced by the arguments presented against splitting such cash flows between different categories. More broadly, we are concerned about the classification inconsistencies between the statement of profit or loss and the statement of cash flows. Therefore, we recommend that the IASB starts a separate project on IAS 7 to comprehensively review the challenges that arise in practice (e.g., for financial entities) and to improve consistency with the newly proposed content and structure of the statement of profit or loss.

- In our view, entities should not be required to always provide all proposed disclosures about MPMs in their interim financial statements. If MPMs were already described in an entity's most recent annual financial statements and have not changed, then providing MPM reconciliations (including the income tax effect and effect on NCI for reconciling items) could be sufficient.

Our detailed responses to the questions in the ED are provided in the appendix.

Please feel free to contact us if you wish to discuss the contents of this letter.

Yours sincerely,



prof. dr. Peter Sampers
Chairman Dutch Accounting Standards Board

Appendix – Responses to Exposure Draft Questions

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?

The DASB supports the proposal that all entities should present in the statement of profit or loss a subtotal for operating profit or loss. Many entities already include an operating profit or loss subtotal and we believe that requiring and defining such a subtotal will improve comparability over time and between entities.

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?

The DASB agrees with the proposal to define the operating category as a default category. Nonetheless, in line with EFRAG (as set out in its Draft Comment Letter), we encourage the IASB to provide additional guidance on the notion of "an entity's main business activities". This is important, inter alia, to identify income and expenses from investments and from financing activities that should be classified in the operating category (instead of in the investing or financing category).

In addition, it is not clear to us why the wording in paragraphs 48 and 51 of the ED is different (i.e., "in the course of its main business activities" and "as a main business activity" respectively). We recommend that the IASB clarifies the difference if it is intentional, including the use of the plural or singular form. If not, then we recommend using consistent wording.

Furthermore, in our view, the IASB should clarify the interplay between the notion of "an entity's main business activities" (in the ED) and the notion of "an entity's ordinary activities" used to distinguish revenue from other forms of income (e.g., in IFRS 15).

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?

The DASB supports the proposal that an entity should classify income and expenses from investments made in the course of the entity's main business activities within the operating category, as it enhances comparability between entities and provides relevant information to users of financial statements. However, as noted under Question 2 above, we encourage the IASB to provide additional guidance on the notion of "an entity's main business activities".

In reference to EFRAG's Draft Comment Letter, we believe that the IASB should continue to focus on financial information that is relevant to primary users and that provides a faithful representation, rather than focus on avoiding differences with existing regulatory frameworks. While liaising with constituents like regulators might help to ensure that IFRS Standards result in useful information (e.g., by learning about common industry practices), other frameworks might have different objectives and, therefore, should not predominate the IASB's decisions.

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?

The DASB supports the proposal that an entity that provides financing to customers as a main business activity, classifies income and expenses from financing activities and cash and cash equivalents that relate to the provision of financing to customers within the operating category (i.e., paragraph 51(a) of the ED), as it enhances comparability between entities and provides relevant information to users of financial statements.

However, in line with EFRAG (as set out in its Draft Comment Letter), the DASB is concerned about the proposal that, alternatively, any such entity may elect to classify *all* income and expenses from financing activities and from cash and cash equivalents within the operating category (i.e., paragraph 51(b) of the ED). As a result, an entity may end up with no financing category in its statement of profit or loss. Particularly for non-financial institutions with both financing and non-financing activities (e.g., a manufacturer providing financing to customers), we question whether this would faithfully represent the entity's performance. As such, we do not believe that a 'free' accounting policy choice is appropriate in all circumstances.

Furthermore, as noted under Question 2 above, we encourage the IASB to provide additional guidance on the notion of "an entity's main business activities".

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?

The DASB supports the proposal that an entity should classify income and expenses (including related incremental expenses) from assets that generate a return individually and largely independently of other resources held by the entity within the investing category (with some exceptions, as noted under Question 4). However, we encourage the IASB to further clarify the meaning of "incremental". This notion also exists in other IFRS Standards (e.g., IFRS 9, IFRS 15, IFRS 16) but, in our experience, is applied differently across entities in practice. While paragraph BC50 of the ED explains that incremental expenses do not include an allocation of labour costs if some employees are engaged in both operating and investing activities, it remains unclear whether labour costs of employees engaging only in investing activities are incremental. In addition, different interpretations exist as to whether, for example, legal and advisory fees for activities including due diligence, negotiating terms, preparing legal documents, etc. are incremental, considering that often (part of) these fees would still have been due even if the transaction had not been closed.

We also support EFRAG's call on the IASB (as set out in the Draft Comment Letter) to better explain the interaction between paragraphs 45 and 60 of the ED on the one hand (requiring the use of predefined categories and subtotals in the statement of profit or loss) and paragraph 24 of the ED on the other (referring to the notion of materiality). This comment does not relate only to the investing category, but has broader relevance.

Unlike EFRAG, the DASB agrees with the classification of income and expenses from cash and cash equivalents in the financing category (with some exceptions, as noted under Question 4). Taking the requirements in IAS 7 and the widespread use of "net debt" measures into account, we consider that cash and cash equivalents are linked more closely to the financing category than the investing category. Hence, in our view, there is no need to explore an alternative approach as set out in EFRAG's Draft Comment Letter.

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?

The DASB supports both the proposal to require all entities (except for those entities specified in paragraph 64 of the ED) to present a profit or loss before financing and income tax subtotal in the statement of profit or loss, and the proposal as to which income and expenses should be classified in the financing category. The proposed new subtotal serves a similar purpose as EBIT, which is commonly used in practice, but avoids a label that might not match its content. Furthermore, consistently defining the subtotal and items classified in the financing category helps to improve comparability over time and between entities.

While we agree with the proposal to classify income and expenses from cash and cash equivalents, as well as interest income and expenses on liabilities that do not arise from financing activities, in the financing category, we consider it appropriate to separately present (or disclose) the amounts for each item specified in paragraph 49 of the ED. This would enable users with different views to adjust the classification for their own analyses. In our view, the IASB should (more clearly) require separate presentation (or disclosure) of these three items.

In addition, for clarity, we support EFRAG's suggestion (as set out in its Draft Comment Letter) to explicitly address the classification of incremental expenses related to financing activities.

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?

The DASB sees merit in the proposals to require an entity to distinguish between integral associates and joint ventures and non-integral associates and joint ventures, and to provide information about both categories separately, considering the different stakeholder views and information needs. However, we note that some users informed us that they see little benefit in the proposed split.

The DASB does agree with creating a separate category for income and expenses from integral associates joint ventures (and, consequently, an extra subtotal), rather than including these in the operating category, for the reasons stated in paragraph BC82 of the ED.

With regard to the proposed definition of integral associates and joint ventures (in IFRS 12 Appendix A), we believe that the wording "and hence do not generate a return individually and largely independently of the other assets of the entity" is not necessary and could potentially restrict the scope (e.g., arguably, a joint investment by a real estate company in a separate entity holding commercial property might not meet the definition). Therefore, we recommend that the IASB removes this wording from the definition of integral associates and joint ventures.

Furthermore, the DASB agrees with EFRAG that there is a need to test the robustness of the new definitions of integral and non-integral associates and joint ventures in practice (as set out in its Draft Comment Letter). Notably because some preparers signalled that, in their situation, the current proposals result in outcomes that are difficult to reconcile to their understanding of the business.

Prima facie, we do not consider extra indicators necessary to distinguish integral from non-integral associates and joint ventures (i.e., in addition to the new paragraph 20D of IFRS 12). No list of indicators will be exhaustive and judgement will likely be required anyway. We believe that the requirement to disclose information about significant judgements is sufficient.

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?

The DASB believes that describing the respective roles of the primary financial statements and the notes is helpful and we agree with the proposed descriptions. We also support the IASB's proposals for principles and general requirements on the aggregation and disaggregation of information. In particular, the DASB welcomes the new requirements on using non-descriptive labels like "other" when individually immaterial items are aggregated into a group of items that (in its entirety) is material.

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?

While the DASB sees merit in requiring the use of a single method to present in the statement of profit or loss an analysis of operating expenses, some members note that a mixture of both methods could also be beneficial. In our view, there is a trade-off between standardisation and reflecting how an entity is run. On the one hand, the use of a single method (whether by nature or function) enhances comparability and seems more aligned with the role of the primary financial statements to provide a 'structured and comparable summary' (paragraph 20 of the ED). On the other hand, some members argue that in certain circumstances a mixture of both methods could potentially provide the most useful information to users of financial statements. This is because a mixture provides flexibility to management to explain financial performance in a manner consistent with how it manages the company.

Those who believe that a mixture of both methods could also be beneficial, note that, in practice, there is particularly a need to present gross margin information when an entity uses the nature of expense method. As a compromise between requiring the use of a single method and allowing mixtures of both methods, the IASB could therefore consider to allow the presentation of cost of sales in a statement of profit or loss based on the nature of expense method, provided that a breakdown of this functional line item is provided on the face of the same primary financial statement. As a consequence, users might need to add together two lines to determine, for example, total employee benefit expenses. However, such presentation is transparent and all required information would be readily available.

All DASB members agreed that a 'clean' analysis of expenses using the nature of expense method should *always* be provided, either in the statement of profit or loss or in a single note. This is in line with the proposed requirement in paragraph 72 of the ED. We note however that an entity that presents its primary analysis of expenses using the function of expense method (i.e., in the statement of profit or loss), would likely arrange its notes accordingly, which might be less helpful to users focusing on the nature of expenses.

Other comments include:

- The DASB believes that in order to enable a meaningful comparison between different entities using the function of expense method, further guidance would be necessary. The allocation of operating expenses to activities is often judgemental and, currently, significant diversity exists in practice. The ED does not contain specific requirements on the application of the function of expense method.
- There seems to be an internal inconsistency between some of the proposed requirements in the ED. We interpret the reference to paragraph 71 in paragraph 65(a)(vii) to imply that the requirement to present cost of sales as a minimum line item in the statement of profit or loss is only applicable if the function of expense method is used. However, paragraph B47 states that the line items required by paragraph 65 must be presented regardless of the method of analysis of operating expenses used.
- The requirements in paragraphs 65 and B47 of the ED, to present certain line items regardless of the method of analysis of operating expenses used, create an exception to the principle that entities should use a single method (e.g., separate presentation of IFRS 9 impairment losses conflicts with a 'clean' by function analysis). It is unclear to

us why this exception is needed, because the IASB could also require disclosure in the notes in case separate presentation on the face of the statement of profit or loss would conflict with the method of analysis of operating expenses used. In fact, such disclosure might already be provided based on paragraph 72 of the ED.

- It follows that the DASB does not support EFRAG's proposal (as set out in its Draft Comment Letter) to include a reference to paragraph B15 in paragraph B47 of the ED, as this would represent yet another exception to the principle. We also note that paragraph B15 already mentions disclosure in the notes as an alternative to separate presentation in the statement of profit or loss (i.e., there is no need for such change).

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?

The DASB supports the proposals to define unusual income and expenses – provided these will not replace the existing requirement to disclose material items (see below) – and to require all entities to disclose such items in a single note. We also agree with the information that entities would be required to disclose (i.e., paragraphs 101(a)-101(d) of the ED). In our view, the proposals promote consistency across entities and over time, prevent a one-sided focus on expenses and provide relevant information to users of financial statements. However, we believe that the requirement to identify *all* unusual income and expenses could be an onerous task, especially for large multinational groups. Therefore, we recommend that the IASB changes the wording in paragraph 101 of the ED to "… that includes all <u>significant</u> unusual income and expenses …".

Unlike EFRAG (as set out in its Draft Comment Letter), the DASB does not consider the proposed definition of unusual income and expenses too narrow given the disclosure's intended purpose (i.e., assist users in predicting future cash flows). That being said, we do not agree with the proposed removal of the contents of paragraph 97 of IAS 1, even more so because the related examples are brought forward from IAS 1 into paragraph B15 of the ED. In our view, 'unusual items' and 'material items' are two different concepts. Although the latter might not have predicative value, separate disclosure could still be important to provide relevant information to users. Therefore, we believe that all entities should be required to disclose both material items and unusual items. We would not support a mere replacement of the existing requirement to disclose material items by a new requirement to disclose unusual items.

Finally, the DASB supports EFRAG's call on the IASB to clarify whether entities may (separately) present unusual items in the primary financial statements, either within the defined categories or through the use of columns, and whether this answer depends on the analysis of operating expenses (i.e., nature versus function of expense method).

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?

The DASB supports the IASB's approach to address current concerns about management performance measures (MPMs) by enhancing transparency and consistency, rather than by imposing restrictions on their use. This is because MPMs can complement measures specified by IFRS Standards and, as such, provide useful insight into management's view of the entity's financial performance. We agree with the information that entities would be required to disclose (i.e., paragraphs 106(a)-106(d) of the ED) and support the proposal to require disclosure of all information on MPMs in a single note. However, we have concerns about the proposed definition of MPMs and disagree with the scope of the IASB's proposals on MPMs.

In line with EFRAG (as set out in its Draft Comment Letter), the DASB considers the proposed definition too narrow, as it restricts MPMs to subtotals of income and expenses. It is unclear to us why other common non-IFRS measures such as adjusted revenue, net debt and ratios are excluded from the proposed definition. Also, having specific requirements for some non-IFRS measures, but not for all, would be confusing.

The DASB considers the proposed scope of the MPM requirements too broad. Although we appreciate the arguments stated in paragraph BC156 of the ED, this proposal raises questions on the role of the IASB. In our view, the IASB should not set mandatory requirements relating to information outside the financial statements, which is regulated by different bodies. Accordingly, in line with Alternative 1 in EFRAG's Draft Comment Letter, we believe that the scope of the MPM requirements in IFRS X should be limited to MPMs presented or disclosed within the financial statements. In addition, we propose to include similar guidance on MPMs in IFRS Practice Statement 1 'Management Commentary'. Competent authorities could then decide whether or not entities in their jurisdiction need to comply, as far as MPMs outside the financial statements are concerned.

Finally, the DASB supports EFRAG's call on the IASB to clarify the interaction between the proposed MPM requirements and the existing segment disclosures under IFRS 8.

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?

The DASB understands the rationale for not defining EBITDA and EBIT, mainly given the lack of consensus on what these measures represent. For the same reason, we agree with EFRAG's comment (as set out in its Draft Comment Letter) that EBITDA and EBIT should be included in the scope of the IASB's proposals regarding MPM disclosures. We do not consider it appropriate to omit such disclosures on the ground that an entity's EBITDA measure equals operating profit or loss before depreciation and amortisation, as paragraph BC173 of the ED seems to suggest, unless this fact is explicitly stated. This is because users should otherwise infer the meaning of an entity's EBITDA measure from the lack of MPM disclosures.

The DASB also agrees with not describing operating profit or loss before depreciation and amortisation as EBITDA (as well as with not describing profit or loss before financing and tax as EBIT, as noted under Question 6 above) because such label might not match its content.

In response to EFRAG's Draft Comment Letter, we do not believe that there is a need to include a principle underlying the list of measures not considered to be MPMs in paragraph 104 of the ED. A clear and unambiguous list helps to prevent possible discussions about the scope of the MPM requirements.

Finally, in our view, the IASB should clarify whether operating profit or loss before depreciation and amortisation includes or excludes impairments (and reversals thereof). We observe that different views exist in this respect.

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?

The DASB supports the proposal to require operating profit or loss to be the starting point for the indirect method of reporting cash flows from operating activities, as it will improve comparability between entities and requires fewer adjustments to derive the operating cash flow from a subtotal in the statement of profit or loss.

We also support the proposal to remove the classification choices with regard to interest and dividend cash flows for most entities. We agree with the proposed classification approach for these "non-financial" entities, which in our view properly reflects the nature of the respective cash flows. By contrast, we find the proposed approach for "financial" entities rather technical (i.e., complex to read) and are not convinced by the argument in paragraph BC199 of the ED that it may be costly to split dividends received and interest paid and received between different categories. The comment about users questioning the usefulness of the statement of cash flows for financial entities highlights a more fundamental issue.

Furthermore, in line with EFRAG (as set out in its Draft Comment Letter), we are concerned about the classification inconsistencies between the statement of profit or loss and the statement of cash flows. These inconsistencies might impair the understandability for users of financial statements, especially considering the identical names of the different categories. Therefore, we agree with EFRAG's suggestion to start a separate project on IAS 7 to comprehensively review the challenges that arise in practice (e.g., for financial entities) and to improve consistency with the newly proposed content and structure of the statement of profit or loss.

We also support EFRAG's call for further guidance on supply chain financing arrangements, but note that this topic is currently being addressed by the IFRS Interpretations Committee.

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?

The DASB generally agrees with EFRAG's other comments (as set out in its Draft Comment Letter), except with those regarding the proposed amendment to IAS 34 in respect of MPMs.

In our view, entities should not be required to always provide all proposed disclosures about MPMs in their interim financial statements. If MPMs were already described in an entity's most recent annual financial statements and have not changed, then there would be no need to repeat such disclosures (i.e., those in paragraph 106(a) of the ED) in the interim financial statements. However, the DASB believes that the disclosures in paragraph 106(b)-106(d) should be required for transparency purposes and to provide users with the information needed to make their own adjustments. We believe that the benefits of providing MPM reconciliations (including the income tax effect and effect on NCI for reconciling items) in interim financial statements outweigh the costs.

The DASB does not have any further comments.