ILLINOIS CPA SOCIETY

September 9, 2020

International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD United Kingdom

Dear Mr. Hoogervorst,

Re: ED/2019/7 General Presentation and Disclosure

The Accounting Principles Committee of the Illinois CPA Society ("Committee") appreciates the opportunity to provide its perspective on the Exposure Draft *General Presentation and Disclosure.* The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

We support the Boards efforts to improve presentation and disclosure with several reservations. We agree with the concept of reporting investing income, income generated by assets that contribute value individually through exchange transactions, separately from operating income, income generated through the use of a combination of assets and liabilities. In our view, operating income has characteristics that are distinct from investing income and is not a residual. We believe that financial reporting would be more understandable and comparable if investing income is always labeled as investing income, regardless of whether it is generated through a main business activity or not. This would remove any ambiguity as to its nature. We do not see the need for a separate financing category for revenues, especially one that would not align to the financing category on the statement of cash flows. We also encourage the Board to provide a standard definition of EBITDA so that it will not be necessary to provide a justification and explanation of a measure that should be readily understandable.

Our responses to the specific questions in the Exposure Draft are included below.

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We appreciate the opportunity to provide our comments and observations on the proposed Exposure Draft and would be pleased to discuss them with the Board members or the IASB staff at your convenience.

Sincerely,

William Keirse, CPA
Chair, Accounting Principles Committee

Matt Mitzen, CPA
Vice Chair, Accounting Principles Committee

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?

We agree that a subtotal for operating profit and loss would be useful despite having issues with the current definition.

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?

We do not agree with the residual approach to determining operating income. Just as investing income is described as income from assets that generate a return individually and largely independently of other resources held by the entity (and realize value in exchange transactions of those assets), operating income could be defined as income from assets and liabilities that generate cash flows indirectly when managed jointly to produce a return in groups, as described in the Conceptual Framework paragraph 6.55. For example, a manufacturing process combines inputs with processes to create new outputs of added value or a retail operation combines acquired goods with marketing, sales, and delivery resources to create value. Such assets and liabilities typically have distinct standards for measurement and recognition, reflecting fundamental differences from assets held as investments. The most useful definition of operating income would take those differences into account and not combine operating and investing income in the same line item on the financial statements.

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?

We do not agree with a definition of operating income that varies from firm to firm based on a determination of whether an activity is a main business activity. Business activity is not a defined term and using that as the criterion for determining whether income is operating or investing income would be less understandable and less comparable than a classification scheme that considers all investing income to be investing income, regardless of whether it is a main business activity.

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.

Paragraph`s 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?

We do not agree that provision of finance should be included in the financing category.

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?

We agree that income from investing activities should be a separate category for the reasons stated in the question and also because investments realize value in exchange transaction and accordingly are typically measured at fair value as described in the Conceptual Framework paragraph 6.56. We do not agree that investments should be classified in the operating category even when investing is a main business activity. The exception for main business activity becomes dependent on how that term is defined. In our view it would be acceptable for an entity whose main business activity, or only business activity, is investing to report their profit or loss in the investing category with little or no operating income. In our view, that will enhance understandability and comparability of results and therefore provide better information than the proposal.

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?

We agree with including profit and loss before financing and income tax with the proviso that the financing category include financing costs and not income from the provision of finance.

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?

Our members did not agree with this proposal for different reasons. Some were of the opinion that the distinction between integral and non-integral is not meaningful. Other members disagreed with the criteria for distinguishing between integral and non-integral associates and joint ventures. Those members favor a rebuttable assumption that all investments with significant influence should be classified as integral, including equity method investments, investments under common control or with overlapping boards, reciprocal investments, those with joint operations, and those with customer supplier relationships, regardless of whether those relationships could be readily replaced. In particular, investments accounted for under the equity method should be separated from those accounted for at fair value.

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 consensus of our members is that the role of the financial statements is best described in Chapter 3 of the Conceptual Framework and should not need to be restated in this standard.

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?

Our members did not have a strong view on this issue but encourage the Board to continue investigating the costs and benefits of providing a second analysis by nature.

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?

We agree with the Board's proposal to present, in the notes to the financial statements, disclosure about unusual income and expenses to help users of the financial assess the effect of those items on the entity's performance. However, we do not agree with the Board's definition of unusual income or expenses as being those with limited predictive value. The Board's definition requires preparers, and auditors, to apply their subjective judgement about the occurrence, or lack thereof, of forward-looking events. We suggest that the Board consider a definition of unusual income and expenses more objectively in the context of the historical period in which they occur. This would highlight any deviations from historical patterns and allow the users of the financial statements to make their own determinations on how to use that information when modeling an entity's future performance.

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?

While we note that non-IFRS measures have proliferated in recent years and that academic research has shown that other measures are often more informative than earnings, we do not support the Board's proposal to include these measures in the notes to the financial statements. We agree with the stakeholder concerns noted in paragraph BC148, especially that some adjustments will be challenging to audit. Some non-IFRS measures by definition are subjective in nature and require assumptions and judgments which may not be based on amounts prepared in accordance with IFRS, or objective verifiable audit evidence. Therefore, we suggest that non-IFRS management performance measures remain as part of management commentary and not as part of the audited financial statements.

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?

We agree with the Board that, for most industries, EBITDA is one of the most commonly used non-IFRS management performance measures communicated to the users of the financial statements., However, we disagree that the calculation of EBITDA is diverse in practice, as opposed to "adjusted" EBITDA. We believe it would be helpful for the Board to provide a definition of EBITDA to ensure it is consistently applied in practice when an entity reports that measure, and further, to allow such measure to be disclosed in the notes to the financial statements if the entity believes it would be meaningful to the users of the financial statements. Ideally, the definition would align with the definition used by the U.S. Securities and Exchange Commission. This would eliminate the need for entities to treat EBITDA as a non-IFRS measure and provide additional disclosures, as specified in paragraph 106 of the Exposure Draft, for a measure that is widely understood.

APPENDIX A
ACCOUNTING PRINCIPLES COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2020-2021

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:	
Large: (national & regional)	
Ryan Brady, CPA	Grant Thornton LLP
Ashley Carboni, CPA	KPMG LLP
Michael Couillard, CPA	Baker Tilly Virchow Krause LLP
Matthew Denton, CPA	Sikich LLP
Jason Eaves, CPA	Crowe LLP
William Keirse, CPA (Chair)	Ernst & Young LLP
Melissa Lynch, CPA	Plante Moran, PLLC
Reid Mitchell, CPA	Wipfli LLP
Jason Plourde, CPA	Grant Thornton LLP
Darshana Raigaga, CPA	BKD LLP
David Wentzel, CPA	Crowe LLP
Medium: (more than 40 professionals)	
Danielle Martin, CPA	Porte Brown LLC
Jeffery Watson, CPA	Miller Cooper & Company Ltd
Small: (less than 40 professionals)	
Peggy Brady, CPA	Selden Fox, Ltd.
Brian Kot, CPA	Cray Kaiser Ltd CPAs
Matthew Mitzen, CPA (Vice Chair)	Bronswick Benjamin P.C.
Educators:	
Mollie Adams, CPA	Bradley University
John Hepp, CPA	University of Illinois at Urbana-Champaign
Industry:	
John Bercerril, CPA	Elkay Manufacturing
Jeffrey Ellis, CPA	FTI Consulting, Inc.
Michael Maffei, CPA	GATX Corporation
Thomas Masterson, CPA	Medix
Elizabeth Prossnitz, CPA	Consultant
Lisa Sezonov, CPA	Northern Trust
Richard Tarapchak, CPA	Reynolds Group Holdings
William Wang, CPA	Union Tank Car Company
Daniel Wilfong, CPA	Ansira, Inc.

Staff Representative: Rafael Wiesenberg, CPA Illinois CPA Society