ASC

ACCOUNTING STANDARDS COUNCIL
SINGAPORE

5 October 2020

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

(By online submission)

Dear Hans

RESPONSE TO EXPOSURE DRAFT ON GENERAL PRESENTATION AND DISCLOSURES

The Singapore Accounting Standards Council appreciates the opportunity to comment on the Exposure Draft on *General Presentation and Disclosures* (the ED) issued by the International Accounting Standards Board (the IASB or the Board) in December 2019.

We appreciate and welcome the IASB's efforts in responding to the strong demand from users of financial statements to improve the communication of information in the financial statements, and in particular the reporting of financial performance.

Broadly, we are supportive of the key proposals to improve the structure and content of the statement of profit or loss, to strengthen the reporting of unusual income and expenses, and to complement performance measures specified by IFRS Standards through disclosure of management performance measures. Directionally, we are supportive of distinguishing integral associates and joint ventures from other associates and joint ventures in the primary financial statements and in the additional disclosures provided in the notes. Furthermore, we generally agree with the proposals relating to the roles of primary financial statements and the notes, aggregation and disaggregation, and the analysis of operating expenses.

That said, we have concerns about certain aspects of the ED proposals. Our comments on the specific questions in the ED are as follows:

Question 1 – Operating profit or loss
Paragraph 60(a) of the ED 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?

Question 2 – The operating category

Paragraph 46 of the ED 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?

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 ED 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?

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

Paragraph 51 of the ED 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?

Approach to developing the structure of statement of profit or loss

We are supportive of classifying income and expenses in the statement of profit or loss into three broad categories, namely operating, investing and financing. The approach would provide a linkage between the statement of profit or loss and the statement of cash flows, to the extent that any alignment of classification serves the objectives of both statements. That linkage would help users of financial statements to understand the impact of income and expenses on an entity's cash flows and to better predict the entity's future cash flows.

In addition, we accept the IASB's bottom-up approach to developing the ED proposals for the financing, investing and operating categories. We can appreciate from analysing the IASB's rationale that:

(a) Arguably, all income and expenses arise from an entity's operations, other than those related to discontinued operations, tax, or financing. For example, an entity's performance from its operations can be analysed independently of how the entity is financed. Nonetheless, the IASB's outreach findings indicated that users of financial statements often analyse returns from an entity's investments that are not part of the entity's main business activities separately from the entity's operations.

(b) The IASB is unlikely to be able to directly define operating profit or loss and the operating category, in view of the diverse views amongst stakeholders on what the definitions should be to accommodate a wide range of business activities. Therefore, the bottom-up approach provides a reasonable and pragmatic way to overcome the challenges, by filtering out income and expenses that are commonly analysed separately from an entity's operations, namely those related to discontinued operations, tax, financing, or investments that are not part of an entity's main business activities.

Operating category

Generally, we agree that the operating category should include income and expenses from an entity's main business activities, and from investments made in the course of the entity's main business activities (including investments made as a main business activity). It follows that the investing category should exclude income and expenses that otherwise meet the definition of, or are incremental expenses related to, income and expenses from investments, but are generated in the course of the entity's main business activities.

The classification is consistent with the rationale supporting the bottom-up approach, in that income and expenses from operations are often analysed separately from other income and expenses. Such income and expenses undoubtedly arise from an entity's operations, and indeed represent one of the most important aspects of an entity's performance from its operations.

Moreover, we accept the operating category being a default or residual category, even though it would include some income and expenses that do not arise from an entity's main business activities. This is because:

(a) The approach would reduce the pressure of having to develop clearly articulated and widely accepted definition of operating category. The IASB had significant difficulties

in directly defining the operating category that could accommodate a wide range of business activities.

(b) Even if the IASB is able to develop such a definition for the operating category:

  (i) Applying that definition to a wide range of business activities could involve significant subjectivity, thereby reducing comparability of financial statements.

  (ii) The operating category being a defined category could raise additional questions. For example: (i) whether it should include other income and expenses – besides income and expenses from investments – generated in the course of the main business activities; and (ii) whether and when allocating income and expenses between main and other business activities would be justified on cost-benefit grounds.

  (iii) A residual category may still be required. Introducing and giving prominence to a separate category that is solely a residual category would have little benefit, while increasing the risk of cluttering the statement of profit or loss.

Nonetheless, we have concerns about the following aspects of the ED proposals:

(1) Main business activities

There is little guidance provided on the term 'main business activities', even though it is a key concept underlying the classification of income and expenses. For example, the ED hardly provides any guidance on the determination of main business activities, other than paragraph B31 which specifies that a reported segment that constitutes a single business activity may provide an indication of that activity being a main business activity.

Moreover, it is unclear whether and how the term differs from the variants used in the ED and other IFRS Standards. For example:

(a) The ED largely carries over the existing guidance in IAS 1 *Presentation of Financial Statements* when explaining the concept of offsetting income and expenses. It specifies that an entity can undertake, <u>in the course of its ordinary activities</u>, other transactions that <u>do not generate revenue</u> but are <u>incidental to the main revenue-generating activities</u>.

(b) IFRS 15 *Revenue from Contracts with Customers* defines <u>revenue</u> as income arising <u>in the course of an entity's ordinary activities</u>.

Therefore, we recommend that the IASB considers clarifying whether or not the terms 'business activities' and 'ordinary activities' are intended to have the same meaning.

(a) If these terms are intended to have the same meaning, the IASB should avoid using different terms, especially when the term 'ordinary activities' is widely used by entities applying IFRS 15 (and the superseded IAS 18 *Revenue*).

(b) If these terms are intended to be different, the IASB should provide sufficient guidance on the determination of main business activities that could be applied to a wide range of business activities. The guidance should also clarify whether main business activities

Address: The Secretariat, Singapore Accounting Standards Council,
10 Anson Road, #05-18, International Plaza, Singapore 079903.
Website: www.asc.gov.sg Email: MOF_Feedback_ASC@mof.gov.sg Fax: (65) 6226 3386

are more akin to: (i) any revenue-generating activities; (ii) main revenue-generating activities (or principal revenue-producing activities, which is a term used in the definition of operating activities in IAS 7 *Statement of Cash Flows*); or (iii) particular revenue-generating activities that meet specified criteria.

(2) In the course of main business activities

Paragraph BC60 of the Basis for Conclusions on the ED states that the concept of 'activities that are conducted in the course of an entity's main business' would capture entities for whom such activities are their main business activities.

However, there is little guidance provided on the description 'in the course of an entity's main business activities', particularly in the context of an activity that is not a main business activity. The Basis for Conclusions simply cite insurers as an obvious example of entities that invest not as a main business activity, but rather in the course of the main business activities.

Moreover, it is unclear why the concept of 'activities that are conducted in the course of an entity's main business activities' is not being extended to the provision of financing to customers for the proposed exception in paragraph 51 of the ED. For an entity that provides financing to customers only in the course of its main business activities, the difference between interest revenue and the related interest expense should provide useful information about the entity's performance from the provision of financing to customers, as it would for entities that provide financing to customers as a main business activity.

Therefore, we recommend that the IASB considers providing further guidance on the determination of 'activities that are conducted in the course of an entity's main business activities', and extending that concept to the provision of financing to customers for the proposed exception in paragraph 51 of the ED.

In addition, the IASB should consider requiring an entity to disclose significant judgements made in determining its main business activities and activities that are conducted in the course of an entity's main business activities.

Income and expenses from financing activities and from cash and cash equivalents classified in the operating category

For an entity that provides financing to customers as a main business activity, we are supportive of classifying in the operating category the income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers. We appreciate that the difference between interest revenue from such an activity and the related interest expense is a key indicator of operating performance.

However, we are concerned that the ED allows the entity an accounting policy choice to classify all income and expenses from financing activities and from cash and cash equivalents in the operating category, even if the entity has other main business activities. That accounting policy choice would undermine the relevance and faithful representation of operating profit or loss, which would include potentially substantial income and expenses from financing activities and from cash and cash equivalents that are ordinarily classified in

the financing category. It would also result in a loss of comparability not only among entities that provide financing to customers as one of their main business activities, but also with entities that provide financing to customers as the sole main business activity.

Nonetheless, we recognise that in some cases, it could be difficult to allocate such income and expenses on a reasonable basis between the activity to provide financing and other main business activities.

On balance, we recommend that the IASB considers the following approach as an alternative to the proposed accounting policy choice:

(a) There is a rebuttable presumption that an entity can allocate income and expenses from financing activities, and from cash and cash equivalents, between the activity to provide financing to customers and other main business activities on a reasonable basis without undue cost or effort. This is because net interest income is a key indicator of operating performance for entities that provide financing to customers as a main business activity. In order to assess the performance of that activity, such entities can be expected to have a reasonable basis for allocation that does not involve undue cost or effort.

(b) The entity is required to classify in the operating category such income and expenses that relate to the provision of financing to customers only, unless the presumption is rebutted.

(c) If the presumption is rebutted, the entity is required to classify all such income and expenses in either operating or financing category, depending on the significance of the provision of financing to customers relative to the other main business activities. The entity is also required to disclose that fact and the significant judgements made in that assessment.

<u>Specific income and expenses classified in the operating category</u>

We are supportive of classifying the following income and expenses in the operating category, on the basis of the IASB's rationale:

(a) Income and expenses from cash and cash equivalents, provided that the entity, in the course of its main business activities, invests in financial assets that generate a return individually and largely independently of its other resources.

(b) Income and expenses on liabilities arising from issued investment contracts with participation features recognised applying IFRS 9 *Financial Instruments*.

(c) Insurance finance income and expenses included in profit or loss applying IFRS 17 *Insurance Contracts*.

Operating profit or loss subtotal

We are supportive of presenting an operating profit or loss subtotal in the statement of profit or loss.

Operating profit or loss and similar performance measures are frequently presented to users of financial statements, but there is a lack of consistency in how those measures are determined. Therefore, defining and presenting operating profit or loss would provide potentially useful information, with improved comparable over time and across entities.

In our view, operating profit or loss as defined in the ED has the potential to be a key performance measure, and a key reference point for management performance measures, even if it includes income and expenses that do not arise from an entity's main business activities. The subjectivity involved in determining whether an activity constitutes a main business activity, and whether an item of income and expenses arises from main business activities, would increase the risk of bias and reduce the quality of reported measures.

Question 5 – The investing category
Paragraphs 47–48 of the ED proposes 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 are supportive of classifying income and expenses from investments and the related incremental expenses in the investing category, unless they are generated in the course of the entity's main business activities.

Income and expenses from investments, as defined in the ED, arise from assets (other than cash and cash equivalents) that generate a return individually and largely independently of other resources held by an entity. Separate presentation of those income and expenses that are not generated in the course of an entity's main business activities would enable users of financial statements to analyse such returns separately from the entity's performance from its operations.

Question 6 – Profit or loss before financing and income tax and the financing category
(a) Paragraphs 60(c) and 64 of the ED propose that all entities, except for some specified entities (see paragraph 64 of the ED), present a profit or loss before financing and income tax subtotal in the statement of profit or loss. (b) Paragraph 49 of the ED 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 are supportive of presenting a profit or loss before financing and income tax subtotal in the statement of profit or loss, unless an entity presents all income and expenses from financing activities and from cash and cash equivalents in the operating category.

Separate presentation of income and expenses from assets and liabilities related to an entity's financing in the financing category would enable users of financial statements to analyse the entity's performance independently of how the entity is financed.

Financing category

Generally, we accept the proposed types of income and expenses to be classified in the financing category.

Income and expenses from cash and cash equivalents

We acknowledge that users of financial statements typically treat an entity's excess cash and temporary investment of excess cash as part of its financing, primarily because how an entity manages such assets is often interrelated with its decisions about debt and equity financing.

For entities that do not require a significant balance of cash and cash equivalents for operational purposes, cash and cash equivalents are arguably a reasonable proxy for excess cash and temporary investments of excess cash. If such an entity is able to continue as a going concern, it is reasonably expected to generate net cash inflows from operating activities. Therefore, income and expenses from cash and cash equivalents arguably represent more of results from temporary investment of excess cash, rather than part of working capital.

Moreover, the proposals would avoid the difficulty of splitting cash and cash equivalents between amounts used for working capital and excess cash, which would impose undue cost or effort.

Income and expenses on liabilities arising from financing activities

We agree that income and expenses on such liabilities are commonly regarded as part of an entity's financing.

The proposed definition of financing activities includes a reference to finance charge that is dependent on both the amount of the credit and its duration. It potentially gives rise to the following tension, which may lead to potential diversity in practice:

(a) On one hand, it is not obvious whether the definition would capture the range of financial instruments that are classified as financial liabilities applying IAS 32 *Financial Instruments: Presentation*. For example, a liability-classified instrument that entitles the holder to pro-rata share of the entity's net assets on liquidation, of which

Address: The Secretariat, Singapore Accounting Standards Council,
10 Anson Road, #05-18, International Plaza, Singapore 079903.
Website: www.asc.gov.sg Email: MOF_Feedback_ASC@mof.gov.sg Fax: (65) 6226 3386

contractual terms do not give rise to a charge that is obviously dependent on both the amount of the credit and its duration.

(b) That said, such instruments are measured at amortised cost applying IFRS 9 (unless required or permitted to be measured at fair value through profit or loss), despite having characteristics of equity. The accounting outcome of applying the effective interest rate in determining the amortised cost is that such instruments would result in a finance charge in profit or loss that is dependent on both the amount of the credit and its duration.

Therefore, the IASB could consider refining or clarifying the definition of financing activities to address financial instruments of which contractual terms do not give rise to a charge that is obviously dependent on both the amount of the credit and its duration. The clarification should address whether the conclusion would depend on those financial instruments being accounted for in a way that gives rise to an effective interest rate.

Interest income and expenses on liabilities that do not arise from financing activities

In our view, the effect of the time value of money on such liabilities are similar to income and expenses from liabilities arising from financing activities.

Incremental expenses

We suggest that the IASB considers classifying the related incremental expenses incurred in generating the above income and expenses in the financing category.

For example, an entity may designate financial liabilities as measured at fair value through profit or loss applying IFRS 9. Classifying income and expenses on those financial liabilities, and the related incremental expenses, in the financing category would result in more faithful representation of income and expenses from assets and liabilities related to the entity's financing. It would also be consistent with the classification of incremental expenses incurred in generating income and expenses from investments classified in the investing category.

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 ED 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 ED, 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?

In principle, we are supportive of distinguishing equity-accounted associates and joint ventures that are integral from those that are not integral. This includes: (a) classifying the income and expenses from, investments in, and cash flows from, integral and non-integral associates and joint ventures separately; and (b) providing the required disclosures in IFRS 12 *Disclosure of Interests in Other Entities* separately for integral and non-integral associates and joint ventures.

Depending on the definition of integral, the distinction between integral and non-integral associates and joint ventures has the potential to provide useful information. It would help users of financial statements to analyse integral associates and joint ventures, which are more likely to have an effect on an entity's operations, separately from other investments including non-integral associates and joint ventures.

However, we have the following concerns about the ED proposals:

(1) Applying different classification principles depending on the method of accounting for investments in associates and joint ventures

Equity-accounted associates and joint ventures are classified based on whether they are integral or non-integral to the entity's main business activities. In contrast, associates and joint ventures that are measured at fair value or cost are classified based on whether the investments are made in the course of the entity's main business activities.

It is unclear how the approach is supported on conceptual grounds. The approach reduces comparability and results in classification outcomes that may not provide useful information. For example, a venture capital organisation would classify non-integral associates and joint ventures in the investing category, even if it invests in those investees as a main business activity. The classification anomalies may be particularly obvious in some cases. For example, when a venture capital organisation elects to account for some associates and joint ventures, or a portion of its investment in an associate, at fair value through profit or loss applying IAS 28 *Investments in Associates and Joint Ventures*.

(2) Definition and indicator of integral associates and joint ventures

The proposed definition of integral does not require an entity to be dependent on the associate or joint venture, but significant interdependency between them is an indicator of integral. The proposed definition and indicator of integral further imply a need for significant dependency of an associate or joint venture on the entity.

However, an associate or joint venture can be integral to an entity's main business activities, even if it generates a return individually and largely independently of other assets of the

entity, and therefore, does not have significant dependency on the entity. This may be the case when the entity's main business activity is dependent on the associate or joint venture, but not vice versa. For example, the associate or joint venture is the sole supplier that the entity would have difficulty replacing without significant business disruption, but generates substantial returns from other customers.

Applying the proposed definition, an entity may end up classifying in the investing category, income and expenses from certain associates and joint ventures that are reasonably expected to be viewed by users of financial statements as being integral to the entity. Conversely, those associates and joint ventures that are classified in the separate category outside the investing category are unlikely to significantly affect the results of the entity's main business activities, unless those activities are significantly dependent on a particular associate or joint venture.

(3) Interaction with the concept of cash-generating unit

IAS 36 *Impairment of Assets* defines a cash-generating unit as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Both concepts of integral and cash-generating unit are based on assets (not) generating 'largely independent' returns or cash flows.

It is unclear whether and how the concepts of integral and cash-generating unit would interact, and the implications of such interactions. For example, questions may arise as to whether an associate or joint venture that is part of a cash-generating unit is always integral, and whether the concept of significant interdependency, being an indicator of integral, could change how an entity determines cash-generating unit in practice.

(4) Change in classification as integral or non-integral

The ED does not explicitly address how an entity should classify income and expenses from an equity-accounted associate or joint venture, when the entity changes the classification as integral or non-integral during a reporting period.

Applying the principles in the proposed paragraph 20B of IFRS 12, the entity would necessarily need to split income and expenses from that associate or joint venture between the period before the change and the period thereafter. In doing so, the entity would have to apply the equity method to the financial statements of that associate or joint venture prepared as of the date of change. However, the entity may not have access to those financial statements, for example, if the associate or joint venture is prevented by laws and regulations from selective disclosure of financial information to particular shareholders.

Alternative approach

On balance, the IASB could consider the following alternative approach:

(1) Overlay with general classification principles based on main business activities

An entity first assesses whether investments in associates and joint ventures are made in the course of its main business activities. If they are not, the entity then assesses whether the associates and joint ventures are integral to its main business activities.

(2) Definition of integral associates and joint ventures

An equity-accounted associate or joint venture is integral to the entity's main business activity, if the entity does not generate a return largely independently of that associate or joint venture in respect of that business. This means that the concept of integral focuses on significant dependency of the entity's main business activities on an associate or joint venture.

The definition should be accompanied by additional guidance to help an entity determine whether one or more of its main business activities are significantly dependent on an associate or joint venture. The IASB could consider adapting some of the factors described in paragraph 11 of IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

(3) Classification of income and expenses from equity-accounted associates and joint ventures

An entity classifies in the operating category income and expenses from all equity-accounted associates and joint ventures that are invested in the course of the entity's main business activities. The entity classifies income and expenses from other equity-accounted associates and joint ventures in the investing category, but presents separately income and expenses from integral and non-integral associates and joint ventures.

This means that the scope of the investing category is expanded to include equity-accounted associates and joint ventures that are not invested in the course of the entity's main business activities. Therefore, it includes such associates and joint ventures that do not generate a return individually and largely independently of other resources held by the entity.

<u>Rationale underlying the alternative approach</u>

In our view, distinguishing the following equity-accounted associates and joint ventures from other equity-accounted associates and joint ventures would result in more useful information:

(a) Invested in the course of an entity's main business activities

Income and expenses from such associates and joint ventures contribute to the results of an entity's main business activities. Their classification in the operating category would result in consistent classification of income and expenses from all investments made in the course of the entity's main business activities, regardless of whether the investments are equity-accounted associates and joint ventures or any other investments that are measured at fair value or cost.

While we acknowledge that some users of financial statements analyse the results of equity-accounted associates and joint ventures separately from the results of operating activities, this classification is expected to affect only a limited group of entities, such as some venture capital organisations and similar entities. Besides, separate presentation of income and expenses from associates and joint ventures invested in the course of those entities' main

business activities would enable users that disagree with the classification in the operating category to adjust the results of operating activities for their analysis.

(b) Integral to an entity's main business activities (as defined in the alternative approach)

Income and expenses from integral associates and joint ventures are strictly not part of the results of the entity's main business activities. Nonetheless, those income and expenses may significantly affect the results of the entity's main business activities, because those activities do not generate a return largely independently of such associates and joint ventures.

Therefore, the entity would provide useful information by distinguishing integral associates and joint ventures from non-integral associates and joint ventures, through separate presentation of investments in, income and expenses from, and cash flows from integral associates and joint ventures, together with separate disclosure of the information required by IFRS 12.

We acknowledge a loss of information would result from combining income and expenses from non-integral associates and joint ventures that do not generate a return individually and largely independently of other resources held by the entity, and from those that do. However, we consider such information to be less important.

Change in classification as integral or non-integral

The IASB should consider providing relief from the proposed paragraph 20B of IFRS 12, if an entity is unable to split income and expenses from an equity-accounted associate or joint venture between the period before the change in classification as integral or non-integral and the period thereafter.

Question 8 – Roles of the primary financial statements and the notes, aggregation and disaggregation
(a) Paragraphs 20–21 of the ED 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 ED 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?

Roles of the primary financial statements and the notes

We are generally supportive of the ED proposals relating to the roles of the primary financial statements and the notes.

Address: The Secretariat, Singapore Accounting Standards Council,
10 Anson Road, #05-18, International Plaza, Singapore 079903.
Website: www.asc.gov.sg Email: MOF_Feedback_ASC@mof.gov.sg Fax: (65) 6226 3386

The proposed roles are largely consistent with the IASB's discussions in DP/2017/1 *Disclosure Initiative – Principles of Disclosure*, and we were generally supportive of those discussions.

Aggregation and disaggregation

We are generally supportive of the ED proposals relating to aggregation and disaggregation.

The use of 'shared characteristics' as a basis for aggregation and disaggregation is consistent with the description of aggregation in the *Conceptual Framework for Financial Reporting* that was issued in 2018 (the 2018 Conceptual Framework).

Aggregation of immaterial items that do not share characteristics

We recognise that there may be cases where an entity would need to aggregate immaterial items that do not share similar characteristics to avoid obscuring relevant information, but is unable to describe the aggregated item in a way that faithfully represents the dissimilar items. Therefore, we agree that the entity should be required to disclose information about the composition of the aggregated item, when the resulting information is material.

That said, we believe that the proposal to disclose the nature and amount of the largest item in the aggregation may not provide useful information, for example, if that item is not substantially larger than one or more of the remaining items.

Therefore, the IASB should consider providing flexibility to entities in determining the type of disclosures that would provide useful information about the composition of the aggregated item, based on specific facts and circumstances.

Question 9 – Analysis of operating expenses
Paragraphs 68 and B45 of the ED 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 ED 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?

We are generally supportive of the ED proposals relating to the analysis of expenses classified in the operating category.

Both the nature and function of expense methods of analysis can provide useful information, depending on an entity's circumstances. When the function of expense method is applied, the proposal to disclose an analysis of total operating expenses in the notes using the nature of expense method would address concerns about a loss of useful information under the former method.

Mixed approach to analysis of operating expenses

We agree that an entity should be generally prohibited from presenting an analysis of operating expenses using a mixture of the nature and function of expense methods.

However, the proposal to present specific items of operating expenses listed in paragraph 65 of the ED in the statement of profit or loss could result in a mixed approach to the analysis of operating expenses, and the reported functional line items within each category being incomplete. Moreover, the items in paragraph 65(b)–(c) were added as new IFRS Standards were developed over time, and there is no compelling reason for singling out specific items related to specific Standards for separate presentation in the statement of profit or loss. That said, we acknowledge that a review of the items in paragraph 65(b)–(c) is likely to fall outside the scope of the project.

On balance, we recommend that the IASB amends the proposal to enable an entity to disclose in the notes the specific items of operating expenses listed in paragraph 65 of the ED, if presenting those items in the statement of profit or loss would result in a mixed approach to the analysis of operating expenses. If those specific items are disclosed in the notes, the entity should also disclose the line items in the statement of profit or loss in which each of those specific items are included.

Moreover, the IASB should take this opportunity to reconsider the merits of the requirement to present the specific items related to specific Standards in the statement of profit or loss. The location of such information should be driven by the roles of the primary financial statements and the notes, together with the principles of aggregation and disaggregation. Applying those requirements, an entity that uses the nature of expense method of analysis would provide each of those specific items either in the primary financial statements or in the notes, depending on entity-specific facts and circumstances.

Question 10 – Unusual income and expenses
(a) Paragraph 100 of the ED introduces a definition of 'unusual income and expenses'. (b) Paragraph 101 of the ED proposes to require all entities to disclose unusual income and expenses in a single note. (c) Paragraphs B67–B75 of the ED propose application guidance to help an entity to identify its unusual income and expenses. (d) Paragraphs 101(a)–101(d) of the ED 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?

In principle, we are supportive of the IASB's decision to develop proposals to require disclosure of unusual income and expenses.

Defining unusual income and expenses, and specifying the disclosure requirements, have the potential to result in a more consistent identification and reporting of income and expenses that may not persist. The information is potentially useful to users of financial statements in predicting future cash flows. However, significant judgement may be involved in determining which income and expenses are unusual, which may limit comparability. On the whole, we believe that a reasonable balance can be achieved, depending on how unusual income and expenses are defined.

Definition of unusual income and expenses

We agree with the consideration of both 'type' and 'amount' in determining unusual income and expenses. An item of income and expenses is typically unusual due to its type or nature. However, disregarding its amount would rule out income and expenses of recurring nature as unusual, even if the amount is of such significance that is clearly not usual.

In addition, we accept 'several future annual reporting periods' as the relevant timeframe in determining unusual income and expenses. As the timeframe increases, assessing whether income and expenses of similar type and amount will occur becomes more subjective. Moreover, a long timeframe unduly limits income or expenses that are identified as unusual, particularly those that are commonly considered to have limited predictive value, thereby resulting in a loss of useful information.

Nonetheless, we have the following concerns about the ED proposals:

(1) Focus on future non-occurrence of income and expenses

An event that is commonly considered to be unusual, for example an ad-hoc restructuring exercise, can span over more than one annual reporting period. Applying the proposed definition of unusual income and expenses, an entity would disclose unusual income and expenses only in the last reporting period. Furthermore, the entity would not disclose comparative information about unusual income and expenses in that reporting period applying paragraph B74 of the ED. This is notwithstanding that the entire income and expenses from the event would have limited predictive value for future reporting periods.

Therefore, we recommend that the IASB considers changes to the ED proposals, by requiring an entity to disclose:

(a) Unusual income and expenses arising from an event, if it is reasonable to expect that another event that gives rise to income and expenses of similar type and amount will not occur for several future annual reporting periods after the end of the first event. By

Address: The Secretariat, Singapore Accounting Standards Council,
10 Anson Road, #05-18, International Plaza, Singapore 079903.
Website: www.asc.gov.sg Email: MOF_Feedback_ASC@mof.gov.sg Fax: (65) 6226 3386

focussing on future non-occurrence at the event level, the approach has the potential to capture more comprehensively income and expenses that are commonly considered to be unusual, without increasing the opportunity for bias.

(b) The expected timeline that the first event will end, in addition to the reason why another event that gives rise to income and expenses of similar type and amount is not expected to occur for several future annual reporting periods after the end of the first event.

(2) Occurrence of unusual income and expenses that is inconsistent with past expectations

An entity may have an item that meets the definition of unusual income and expenses, even though it had disclosed unusual income and expenses of similar type and amount in the immediate or recent prior annual reporting periods. The same may be true, if the definition of unusual income and expenses is based future non-occurrence at the event level.

Therefore, we see merits in requiring an entity to disclose the fact that, and the reason why, unusual income and expenses have occurred in the current reporting period despite its past expectations.

Such disclosures would provide useful information about management's judgement, particularly when past expectations did not materialise. The occurrence of unusual income and expenses that is inconsistent with past expectations, in itself, may provide information about the potential persistence of those income and expenses. This may be the case, for example, if the recurrence identifies an underlying condition that potentially gives rise to future income and expenses of similar type and amount.

Question 11 – Management performance measures
(a) Paragraph 103 of the ED proposes a definition of 'management performance measures'. (b) Paragraph 106 of the ED proposes requiring an entity to disclose in a single note information about its management performance measures. (c) Paragraphs 106(a)–106(d) of the ED 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?

In principle, we are supportive of requiring an entity to disclose in its financial statements certain management performance measures and related explanatory information, if the entity already provides those measures in its public communications issued in connection with its financial statements and earnings releases.

In our view, bringing management performance measures into the financial statements would instil discipline in the way these measures are being determined and communicated, and therefore, provide potentially useful information about aspects of the entity's financial performance.

Besides, management performance measures may provide a tool for entities to work around the constraints of definitions of subtotals and totals specified by IFRS Standards. For example, an entity may overcome some of the concerns about the operating category being a residual category, by disclosing an adjusted operating profit or loss that comprises only income and expenses from its main business activities.

Definition and conditions of management performance measures

However, we have the following concerns about the ED proposals:

(1) The term 'public communications outside financial statements'

The term appears to be unduly onerous in terms of scope. In particular, it would cover all public communications outside the financial statements, and would be difficult for both entities and auditors to ensure the completeness of management performance measures being disclosed in the financial statements.

The term does not address the timing of issuance in determining whether a particular public communication should be considered by an entity to identify management performance measures that are required to be disclosed in the financial statements. Applying IAS 10 *Events after the Reporting Period* by analogy, the entity may consider only public communications that are issued up to the date when the financial statements are authorised for issue. By issuing a particular public communication after that date, the entity can avoid disclosing in the financial statements particular management performance measures that are reasonably expected to be included in that public communication.

(2) The condition of faithful representation

Although the condition provides discipline around the management performance measures being disclosed in the financial statements, it may give rise to potential conceptual conflicts.

Performance measures that are based on amounts recognised and measured in accordance with IFRS Standards will, in theory, provide relevant information about, and faithful representation of, aspects of an entity's financial performance.

For performance measures that are based on amounts that do not comply with IFRS Standards, questions may arise as to whether those measures can possibly result in faithful representation of aspects of financial performance. Those questions would require the IASB

to address a broader conceptual issue of whether different recognition or measurement requirements can each faithfully represent a particular transaction or event that it purports to represent.

No restriction on the calculation of management performance measures

We have reservations about the ED not proposing any specific restrictions on the calculation of management performance measures, but do not necessarily support limiting the scope to management performance measures that are based on amounts recognised and measured in accordance with IFRS Standards.

On one hand, we recognise that IFRS 8 does not prohibit reporting of segment items that do not comply with IFRS Standards. The post-implementation review of IFRS 8 did not identify significant stakeholders' concerns about this aspect of IFRS 8.

In addition, if management indeed assesses an entity's financial performance using measures based on amounts that do not comply with IFRS Standards, we believe that disclosure of this fact, together with those measures and the related explanatory information, would provide useful information to users of financial statements.

Moreover, restricting management performance measures to amounts that comply with IFRS Standards could significantly limit the range of measures that communicate management's view of financial performance being disclosed in the financial statements, and correspondingly the potential benefits of introducing requirements to disclose management performance measures.

However, we are concerned that disclosure of management performance measures based on amounts that do not comply with the recognition and measurement requirements of IFRS Standards, together with a reconciliation to the most directly comparable subtotal or total specified by IFRS Standards, could provide a means for an entity to work around the requirements of IFRS Standards. This may be the case, for example, by disclosing in the reconciliation a particular income or expenses component that are not recognised and measured in accordance with IFRS Standards. Moreover, the proliferation of such measures would undermine the credibility of IFRS Standards, which were a subject of a robust and transparent due process.

Subtotals of income and expenses

We acknowledge the IASB's thinking on confining management performance measures to subtotals of income and expenses. The demand from users of financial statements for improved communication of information in the financial statements focused on the reporting of financial performance. Therefore, the objective of disclosing management performance measures in the financial statements is to complement the reporting of financial performance, rather than to bring into the financial statements all management-defined performance measures that are used in communications to users of financial statements.

That said, the narrow scope would not provide management's view of an entity's financial position, financial performance and cash flows in a comprehensive manner. The reporting of

financial performance cannot be considered independently of the other aspects, just as the analysis of profitability is not performed independently of liquidity, solvency and gearing. The scope would in result in non-coherent reporting of performance measures used by management, with a range of measures remaining in other public communications.

<u>*Recommendations*</u>

In our view, the IASB could take this opportunity to expand the scope of management performance measures to include financial measures, such as subtotals and ratios based on any of the elements of financial statements.

Furthermore, we recommend that the IASB considers the following changes to the ED proposals:

(1) Scope of public communications outside financial statements

Management performance measures should be restricted to measures that, at the date when the financial statements are authorised for issue, are reasonably expected to be used in public communications that are issued in connection with an entity's annual or interim financial statements or its earnings releases. Those public communications include management commentary, press releases and investor presentations, and are not limited to public communications issued up to the date when the financial statements are authorised for issue.

(2) Calculation of management performance measures

Management performance measures should be restricted, at a minimum, to measures based on amounts determined using facts and circumstances, conditions, data and assumptions that are the same as those used in determining amounts recognised and measured in accordance with IFRS Standards. Even if management performance measures are based on amounts that are inconsistent with the recognition and measurement requirements of IFRS Standards, the additional condition would address concerns about the non-verifiability of such measures and their reconciliation to the most directly comparable subtotal or total specified by IFRS Standards.

(3) Faithful representation

The faithful representation condition should be removed. Instead, an entity is required to apply the principles of fair presentation to ensure that the financial statements as a whole present fairly the financial position, financial performance and cash flows of an entity. This approach would be consistent with segment reporting in accordance with IFRS 8.

If the IASB decides to retain the faithful representation condition, the IASB should address the conceptual issue of whether different recognition or measurement requirements can each faithfully represent a particular transaction or event that it purports to represent. If the IASB so concludes, the IASB should consider:

(a) Clarifying explicitly in the proposed new IFRS Standard, instead of implying in the Basis for Conclusions, that a measure may faithfully represent aspects of an entity's

financial performance, even if it is based on amounts that do not comply with IFRS Standards.

(b) Providing guidance on the assessment of faithful representation for measures that are based on amounts that do not comply with IFRS Standards. For example, whether and when an accounting method that had been applied in practice or received support from stakeholders, but was rejected by the IASB when developing the related requirements in IFRS Standards, would faithfully represent aspects of financial performance. That assessment is expected to be significantly more difficult and subjective in comparison with an assessment of faithful representation when selecting, or making voluntary changes to, accounting policies applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, which requires the foremost consideration of the requirements in IFRS Standards dealing with similar and related issues.

(c) Amending IFRS 8 to similarly require measures of segment profit or loss, assets and liabilities to faithfully represent aspects of the entity's financial performance and position. It would reflect the principle that measures disclosed in financial statements need to comply with the general requirements for information included in financial statements. Moreover, it would better align the key principles underlying the requirements for management performance measures and segment information, given that management performance measures may be the same as part of the segment information.

Disclosure of management performance measures

We are generally supportive of the ED proposals relating to the disclosure requirements.

Some of the requirements are largely consistent with the IASB's discussions in DP/2017/1 that we were supportive of. The other requirements would provide information that is useful to users of financial statements in analysing the management performance measures over time, or calculating adjusted earnings per share measures based on their individual information needs.

Nonetheless, we recommend that the IASB reconsiders requiring an entity to explain material differences between the management performance measures and the comparable measures of segment profit or loss. Both sets of measures reflect management's view of an entity's financial performance and are not expected to differ. Therefore, the explanation would help users of financial statements to better understand the nature of, and the reasons for, any material differences between those sets of measures.

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 are generally supportive of the IASB's decision to not propose requirements relating to EBITDA.

We acknowledge the IASB's rationale that users of financial statements have no consensus about what EBITDA represents, other than it being a useful starting point for various analyses. For an entity that currently uses an EBITDA measure to communicate its financial performance, that measure is reasonably expected to meet the definition of management performance measures. In such cases, the entity is required to apply the disclosure requirements relating to management performance measures to the EBITDA measure. Those disclosures provide information that would help users of financial statements in their analysis of the different EBITDA measures being provided amongst entities.

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 used as 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?

Overall, we are prepared to accept the IASB's approach to not fundamentally review the statement of cash flows, but rather to remove existing options to improve consistency in classification and presentation.

We consider such targeted improvements to be justified on cost-benefit grounds. At present, the main focus of analysis by users of financial statements is the statement of financial performance, and the statement of cash flows may not be useful for entities that provide financing to customers or invest as a main business activity. A fundamental review of the statement of cash flows, particularly to address industry-specific issues, would delay important improvements to be made to the statement of financial performance.

Operating profit or loss as the starting point

We are supportive of requiring all entities to use operating profit or loss as the starting point for the indirect method of reporting cash flows from operating activities.

All entities applying the same starting point would help to reduce practice diversity and improve comparability. A starting point using operating profit or loss, instead of profit or loss, simplifies the presentation of operating cash flows, by requiring fewer adjustments to be made. The difference between operating profit or loss and cash flows from operating

activities provides a measure of operating accruals, which is potentially useful for a better understanding of how operating profit or loss is converted into cash flows.

Removal of classification options

We are supportive of classifying dividends paid as cash flows from financing activities. Dividends paid represent a price for obtaining financing, and therefore, classifying them as cash flows from operating activities does not provide a faithful representation of operating cash flows.

However, we have concerns about the ED proposals relating to dividends received, and interest received/paid. We see more merits in maximum alignment of classification between the statement of cash flows and the statement of profit or loss, given that the objectives of those statements do not conflict insofar as those items are concerned. In addition, the removal of options is not conflicted by a principles-based approach that can result in different classification outcomes depending on an entity's main business activities. There is comparability when items are classified similarly in similar circumstances and differently in dissimilar circumstances. Moreover, different classifications between the statement of cash flows and the statement of profit or loss would reduce the understandability of those statements, particularly when both statements use the same terms namely operating, investing and financing.

Accordingly, we recommend that the IASB aligns classification of the following items with the statement of profit or loss:

(1) Dividends received (other than (2)) and interest received or paid (other than (3))

If an entity invests in the course of its main business activities, or provides financing to customers as a main business activity, such an entity:

(a) Classifies those cash flows in the same category or categories as the related income and expenses are classified in the statement of profit or loss. For an entity that classifies dividend income, interest income and expenses in more than one category in the statement of profit or loss, the entity is reasonably expected to be able to classify the related cash flows in the corresponding categories in the statement of cash flows.

(b) Classifies any interest paid that is capitalised as part of the cost of an asset applying IAS 23 *Borrowing Costs* as cash flows from financing activities. This is because such interest payments do not arise from either investing in the course of its main business activities, or provision of financing to customers as a main business activity.

(2) Dividends received from equity-accounted associates and joint ventures

An entity classifies dividends received from equity-accounted associates and joint ventures in a manner that is consistent with our alternative approach to classifying the related income and expenses.

For equity-accounted associates and joint ventures that are invested in the course of the entity's main business activities, the entity classifies dividends received as cash flows from

operating activities. Dividends received from such associates and joint ventures are not different from dividends received from any other investments made in the course of the entity's main business activities.

For other equity-accounted associates and joint ventures, the entity classifies dividends received as cash flows from investing activities, separately for integral and non-integral associates and joint ventures. Dividends received from integral associates and joint ventures are strictly not part of the entity's cash flows from operating activities. Rather, they are similar to dividends received from any investments that are unrelated to the entity's main business activities, except that separate presentation would provide useful information because of the entity's significant dependency on integral associates and joint ventures.

(3) Interest relating to cash and cash equivalents

An entity classifies interest received from, and interest paid on, cash and cash equivalents in the same category as the related income and expenses are classified in the statement of profit or loss.

In the statement of profit or loss, income and expenses from cash and cash equivalents are classified in the financing category, except for specified entities that classifies some or all of such income and expenses in the operating category. In the latter cases, the objective of classifying such income and expenses in the operating category is to provide more useful information about an entity's operating performance. There is no conceptual basis or practical consideration to prevent those entities from classifying interest received from, and interest paid on, cash and cash equivalents accordingly as cash flows from financing activities and cash flows from operating activities, respectively.

Other comments

We suggest that the IASB considers the following additional changes to IAS 7:

(a) The ED proposes expanding the definition of investing activities to include the receipt of some interest and dividends. To avoid unintended consequences, corresponding changes may be necessary to expand the definition of financing activities to include the payment of dividends and some interest.

(b) Following from the ED proposals to disclose unusual income and expenses, similar changes to require disclosure of unusual cash flows may provide potentially useful information. Unusual cash flows should be defined based on principles that are similar to those underlying the definition of unusual income and expenses.

Question 14 – Other comments
Do you have any other comments on the proposals in the ED, including the analysis of effects (paragraphs BC232–BC312 of the Basis for Conclusions, including Appendix) and Illustrative Examples accompanying the ED?

Classification of foreign exchange differences and fair value gains and losses on derivatives and hedging instruments

Broadly, we are supportive of classifying foreign exchange differences, and fair value gains and losses on hedging instruments, generally in the same category as the item that gave rise to the foreign exchange difference, or for which the hedging instrument is used to manage risk. The approach would contribute to more faithful representation of the performance of an entity's business activities.

Foreign exchange differences

The ED does not specifically address classification of foreign exchange differences that arise from intragroup balances and transactions, and are not eliminated in the consolidated financial statements. Nor is it clear how the ED proposals could apply to those foreign exchange differences, particularly when the underlying items are classified in different categories by the respective group entities. To avoid potential practice diversity, the IASB should consider providing guidance on this matter.

Fair value gains and loss on derivatives not designated as hedging instruments

We have concerns about classifying gains and losses on derivatives that are used to manage risks, but are not designated as hedging instruments, generally in the same way as hedging instruments, except when doing so would involve undue cost or effort. This is because:

(a) An entity applies the same accounting to a financial instrument whether or not it is used to manage risks, unless the optional hedge accounting is applied. There is no obvious conceptual basis against aligning the classification principles between such gains and losses and those relating to financial instruments that are not used to manage risks.

(b) Without the discipline provided by formal designation and documentation, there is potential subjectivity in determining the link between a derivative and the income and expenses for which the derivative is used to manage risk.

(c) An entity would present the effect of risk management differently in the statement of profit or loss, depending on whether a particular risk is managed using a derivative or a non-derivative financial instrument.

Instead, we are more supportive of aligning the classification of fair value gains and losses for all derivatives, other than those designated as hedging instruments.

Accordingly, for derivatives that are used to manage risks but are not designated as hedging instruments, fair value gains and losses would be classified in the investing category, or in the operating category when the derivatives are used in the course of the entity's main business activities. The approach would align the classification principles for financial instruments other than those designated as hedging instruments – whether or not the instruments are used to manage risk, or whether the instruments are derivatives or non-derivative financial instruments.

Proposed amendments to other IFRS Standards

We are generally supportive of the ED proposals relating to other IFRS Standards, subject to our below comments.

Proposed amendments to IAS 8

The proposed amendments to IAS 8 carry forward certain requirements currently set out in IAS 1, with limited changes to the wording.

In particular, the ED does not propose to align the wordings in the proposed amendments to IAS 8, and the existing requirements in IAS 8, with the 2018 Conceptual Framework. This contrasts with the amendments proposed for those requirements in IAS 1 to be carried forward to the proposed new IFRS Standard. As a result:

(a) IAS 8 will continue to include references to 'reliable' or its variants in its objective and other sections (for example, fair presentation, selection of and voluntary changes to accounting policies, and changes in accounting estimates). The concept of reliability was superseded by the fundamental qualitative characteristic of 'faithful representation' in the 2018 Conceptual Framework.

(b) At the same time, some of the existing requirements in IAS 1 to be carried forward to IAS 8 already include references to 'faithful representation' or its variants because faithful representation was a component of reliability.

The ED also does not propose to replace the references to 'the objective of financial statements set out in the Conceptual Framework' currently in IAS 1 to be carried forward to IAS 8, with the objective of financial statements as proposed in the ED.

The continued reference to 'reliable' and 'the objective of financial statements set out in the Conceptual Framework' in IAS 8 may have unintended consequences, such as potential confusion and interaction issues.

For example, the proposed new IFRS Standard will carry forward substantially the existing requirements in IAS 1 on presentation of assets and liabilities in the order of liquidity, with the existing references to reliable being replaced by faithful representation. Arguably, the basis for presenting assets and liabilities may meet the definition of accounting policies in IAS 8. As a result, there may be interaction with the continued reference to reliable in the requirements for voluntary changes to accounting policies in IAS 8.

While revisions to the Conceptual Framework will not automatically lead to changes to IFRS Standards, the IASB should take the opportunity to update the references to reliable in IAS 8 as part of this project. In particular, an updated reference to faithful representation is not expected to result in a significant effect on the requirements of IAS 8 because:

(a) The IASB had intended the term 'faithful representation' to be a label for the qualitative characteristic previously called 'reliability'

(b) Although many stakeholders had applied the concept of reliability in a way that more closely resembled a tolerable level of measurement uncertainty, the IASB's work on

Amendments to References to the Conceptual Framework in IFRS Standards indicated that most entities do not develop accounting policies by reference to the superseded Conceptual Framework.

We hope that our comments will contribute to the IASB's deliberation on the ED. Should you require any further clarification, please contact our project managers Siok Mun Leong at Leong_Siok_Mun@asc.gov.sg or Nicole Cai at Nicole_Cai@asc.gov.sg.

Yours faithfully

Suat Cheng Goh
Technical Director
Singapore Accounting Standards Council