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The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1] welcomes the opportunity to respond to the Exposure Draft 2019/7 – General Presentation and Disclosures.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

If you have any questions about our comments, please do not hesitate to contact us at operacoes@cpc.org.br.

Yours sincerely,

Rogério Lopes Mota
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)

[1] The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), B3 (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

Section 1 – Newly defined subtotals and categories in income statement

To enhance comparability of financial performance among entities, the ED aims to create a consistent structure of income statement by introducing defined subtotals and categories.

The ED introduces the following three defined subtotals and requires them to be presented in the income statement:

- Operating profit or loss;

- Operating profit or loss and income and expenses from integral associates and joint ventures; and

- Profit or loss before financing and income tax.

Income and expenses would be allocated between three major categories – operating, investing and financing categories, while income and expenses from integral associates and joint ventures would be separately presented outside these categories.

Operating profit or loss

The ED proposes to require all entities to present a subtotal of operating profit or loss in the income statement. (See paragraphs 60(a) and BC53)

Question 1

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

CPC's Response

The current Brazilian Corporate Act considers financial results as part of the operating profit and the results from investments if it is part of the Company's strategy should be part of the operation profit as well.

Operating category

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. Operating category is therefore defined as a default or a residual category. (See paragraphs 46 and BC54-BC57)

Question 2

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

CPC's Response

The ED should clarify whether the reclassifications of income and expenses to the operating category by applying paragraphs 48, 51 and 52a should be considered from the perspective of the consolidated group or at a level of each individual subsidiary combined.

Operating category - income and expenses from investments made in the course of an entity's main business activities

The ED proposes that an entity classifies income and expenses from investments made in the course of the entity's main business activities in the operating category, and not in the investing category. (See paragraphs 48 and BC58-BC61)

Question 3

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

CPC's Response

The ED should define what "In the course of main business activity" and "main business activity" means. The lack of guidance related to this may create inconsistencies and diversity in practice between entities.

The ED should clarify how to classify across categories in the statement of profit or loss, non-eliminated F/X gain or loss derived from intercompany loans and trade receivables/payables between subsidiaries with different functional currencies in the consolidated financial statement.

The way in which the operating category is defined, as a default or residual category, may result in income and expenses being classified in such category even if they are not derived from an entity's. main business activities.

Operating category - an entity that provides financing to customers as a main business activity

The ED proposes that an entity that provides financing to customers as a main business activity should make an accounting policy choice to 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.

(See paragraphs 51 and BC62-BC69)

Question 4

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

CPC's Response

We believe that this proposal could raise unintended lack of comparability and potential excessive judgement to determine if the main business activity of an entity is to provide financing to customers. We understand that a single statement of performance for entities, both financial and non-financial, is not achievable, once it depends on the business model of each entity. Hence, we believe that the proposition may bring inconsistent application between entities in the same industry, with the election proposed.

Some are in the view that the Board shall "close this gate" (ie, no accounting policy). There is, if the provision of finance to customers is relevant part of the company's activities, so the company shall classify in the operating category all income and expenses from financing activities and all income and expenses from cash and cash equivalents.

Investing category

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. (See paragraphs 47-58 and B48-BC52)

Question 5

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

CPC's Response

We believe that the Board shall re-evaluate Cash Flow Statements Investing Activity definition to be aligned with Investing Category proposed in Income Statement. We do not agree with two different definitions for the same term in the same set of FSs.

We believe that the Board could propose minimal line items, linked with the nature of income and expenses.

Other than that, we believe that the ED is not clear on defining what is "entity's main business activities" (for example, is not necessarily consistent with IFRS 8 operating segments) and "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". These definitions should be improved by the Board.

Profit or loss before financing and income tax subtotal and financing category

(A) The ED proposes that all entities, except for those that classify all income and expenses from financing activities and all income and expenses from cash and cash equivalents in the operating category under paragraph 51, present a profit or loss before financing and income tax subtotal in the income statement. (See paragraphs 60(c) and 64 and BC33-BC45)

(B) The ED proposes that, except as required by paragraphs 51-52, entities classify in the financing category:

a) income and expenses from cash and cash equivalents;
b) income and expenses on liabilities arising from financing activities; and
c) interest income and expenses on other liabilities. (See paragraph B37 and BC33-BC45)

Question 6

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

CPC's Response

We do not agree with this proposition, we believe that inconsistency between Cash Flow Statement and Income Statement classification of activities and categories may result in undesired lack of consistency.

For example, according to the current proposal income and expenses from cash and cash equivalents could be presented in investing activity in the Statement of Cash Flow, while in the Income Statement those amounts should be presented in the financing category. Another example, could be interest income and expenses on other liabilities that could be presented in operating activity in the Cash Flows while in the Income Statements could be presented in financing category.

Integral associates and joint ventures

(A) The proposed amendments to IFRS 12 would require an entity to classify its associates and joint ventures accounted for using the equity method as either integral associates and joint ventures or as non-integral associates and joint ventures, and define integral associates and joint ventures and non-integral associates and joint ventures as follows:

Integral associates and joint ventures – associates and joint ventures accounted for using the equity method that are integral to the main business activities of an entity and hence do not generate a return individually and largely independently of the other assets of the entity

Non-integral associates and joint ventures – associates and joint ventures accounted for using the equity method that are not integral to the main business activities of an entity and hence generate a return individually and largely independently of the other assets of the entity. (See proposed new paragraphs 20A-20D and Appendix A of IFRS 12)

(B) The ED proposes to require an entity to present a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures in the income statement. (See paragraph 60(b) of the ED)

(C) The ED and the proposed amendments to IAS 7 and IFRS 12 require an entity to provide information about integral associates and joint ventures separately from non-integral associates and joint ventures. (See paragraphs 53, 75(a) and 82(g)-82(h) of the ED, proposed new paragraph 38A of IAS 7, and proposed new paragraph 20E of IFRS 12)

(Also see BC77-BC89 and BC205-BC213 of the ED)

Question 7

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

CPC's Response

We believe that these propositions may raise potential inconsistency in the judgement involved on determining whether an associate or JV is integral, or not, with the activities of the entity. Refinement on such definition could be beneficial. We recommend the Board to consider a "rebuttable condition" for the entity elect if the investment is integral or not.

The Brazilian Law of Public Companies requires a breakdown of the Income Statement's subtotals - such as gross profit, operating profit or loss and income for the year before income taxes. The law also determines minimums line items, which are aligned with a classification of operating expenses according to their function.

We believe that the propositions bring challenges with local framework definitions and requirements (for example, inconsistency between defined subtotals in Brazil corporate law and ED's proposed).

Section 2 – Roles of financial statements, aggregation and disaggregation

The ED describes the roles of the primary financial statements and the notes to help preparers decide whether information should be provided in the primary statements or in the notes.

To improve clarify of financial information, the ED proposes new principles and guidance on the aggregation and disaggregation of information based on characteristics of items and requires an entity to faithfully represent aggregated balance which comprises of immaterial items that do not share similar characteristics.

In addition, the ED proposes new requirements in respect of analysis of operating expenses and disclosure of unusual items.

Roles of financial statements and notes, aggregation and disaggregation

(A) The ED describes the roles of the primary financial statements and the notes in paragraphs 20-21.
(B) The ED proposes new principles and general requirements on the aggregation and disaggregation of information as set out in paragraphs 25-28 and B5-B15.

(See paragraphs BC19-BC27)

Question 8

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

CPC's Response

We believe that the Board should propose a quantitative threshold on the steps to disaggregation. For example, IFRS 9.B3.3.6 reference to 10% threshold for substantial modification of financial liabilities.

Analysis of operating expenses

(A) The ED proposes to require companies to present an analysis of operating expenses using the method by nature or by function that provides the most useful information to users of financial statements. The ED proposes guidance to help an entity assess which method is most useful in its circumstances. (See paragraphs 68 and B45 and BC109-BC114)
(B) Under the proposals, an entity would be required to present the analysis of operating expenses in the income statement. The option to present the analysis only in the notes, which is currently permitted under IAS 1, is not available in the ED.
(C) An entity would be required to use either by nature or by function classification method. Using a mixture of both methods, which is currently seen in practice, would not be allowed under the proposed standard.
(D) The ED proposes to require an entity that provides an analysis of its operating expenses by function in the income statement to provide an analysis using the nature of expense method in the notes. (See paragraphs 72 and BC109-BC114)

Question 9

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

CPC's Response

In the Brazilian jurisdiction, most companies (except in the Health Care sector) present an analysis of expenses classified in the operating category using the function method, but mixture of both methods is seen in practice. This pattern can be traced to the Corporate Lawminimal lines requirement. We consider that, if the ED (paragraph B45) moves forward in this direction, our jurisdiction would require a change in the Corporate Law to continue in compliance with IFRS., It is important to note that the Brazilian Corporate Law requires presentation of income and expenses by fuction and not by nature. For tax purposes the rule is the same. Consequently, if the information of items in income statement are not classified by function it will contradict the statutory and tax requirements. We therefore suggest the Board to consider the alternative to present expenses by function in cases on which it may contradict the legislation. In the notes disclosure by nature could continue to be presented.

Unusual income and expenses

(A) The ED defines unusual income and expenses as "income and expenses with limited predictive value. Income and expenses have limited predictive value when it is reasonable to expect that income or expenses that are similar in type and amount will not arise for several future annual reporting periods". (See paragraph 100)
(B) The ED proposes guidance to help entities identify unusual income and expenses. (See paragraphs B67-B75)
(C) The ED proposes to require all entities to disclose unusual income and expenses in a single note. (See paragraph 101)
(D) The ED proposes what information should be disclosed relating to unusual income and expenses. (See paragraphs 101(a)-101(d))

(Also see paragraphs BC122-BC144)

Question 10

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

CPC's Response

We welcome the initiative to provide further information in the statement of income concerning less persistent revenues and expense and we believe this information is potentially useful to investors and creditors in projecting future net cash flow to the entity.

Section 3 – Management performance measures (MPMs)

To address concerns expressed by investors about lack of transparency and discipline around non-GAAP measures used by management, the ED introduces a definition of MPMs (otherwise known as non-GAAP measures) and proposes to require an entity to disclose information in a single note to the financial statements about the measure that meets the definition of MPM.

MPMs

a) The ED defines MPMs as subtotals of income and expenses that are used in public communications outside financial statements
b) complement totals or subtotals specified by IFRS Standards; and
c) communicate to users of financial statements management's view of an aspect of an entity's financial performance. (See paragraph 103)

(A) The ED proposes to require an entity to disclose in a single note information about its MPMs. (See paragraph 106)
(B) The ED proposes what information an entity would be required to disclose about its MPMs (See paragraphs 106(a)-106(d))

Question 11

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

CPC's Response

We welcome more discipline on the use of MPMs. We believe that the Board should, for non-financial entities, require MPMs (such as EBIT and EBITDA) in the Income Statement.

a. The local market regulator (CVM) defines EBIT and EBITDA, and entities have permission to adjust these indicators, with requirement to disclose the reconciliation of the preparer's adjusted measures to the CVM's defined measure outside the Financial Statements. In the case an entity adjusts EBIT and EBITDA, adjusted figures shall be labeles accordingly.

c. We believe that the Board's proposed requirements will increase complexity in evaluating 'public communication outside financial statements' and evaluating management's reconciliation of MPMs to a subtotal presented in the Income Statements.

EBITDA

The Board does not propose to define earnings before interest, tax, depreciation and amortisation (EBITDA) in the ED. The Board considered, but rejected, describing operating profit or loss before depreciation and amortisation as EBITDA. Paragraphs BC172-173 explain why the Board has not proposed requirements relating to EBITDA.

Question 12

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

CPC's Response

We believe that, for non-financial entities, to define EBIT and EBITDA would be one of the important outcomes to improve the usefulness of the Income Statements.

Proposed amendments to IAS 7

The Board proposes to require an entity to use the operating profit or loss subtotal as the starting point for the indirect method of reporting cash flows from operating activities (see proposed amendment to paragraph 18(b) of IAS 7).

The Board also proposes to reduce the presentation alternatives currently permitted by IAS 7 and proposes new paragraphs 33A and 34A–34D of IAS 7 to specify the classification of interest and dividend cash flows.

(See paragraphs BC185-BC208 of the ED)

Question 13

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

CPC's Response

Nothing to add.

Question 14

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

CPC's Response

a. We believe further clarification is necessary to Board's intention on aggregating foreign exchange differences to the same category. Board's proposition seems not to be entirely aligned neither with current practice nor with allocation of this item to the various line items affected.

b. The ED proposes to require entities to present additional minimum line items in the statement of financial position for goodwill, investments in integral associates and joint ventures (accounted for using the equity method), and investments in non-integral associates and joint ventures (accounted for using the equity method). (See paragraphs 82 and BC119-BC121). We do not agree. We believe that this proposition would be excessive. We do not foresee benefits for this information to be in the statement of financial position, as it would be in the notes.