IFRS

STAFF PAPER

July 2022

IASB® meeting

Project	**Primary Financial Statements**
Paper topic	Disclosure of operating expenses by nature in the notes

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Objective of this paper

1. This paper sets out staff analysis and recommendations relating to the proposal in paragraph 72 of the Exposure Draft *General Presentation and Disclosures* (Exposure Draft). That paragraph requires an entity that presents an analysis of operating expenses by function in the statement of profit or loss to disclose, in a single note, an analysis of its total operating expenses by nature.

2. This paper continues the IASB's discussions of Agenda Paper 21A at its April 2022 meeting and discusses an alternative approach to the proposal in the Exposure Draft the IASB could consider. Specifically, the alternative approach that would require an entity to disclose, for specified expenses, the amounts included in each line item in the statement of profit or loss.

3. Future papers will discuss the issues discussed in this paper in more detail, following further development of the agreed approach to those issues.

4. A future paper will also discuss the relationship between specific disclosure requirements and the general requirement to disclose disaggregated amounts whenever the disaggregated information is material.

Summary of staff recommendations and questions for the IASB

5. The staff recommends the IASB:

(a) require that an entity discloses the amounts included in each line item in the statement of profit or loss for depreciation, amortisation, and employee benefits; and

(b) explore an approach that would require that an entity discloses, for all operating expenses disclosed in the notes, the amounts included in each line item in the statement of profit or loss ('a general requirement').

6. The staff acknowledges that the staff recommendation the IASB decides on at this meeting may become redundant, depending on the IASB's decision on a general requirement at this or a future meeting.

Structure of this paper

7. The rest of this paper comprises:

(a) background (paragraphs 9–37);

(b) staff analysis, staff recommendations, and questions for the IASB (paragraphs 38–68);

(i) should there be a requirement to disclose, for specified expense items, the amounts included in each line item in the statement of profit or loss (paragraphs 41–52);

(ii) should there be a general requirement to disclose, for an expense item disclosed, the amounts included in each line item in the statement of profit or loss (paragraphs 53–68);

(c) the next steps for this topic (paragraphs 69–73).

8. The paper also includes four appendices:

(a) Appendix A—Further background information;

(b) Appendix B—Feedback on the disclosure of operating expenses by nature;

(c) Appendix C—Research on current practice of entities;

(d) Appendix D—Overview of specific disclosure requirements in IFRS Accounting Standards.

Background

9. This section of the paper is structured as follows:

   (a) proposal in paragraph 72 of the Exposure Draft and its objective (paragraphs 10–11);

   (b) discussions at the October 2021 IASB meeting (paragraphs 12–18);

   (c) discussion at the April 2022 IASB meeting (paragraphs 19–26);

   (d) feedback received on a possible requirement to disclose, for expense items, the amounts included in each line item in the statement of profit or loss (paragraphs 27–37).

Proposal in paragraph 72 of the Exposure Draft and its objective

10. The IASB proposed to require an entity that presents an analysis of operating expenses by function in the statement of profit or loss to also disclose, in a single note, an analysis of its total operating expenses by nature.

11. The IASB intended the proposals in the Exposure Draft to strengthen the requirements in IAS 1 *Presentation of Financial Statements* and thereby improve the extent of information given about operating expenses. Paragraph 104 of IAS 1 requires an entity classifying expenses by function to disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense. The proposals in the Exposure Draft strengthened the requirements in IAS 1 because they would have explicitly required an analysis of total operating expenses by nature. (See paragraphs 6–11 of Agenda Paper 21A presented at the April 2022 IASB meeting for further information (reproduced in paragraphs A1–A6 of Appendix A)).

Discussions at the October 2021 IASB meeting

12. The staff presented two papers at the October 2021 IASB meeting relating to the presentation of, and disclosure of information about, operating expenses.

October 2021—Agenda Paper 21B

13. In October 2021 the staff presented to the IASB Agenda Paper 21B *Analysis of operating expenses—presentation in the statement of profit or loss*. At that meeting, the IASB tentative decisions included proposals to:

    (a) explore withdrawing the proposed prohibition on a mixed presentation of operating expenses in the statement of profit or loss and instead to provide application guidance; and

    (b) require an entity to disclose narrative information to explain the composition of cost of sales and other functional line items, such as what types of expenses are included in cost of sales.

October 2021—Agenda Paper 21C

14. At the October 2021 IASB meeting the staff presented to the IASB Agenda Paper 21C *Analysis of operating expenses—disclosure in the notes*. In that paper, the staff discussed feedback from respondents on the proposed requirement for an entity that reports operating expenses by function in the statement of profit or loss to also disclose an analysis of its total operating expenses by nature. Given the cost concerns raised by many preparers, the staff recommended that the IASB explore providing a partial cost relief from that proposed requirement. More specifically, the staff recommended exploring a partial cost relief that:

    (a) would exempt entities from disclosing information about operating expenses by nature if, and to the extent that, such disclosure would involve undue cost or effort;

    (b) would not apply to:

        (i) depreciation, amortisation, and employee benefits expenses; or

        (ii) any other operating expenses by nature that are subject to specific disclosure requirements in IFRS Accounting Standards.

15. At that meeting the staff also recommended that if the IASB decided to explore a partial cost relief, it should reconsider its previous decision not to require an analysis of each functional line item by nature ('a partial matrix' approach).

16. The IASB tentatively decided not to explore providing a partial cost relief for the disclosure of an analysis of *total* operating expenses by nature when an entity reports operating expenses by function in the statement of profit or loss.

17. The IASB deferred a decision on a 'partial matrix' approach. The staff was asked to follow up on comment letters from preparers who had suggested such an approach as a feasible alternative to the proposal in the Exposure Draft and assess whether there was a common understanding of a 'partial matrix'.

18. The rationale for the IASB's decision and additional details of its discussions at the October 2021 meeting are set out in paragraphs A20–A26 of Appendix A.

Discussion at the April 2022 IASB meeting

19. In April 2022 the staff presented to the IASB Agenda Paper 21A *Analysis of operating expenses by nature in the notes*.

20. The staff did not make any recommendations nor ask the IASB to make any decisions. The IASB discussed:

    (a) the comment letter feedback suggesting a partial matrix approach;

    (b) what a partial matrix disclosure requirement might comprise;

    (c) the costs and benefits associated with such an approach based on feedback from limited outreach with the IASB's consultative bodies, preparers and users; and

    (d) the scope of future papers related to this topic.

21. A partial matrix approach could require an entity to disaggregate functions into specified expenses by nature (for example, depreciation, amortisation, and employee benefits), referred to as a 'partial matrix 1' in the paper. Most IASB members said that such an approach would strike a reasonable balance between benefits for users and costs for preparers—hence, should be the basis for the way forward. However, the staff was asked to explore whether any additional expense items could be added to the list of specified expense items (such as impairment).

22. An alternative partial matrix approach could require an entity to disaggregate some functions fully into expenses by nature, referred to as a 'partial matrix 2' in the paper.

Many IASB members said that such an approach would provide users with useful information for the specified functions but was not a feasible approach for most preparers—hence, the staff should not analyse that approach further.

23. A few IASB members said they would like the staff to explore an approach that would allow an entity to *either* provide partial matrix 1 information (because it satisfies the objective of providing users with useful information), *or* provide information other than partial matrix 1 information if that information would be less costly to provide but still satisfy the objective (for example, allow an entity to provide partial matrix 2 information).[1]

24. Some IASB members were concerned that a specified list of expense items would not necessarily:

    (a) provide users with useful information—for example, depending on the entity's business model, information about expenses other than depreciation, amortisation, and employee benefits may be useful.

    (b) be futureproofed—for example, expenses such as employee benefits or depreciation may become immaterial due to entities outsourcing labour or employees working remotely.

25. A few IASB members said that if the IASB were to proceed with partial matrix 1 they would want entities to be encouraged to disclose more information over time. These members said that, in their view, the costs for providing more information would decrease over time (for example, because of updated accounting and information systems).

26. A few IASB members acknowledged that users were interested in having information about expenses by nature for each segment (alongside having information on a consolidated basis) but also acknowledged that such disclosure requirements were outside of the scope of the Primary Financial Statements project.

[1] It was clarified at that meeting that such an approach would be too difficult for an entity to apply and that the staff think that the IASB needs to provide the balance between costs for preparers and benefits for users.

Feedback received on a possible requirement to disclose, for expense items, the amounts included in each line item in the statement of profit or loss

Feedback on a potential disclosure requirement that would capture only specified expense items

27. The staff received feedback on the costs and benefits of requiring entities to disclose, for specified expense items, the amounts included in each line item in the statement of profit or loss (for example, depreciation, amortisation, and employee benefits) from:

    (a) outreach with the IASB's consultative bodies, in particular:

        (i) the Global Preparers Forum (GPF) at the November 2021 meeting;

        (ii) the Capital Markets Advisory Committee (CMAC) at the March 2022 meeting; and

        (iii) the Accounting Standards Advisory Forum (ASAF) at the March/April 2022 meeting.

    (b) follow-up discussions with preparers and users who had suggested a partial matrix approach in their comment letters.

28. This feedback was discussed at the April 2022 IASB meeting (paragraphs 44–66 of April 2022 Agenda Paper 21A—reproduced in paragraphs B1–B23 of Appendix B).

29. The feedback indicated that, compared to the proposal in the Exposure Draft, requiring an entity to disclose, for specific expense items, the amounts included in each line item in the statement of profit or loss would:

    (a) be less costly for most preparers because entities:

        (i) either already provide this information today;[2] or

        (ii) could obtain disaggregated information on a limited number of expense items at little additional cost (for example, from other systems or through workarounds); and

    (b) provide most users with more benefits because it would enable users to:

[2] Research shows that some entities provide disaggregated information on depreciation, amortisation, employee benefits or impairment to some extent (paragraph C2 in Appendix C).

(i) better understand the composition of line items in the statement of profit or loss (for example, the amount of depreciation, amortisation, and employee benefits included in the respective line items in the statement of profit or loss); and

(ii) link the statement of profit or loss to the statement of cash flows.

30. However, users also indicated that the extent of the benefits of such information may depend on the entity or industry a user analyses—as some expense items may be more important for some entities/industries than for others. Hence, a list of specified expense items might bear the risk that, for some entities, useful information is not provided.

Feedback on a potential disclosure requirement that would capture all expense items an entity discloses

31. The staff received feedback on the costs and benefits of requiring entities to disclose, for all expense items an entity discloses in the notes, the amounts included in each line item in the statement of profit or loss from CMAC and GPF members at the joint CMAC/GPF meeting in June 2022.

32. Specifically, GPF members all agreed that disclosing the amounts included in each line item in the statement of profit or loss would generally be feasible for:

(a) depreciation, amortisation, and employee benefits (although some said providing expense amounts rather than cost amounts would be challenging for entities using standard costing systems)[3];

(b) expense items that are 'one-offs', for example, impairment of goodwill or other intangible assets or write-downs of inventories (because entities typically already provide additional information on these items in the notes, such as in which line item in the statement of profit or loss such an expense is included).

33. However, some GPF members said that it may be challenging for an entity to disclose, for other expense items, the amounts included in each line item in the statement of profit or loss—and that the IASB should carefully consider the costs and

[3] The IASB has still to discuss whether disclosing costs incurred would be acceptable (rather than expenses) (paragraph 3).

benefits of requiring such information (for example, relating to foreign exchange gains/losses and gains/losses on derivatives/hedging instruments).

34. Many CMAC members said that having disaggregated information generally:

    (a) helps users better understand the way an entity is managed and better understand the allocation of cost (as disaggregated information gives users a better understanding of the composition of line items in the statement of profit or loss); and

    (b) allows for comparisons between entities.

35. CMAC members all agreed that having information on the amounts of depreciation, amortisation, employee benefits, and impairment included in each line item in the statement of profit or loss was most important and would generally be useful regardless of the industry in which an entity operates (for example, to understand better fixed expenses of an entity).

36. Some CMAC members said that having disaggregated information on other expense items (such as foreign exchange gains/losses, gains/losses on derivatives/hedging instruments, restructuring expenses or research and development expenses) would also provide useful information. However, those members also acknowledged that the benefits of having such information would often depend on the industry in which an entity operates.

37. Some CMAC members also said they would be interested in having more information on:

    (a) whether a specific expense item was fixed or variable in nature or whether it was a non-cash item or a cash item; and

    (b) expense items that result from a shift in the business model of an entity. For example, if an entity starts outsourcing labour, this could lead to the outsourcing expenses being included in other line items in the statement of profit or loss than the (previously incurred) employee benefits' expenses.

Staff analysis, staff recommendations, and questions for the IASB

38. The objective of considering an alternative approach to the proposal was to arrive at a more balanced outcome between costs for preparers and benefits for users that would:

    (a) reduce the cost of disclosing information on operating expenses by nature in the notes for entities that report expenses by function (compared to the cost of implementing the proposal in the Exposure Draft); and at the same time

    (b) retain as much of the benefits of the proposal as possible for users.

39. This section of the paper is structured as follows:

    (a) should there be a requirement to disclose, for specified expense items, the amounts included in each line item in the statement of profit or loss (paragraphs 41–52);

    (b) should there be a general requirement to disclose, for an expense item disclosed, the amounts included in each line item in the statement of profit or loss (paragraphs 53–68).

40. The approaches described in this paper would require *different* information from that proposed in the Exposure Draft. An analysis of whether the objective would still be achieved by the approaches discussed in this paper is given in the respective sections of the paper in which the approaches are discussed.

Should there be a requirement to disclose, for specified expense items, the amounts included in each line item in the statement of profit or loss?

41. The staff has been exploring whether requiring an entity to disclose, for specified expense items, the amounts included in each line item in the statement of profit or loss would reduce the costs for preparers and provide users with equal or more benefits than the proposal in the Exposure Draft. This approach was discussed and referred to as 'partial matrix 1' in the April 2022 Agenda Paper 21A (paragraphs 19–26).

42. This section of the paper is structured as follows:

    (a) which expense items should be captured by a specific disclosure requirement (paragraphs 43–50);

    (b) staff recommendation and question for the IASB (paragraphs 51–52).

Which expense items should be captured by a specific disclosure requirement?

43. The feedback received from users indicates that having disaggregated information on:

    (a) depreciation, amortisation, and employee benefits would be useful, regardless of the industry a user analyses, as well as impairment and write-downs of inventories;[4] and

    (b) other expense items would also be useful, but that the incremental benefit of such information differs between entities, depending largely on the entity's business model or the industry and location in which an entity operates (for example, foreign exchange gains/losses or gains/losses on derivatives/hedging instruments, research and development expenses).

44. The feedback received from preparers indicates that:

    (a) disclosing disaggregated information on depreciation, amortisation, and employee benefits would be feasible for most preparers although it will require some incremental costs;

    (b) disclosing information about one-off expenses such as impairment and write-downs of inventories is also feasible; but that

    (c) the cost of disclosing information for other expense items is likely to increase, for example, due to these expense items often being located in multiple line items in the statement of profit or loss (such as foreign exchange gains/losses or gains/losses on derivatives/hedging instruments).

45. Based on the feedback received, the staff think requiring an entity to disclose, for depreciation, amortisation, employee benefits, impairment losses (or reversals thereof) on assets within the scope of IAS 36 *Impairment of Assets*, and write-downs of inventories, the amounts included in each line item in the statement of profit or loss would arrive at a more balanced outcome than the proposal in the Exposure Draft.

46. The staff observes that some IFRS Accounting Standards already have requirements in place that require an entity to disclose, for specific expense (income) items, the line

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[4] Research on 553 entities who submitted Form 20-F filings in 2020 shows that depreciation, amortisation, and employee benefits explain well over 40% of operating expenses (paragraph C4 in Appendix C).

item(s) in the statement of comprehensive income in which those items are included. Those specific requirements include some of the expense items users are particularly interested in, specifically:

(a) amortisation of intangible assets within the scope of IAS 38 *Intangible Assets*;

(b) impairment losses (or reversals thereof) on assets within the scope of IAS 36.[5]

47. However, the requirements in those IFRS Accounting Standards are drafted in a similar way to the IASB's tentative decision in September 2021 on a general requirement for a *qualitative explanation* of how a class[6] of disclosed items is included in line items in the primary financial statements (Agenda Paper 21D *Principles of aggregation and disaggregation and their application in the primary financial statements and the notes*). At that meeting, the staff did not propose a quantitative analysis of the class into the amounts included in each line, but rather that a qualitative explanation of how the class is included in line items in the primary financial statements would be helpful without being unduly burdensome (paragraph 18 in September 2021 Agenda Paper 21D).

48. Hence, in cases in which an expense item in included in more than one line item in the statement of profit or loss, the disclosure provided may not include the related amounts (for example, an entity might disclose the line items in the statement of profit or loss in which amortisation is included but not the related amounts).

49. However, CMAC members have told us that having information about amounts when an expense item is included in more than one line item is important.

50. In conclusion, the staff think that:

(a) for depreciation, amortisation, and employee benefits there should be a specific quantitative disclosure requirement, because these expenses are likely to be included in more than one line item in the statement of profit or loss.

(b) for impairment and write-downs of inventories, there is no need for a specific quantitative disclosure requirement, because these expenses are expected to be

[5] Appendix D contains an overview of expense (income) items or gains or losses for which IFRS Accounting Standards require an entity to disclose the line item(s) in the statement of comprehensive income in which the expense (income) item or gain or loss is included.

[6] The IASB's tentative decision was subject to the staff considering whether 'class' is the best term to use in all situations.

included in a single line item in the statement of profit or loss, and therefore the general requirement for a qualitative explanation the IASB tentatively decided on in September 2021 is sufficient to provide material information (paragraph 47).

(c) for other expense items that are likely to be included in more than one line item in the statement of profit or loss, a quantitative requirement should only be considered in conjunction with a cost relief. We think such requirements, accompanied with a cost relief are better explored as a part of a potential general quantitative requirement.

Staff recommendation and question for the IASB

51. The staff recommends the IASB require that an entity discloses the amounts included in each line item in the statement of profit or loss for depreciation, amortisation, and employee benefits.

52. If the IASB agrees with this recommendation, and subject to its discussions on a potential general requirement, the staff will consider at a later stage whether the:

(a) disclosures arising from this requirement should be included in a single note; and

(b) disclosure requirements are to be included in the [draft] IFRS Accounting Standard or included as consequential amendments to other IFRS Accounting Standards.

Question 1
Does the IASB agree with the staff recommendation in paragraph 51 of this paper?

Should there be a general requirement to disclose, for an expense item disclosed, the amounts included in each line item in the statement of profit or loss?

53. This section of the paper is structured as follows:

(a) why should the IASB consider a general requirement (paragraphs 54–59);

(b) would a general requirement make a cost relief necessary (paragraphs 60–65);

(c) staff recommendation and question for the IASB (paragraphs 66–68).

Why should the IASB consider a general requirement?

54. As noted in paragraph 47, the IASB tentatively decided in September 2021 to require that an entity provides a qualitative explanation of how a disclosed class of items is included in line items in the primary financial statements. Applying this requirement, an entity would need to provide such an explanation for *all* expense items disclosed in the notes. However, an entity would not need to provide information about the amounts included in each line item in the statement of profit or loss, which users have told us can provide useful information when an expense item is included in more than one line item in the statement of profit or loss (paragraph 49).

55. The staff think the requirement arising from the tentative decision in September 2021 to provide a qualitative explanation is likely to be sufficient to provide useful information about the relationships between items of income and expenses disclosed in the notes and the line items in the statement of profit or loss for:

(a) expense items classified in categories other than the operating category; and

(b) income items.

56. This is because for those items, the relationships are expected to be one on one, that is, an item of income or expense in the notes is expected to be included in a single line item in the statement of profit or loss. Income and expenses in categories other than the operating category are typically presented by nature, as is much of the disaggregated information disclosed in the notes about these items (except for, for example, unusual income and expenses[7], for which the IASB has already decided to require information about the line items in which they are included in the proposal in paragraph 101 of the Exposure Draft).[8] Hence, providing information about amounts included in different line items is likely to be redundant.

[7] Relabelled 'income and expenses with limited recurrence' (see the IASB's tentative decision on May 2022 Agenda Paper 21B *Unusual income and expenses (income and expenses with limited recurrence)*).

[8] Paragraph 101 of the Exposure Draft requires that an entity shall, in a single note that includes all unusual income and expenses, disclose … the line item(s) in the statement(s) of financial performance in which each item of unusual income or expense is included.

57. For operating expenses disclosed in the notes and the line items reported in the operating category of the statement of profit or loss, this relationship may not be one on one, in particular when entities report operating expenses by function.

58. The staff therefore think the IASB should consider a general requirement that would require an entity discloses, for all operating expenses disclosed in the notes, the amounts included in each line item in the statement of profit or loss (for example, together with a cost relief).

59. This approach would:

    (a) make a specific disclosure requirement for depreciation, amortisation, and employee benefits redundant—they would all be captured by a general requirement (paragraphs 41–51);

    (b) build on existing disclosure requirements in IFRS Accounting Standards, thus:

        (i) build on information an entity is already collecting; and

        (ii) be futureproofed to the extent that it would apply to specific disclosure requirements in IFRS Accounting Standards when they are added or amended; and

    (c) be consistent with:

        (i) existing disclosure requirements in IFRS Accounting Standards which require an entity to provide information on the line items in the statement of comprehensive income in which an expense item is included (paragraph 46); and

        (ii) the IASB's proposal for unusual income and expenses in paragraph 101 of the Exposure Draft and the IASB's tentative decision on reconciling items for management performance measures[9]—which both require the relationship between an (expense) item and the statement of profit or loss to be disclosed.

[9] In January 2022, the staff presented to the IASB Agenda Paper 21A *Management performance measures—disclosures—usefulness and reconciliations*. At that meeting, the IASB tentatively decided to require an entity to disclose, for each reconciling item, the amount(s) related to each line item(s) in the statement(s) of financial performance.

Would a general requirement make a cost relief necessary?

60. Given the challenges mentioned by preparers with regards to expense items other than those listed in paragraph 44, the staff think that a general requirement would need to be accompanied by a cost relief in order to still meet the objective of redeliberating the proposal in the Exposure Draft (achieve a more balanced outcome between costs and benefits).

61. The staff expects that providing the information is likely to be feasible for expense items that are at least in one of the following groups:

    (a) depreciation, amortisation, employee benefits—because, as discussed in paragraphs 29 and 32, preparers indicated that providing this information would be feasible; or

    (b) that are only included in one line item in the statement of profit or loss (paragraph 50(b)); or

    (c) for which IFRS Accounting Standards require the line item in the statement of profit or loss in which that item is included to be disclosed (paragraph 46).

62. However, for expense items not captured above and included in more than one line item in the statement of profit or loss a cost relief may be necessary in some cases.

63. The staff thinks that without a cost relief there is a risk that the general requirement would be too costly for some expenses for some entities.

64. However, the staff thinks any cost relief should only apply to:

    (a) quantitative information—that is, a cost relief that would give relief from disclosing, for an expense item, the *amounts* included in each line item in the statement of profit or loss; but not

    (b) qualitative information—that is, a cost relief would not apply to the IASB's tentative decision on requiring a qualitative explanation of how a disclosed class of items is included in line items in the primary financial statements.

65. However, if the IASB wants to explore a general requirement, the staff thinks the IASB should not decide on a cost relief at this stage in the project, but rather wait until the potential general requirement has been tested during targeted outreach (see paragraphs 69–73 in section 'Next steps for this topic').

Staff recommendation and question for the IASB

66. The staff recommends the IASB explores an approach that would require that an entity discloses, for all operating expenses disclosed in the notes, the amounts included in each line item in the statement of profit or loss.

67. The staff recommends this approach because:

(a) preparers may be able to provide the information if the general requirement is accompanied by an appropriate cost relief (paragraphs 32–33 and 60–65);

(b) users have indicated that having such information would be useful (paragraphs 35–36);

(c) it would build on existing disclosure requirements in IFRS Accounting Standards (paragraph 59(b)), thus:

(i) build on information an entity is already collecting;

(ii) be futureproofed to the extent specific disclosure requirements in IFRS Accounting Standards are added or amended;

(d) be consistent with (paragraph 59(c)):

(i) existing disclosure requirements in IFRS Accounting Standards which require an entity to provide information on the line items in the statement of comprehensive income in which an expense item is included; and

(ii) the IASB's proposal for unusual income and expenses in paragraph 101 of the Exposure Draft and the IASB's tentative decision for reconciling items—which both require the relationship between an (expense) item and the statement of profit or loss to be disclosed.

68. If the IASB ultimately decides on a general requirement, that would capture any specific requirement to disclose, for depreciation, amortisation, and employee benefits the amounts included in each line item in the statement of profit or loss and would thus make the specific requirement discussed in paragraphs 41–50 redundant.

Question 2

Does the IASB agree with the staff recommendation to explore an approach that would require that an entity discloses, for all operating expenses disclosed in the notes, the amounts included in each line item in the statement of profit or loss ('a general requirement')?

Next steps for this topic

69. The staff acknowledges that requiring an entity to provide disaggregated amounts (either for specified expense items or for all expense items an entity discloses) is a change to the proposal in the Exposure Draft (and thus could delay the project).

70. At the March–April 2022 ASAF meeting, some ASAF members offered to help the IASB with targeted outreach to test whether changes from the Exposure Draft will work as intended.

71. The staff plans to discuss targeted outreach with ASAF members at the July 2022 ASAF meeting, finalise the plan and begin targeted outreach in the summer based on the latest decisions at the July 2022 IASB meeting.

72. Among other topics, the current plan is to conduct targeted outreach on the analysis of operating expenses by nature in the notes.

73. The decisions taken by the IASB on this paper at this meeting would form the basis for targeted outreach.

Appendix A—Further background information

This Appendix contains further details on:

- the proposal in paragraph 72 of the Exposure Draft *General Presentation and Disclosures* (Exposure Draft);
- the feedback received on the proposal in the Exposure Draft;
- the discussions at the October 2021 IASB meeting.

Proposal in paragraph 72 of the Exposure Draft—Further detail

The text in this section is identical to paragraphs 7–12 of [Agenda Paper 21C](#) presented at the October 2021 IASB meeting and paragraphs 6–11 of [Agenda Paper 21A](#) presented at the April 2022 IASB meeting.

A1. The IASB proposed to require an entity that presents an analysis of operating expenses by function in the statement of profit or loss to also disclose, in a single note, an analysis of its total operating expenses by nature.

A2. In the Basis for Conclusions that accompanied the Exposure Draft, the IASB explains its proposal would strengthen the existing requirements of IAS 1. Paragraph 104 of IAS 1 requires an entity that classifies expenses by function to "disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense".

A3. The IASB noted that both the nature of expense and the function of expense methods of analysis can provide useful information. For example, information that aggregates expenses by function facilitates the calculation of some performance metrics and margins. However, the IASB had received feedback from users of financial statements that analysing expenses using the function of expense method can lead to a loss of useful information. Functional line items combine expenses with different natures that respond differently to changes in the economic environment, making it difficult for users to forecast future operating expenses. Information about the nature of operating expenses also enables direct comparisons with information provided in the statement of cash flows.

A4. The IASB considered requiring entities to disclose an analysis of each functional line item by nature. Requiring this analysis would provide users of financial statements with information to help them better forecast an entity's functional line items. However, feedback from preparers of financial statements suggested that this approach would be significantly more complex and costly to apply than an analysis of *total* operating expenses using the nature of expense method. Hence the IASB decided to propose that limited requirement in the Exposure Draft.

A5. The IASB also noted feedback from some preparers of financial statements that even the proposed requirement may be costly for entities to implement, particularly for those that operate multiple purchase systems making it difficult to track information about the nature of the total costs incurred. Such entities may not always retain information about the nature of the costs capitalised and, therefore, may find it difficult to disclose an analysis of expenses by nature. Other preparers, however, either provide this analysis today or could provide it with limited costs. The strong support for this proposal from users of financial statements led the IASB to conclude that the benefits of having information about operating expenses by nature would be likely to exceed the costs. The IASB noted that it intended to seek further feedback on the likely costs and benefits of the proposal during consultation on the Exposure Draft.

A6. The IASB also considered requiring an entity that presents its primary analysis of expenses using the nature of expense method to disclose in the notes an analysis of expenses using the function of expense method. However, it rejected such a requirement because there was no evidence of demand from users of financial statements for this disclosure.

Feedback on the proposal in the Exposure Draft—Further detail

The text in this section is identical to paragraphs 13–22 of Agenda Paper 21C presented at the October 2021 IASB meeting and paragraphs A1–A10 of Agenda Paper 21A presented at the April 2022 IASB meeting.

Agreement

A7. Many respondents, mainly users, standard-setters, and accountancy bodies, agreed with the proposed requirement for an entity to disclose an analysis of expenses by nature in the notes if it presents an analysis of expenses by function in the statement of profit or loss. These stakeholders generally said that the proposed approach appears to strike a reasonable balance between user needs, complexity, and practicality. These respondents said the analysis of operating expenses by nature:

(a) would provide comprehensive information and help users make forecasts and calculate EBITDA;

(b) would help users reconcile the statement of cash flows with the statement of profit or loss; and

(c) is less judgmental than analysis by function, and therefore enhances comparability both from period to period for a reporting entity and in a single period across entities.

A8. A few respondents, mostly users, said that the analysis of expenses by nature should be required not only in the annual financial statements, but also in the interim financial statements.[10]

Concerns

A9. Many respondents, mainly preparers and their representative bodies, disagreed with the IASB's proposed requirements. They said:

(a) the cost of providing such information will be higher than the benefits. Entities that currently present operating expenses by functions do so because this is how they run their business and monitor performance internally. These companies would have to maintain two statements of profit or loss and maintain dual systems of reporting of operating expenses—by functions for internal reporting and performance monitoring, and by nature for external reporting. They said that if the analysis of expenses by nature is prepared solely to meet an external disclosure requirement, the ability of management to answer questions about those expenses or trends is likely to be limited.

(b) some entities may not be able to analyse operating expenses by more than one method in their reporting systems. Therefore, these entities would need to incur additional costs to track operating expenses using the other method of presentation outside of their current systems.

(c) both methods of presentation provide relevant information, but the IASB's proposals seem to favour by nature analysis of operating expenses.

[10] The IASB has still to discuss the disclosure requirements in interim financial statements.

(d) they are unclear about why an entity should be required to disclose in a single note total operating expenses by nature if, applying paragraph 68 of the Exposure Draft, the entity has already determined that the presentation by function provides the most useful information. They think that the requirement is unnecessary.

(e) IFRS 17 provides presentation guidance and takes precedent for insurance contracts by effectively requiring presentation of operating expenses by functions. Insurers said that they have not heard from users of their financial statements that the analysis of total operating expenses by nature would be needed and questioned the usefulness of information provided by such analysis.

A10. A few respondents who agreed with the proposals also acknowledged that the proposed requirements could result in additional costs for preparers presenting operating expenses by functions, because they may not have adequate reporting systems in place.

Alternative suggestions

A11. To address cost concerns, some respondents suggested that the IASB should further extend its cost and benefit analysis by, for example, investigating which information about operating expenses by nature is fundamental for users of financial statements and whether the costs of providing such information would outweigh the benefits for users. Some respondents, including some users in discussions during outreach, suggested that, to alleviate the costs of application, the IASB should consider extending the scope of current requirements in IAS 1 by requiring disclosure of specified expenses by nature, in addition to those expenses by nature specifically required by IAS 1 (depreciation, amortisation and employee benefits expense), instead of requiring a complete analysis of operating expenses by nature.

A12. A few users (comprising a global professional body and investor representative groups), as well as a regional standard-setter, said they would like the requirements to go further, and that entities should be required to present an analysis of expenses by nature, for each function, rather than for total operating expenses. They sometimes refer to this as matrix approach. To alleviate the cost, some of these users said a partial matrix may be sufficient to meet user needs. These users said that a partial matrix approach would provide a partial analysis of expenses by function by disclosing quantitative information about key expenses by nature included in each function (such as employee benefits, depreciation, and amortisation).

A13. A few respondents, including a user professional body, suggested that the IASB should also consider requiring entities to disclose in the notes operating expenses by function, if in the statement of profit or loss they present the analysis of operating expenses by nature. Some of these respondents said that they do not consider one of the two methods to be superior to the other, because each of them provides relevant information—presentation of operating expenses by nature helps forecast future performance, while presentation by function helps evaluate past performance and compare gross profit.

Fieldwork findings

A14. Most participants that presented an analysis of expenses using the function of expense method were either unable to disclose an analysis of operating expenses using the nature of expense method or required significant estimates to disclose expenses using the nature of expense method using their existing systems (23 participants out of 29 participants that presented all or most operating expenses by function). These participants said that their existing systems were unable to provide a full analysis of expenses by nature because the nature of operating expenses:

(a) generally, is not tracked by the system—for example, one participant said that particular types of operating expenses by nature are tracked because of specific disclosure requirements in IFRS Standards but the remainder are not tracked;

(b) is tracked where incurred (typically at a subsidiary level) but cannot be easily aggregated at a consolidated level because of consolidation by function; or

(c) is changed or lost as a result of intercompany transactions, for example, when the output of one group entity is the input of another group entity.

A15. The extent of systems challenges for participants presenting the analysis of expenses using the function of expense method varied by participant depending on the structure and level of integration of existing systems and the complexity of operations. Many of these participants said that employee costs, depreciation and amortisation are easily obtained from existing systems. However, most of these participants said that disclosing the analysis of operating expenses by nature to the level of accuracy expected to be required for audit would require significant changes to existing systems and processes that would be costly and time consuming.

A16. A few participants that presented the analysis of expenses by function said that they were able to provide the analysis of expenses by nature because they are already required to prepare subsidiary accounts using the nature of expense method by local regulations.

Discussions at the October 2021 IASB meeting—Further detail

This section reproduces paragraphs 17–26 of Agenda Paper 21A from the April 2022 IASB meeting.

A17. The IASB discussed two papers in October 2021 with implications for the issues discussed in this paper:

(a) Agenda Paper 21B *Analysis of operating expenses—presentation in the statement of profit or loss* (paragraphs A18–A19); and

(b) Agenda Paper 21C *Analysis of operating expenses—disclosure in the notes* (paragraphs A20–A26).

October 2021 Agenda Paper 21B

A18. In October 2021 the IASB tentatively decided to withdraw the proposed prohibition on a mixed presentation of operating expenses in the statement of profit or loss[11] and instead to provide application guidance and disclosure requirements in order to improve comparability and help ensure the presentation of operating expenses provides a faithful representation of the expenses.

A19. In particular, as part of the application guidance and disclosure requirements, the IASB tentatively decided to require an entity to disclose narrative accounting policy information to explain the composition of cost of sales and other functional line items, such as what types of expenses are included in cost of sales (paragraph 49 of October 2021 Agenda Paper 21B).

[11] Paragraph 68 of the Exposure Draft requires that an entity presents in the statement of profit or loss an analysis of operating expenses using *either* the nature of expense method *or* the function of expense method.

October 2021 Agenda Paper 21C

Staff recommendations in October 2021 Agenda Paper 21C

A20. At the October 2021 IASB meeting the staff recommended in Agenda Paper 21C that the IASB explore providing a partial cost relief from the proposed requirement for an entity that presents an analysis of operating expenses by function in the statement of profit or loss to also disclose an analysis of its total operating expenses by nature. More specifically, the staff recommended exploring a partial cost relief that:

(a) would exempt entities from disclosing information about operating expenses by nature if, and to the extent that, such disclosure would involve undue cost or effort;

(b) would not apply to:

(i) depreciation, amortisation, and employee benefits expenses; or

(ii) any other operating expenses by nature that are subject to specific disclosure requirements in IFRS Standards.

A21. At that meeting the staff also recommended that if the IASB decided to explore a partial cost relief it should reconsider its previous decision not to require an analysis of each functional line item by nature.

Summary of IASB's discussion of October 2021 Agenda Paper 21C

A22. At the October 2021 IASB meeting the IASB discussed stakeholder feedback on the proposed requirement for an entity to disclose in the notes an analysis of total operating expenses by nature when it reports operating expenses by function in the statement of profit or loss, and the related staff recommendations.

A23. Some IASB members highlighted that the objective of the proposal was to strengthen the existing requirement in IAS 1 and the improved transparency would be a significant benefit of the proposal. Many IASB members acknowledged that feedback, particularly from users, supported this view and that the information that would be provided would be useful. Some IASB members pointed out that some entities already disclose information about operating expenses by nature or use this information internally on a more granular level further evidencing the usefulness of the information.

A24. However, many IASB members also acknowledged the feedback, particularly from preparers, that for many entities the systems changes required to disclose totals of operating expenses by nature when it reports operating expenses by function would be costly. Some IASB members said the feedback suggested that the costs to entities was higher than the IASB originally anticipated.

A25. The IASB tentatively decided not to explore providing a partial cost relief for the disclosure of information about totals of operating expenses by nature when an entity reports operating expenses by function in the statement of profit or loss. Many IASB members thought for many entities complying with the proposal would require a complete system overhaul. A cost relief based on undue cost or effort would therefore not strengthen the requirements because entities that are unable to present the analysis would use the cost relief. Some IASB members said that the IASB needed to decide whether the benefits of the proposal outweighed the cost and effort considering both the responses from preparers on costs involved and the responses from users on benefits of the information.

A26. The IASB discussed alternative approaches to providing cost relief while maintaining as much of the benefit to users as possible. The IASB discussed the following potential approaches:

(a) a long transition period for entities which are unable to obtain the information from current systems. A few IASB members said this would provide time for entities to adapt systems. However, because of the fundamental system change required for many entities it would only delay rather than reduce the costs. Further, during the transition period there may be a lack of comparability between entities with systems able to provide the information and those required to change systems. Furthermore, entities which are able to provide the information may feel penalised because they would not benefit from a longer transition period.

(b) revising the proposal to require only some expenses by nature to be disclosed. Some IASB members asked whether specific expenses by nature could be identified that would provide users with a significant portion of the benefit of the full by nature disclosure while reducing costs for preparers.

(c) a partial matrix approach—disclosure of selected expenses by nature disaggregated into the amounts included in each functional line item. One IASB member said that the benefit of this approach is the link it provides between the statement of financial performance and the cash flow statement. This IASB member also pointed out that comment letters from some preparers proposed a partial matrix as a feasible alternative to disclosure of all operating expense by nature. However, another IASB member raised a concern that a partial matrix would not reduce costs for entities. Some IASB members asked whether there was common understanding of a partial matrix approach and asked the staff to follow up on comments to assess this understanding.

Appendix B—Feedback on the disclosure of operating expenses by nature

This Appendix contains further details on:

- limited outreach feedback on partial matrix approaches;
- feedback received at the joint CMAC/GPF meeting in June 2022.

Limited outreach feedback on partial matrix approaches—Further detail

The text in this section is identical to paragraphs 44–66 of Agenda Paper 21A presented at the April 2022 IASB meeting. Following the discussion at the April 2022 IASB meeting, the staff is no longer exploring partial matrix 2 because feedback has indicated that such an approach would be too costly for entities.

B1. Following the IASB's October 2021 meeting, the staff have discussed the costs and benefits of a partial matrix approach, using the two variants of approaches described in paragraphs 37–43 of the April 2022 Agenda Paper 21A, in:

(a) outreach with the IASB's consultative bodies, in particular:

(i) the Global Preparers Forum (GPF) at the November 2021 meeting;

(ii) the Capital Markets Advisory Committee (CMAC) at the March 2022 meeting; and

(iii) the Accounting Standards Advisory Forum (ASAF) at the March/April 2022 meeting.

(b) follow-up discussions with preparers and users who had suggested a partial matrix approach in their comment letters.

B2. The feedback on the costs and benefits of a partial matrix approach from GPF, CMAC and ASAF members and other preparers and users indicates that:

(a) both partial matrices can be challenging to implement and may result in material information not being disclosed (paragraphs B3–B6); but

(b) partial matrix 1 is likely to be:

(i) less costly than the proposal in the Exposure Draft for *some* entities (paragraph B7); and

(ii) more useful than the proposal in the Exposure Draft for *most* users (paragraph B15);

(c) partial matrix 2 is likely to be:

(i) equally (or more) costly than the proposal in the Exposure Draft for *most* entities (paragraph B8); but

(ii) more useful than the proposal in the Exposure Draft for *most* users (and more useful than partial matrix 1 for *many* users) (paragraph B16).

Feedback on the costs of obtaining information about expenses by nature in general

B3. Many GPF members and other preparers ('preparers') as well as some ASAF members raised cost concerns on a partial matrix approach that were similar to those raised on the proposal in the Exposure Draft, with additional detail. Paragraphs B4–B8 summarise the feedback.

B4. The underlying reason for the concerns about providing information about expenses by nature is that such information is generally not tracked at the reporting entity level. Entities generally manage their business by using information on the nature of expenses only at a lower level. For example, when a reporting entity reports operating expenses by functions, the information reported for financial reporting purposes to the reporting entity will be based on functional cost centre information created at the lower reporting levels. The detail of the nature amounts charged to those cost centres may not be reported to the reporting entity. Accordingly, to obtain information about expenses by nature at the reporting entity level, an entity would be required to either make system changes or to collect the information manually.

B5. Further, specific problems arise in collecting the information at a reporting entity level:

(a) for cost of sales, obtaining information on the nature of expenses included in cost of sales would be challenging because entities using standard-costing systems are not able to 'unbundle' standard costs (under a standard costing system amounts are reported as one line to cost of sales—hence no information on the nature of expenses is available from financial accounting systems). Furthermore, obtaining information would be even more difficult if a manufacturing process involves multiple locations and standard costing systems and costs in multiple currencies—the standard costs of one manufacturing location are the 'material costs' of the next manufacturing location. Hence, information on 'inputs' (for example, material costs, staff, overhead) would be lost after each manufacturing step.

(b) challenges in collecting information may arise at the legal entity level because of *intra*company[12] re-charging of costs initially bundled in a specific cost centre (linked to a specific function) and re-charged to other functions resulting in a loss of information on the initial nature of the re-charged expenses (for example, staff costs for employees working in the IT department are re-charged as IT-costs to a specific function—leading to such costs being comingled with costs for third-party IT services).

(c) elimination of *inter*company[13] transactions during consolidation is by function (for example, intercompany re-charging of costs, intercompany sale of goods or intercompany loans).

B6. In addition to the challenges of obtaining information at a reporting entity level, determining *expense* amounts for expenses by nature rather than *cost* amounts is also challenging:

[12] Intracompany re-chargings are re-chargings of expenses from one function to another function *within* the same legal entity.

[13] Intercompany transactions are transactions that occur *between* legal entities of the same group.

(a) generally: for a specific nature cost incurred in the period (including depreciation and amortisation charge) it may be difficult to distinguish between:

   (i) cost incurred that has been expensed in the period; and

   (ii) cost incurred that has been included in the carrying amount of an asset (for example, property, plant, and equipment);

(b) specifically for cost of sales: it is not possible to determine the exact amounts of specific nature costs that were included in the carrying amount of sold inventory (and recognised as an expense).

Feedback on the costs of specific partial matrix approaches

B7. Some preparers said that a partial matrix 1 approach would be less costly than the proposal in the Exposure Draft, and less costly than partial matrix 2, because it was easier to obtain information on a limited number of specified expenses by nature. Preparers had indicated they might be able to gather information on depreciation, amortisation, and employee benefits by:

(a) extending legal entity reporting packages to incorporate the required information;

(b) obtaining such information from other systems (for example, payroll systems); or

(c) building 'workarounds' to obtain the amount of depreciation, amortisation, and employee benefits included in the respective functions (some preparers highlighted that totals of depreciation, amortisation, and employee benefits were already collected because of the current disclosure requirement in paragraph 104 of IAS 1).

B8. In contrast, the proposal in the Exposure Draft would require an entity to determine which expenses by nature would be material and collect information for all such items. That might involve having to re-assess which expenses by nature are material (because what is material might change over time). Further, feedback from many preparers indicates that partial matrix 2 would be even more costly than the proposal in the Exposure Draft because an entity would need to assess what expenses by nature included in the specified functions at each reporting date would be material and would need to collect information about the amount of those expenses by nature included in the specified functions.

Feedback on the usefulness of both partial matrix approaches

B9. Some users said that it would be most beneficial if an entity were to give entity-specific information (a full matrix), rather than the IASB specifying the expenses by nature to be disclosed by function or the functions to be disaggregated into expenses by nature.

B10. With regards to a partial matrix approach, some users and a few ASAF members were concerned that specifying the expenses by nature to be disaggregated by function or specifying the functions to be disaggregated would not be a principle-based approach and bear the risk of entity-specific information not being given. A few users said that the IASB's tentative decision in October 2021 to require that an entity gives a narrative description of the expenses included in functions could complement quantitative information, but that quantitative information is crucial for users when calculating metrics or comparing entities. One user explained that it would be sufficient for users if narrative information was accompanied by estimations rather than precise amounts (for example, if an entity discloses a percentage range of depreciation in cost of sales).

B11. One preparer and some users questioned the usefulness of consolidated (partial matrix) information for complex businesses where an entity has multiple business units/lines—each have widely differing margins. Some users said they would prefer information on the segment (or division) level—as users develop their models at this level and sales volume/prices are only understandable at this level. In addition, the preparer explained that providing information on specific expenses by nature by segment would be easier to obtain than information on specific expenses by nature by function.

B12. Most CMAC members and other users ('users') as well as some ASAF members were supportive of a partial matrix approach because such an approach would help users better understand the composition of functional line items and help users in:

(a) valuing an entity;

(b) forecasting cash flows;

(c) understanding an entity's cost drivers;

(d) linking the statement of profit or loss to the statement of cash flows.

Feedback on the usefulness of specific matrix approaches

B13. A few users and one ASAF member said that the question of which variant provides users with more benefits is likely to depend on the entity's business model and the industry in which it operates, for example:

(a) a partial matrix 1 is likely to be more beneficial when analysing asset-heavy entities (for which depreciation and employee benefits would account for most of the expenses); while

(b) a partial matrix 2 is likely to be more beneficial when analysing an entity in the software as a service (SaaS) business (for which costs other than depreciation and employee benefits would account for most of the expenses).

B14. Overall, users expressed mixed views about the preferred variant of a partial matrix. Most users agreed that having disaggregated information on depreciation, amortisation, and employee benefits by function (partial matrix 1) was useful—however, many users were more supportive of partial matrix 2.

B15. A few users said that having as much information as possible on depreciation, amortisation, and employee benefits is important to them—thus, they preferred partial matrix 1. One of these users explained that they were seeking to strip out depreciation, amortisation and employee benefits when modelling functions (or EBITDA) as they wanted to make their own calculations with regards to depreciation and amortisation.

B16. Many users said that partial matrix 2 has important benefits because it would:

(a) allow users to better understand the composition of important functional line items which helps users:

(i) understand the cost drivers of an entity better: for example, it would provide information on material costs (for example, steel) included in cost of sales, or help users distinguish between ongoing general and administrative expenses and selling expenses (such as advertising and marketing expenses that relate to future sales);

(ii) make their own adjustments when calculating metrics related to cost of sales or SG&A;

(iii) compare entities—because there is diversity in practice with regards to what is included in functions (for example, understanding the composition of cost of sales is important when forecasting an entity's gross margins or comparing various entities' gross margins because information on the composition of functional line items allows users to adjust gross margins);

(b) give insights into changes in cost drivers—because changes in cost drivers would lead to an entity having to disclose specific (material) expenses by nature that were previously not disclosed due to them being immaterial;

(c) make digital consumption easier because disaggregated items are expected to add up to the total (functional line item).

B17. However, a few users also said that disaggregation of 'cost of sales' and 'selling' would not be enough as they also need more information on expenses by nature included in research and development expenses (R&D). In addition, a few users also said they would like an even greater level of disaggregation than functions into nature expense (for example, would want to be able to distinguish between expenses that are fixed and expenses that are variable in nature, or between cash and non-cash expenses).

Additional comments on a partial matrix approach

B18. A few preparers also said that many entities already voluntarily provide disaggregated information on depreciation, amortisation, or impairment in the notes to the financial statements (our research of a limited sample of entities indicates some entities provide this analysis, see Appendix C of April 2022 Agenda Paper 21A).

B19. One ASAF member said that large entities in their jurisdiction would be able to provide information required by both partial matrix 1 and partial matrix 2 (because such entities have sophisticated reporting systems in place) but may be reluctant to disclose such information due to it being commercially sensitive in their view. This ASAF member also said that medium-size and small entities may face more challenges than large entities in providing disaggregated information.

B20. One preparer said it would be unlikely that they early adopt the final Standard if the IASB proposes a partial matrix approach (because they estimated 2–3 years for necessary systems changes).

B21. A few preparers said that users were currently not requesting this information and wanted to better understand why users were seeking information that is not used internally by entities to manage their business (one ASAF member said they had heard similar feedback from preparers in their jurisdiction).

B22. A few ASAF members said that specific disclosure requirements applying only to entities reporting operating expenses by function would be an asymmetric treatment of those entities compared to entities reporting operating expenses by nature.

B23. One ASAF member said stakeholders in their jurisdiction would prefer the disclosure requirements in the final Standard to be more closely aligned with regulatory disclosure requirements.

Feedback received at the joint CMAC/GPF meeting in June 2022—Further detail

B24. At the joint CMAC/GPF meeting in June 2022 the IASB Technical Staff gave CMAC and GPF members an update on the IASB's redeliberations on the proposal in paragraph 72 of the Exposure Draft and current staff analysis on this issue. The purpose of this session was to obtain feedback from CMAC and GPF members to help the IASB's future discussions on the analysis of operating expenses by nature in the notes. Specifically, CMAC and GPF members were asked questions which were discussed in breakout sessions. A summary of what had been discussed during those sessions was later given by IASB Board members.[14]

B25. Specifically, CMAC and GPF members were asked whether:

(a) disclosing, for specific expense items, the amount included in each line item in the statement of profit or loss would be feasible for preparers and provide useful information for users;

[14] This is a draft summary of the joint CMAC/GPF meeting in June 2022. The meeting notes for the joint CMAC/GPF meeting will be on public record shortly and may (or may not) differ slightly from the summary given in this paper.

(b) there are any expense items which are commonly disclosed by an entity and for which, disclosing the amount included in each line(s) in the statement of profit or loss would be challenging for preparers but provide useful information for users; and

(c) a possible disclosure requirement should focus on specified expense items or extend to all expense items an entity discloses in the notes to the financial statements.[15]

B26. Furthermore, CMAC and GPF members were asked whether, for an expense item, the requirement should be to disclose the related line items in the statement of profit or loss or rather to disclose the related functions (whether those functions are presented in the statement of profit or loss or disclosed in the notes). For example, if an entity aggregates selling expenses and general and administrative expenses in the statement of profit or loss, whether that entity should disclose the amount of depreciation included in the 'selling, general and administrative expenses' line item (function) or rather disclose separately the amount of depreciation included in 'selling expenses' and the amount of depreciation included in 'general and administrative expenses'.

B27. CMAC and GPF members were asked whether they preferred the required information be disclosed in a separate (single) note or in the note that relates to the expense item. For example, whether an entity should disclose the line item in the statement of profit or loss in which write-downs of inventories are included within an 'inventory note' or within a separate (single) note.

Summary of feedback on the feasibility and usefulness of disclosing, for expense items, the amounts included in each line item in the statement of profit or loss (paragraphs B28–B35)

GPF members

B28. GPF members all agreed that disclosing the amounts included in each line item in the statement of profit or loss would generally be feasible for:

[15] See slides 8–9 of Agenda Paper 2—Primary Financial Statements—Operating expenses for the list of expense items discussed with CMAC and GPF members at the joint CMAC/GPF meeting in June 2022.

(a) depreciation, amortisation, and employee benefits—although some said providing expense amounts rather than cost amounts would be challenging for entities using standard costing systems;

(b) expense items that are 'one-offs' because the required information could be provided without having to adjust reporting processes or systems (for example, impairment of goodwill, impairment of other intangible assets, write-downs of inventories or 'one-off' foreign exchange gains/losses).

B29. On the contrary, some GPF members said that it may be challenging for an entity to disclose, for other expense items, the amounts included in each line item in the statement of profit or loss—and that the IASB should carefully consider the costs and benefits of requiring such information (for example, foreign exchange gains/losses, gains/losses on derivatives/hedging instruments).

B30. Some GPF members said that demonstrating to auditors that all expense items to which the disclosure requirement would apply have been identified might be challenging.

CMAC members

B31. Many CMAC members said that having information on the respective amounts of an expense item included in each line item in the statement of profit or loss generally:

(a) helps users better understand the way an entity is managed and in which line item(s) in the statement of profit or loss a specific expense item is included (for example, better understand the allocation of capital cost); and

(b) allows for comparisons between entities.

B32. Some CMAC members said they would like to understand better whether a specific expense item was fixed or variable in nature or whether it was a non-cash or a cash item.

B33. With regards to the expense items discussed, CMAC members all agreed that having information on the amounts of depreciation, amortisation, and employee benefits included in each line item in the statement of profit or loss was most important and would generally be useful regardless of the industry in which an entity operates (for example, to understand better fixed expenses of an entity).

B34. Other expense items mentioned by some CMAC members where requiring an entity to disclose, for those expense items, the amounts included in each line item in the statement of profit or loss would provide useful information were:

(a) impairment;

(b) foreign exchange gains/losses;

(c) gains losses on derivatives/hedging instruments;

(d) provision charge;

(e) restructuring expenses;

(f) research and development expenses (when such information is not presented separately in the statement of profit or loss);

(g) gains/losses related to business combinations;

(h) legal expenses and loyalty payments.

However, it was acknowledged by some CMAC members that the benefits of having such information would often depend on the industry in which an entity operates.

B35. Some CMAC members also said they would also be interested in having more information on expense items that result from a shift in the business model of an entity. Mentioning, for example, that if an entity starts outsourcing labour, this could lead to the outsourcing expenses being included in other line items in the statement of profit or loss than the (previously incurred) employee benefits (expenses).

Summary of feedback on the feasibility and usefulness of further disaggregation of line items in the statement of profit or loss for an analysis of expense items (paragraphs B36–B37)

B36. Some GPF members said that disaggregating line items in the statement of profit or loss further for the purposes of an analysis of expense items would be feasible.

B37. Some CMAC members said that analysing expense items at the level of line items (functions) in the statement of profit or loss was sufficient for their purposes as long as there was transparency with regards to research and development expenses (if not presented separately in the statement of profit or loss).

Summary of feedback on the location of the required information

B38. The location of the required information was not discussed in all breakout sessions for time reasons. Among those that discussed the location, there was no clear preference with regards to whether the required information should be disclosed in a separate (single) note or in a note that relates to the specific expense item.

Other comments (paragraphs B39–B41)

B39. Some GPF and CMAC members mentioned that IFRS 8 *Operating Segments* already requires some of the expense items discussed to be given by segment. Some CMAC members said that having information on expense items by segment would provide useful information because segments were often an important starting point for modelling—hence, suggested such information be given either instead of (consolidated) information by line item in the statement of profit or loss or alongside such information.

B40. Some GPF and CMAC members asked whether the disclosure requirement would also apply to interim financial reporting. Some GPF members said that if required for interim financial statements it would be important to consider what is feasible for interim financial statements as a starting point for any possible disclosure requirement for annual financial statements.

B41. Some CMAC members asked whether the IASB could establish a principle that would require that if an expense item is available from the management accounts it should be disclosed in the financial statements. Some GPF members said that providing information that is available from the management accounts could be an area to explore because such information would be readily available (with the caveat that not all information that is available from management accounts should be required to be disclosed).

Appendix C—Research on current practice of entities

Research on 100 sample entities

C1. The staff conducted research on 100 sample entities' 2020–2021 financial statements, of which 47 report operating expenses by function.

C2. For the 47 entities that report expenses by function, the staff analysed how many entities disclose, for depreciation, amortisation, employee benefits, and impairment, the amounts included in (each) line item(s) in the statement of profit or loss. The research shows that only 9 entities disclose, for *some* expense items analysed, the amounts included in *some* line items, but only one entity discloses for *all* expense items analysed, the amounts included in each line item.

	Disclosed amount included in each line item in the statement of profit or loss	Disclosed amount included in some line items in the statement of profit or loss
Depreciation (6 entities provided disaggregated information)	3	3
Amortisation (7 entities provided disaggregated information)	5	2
Employee benefits (3 entities provided disaggregated information)	1	2
Impairment (3 entities provided disaggregated information)	1	2

Research on entities that submitted Form 20-F filings in 2020

C3. The staff conducted research on entities that have submitted Form 20-F filings to the Securities and Exchange Commission (SEC) in 2020.[16] The staff analysed, for the years 2020–2016, how much depreciation, amortisation, and employee benefits is included in an entities' operating expenses—specifically, the staff determined

[16] The scope comprises 553 entities from nine different sectors (Agriculture, Forestry and Fishing, Construction, Finance, Insurance, And Real Estate, Manufacturing, Mining, Retail Trade, Services, Transportation, Communications, Electric, Gas, And Sanitary Services and Wholesale Trade).

depreciation, amortisation, and employee benefits as a percentage of total operating expenses.[17]

C4. The research shows that:

(a) depreciation, amortisation, and employee benefits explain well over 40% of operating expenses in any given year (table 1 shows the average over all sectors in the years 2020–2016);

(b) excluding from the sample the sector Finance, Insurance, And Real Estate (FIRE) leads to lower percentages than when this sector is included (table 2);

(c) 'depreciation, amortisation, and employee benefits as a percentage of operating expenses' varies between sectors—ranging, for example, from 32.89% (Mining) to 63.94% (Retail Trade) in 2020;

(d) 'employee benefits as a percentage of operating expenses' is higher than 'depreciation and amortisation as a percentage of operating expenses' in any given year (table 3).

Table 1: Depreciation, amortisation, and employee benefits as a percentage of operating expenses

2020	2019	2018	2017	2016
43.30%	44.62%	42.49%	43.77%	42.62%

Table 2: Depreciation, amortisation, and employee benefits as a percentage of operating expenses (excluding FIRE)

2020	2019	2018	2017	2016
41.73%	40.39%	40.60%	42.09%	41.31%

Table 3: Depreciation, amortisation, and employee benefits as a percentage of operating expenses (each shown separately)

	2020	2019	2018	2017	2016
Depreciation	9.97%	9.64%	9.09%	8.85%	9.44%
Employee benefits	26.74%	29.12%	27.30%	28.76%	27.35%
Amortisation	6.59%	5.86%	6.10%	6.16%	5.83%

[17] The staff acknowledges, that the percentages shown in tables 1–3 may be higher if expenses such as interest expense or income and expenses from equity-accounted associates and joint ventures are excluded from operating expenses (not classified in the operating categories in the [draft] IFRS Accounting Standard).

Appendix D—Overview of specific disclosure requirements in IFRS Accounting Standards

D1. As noted in paragraph 46, some IFRS Accounting Standards require, for specific items, that an entity discloses the line item(s) in the statement of comprehensive income in which those expense (income) items or gains or losses are included. An overview of those items is provided in the table below.[18]

Expense (income) item or gain or loss	Relevant paragraphs in IFRS Accounting Standards
Amortisation	IAS 38 para 118(d)
Impairment losses (or reversals thereof) on assets within the scope of IAS 36	IAS 36 para 126(a)-(b)
Impairment losses (or reversals thereof) on assets (or disposal groups) classified as held for sale or sold	IFRS 5 para 41(c)
Hedge ineffectiveness (fair value hedge, cash flow hedge, hedges of a net investment in a foreign operation)	IFRS 7 para 24C(a)(ii), IFRS 7 para 24C(b)(iii)
Reclassification adjustments (cash flow hedge, hedges of a net investment in a foreign operation)	IFRS 7 para 24C(b)(v)
Hedging gains or losses (hedges of net positions)	IFRS 7 para 24C(b)(vi)
Proceeds and costs from selling items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (for example, samples produced when testing whether the asset is functioning properly)	IAS 16 para 74A(b)

[18] The staff will continue analysing the disclosure requirements in IFRS Accounting Standards.

Expense (income) item or gain or loss	Relevant paragraphs in IFRS Accounting Standards
Acquisition-related costs (for transactions that are recognised separately from the acquisition of assets and assumption of liabilities in the business combination)	IFRS 3 para B64(l)(iii), B64(m)
Gain on a bargain purchase	IFRS 3 para B64(n)(i)
Gain or loss recognised as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer before the business combination (business combination achieved in stages)	IFRS 3 para B64(p)(ii)
Gain or loss on loss of control of subsidiary	IFRS 12 para 19(b)
Gains or losses resulting from level 3 fair value remeasurements	IFRS 13 para 93(e)(i)(ii)