IFRS

STAFF PAPER

July 2022

IASB® meeting

Project	**Primary Financial Statements**
Paper topic	Unusual income and expenses

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Objective

1. This paper continues the IASB's discussions on unusual income and expenses. It sets out feedback from the discussion of this topic at the joint meeting of the Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF) in June 2022 and provides an analysis of the questions the IASB will need to address to proceed with a definition of unusual income and expenses.

2. The staff do not make any recommendations or ask the IASB to make any decisions in this paper. Rather we ask for your initial comments on the analysis. We will bring a paper with recommendations at a future IASB meeting.

Structure of the paper

3. This paper is structured as follows:
   (a) discussions so far;
      (i) December 2021 IASB meeting (paragraphs 4–7);
      (ii) March 2022 CMAC meeting (paragraphs 8–10);
      (iii) May 2022 IASB meeting (paragraphs 11–14) ; and
      (iv) June 2022 CMAC GPF meeting (paragraphs 15–25).

(b) staff analysis:

  (i) initial thinking on a potential way forward (paragraphs 26–32);

  (ii) revised working definition of unusual income and expenses (paragraph 33–38);

  (iii) questions that remain complex to resolve (paragraphs 39–49).

(c) two appendices:

  (i) Appendix A which sets out detailed analysis on questions the staff think are relatively straight-forward to resolve; and

  (ii) Appendix B which reproduces extracts from the Illustrative Examples accompanying the Exposure Draft.

Discussions so far

December 2021 IASB meeting

4. AP21A of the December 2021 IASB meeting (the December IASB paper) set out the feedback on the proposals in the Exposure Draft on unusual items and provided an analysis of the questions that need to be resolved in order to proceed with a definition.

5. The definition proposed in the Exposure Draft was:

> Unusual income and expenses are 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.

6. The feedback from the comment letters was:

(a) strong support for the IASB to define unusual income and expenses. Feedback was that doing so would provide consistent input for analysis by users of financial statements and would reduce opportunistic classification of items as unusual.

(b) however, although most respondents agreed the IASB should define unusual items, most did not agree with the proposed definition, either because of:

(i) concerns over the scope of the items captured in the proposed definition, often indicating an underlying concern over the IASB's proposed objective for the requirements; or

(ii) concerns over the subjectivity inherent in the proposed definition.

(c) although most respondents did not agree with the proposed definition, there was no clear consensus on an alternative definition.

7. At the December 2021 meeting, the IASB tentatively decided:

(a) to explore how to proceed with a definition of 'unusual income and expenses'.

(b) to remove the reference to 'limited predictive value' from the definition of 'unusual income and expenses', and clarify in the IFRS Accounting Standard that it is a necessary characteristic of unusual income and expenses, not the sole characteristic.

(c) to develop application guidance:

(i) to clarify that the definition means that 'unusual income and expenses' can be dissimilar *in type or amount* from income and expenses expected in the future;

(ii) to help an entity to assess whether similar income or expenses will arise in the future, based on guidance on the assessment of future transactions and other events in other IFRS Accounting Standards; and

(iii) to explain that in considering whether income or expenses are similar to expected future income or expenses, an entity would consider characteristics of the income and expenses, including the underlying event or transaction that gives rise to income or expenses.

March 2022 CMAC meeting

8. Following the December 2021 IASB meeting, at the CMAC meeting in March 2022, the staff asked CMAC members for their views on the proposed definition of unusual items, in particular whether the IASB should focus on:

(a) ensuring all 'unusual' items are identified; or

(b) preventing recurring items from being portrayed as ‘unusual’.

9. Some members preferred a broad definition that would capture a wide range of non-recurring items. They wanted information about many such items, not just a narrow set of highly exceptional items. Users are also looking for information about varied items, depending on their needs. A broad definition would enable users to choose which items they would exclude from an ongoing earnings calculation. However, a few members would prefer the definition to focus on preventing recurring items from being portrayed as ‘unusual’.

10. The staff specifically asked whether:

(a) the definition should include income and expenses that have occurred in the past (as proposed in the Exposure Draft). Some said the definition should include such income and expenses. A member gave an example of natural disasters that might have occurred in a recent annual financial reporting period, but should still be deemed to be unusual if they occurred again in the current period.

(b) the definition should include income and expenses that are expected to occur in a few annual periods (rather than not recurring at all in the future, as proposed in the Exposure Draft). Most members said the definition should include such income and expenses. Some members said information about when such items had occurred in the past and for how long they were expected to continue in the future would be important.

May 2022 IASB meeting

11. AP21B of the May 2022 IASB meeting (the May IASB paper) set out feedback from the CMAC meeting in March and staff recommendations on how to proceed with a definition. The IASB tentatively decided:

(a) to include income and expenses that have arisen in the past in the definition, as proposed in the Exposure Draft.

(b) to label the items captured by the definition as 'income and expenses with limited recurrence'. The IASB also decided to consider at a future meeting whether also to restrict the use of the label 'unusual income and expenses'.

(c) to amend the definition proposed in the Exposure Draft to include income and expenses that are expected to recur for a few annual reporting periods.

(d) to reflect the tentative decisions described in (a) to (c) by proceeding with the following definition:

> Income and expenses have limited recurrence when it is reasonable to expect that income or expenses that are similar in type and amount will cease, and once ceased will not arise again, before the end of the assessment period.

(e) to explore how to define the assessment period; for example, by linking it to the period of budgets and forecasts or by specifying a minimum and/or maximum number of years.

12. The IASB also discussed the disclosure requirement proposed in the Exposure Draft for a narrative description of why income and expenses that are similar in type or amount are not expected to arise for several future annual periods (now the assessment period, to reflect the tentative decision described in paragraph 11(d)). The IASB decided to consider at a future meeting an analysis of the implications of this disclosure requirement in relation to forward-looking information.

13. Subject to the outcome of that analysis, the IASB tentatively decided (see AP21C of the May 2022 IASB meeting):

(a) to continue to include in the definition income and expenses that are dissimilar to those expected to arise in the future because they are lower in amount.

(b) to reconfirm the proposal to require, for such items of income and expenses, disclosure of the amount recognised in the period.

14. The IASB noted that the effect of these requirements would be to provide information for income and expenses only when information about their limited recurrence would be of interest to users of financial statements (that is, when such information would be material).

CMAC GPF June meeting[1]

15. At the CMAC GPF meeting in June, the staff set out a working definition of items with limited recurrence (unusual items) based on the IASB's tentative decisions in May (see paragraph 11(d) of this paper).

16. The staff also provided three examples for CMAC and GPF members to consider:

    (a) a one-off restructuring that was expected to give rise to expenses in three annual periods;

    (b) revenue and expenses from a product line that was expected to be discontinued in the next year; and

    (c) revenue and expenses that were expected in increase in the next few years because of expected internal growth or an expected acquisition.

The population of income and expenses captured by the definition

17. CMAC and GPF members all agreed that the definition of unusual income and expenses should capture only items such as the first example and not items such as the second or third examples. They said that information about the second and third examples is a matter of capital market communication beyond the financial statements. For items such as the first example, some emphasised that the definition should include income and expenses that are unusual because of their amount as well as items that are unusual because of their type.

18. Many GPF members said the IASB should not try to develop a definition of unusual income and expenses. They said that what is unusual will vary from entity to entity and it is not possible to create a definition that will apply appropriately for all entities. Instead, the IASB should establish a principle and require management to use its judgement to determine what is unusual for the entity in the context of that principle. A few GPF members suggested reinstating the requirement in paragraph 97 of IAS 1 *Presentation of Financial Statements* for an entity to disclose the nature and amount of material items of income and expenses.

[1] This section is based on the draft summary of the CMAC GPF meeting. That draft summary has not yet been reviewed by CMAC GPF members.

19. Many CMAC members said the IASB should establish a definition of unusual income and expenses. Without such a definition, the information provided about unusual income and expenses could be incomplete. They agreed that what is unusual will vary from entity to entity. They said that they can use their judgement to assess how to treat the different items disclosed, but can only assess what has been disclosed.

20. Some CMAC and GPF members suggested the IASB establish a list of income and expenses that should be regarded as unusual, for example restructuring expenses, impairments, and litigation expenses.

21. Some members warned against having requirements that relied on forward-looking information, especially any requirements for disclosure of such information.

The assessment period

22. The staff provided a list of possible ways of determining the assessment period referred to in the definition:

    (a) linked to period of budgets and forecasts

    (b) a period or range specified by the IASB (very initial thinking—2-4 years)

    (c) a period decided by entity.

23. Members expressed differing views on the assessment period.

24. Some said using the period of budgets and forecasts would introduce a lack of consistency, because the periods of budgets and forecasts varies between entities. Others said a reference to budgets and forecasts would be helpful, because the length of the planning cycle differs depending on the type of activity undertaken. They regarded getting an appropriate entity-specific period more important than consistency between entities.

25. Some said the IASB should not specify a number, but others supported such an approach. Suggestions for such a period were 2 years, 2-3 years and less than 5 years. Some said the period might depend on the type of income or expenses being considered.

Staff analysis

Initial thinking on a potential way forward

26. The staff plan to bring a paper to the September IASB meeting with recommendations on a way forward for unusual income and expenses. Our thinking based on the analysis set out in paragraphs 33–65 and Appendix A of this paper is that the IASB should proceed with a definition of unusual income and expenses. Doing so would respond to the clear feedback from the comment letters and, more recently, CMAC members.

27. We also have clear feedback from the CMAC GPF meeting in June on the type of income and expenses that should be captured by the definition. That population is significantly narrower than that captured by the proposals in the Exposure Draft and the working definition discussed by the IASB in May. Focusing on that narrower population reduces the subjectivity in the definition and mitigates the concerns expressed over the use disclosure of forward-looking information.

28. To reduce further the subjectivity in the definition, the staff think it might be helpful to introduce some 'hard lines' in the definition, as practical expedients. The staff think that doing so could be the most straight-forward way to make the definition capable of robust application and enforcement.

29. The staff acknowledge that many GPF members said that the IASB should not develop a definition. We have considered alternatives to developing a definition:

    (a) dropping the proposal for a requirement to identify and disclose information about unusual income and expenses, thereby leaving disclosure of such information as voluntary; or

    (b) requiring disclosure of information about unusual income and expenses, but allowing management to determine what is unusual for their entity.

30. Neither of these alternatives would respond to the strong feedback that the IASB should develop a definition of unusual income and expenses. Both run the risk that information about unusual income and expenses will be incomplete, particularly in relation to unusual income or unusually low expenses. Incompleteness of information was the main concern expressed by CMAC members over the lack of a definition.

31. Accordingly, the staff continue to support developing a definition. However, if having explored the approaches discussed in this paper, the IASB cannot reach a consensus on how to proceed, we think that would indicate there is no definition that we can move forward with, and hence work on this aspect of the project should stop at that point.

32. We are not asking for you to make any decisions at this meeting, and we know that ultimately your decisions about the definition will depend on your conclusions about the analysis as a whole. However, to facilitate a structured discussion, the staff will ask for comments on the analysis in each section of the paper in turn.

Revised working definition

33. The discussion of the examples at CMAC GPF meeting in June (see paragraphs 16–17 of this paper) provided a very clear message on one aspect of the outcome of the definition of unusual income and expenses—the definition should only capture items of the type illustrated by the first example provided at the meeting, that is one-off items (albeit that they may arise in a few annual periods). The definition should not capture income and expenses that have occurred in an ongoing manner in the past but are expected to be different in the future, as illustrated by the second and third examples provided at that meeting.

34. Because of this very clear message from CMAC GPF members, the staff have revisited the questions identified in the December IASB paper with a view to developing a definition that captures only items of the type illustrated in example 1 (see paragraph 16(a)). In doing so, the staff have analysed the questions into 3 groups:

    (a) questions for which the tentative IASB decisions made in December 2021 can be brought forward unchanged:

    (b) questions that in this revised context are relatively straightforward; and

    (c) questions that remain complex.

35. A detailed analysis of the questions described in paragraphs 34(a) and 34(b) is set out in Appendix A of this paper. That analysis led the staff to develop a revised working definition:

> Income and expenses are unusual when it is reasonable to expect that income or expenses that are similar in type and amount will arise in only a few annual periods.

36. By identifying income and expenses that will arise only in a few annual periods, the definition:

    (a) could include items that are expected to arise in a few annual periods (see paragraphs A11–A13); and

    (b) requires a comparison with past income and expenses, to exclude items that have arisen in more than a few annual periods in the past (see paragraphs A4–A10).

37. Both these aspects of the definition are changes from the proposals in the Exposure Draft but, as explained in Appendix A, the staff think these changes are justified by the feedback in the comment letters and the recent feedback from CMAC GPF.

38. The following table illustrates the type of item that would meet the revised working definition (based on ‘a few annual periods’ meaning 3 annual periods and the assessment period being 4 years before and 4 years after the current period). In each period in which the item occurs, similar income and expenses have not arisen in the past and are not expected to arise in the future, beyond the allowed few annual periods.

Assessment period									
Period in which item has arisen/is expected to arise	**-4**	**-3**	**-2**	**-1**	**Current period**	**+1**	**+2**	**+3**	**+4**
20X1					x	x	x		
20X2				x	x	x			
20X3			x	x	x				

Question for the IASB

Q1 Does the IASB have any questions or comments on the analysis presented in paragraphs 33–38 of this paper, in particular on the staff suggestions to consider amending the definition:

(a) to include items that are expected to arise in a few annual periods (see paragraphs A11–A13); and

(b) to require a comparison with past income and expenses, to exclude items that have arisen in more than a few annual periods in the past (see paragraphs A4–A10).

Questions that remain complex to resolve

39. The questions identified in the December paper that remain complex to address in the context of the revised working definition are:

(a) fundamental questions (paragraphs 40–49):

(i) what assessments about future income and expenses can be required; and

(ii) what disclosures about such assessments can be required.

(b) other relatively complex questions:

   (i) what is ‘only a few annual periods’ (new since December 2021) (paragraphs 50–53);

   (ii) what should be the assessment period, that is what period does an entity need to consider around the ‘few annual periods’ to assess whether similar income or expenses arises only in the ‘few annual periods’ (paragraphs 54–60); and

   (iii) what is the link between unusual transactions/events and unusual income/expenses (paragraphs 61–65).

Assessments of expected future income and expenses and related disclosures

40. Deciding on the extent to which the identification and disclosure of unusual income and expenses should rely on forward-looking information is fundamental to the IASB moving forward on the definition of unusual income and expenses.

41. In the December paper, the staff reported feedback from a few comment letters that the definition was highly judgemental and unverifiable, to the extent that it would not result in predictive or complete information. These comment letters argued that it is not possible to assess or verify whether it is *reasonable to expect* similar income and expenses *in the future*.

42. The staff analysis in the December paper explained that many IFRS Accounting Standards require an entity to make assessments of future cash flows, and hence of the occurrence of future transactions and other events. For example:

   (a) IAS 36 *Impairment of Assets* requires an entity to estimate the future cash flows to be derived from the use and ultimate disposal of an asset or cash generating unit to determine its value in use. IAS 36 requires an entity to base these cash flow projections on the most recent financial budgets or forecasts approved by management.

   (b) IFRS 9 *Financial Instruments* requires an entity to apply the expected credit loss impairment model by considering all reasonable and supportable information that is available without undue cost or effort, including information that is forward looking. Information that is available for financial reporting purposes is considered to be available without undue cost or effort.

(c) IFRS 17 *Insurance Contracts* requires an entity to estimate future cash flows of insurance contracts. IFRS 17 requires an entity to consider all reasonable and supportable information available without undue cost or effort. Reasonable and supportable information available at the reporting date without undue cost or effort includes information about past events and current conditions, and forecasts of current conditions. Information available from an entity's own information systems is considered to be available without undue cost or effort.

43. The IASB tentatively decided in December 2021 to develop application guidance on what information to use in the assessment of whether similar income or expenses are reasonably expected to arise for several future annual periods, based on the requirements in other IFRS Accounting Standards.

44. In the May IASB paper, the staff recommended reducing the subjectivity associated with the definition by requiring approved budgets and forecasts to form the basis of the assessments about future income and expenses required by the definition. However, the IASB discussion of examples provided in the May IASB paper indicated some Board members had substantial concern about the reliance of the definition on forward-looking information and the possibility of required disclosure of such information. In particular, a few IASB members expressed concern about the disclosure proposed in the Exposure Draft of a narrative description of why income and expenses that are similar in type or amount are not expected to arise for several future annual periods. One IASB member said such a required disclosure was not consistent with paragraph 3.6 of the *Conceptual Framework for Financial Reporting* which discusses the inclusion of forward-looking information in financial statements. The IASB decided to consider at a future meeting an analysis of the implications for forward-looking information of the requirement for a narrative description.

45. Similar concerns about the reliance of the definition on forward-looking information and the possibility of required disclosure of such information were expressed at the CMAC GPF meeting.

46. The staff have identified possible ways of mitigating these concerns:

(a) revising the definition of unusual income and expenses to require a comparison with past income and expenses rather than focusing solely on what is expected in the future, as discussed in paragraphs A4–A10. Applying such a revised definition, an entity need only consider whether income or expenses that have not arisen in the past (or only arisen for a few periods in the past) is expected to arise in the future. Doing so substantially reduces the scope of the assessments required about the future. In particular, assessments will not be required about whether activities that were an ongoing part of the business in the past are expected to cease, or change, in the future. These assessments were the ones that that IASB, CMAC and GPF members expressed particular concern over.

(b) requiring the assessments of expected future income or expenses to be based on reasonable and supportable information, for example approved budgets and forecasts. This differs from linking the assessment period to the period of approved budgets and forecasts, which is discussed in paragraphs 54–60 of this paper. Rather, it provides some guidance for preparers and auditors on *the type of information* that should be used in the assessment of expected future income or expenses.

(c) focusing the wording of the requirements for disclosure about unusual income and expenses on the *characteristics of the income or expenses recognised in the current period*. Paragraph 3.6 of the *Conceptual Framework* states that information about possible future transactions and other possible future events (forward-looking information) is included in financial statements if (i) it relates to income or expenses for the reporting period and (ii) is useful to users of financial statements.

47. However, such mitigations do not eliminate the need for some assessment of whether similar income and expenses are expected in the future. The only way to eliminate such an assessment completely would be to change the definition to require only a comparison with the past. Such a definition would include income and expenses that were expected to be routine in the future, and would not achieve the IASB's stated

objective of identifying income and expenses with limited predictive value that a user would want to analyse separately (paragraph BC124 of the Basis for Conclusions).

48. Further, for the identification and disclosure of unusual income and expenses to be useful, some explanation about why they are unusual is necessary. Users have said the explanation of the items is essential in providing the information that allows them to decide how to analyse the items. As suggested in paragraph 46(c), we can word that requirement in terms of the characteristics of the income or expenses recognised in the current period. Following the IASB tentative decision in December (see paragraph 7(c)(iii)), we can also explain that one of the characteristics of the income or expenses is the underlying event or transaction that gives rise to income or expenses.[2] However, one of the characteristics of the income or expenses must be that similar income or expenses are not expected to arise for more than a few annual periods, and that will be implied in any explanation even if not explicitly stated. Appendix B sets out extracts from the Illustrative Examples that accompanied the Exposure Draft to show the type of disclosure envisaged.

49. The IASB will need to decide whether the mitigations suggested in paragraph 46 are sufficient to allow the IASB to proceed with a definition and disclosure of unusual income and expenses.

Question for the IASB
Q2 Does the IASB have any questions or comments on the analysis presented in paragraphs 40–49 of this paper?

What is 'a few annual periods'

50. Paragraphs A11–A13 discuss revising the definition to include income and expenses that are expected to arise for only a few annual periods, rather than excluding any income or expenses that are expected to recur in the future, even if only for a few

[2] As explained in paragraphs 61–65, there will be an unusual transaction or event that will have occurred that creates the unusual income or expenses.

months. Such a revision would result in the definition relying on assessments about three periods:

(a) the period in which similar income or expenses can arise ('only a few annual periods');

(b) the periods in which similar income or expenses cannot arise:

   (i) looking forward (described as 'several future annual periods' in the Exposure Draft); and

   (ii) if a comparison with past income or expenses is required, looking backwards.

51. The working definition in the May paper combined the periods described in paragraphs 50(a) and 50(b)(i) into a single assessment period (the period described in paragraph 50(b)(ii) was not needed for that definition because it did not require a comparison with past income or expenses). However, following the discussions at the CMAC GPF meeting, the staff think it would be better to keep the questions about the periods described in paragraphs 50(a) and 50(b) separate. They serve different purposes, as described in paragraph 50. Accordingly, the staff think the definition would be made clearer by:

(a) referring to the period described in paragraph 50(a)in the definition, as set out in paragraph 35; and

(b) providing application guidance that explains that to assess whether similar income or expenses will arise in only a few annual periods, an entity should consider income or expenses that have arisen or are expected to arise in a specified assessment period, that is the periods described in paragraph 50(b). Such application guidance is discussed in paragraphs 54–60 of this paper.

52. On the question of what period is 'only a few annual periods', the staff think the IASB should consider simply specifying a number of annual periods. Feedback from the comment letters and subsequent outreach indicates concerns about the subjectivity of the definition. Specifying the number of annual periods in which income or expenses can arise or be expected to arise whilst still meeting the definition would avoid introducing further subjectivity. It would be easy to apply and audit. The staff think a

practical expedient such as this is necessary to develop a definition that is operational. The staff observe that the examples discussed at the CMAC meeting in May and the CMAC GPF meeting in June illustrated expenses that arose in 3 annual periods, and there was general support for including such expenses in the definition.

53. Accordingly, the staff suggest the IASB consider setting the following definition:

> Income and expenses are unusual when it is reasonable to expect that income or expenses that are similar in type and amount will arise in no more than three annual periods.

Question for the IASB
Q3 Does the IASB have any questions or comments on the analysis presented in paragraphs 50–53 of this paper?

What should be the assessment period?

54. This section of the paper covers the period the entity needs to consider in identifying whether similar income and expenses will not arise around the allowed 'few annual periods' (paragraph 51(b)).

55. The definition proposed in the Exposure Draft required similar income and expenses not to be expected to arise for several future annual reporting periods. The December paper explained that many respondents to the Exposure Draft asked for guidance on how many periods was meant by 'several future annual reporting periods', and suggested a link to the periods covered by approved budgets and forecasts. This suggestion for the assessment period was discussed further at the May IASB meeting, where some IASB members expressed concerns over:

(a) the lack of consistency across entities on the period covered by approved budgets and forecasts, and on the level of detail included in such budgets;

(b) the potential lack of approved budgets and forecasts, particularly for entities in emerging economies; and

(c) possible implications for disclosure of forward-looking information.

56. Following the May IASB meeting, further possibilities for determining the assessment period were discussed with CMAC GPG:

    (a) a link to period of budgets and forecasts;

    (b) a period or range specified by the IASB (very initial thinking—2-4 years); and

    (c) a period decided by entity.

57. The feedback at that meeting was mixed, as described in paragraph 23–25 of this paper.

58. The revised working definition requires a comparison with past income and expenses as well as expected future income and expenses. This means we now need to consider two assessment periods, one looking forward, one looking backwards. We could decide on periods of different lengths, because an entity knows what income and expenses were recognised in the past, in contrast to having to make assessments about the future.

59. The staff suggest the IASB consider:

    (a) for assessing whether similar income and expenses arose in the past—a period of 5 years because a 5 year history is often used for trend analysis; and

    (b) for assessing whether similar income and expenses are expected to arise in the future—the period of approved budgets and forecasts, subject to a minimum of 3 years and a maximum of 5 years. This reflects a view that it is sensible to use the period of approved budgets and forecasts because they provide reasonable and supportable information on which to base the assessments. However, we want entities to look forward for a minimum period even if they do not have approved budgets and forecasts, otherwise all income and expenses that have not arisen for more than a few annual periods in the past would be regarded as unusual, even if they were expected to arise frequently in the future. We also want a maximum period otherwise entities with a long period of approved budgets and forecasts will have relatively few items of income and expenses that will be regarded as unusual (because almost all items of income and expenses will recur eventually).

60. As with the determination of what 'only a few annual periods' means, the staff accept the suggestion is a practical expedient, but think that is necessary to arrive at a definition that is operational.

Question for the IASB
Q4 Does the IASB have any questions or comments on the analysis presented in paragraphs 54–60 of this paper?

What is the link between unusual transactions/events and unusual income/expenses?

61. Some comment letters suggested that the definition of unusual items be linked to an unusual transaction or another unusual event. A similar idea was raised by some CMAC GPF members, who suggested the IASB specify a list of events that would result in unusual income and expenses, for example restructuring expenses, impairments, and litigation expenses.

62. Paragraphs BC133–BC134 of the Basis for Conclusions explain why the definition of unusual items does not include a reference to whether the underlying transaction or other event is unusual. The paragraphs explain that, although it can be helpful to consider whether the underlying transaction or other event is unusual, unusual events can give rise to income or expenses that is not unusual, for example an earthquake could give rise to costs that are expected to arise for several years, and hence are not unusual applying the proposed definition.

63. The staff think it is possible to add further clarification in application guidance or explanation in the Basis for Conclusions. If we amend the definition to exclude income and expenses that have arisen for more than a few annual periods in the past, unusual income or expenses will always have been caused by an event or transaction that is unusual in some respect—there must be something that creates the unusual income or expenses but has not caused similar income or expenses in the past and is not expected to cause similar income or expenses in the future. However, not all events or transactions that might be regarded as unusual in some respect will create

unusual income and expenses—for example an unusual event could result in a change to a business activity that lasts for many years.

64. The staff also observe that whether an event or transaction is unusual in some respect will vary depending on the entity. For example, acquiring and then restructuring a business may be a routine activity for some entities but very unusual for others.

65. Accordingly, the staff does not think it is possible to specify a list of events or transactions (or income and expenses) that would always be regarded as unusual. However, given that part of the objective of defining unusual income and expenses is for an entity to provide complete information about such items (see paragraph 30 of this paper), it might be helpful to give a list of examples of items that often might result in unusual income or expenses, to prompt an entity that has such examples to consider whether they give rise to unusual income or expenses. Paragraph B15 of the Exposure Draft (based on paragraph 98 of IAS 1) provides a list of circumstances that might be used as examples:

    (a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;

    (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

    (c) disposals of items of property, plant and equipment;

    (d) disposals of investments;

    (e) litigation settlements; and

    (f) reversals of provisions.

Questions for the IASB

Q5 Does the IASB have any questions or comments on the analysis presented in paragraphs 61–65 of this paper?

Q6 Does the IASB have any questions or comments on the analysis of the remaining questions in Appendix A:

(a) the questions for which the tentative IASB decisions made in December 2021 can be brought forward unchanged (see paragraph A2);

(b) should the definition be symmetric, that is capture items that are lower than usual as well as items that are higher than usual (see paragraphs A14–A18);

(c) should the unusual item be the amount recognised in the current period, or the difference between the amount recognised and the 'usual' amount (see paragraphs A14–A18); and

(d) should the definition apply only to operating items (see paragraphs A19–A22)?

Appendix A—analysis of more straight forward questions

A1. As explained in paragraph 34 of the paper, the staff have analysed the questions identified in the December IASB paper in the revised context set out in paragraphs 33–38 of the main body of the paper. The questions fall into into 3 groups:

(a) questions for which the tentative IASB decisions made in December 2021 can be brought forward unchanged (see paragraph A2):

(b) questions that in the revised context (see paragraphs 33–38 of the main body of the paper) are relatively straightforward (see paragraphs A3–A22); and

(c) questions that remain complex—addressed in the main body of the paper.

Questions for which the tentative IASB decisions made in December 2021 can be brought forward unchanged

A2. In December 2021 the IASB made the following tentative decisions which the staff think can continue unchanged:

(a) removal of the reference to 'limited predictive value' from the definition of 'unusual income and expenses' and clarification in the Standard that it is a necessary characteristic of unusual income and expenses, not the sole characteristic;

(b) unusual items can be dissimilar in type or amount from past and future income and expenses;

(c) no explicit limit in the definition to material or significant items; and

(d) application guidance on what 'similar' means—in considering whether income or expenses are similar to expected future income or expenses, an entity considers characteristics of the income and expenses, including the underlying event or transaction that gives rise to income or expenses.

Questions that in the revised context are relatively straightforward

A3. The December IASB paper also analysed the following questions, for which the staff think the feedback from the May CMAC meeting and June CMAC GPF meeting now provides the IASB with a clear direction:

(a) should the definition require a comparison with the past as well as future (see paragraphs A4–A10);

(b) should the definition include items spanning a few annual periods (see paragraphs A11–A13);

(c) should the definition be symmetric, that is capture items that are lower than usual as well as items that are higher than usual (see paragraphs A14–A18);

(d) should the unusual item be the amount recognised in the current period, or the difference between the amount recognised and the 'usual' amount (see paragraphs A14–A18); and

(e) should the definition apply only to operating items?

Should the definition require a comparison with the past as well as future?

A4. At its May meeting, the IASB discussed some example disclosures. That discussion indicated some concerns over the types of item that would be captured by the definition proposed in the Exposure Draft and the revised definition the IASB had tentatively decided on. Following that discussion, the staff provided three examples for CMAC and GPF members to consider at their June meeting:

(a) a one-off restructuring that was expected to give rise to expenses in three annual periods;

(b) revenue and expenses from a product line that was expected to be discontinued in the next year; and

(c) revenue and expenses that were expected in increase in the next few years because of expected internal growth or an expected acquisition.

A5. CMAC and GPF members all agreed that the definition of unusual income and expenses should capture only items such as the first example and not items such as the second or third examples. They said information about the second and third examples is a matter of capital market communication beyond the financial statements.

A6. The most direct way of restricting the definition to items such as the first example and excluding items such as the second and third examples is for the definition to require income or expenses in the current period to be compared with income and expenses that have been recognised in the past as well as income or expenses expected to arise in the future.

A7. The Exposure Draft in contrast was explicit that income or expenses would be classified as unusual based on expectations about the future rather than past occurrences. The staff also accept that a requirement to consider whether similar income or expenses has arisen in the past would reduce the extent to which the requirement would meet the objective for the proposal in the Exposure Draft described in paragraph BC124 of the Basis for Conclusions: 'The proposed disclosure would enable users to identify income and expenses which may not persist and to analyse them separately when predicting an entity's cash flows.' Some items of income and expenses which may not persist would be excluded from the definition because they have occurred in the past.

A8. However, the example used in the Exposure Draft to illustrate the requirement that income or expenses would be classified as unusual based only on expectations of the future differs from the second and third examples provided to CMAC GPF.

> B70 Income or expenses are classified as unusual based on expectations about the future rather than past occurrences. Hence, it is possible for income or expenses similar to income or expenses reported in previous reporting period(s) to be classified as unusual. For example, an entity may incur an impairment loss resulting from a fire at one of its factories in one period. At the end of that period, the entity classifies the impairment as an unusual expense because it has a reasonable expectation that it will not suffer an impairment loss for several future annual reporting periods. In the next period, the entity once again incurs an impairment loss resulting from a fire at another one of its factories. If the two fires in close succession are not indicative of a developing pattern of fires and impairments, it may be possible for the entity to have a reasonable expectation at the end of the second reporting period that

similar expenses will not arise for several future annual reporting periods. If this is the case, the second impairment is also classified as unusual.

A9. Subject to another possible change to the definition to include income and expenses that arise for only a few annual periods (see paragraphs A11–A13), the example in paragraph B70 of the Exposure Draft would still be included in the definition even if the definition required a comparison with past income and expenses. It would only fall outside the definition if similar impairments had arisen for more than a few annual periods. The staff think the example in paragraph B70 of the Exposure Draft is actually closer to example 1 of the examples discussed by CMAC GPF (an item that should be included in the definition) than examples 2 and 3 discussed by CMAC GPF (items that should not be included in the definition).

A10. Given the concerns expressed by IASB, CMAC and GPF members over the inclusion in the definition of items such as examples 2 and 3, the staff suggest the IASB consider:

(a) narrowing the definition to exclude such items; and

(b) achieving this by requiring the income or expenses in the current period to be compared with income and expenses that have been recognised in the past as well as income or expenses expected to arise in the future.

Should the definition include items spanning a few annual periods?

A11. The December paper explained that some respondents to the Exposure Draft said that the definition should include income or expenses that might occur for a few annual periods, but then not recur. Views ranged between those that:

(a) said that it was simply arbitrary chance whether income or expenses straddle an annual reporting date and hence wanted the definition to be amended slightly to allow for that; and

(b) wanted to include in the definition items that are expected to continue for a few annual reporting periods and then cease, for example restructuring costs.

A12. Discussions of examples at the CMAC meeting in May and the CMAC GPF meeting in June indicated strong support for including in the definition items that are expected to continue for a few annual reporting periods and then cease. Accordingly, the staff suggest the IASB consider amending the definition to include such items.

A13. Of course, amending the definition is such a way raises the question of what do we mean by 'a few annual reporting periods'. That question is discussed in paragraphs 50–53 of the main body of the paper.

Should the definition be symmetric, and what should be regarded as the unusual amount?

A14. The definition of unusual items proposed in the Exposure Draft included income and expenses that were unusually low, as well as income and expenses that were unusually high. This question was explored in AP21C of the May 2022 IASB meeting, as part of the discussion of the structure of the note on income and expenses. The staff said that such a symmetric definition is appropriate because otherwise the information disclosed about unusual income and expenses would not be neutral—information about an unusually low amount of income or expense could be just as useful as information about an unusually high amount of income and expense.

A15. Linked to this question is the question of whether the amount that should be disclosed in the note about unusual income and expenses is (i) the amount recognised in the period or (ii) the difference between the amount recognised and the 'usual' amount. AP21C of the May 2022 IASB meeting explained that identifying the difference between the amount recognised and the 'usual' amount would require an entity to identify a single hypothetical 'usual' amount, which would probably be beyond the scope of requirements for financial statements.

A16. Subject to the outcome of an analysis of the implications of the disclosure requirements in relation to forward-looking information, the IASB tentatively decided:

(a) to continue to include in the definition income and expenses that are dissimilar to those expected to arise in the future because they are lower in amount.

(b) to reconfirm the proposal to require, for such items of income and expenses, disclosure of the amount recognised in the period.

A17. If we amend the definition to exclude income and expenses that have arisen for more than a few annual periods in the past, it is likely that there will be fewer items of income and expenses that are unusual by amount rather than type—such an amendment would exclude income and expenses from ongoing activities that are expected to be of different amounts in the future. So these questions will affect fewer items of income and expenses.

A18. Further, paragraphs 40–49 of the main body of the paper analyse the use and disclosure of forward-looking information. If the IASB concludes it is able to proceed with a definition of unusual income and expenses, the tentative decisions described in paragraph A16 can be brought forward unchanged.

Should the definition apply only to operating items

A19. A few respondents to the Exposure Draft said the definition of unusual income or expenses should only apply to items of operating income or expenses, or items that are unusual for an entity's main business activities. Some of these respondents wanted to present them as a separate line item in the statement of profit or loss, allowing a subtotal 'operating profit before unusual items'.

A20. The proposals in the Exposure Draft apply to all items of income or expenses, including those included in other comprehensive income. There is no reason in principle why users of financial statements would not want to analyse separately items of income and expenses that are not expected to persist in categories other than operating.

A21. However, there is a question on whether it is helpful to have information about unusual items from categories other than operating profit in a single note together with unusual items from the operating category. Given that income and expenses in categories other than operating are likely to be analysed separately from operating income and expenses, it might be more helpful to include information about unusual items from these other categories in the notes for the line items for the other categories. The staff will bring further analysis of this question to a future IASB meeting.

A22. One category of income and expenses that is likely to meet the proposed definition of unusual items in its entirety is income and expenses from discontinued operations. Such income and expenses are classified in a separate category of the statement of profit or loss (paragraph 55 of the Exposure Draft). Regardless of the approach the IASB decides for other categories of income and expenses, the staff think it would be helpful to specifically exclude income and expenses from discontinued operations from the definition of unusual items. IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* provides sufficient disclosure requirements for such income and expenses.

Appendix B—extracts from the Illustrative Examples that accompanied the Exposure Draft

B1. This Appendix sets out extracts from the Illustrative Examples that accompanied the Exposure Draft, showing the explanations given for the unusual items. References to expectations about the future are emphasised in bold.

Tax reform

The Group's parent entity is located in Country A. In 20X2, the government of Country A reformed the tax system, introducing the following changes that affected the Group:

(a) offshore income tax—the income tax rate affecting offshore income will decrease from 25% to 10% from 1 January 20X2. This affects the calculation of deferred tax liabilities on accumulated offshore income, resulting in a decrease in those liabilities of CU4,000. As a result, the Group recognised tax income of CU4,000 at the end of 20X2. **The Group assessed that such a major tax reform will not occur in several future annual reporting periods, and the Group will not recognise such tax income in several future annual reporting periods.** Therefore, the Group identified this tax income as unusual income.

(b) property tax—one of Country A's property taxes will be abolished from 1 January 20X2. In prior periods the Group recognized property tax expenses in relation to this tax. In 20X2 the expense was CU2,500. **As this property tax expense will not arise in several future annual reporting periods**, the Group identified the property tax expense of CU2,500 as an unusual expense. Country A's property taxes are deductible from income tax.

Restructuring in Country B

The Group decided to move one of its factories from Country B to Country C because of uncertainty caused by proposed legal changes which would restrict the operation of foreign companies in Country B. Restructuring expenses of CU6,000 were recognised, made up of redundancy expenses for factory staff of CU2,050, impairment losses on factory machinery of CU3,350 and losses on extinguishment of loans of CU600 which resulted from modification of the terms of bank loans directly linked to the factory operation and factory properties. **The Group identified these expenses as unusual expenses because it does not expect to conduct such a significant restructuring for several future annual reporting periods, and such expenses are only expected to arise from significant restructuring.**

Reversal of write-downs of raw material

The Group buys and holds raw material which is consumed in the Group's production process and therefore does not form part of its end product. During 20X0, Country D, a large consumer of that raw material, was hit by a huge earthquake and the market demand for the raw material fell significantly. This in turn lead to a sharp drop in its market price. As a result, the Group recognised write-downs of CU4,900 in the raw material at the end of 20X0, and classified them as unusual expenses. **However, during 20X1, the price of the raw material rebounded. So, at the end of 20X1, the Group recognised a reversal of the write-downs of CU4,400. The Group identified this reversal as unusual item.** This unusual item is included in 'reversal of inventory write-downs' in the analysis of operating expenses by nature.

Litigation expense arising from court case E

Litigation expense of CU3,500 arose from court case E in which the Group recognised an expense for damages incurred after the Group mislabelled one of its products. **The Group has since taken measures to remedy its labelling procedures. The Group identified this litigation expense as an unusual expense.** This unusual expense is included in 'litigation expenses' in the analysis of operating expenses by nature.