September 10, 2020

SENT ELECTRONICALLY

Kelly Khalilieh, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

Dear Sirs/Mesdames:

Exposure Draft ED/2019/7 – General Presentation and Disclosures (the "ED")

Thank you for the opportunity to comment on the above ED.

We have attached our letter to the IASB as an appendix to this letter. We have reviewed the Exposure Draft issued by the AcSB and set out below our response.

The IASB has developed the proposed amendments in accordance with its due process for application around the world. Assuming the Exposure Draft proposals are finalized and approved by the IASB in accordance with its due process, do you think that the proposals are appropriate for application in Canada? If not, please specify which aspects of the proposals, and what circumstances, make the accounting requirements proposed in the Exposure Draft inappropriate.

The proposed new standard would apply to all entities that prepare financial statements in accordance with IFRS. In Canada, a wide range of entities prepare their financial statements in accordance with IFRS, including not-for-profit organizations, public and private entities, government business enterprises, government business partnerships and other government organizations.

MNP LLP ("MNP") supports initiatives to improve how information about an entity's performance is communicated in the statement of profit or loss and related disclosures. We agree that it is imperative to have a set of disclosure requirements that ensure sufficient transparency and disaggregation of information. However, we believe that the specific proposals within the ED would create implementation challenges for MNP's small to mid-size clients within the entity groups described above. Specifically, we have concerns about the substantial time and cost that would be necessary for these entities to implement and comply with the new requirements. These entities generally have fewer accounting resources available and simpler accounting systems. We also expect that the proposed changes will result in higher audit fees charged to these entities.

IFRS compliant financial statements are becoming increasingly complex and difficult to follow for many users. Such IFRS financial statements contain a large volume of information which some users may not find relevant to their requirements. A significant portion of the notes to the financial statements include boilerplate and generic disclosures that have essentially become the norm, as entities pursue a checklist approach to disclosure. There is an issue of information overload, where additional information disclosed sometimes obscures or undermines more important and relevant information.

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Canada has many small to mid-size entities who file financial statements prepared in accordance with IFRS with the SEC. For these entities, it is important that the SEC's regulations continue to allow IFRS compliant financial statements. We recommend that the IASB communicate with the SEC to identify and address any concerns they have with the proposed changes that could affect the ability of foreign issuers to file IFRS compliant financial statements with the SEC.

We would be pleased to offer our assistance to the AcSB in further exploring issues raised in our response or in finding alternative solutions to meet financial statement users' needs.

MNP LLP is one of Canada's largest chartered professional accountancy and business advisory firms. Our clients include small to mid-size owner-managed businesses in agriculture, agribusiness, retail and manufacturing as well as credit unions, co-operatives, Indigenous, medical and legal professionals, not-for-profit organizations, municipalities and other public sector entities. In addition, our client base includes a sizable contingent of publicly traded companies.

Yours truly,

MNP LLP

Jody MacKenzie

Jody MacKenzie, CPA, CA
Director, Assurance Professional Standards Group

Appendix – MNP's response to the IASB

September 10, 2020

SENT ELECTRONICALLY

International Accounting Standards Board
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

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Our responses to specific questions are provided, below. Where no comments have been provided for a question, this indicates our agreement with the IASB's view.

Question 2—the operating category
Paragraph 46 of the Exposure Draft proposes that entities classify in the operating category all income and expenses not classified in the other categories, such as the investing category or the financing category.

Paragraphs BC54–BC57 of the Basis for Conclusions describe the Board's reasons for this proposal.

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

We do not agree with the proposal to require entities to classify in the operating category all income and expenses not classified in the other categories, such as the investing category or the financing category. Not all income and expenditure which are not classified in the investing, financing, or other prescribed categories arise from an entity's main business activities. For example, a bargain purchase gain or changes in the fair value of contingent consideration related to a business combination may not meet the criteria to be classified in the investing category for purposes of the statement of profit or loss and, if so, would be classified in the operating category. This is because it may be determined that these gains and losses are not from assets that generate a return individually and largely independently of other resources held by the entity.

One of the IASB's objectives for this ED is to increase the comparability of statements of profit or loss between different companies in the same industry. As noted in paragraph BC 56 of the ED's Basis for Conclusions, operating profit as defined by the ED includes unusual income or expenses. Unusual items could be significant and could result in operating profit not being comparable between periods and between entities. For this reason, we believe that entities should be able to define operating profit in a way that will provide the most useful information to users. The statement of profit or loss should provide transparent disclosure about the nature of the elements of operating profit.

We would support the development of non-authoritative guidance on the format of the statement of profit or loss. Guidance would be beneficial to financial statement preparers to improve how entities communicate information and to clarify whether certain formats can be used.

Paragraph 56 of the ED proposes that foreign exchange gains and losses be split between operating, financing and investing activities. As noted above, small to mid-size entities generally have simple accounting systems and accounting processes; therefore, this new requirement would be an administrative burden and costly for some of these entities to comply with. This would appear to require that receivables and payables would have to be assessed to determine the nature of the underlying income or expense and mapped to different foreign exchange gain and loss accounts depending on the nature. We believe that entities should be permitted to continue to present foreign exchange gains and losses as a single line item, instead of being required to split such gains and losses between operating, financing and investing activities.

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Additionally, foreign exchange gains and losses could be significant and could distort operating profit. Similarly, hedging gains and losses can be material relative to operating results, and could result in incomparable operating profit. We believe that entities should be permitted to assess whether it is appropriate that these gains and losses should be included as part of operating profit.

Further, we believe that it will be confusing for users if the terms operating, investing and financing are used differently in the statement of profit or loss and the statement of cash flows. We suggest that different names be given to these categories.

Question 9—analysis of operating expenses
Paragraphs 68 and B45 of the Exposure Draft propose requirements and application guidance to help an entity to decide whether to present its operating expenses using the nature of expense method or the function of expense method of analysis. Paragraph 72 of the Exposure Draft proposes requiring an entity that provides an analysis of its operating expenses by function in the statement of profit or loss to provide an analysis using the nature of expense method in the notes.

Paragraphs BC109–BC114 of the Basis for Conclusions describe the Board's reasons for the proposals.

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

Many entities do not currently track operating expenses by nature; therefore, adding a requirement for entities to provide an analysis using the nature of expense method would create significant challenges for small to mid-size entities to implement. We are concerned about the considerable time and cost that would be necessary for these entities to implement and comply with this requirement. We believe that the cost of reporting operating expenses by nature will outweigh the benefits for many entities.

Question 11—management performance measures
(a) Paragraph 103 of the Exposure Draft proposes a definition of 'management performance measures'.

(b) Paragraph 106 of the Exposure Draft proposes requiring an entity to disclose in a single note information about its management performance measures.

(c) Paragraphs 106(a)–106(d) of the Exposure Draft propose what information an entity would be required to disclose about its management performance measures.

Paragraphs BC145–BC180 of the Basis for Conclusions describe the Board's reasons for the proposals and discuss approaches that were considered but rejected by the Board.

Do you agree that information about management performance measures as defined by the Board should be included in the financial statements? Why or why not?

Do you agree with the proposed disclosure requirements for management performance measures? Why or why not? If not, what alternative disclosures would you suggest and why?

For reporting issuers in Canada and SEC registrants in the United States, established and understood non-GAAP measures disclosure requirements are already prescribed by securities legislation. In these jurisdictions, securities legislation requires that management performance measure (”**MPM**”) type disclosure be presented in other documents, such as the MD&A. Therefore, these proposed requirements could result in duplication of information. We do not believe it is necessary to introduce an MPM disclosure requirement for entities that are already subject to these requirements. We believe that an exemption should be provided for entities that comply with comparable requirements in securities law.

If a reporting issuer discloses non-GAAP financial measures in public communications outside its financial statements then we believe that the most appropriate place to include a description of the financial measure, and related disclosures, is in the same public communication, as currently required by Canadian and U.S. securities legislation. Financial statements may be provided to users separately from the public communications that disclose the MPM and we believe that it not necessary to require that MPM disclosure also be included in the financial statements.

Additionally, we strongly disagree with requiring private entities to provide MPM disclosure in their financial statements. Adding this requirement would create an additional burden for small to mid-size entities to comply with and, in many cases, may require the engagement of independent professional advisors to ensure compliance with the requirements on an ongoing basis resulting in significant additional cost. The primary users of financial statements of private entities, non-profit organisations government-business enterprises, government business partnerships or other government organizations are generally not external investors and instead may be owner-managers, members or creditors who have different information needs to external investors.

The auditor’s report provides an opinion that the financial statements present fairly, in all material respects, the entity’s financial performance in accordance with IFRS. To require entities to disclose information relating to non-GAAP financial performance measures in their financial statements appears contrary to the fundamental principle that the financial statements must be prepared in accordance with GAAP. Including non-GAAP measures in the financial statements would increase the prominence of these measures and may cause confusion among financial statement users as additional “non-IFRS information” disclosure can obscure or undermine information required to comply with IFRS.

We believe that the proposed requirements may promote the disclosure of additional non-GAAP measures, regardless of whether they are useful for financial statements users. Additionally, the disclosure of MPMs in the notes to the financial statements may increase financial statement complexity and reduce comparability across entities if entities choose to disclose MPMs that are entity-specific and not applicable to other entities in the same industry.

If the IASB decides to proceed with MPM disclosure requirements, we recommend that further guidance be provided regarding the following matters:

- The meaning of "public communications". Paragraph B79 of the Application Guidance for the ED refers to financial performance measures included in management commentary, press

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releases and investor presentations. Do the MPM disclosure requirements apply to financial performance measures included in an entity's social media content or website? Which public communications are the MPM disclosure requirements intended to apply to for private entities, government business enterprises, government business partnerships and other government organizations or not-for-profit organizations? Do the requirements apply to oral communications (e.g. investor calls)? The Canadian Securities Administrator's proposed National Instrument 52-112 *Non-GAAP and Other Financial Measures Disclosure* specifically excludes oral communications.

- The timeline and process for MPM disclosure. For example, if a not-for-profit organization decides to disclose an MPM such as adjusted EBITDA for its annual period in a fundraising communication or on its website, but this financial performance measure was not disclosed in its annual financial statements (and the organization does not prepare interim financial statements), what steps would be required?

- The proposed MPM disclosure requirements would not apply to cash flow measures. However, diversity exists in practice regarding whether the frequently used financial measure "funds flow from operations" (cash flow from operating activities before changes in working capital) is an income measure or a cash flow measure.

We would be pleased to offer our assistance to the IASB in further exploring issues raised in our response and in helping to find alternative solutions which meet the needs of the financial statement users.

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