IFRS Interpretations Committee
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Dear Sir/Madam

IFRS Interpretations Committee agenda submission: Scope of the requirements of IFRS 18.83

We thank you for the opportunity to submit a potential agenda item to the IFRS Interpretations Committee ("Committee"). As part of the implementation of IFRS 18, the below question arose from the South African Banking and Insurance industries with resultant differing views on the scope of the disclosure requirements set out in IFRS 18.83 that was intended by the International Accounting Standards Board.

We believe the application of this submission will affect all entities that undertake insurance activities and is therefore widespread. In our own jurisdiction there is no current practice established which we believe might be the case for several constituents. In addition, as the answer to this submission can be efficiently resolved by the Committee; and need not require a change in the requirements of IFRS® Accounting Standards, we believe that it is within the scope of the Committee to implement.

Scope of the requirements of IFRS 18.83

IFRS 18.75 requires an entity to present, amongst others:
- (a)(ii): "operating expenses, presenting separately line items as required by paragraphs 78 and 82(a);" as well as other items such as
- (c)(ii): "insurance expenses from contracts issued within the scope of IFRS 17."

IFRS 18.78 requires that operating expenses per IFRS 18.75(a)(ii) be disclosed per 'nature' or 'function.' Paragraphs 79 to 82 provides further explanation as to the possible presentation of items either per nature or function.

If an entity presents expenses per function, IFRS 18.83 requires the disclosure of the total amounts for expenses such as depreciation, amortisation, employee benefits and impairment/write-down losses.

A question has arisen as to whether the requirements in IFRS 18.83 apply to expenses disclosed per IFRS 18.75(a)(ii) only, or whether the disaggregation of expenses is required for the other items included in IFRS 18.75; most notably insurance related expenses (IFRS 18.75(c)(ii)).

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View 1 – The requirements of IFRS 18.83 only apply to expenses categorised by either nature or function, per IFRS 18.75(a)(ii)

Per this view, the requirements of IFRS 18.83 only apply to items that are categorised by an entity by either nature or function per IFRS 18.75 (a)(ii) (ie only to 'operating' expenses). IFRS 18.75 explicitly specifies items to be separately presented in the statement of profit or loss as follows:

a) Amounts required by IFRS 18; and

b) Amounts required by IFRS 9; and

c) Amounts required by IFRS 17.

As the requirement in IFRS 18.83 is specifically mentioned in the context of par. 75(a)(ii) and infers from par.78, it stands to reason that other expenses required by IFRS 18.75 do not fall within the requirements of IFRS 18.83.

As expenses such as 'insurance expense' need not be categorised by either nature or function; the disclosure requirements of par. 83 of IFRS 18 do not apply. As the only reference to IFRS 18.78 is per IFRS 18.75(a)(ii); it seems intentional that the requirements of IFRS 18.78 to .85 do not apply to the further requirements of IFRS 18.75. Furthermore, IFRS 18.BC259 seem to refer to *operating expenses*: "The IASB decided to require an entity that presents in the statement of profit or loss one or more line items comprising *operating expenses* classified by *function* to disclose in a single note ...."

In addition, as insurance service expense is required to be separately presented per IFRS 17, it is scoped into the presentation requirements of IFRS 17 rather than within IFRS 18.75(a)(ii) "operating expenses".

IFRS 18.78 requires that "an entity shall classify and present expenses in line items in a way that provides the most useful structured summary of its expenses, using one or both of ... the nature of expenses; or ... the function of the expenses within the entity."

Presenting insurance service expenses together with other insurance-related items on the face of the statement of profit or loss, and in a single note in line with the requirements of IFRS 17, provides the most useful structured summary of the expenses. IFRS 17.103 already provides for several disclosures by nature or function, of insurance-related expenses (incurred claims, amortisation of insurance acquisition cash flows, changes to past service).

When analysing the IFRS 17 disclosures in light of the requirements in IFRS 18.B80 to determine the most useful structured summary we note that:

Par B80(a) – "an entity shall consider what line items provide the most useful information about the main components or drivers of the entity's profitability." In the insurance industry, insurance service expenses are a main component or driver of profitability and the link between operating expenses classified by nature, such as employee benefits, is less relevant to users of financial statements because these expenses are not the main drivers of profitability.

Par B80(b) – "an entity shall consider what line items most closely represent the way the business is managed and how management report internally." In both the banking and insurance industries, entities generally have a single

predominant function, such as providing insurance services/providing financing to customers, in which case the line items comprising only certain expenses classified by nature provide the most useful information for internal reporting purposes.

Par B80(c) – "an entity shall consider what standard industry practice entails." It is existing practice in the insurance industry to provide disclosure of total expenses by nature, with a cumulative allocation to insurance service expenses. Further disclosure on insurance services expenses is per the requirements of IFRS 17 in a separate note.

Par B80(d) – "an entity shall consider whether the allocation of particular expenses to functions would be arbitrary to the extent that the line items presented would not provide a faithful representation of the functions. In such cases, an entity shall classify these expenses by nature." Following the thinking presented for Par B80(b) and (c) above, it is our view that presenting insurance service expenses by function provides a more faithful representation of the main business activities of an insurance entity.

The note disclosure required by IFRS 17, which is currently provided by all entities within the industry, is sufficient and aligned to the requirements of IFRS 18. In addition, the practical complexity of developing the disclosure of IFRS 18.83 for insurance related expenses may far outweigh the benefit of the disclosure; especially in light of the existing IFRS 17 disclosures provided.

View 2 – The requirements of IFRS 18.83 apply to all expenses disclosed per IFRS 18.75 in the operating category

As the heading to this particular section of IFRS 18 reads "presentation and disclosure of expenses classified in the operating category," the requirements of IFRS 18.83 refer to *all* expenses in the operating category, including items such as insurance service expense.

In addition, a literal reading of par. 83 states that it should be applied when "an entity presents one or more line items comprising expense classified by function in the operating category of the statement of profit or loss." This implies that any expense presented by function should be analysed further per this paragraph.

Per this view, the requirement of IFRS 18.83 should not be interpreted to mean only in the context of expenses disclosed at an entity's discretion per nature or function; but rather to all expenses disclosed in the operating category.

We thank you for your consideration of this matter.

Please do not hesitate to contact us should you wish to discuss any of our comments

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