Association pour la participation des entreprises françaises à l'harmonisation comptable internationale

The Chairman of the IASB

IASB
Columbus Building
7 Westferry Circus
Canary Wharf
London
UK

23 May 2019

Dear Mr. Hoogervorst,

Preliminary comments on tentative decision on the Primary Financial Statement Project

The purpose of this letter is to share with the Board our preliminary observations on its tentative decisions to date and also to raise some questions that should be clarified in the document for discussion that is expected to be published in the near future.

Presentation of financial statements is a matter of great importance for our constituents since it is the final product of the process of the preparation of accounts and the first step in financial communication. We therefore welcomed the Board's initiative to undertake this "better communication" project with its two initial objectives: improving comparability (by providing more structure to the income statement than today) while offering an important (but regulated) place for Management Performance Measures (MPMs).

We note with regret, however, that the Board has finally chosen to give priority to standardisation, thereby relegating MPMs to a mere disclosure in the notes to the financial statements, and intends also to constrain them in other ways (please refer in particular to our comments about unusual items). We are therefore concerned that preparers and users will increasingly seek better vectors for financial communication outside the financial statements. IFRS Financial statements will be considered to be merely a compliance document while more relevant measures of performance will be developed and disclosed in other supports of financial communication.

Please find below details of our questions and comments classified by major topic.

Should you wish for any supplementary comment or explanation, please do not hesitate to contact us.

ACTEO

Patrice MARTEAU
Chairman

Financing components

Questions:

In staff papers or other documents presented by the Board (see for example, project overview September 2018), several financial components are generally presented below the "Profit before financing and income tax" sub-total. These include, for example, interest income from cash & cash equivalents; expenses from financing activities, other income from cash & cash equivalents and financing activities; and others.

1/ We wonder if these different lines will be mandatory in both presentation and composition or if preparers will be free to organise and present lines in the way they consider to be relevant as long as they respect the definition of financing items.

2/ in a similar vein, in some staff papers, interest on trade receivables is presented within the line "other finance income" and not "other income from financing activities", while interest in trade payables is presented within the line "expenses from financing activities". We do not understand the reasoning behind this presentation and therefore hope it will not be mandatory.

3/ We would find it useful if the IASB were to confirm that additional subtotals can be presented within this "financing " category, for example, to present a cost of net debt separately from the various items such as discounting effects on provisions.

4/ We question the drive for consistency between the income and the cash-flow statements, in particular regarding interest on trade receivables and payables. We think that it will indeed be impracticable to disaggregate the global cash-flows between "financing" and "operating" in the cash-flow statement to ensure coherence with the income statement.

Preliminary comments

We understand that the Board has the intention of imposing more structure on the income statement than today by defining additional subtotals. However, we believe that the Board has gone too far in its standardisation process, to the detriment of the relevance of the financial statements.

Looking at common practice today, we observe that entities often present a "financial result" which is consistent with the definition of their net debt, which is almost always mentioned in disclosures. We believe that these two indicators (net debt and cost of net debt) are very useful for, and frequently demanded by, users. Although the definition of net debt may differ from one group to another, we observe that in most cases financial investments are deducted from borrowing and other financing mechanisms. The cost of net debt therefore naturally includes returns on these investments. A strict definition of "financing elements" which includes only income on cash & cash equivalents will prevent entities from continuing to present their cost of net debt on the face of the income statement. Entities will therefore use a "management performance measure" that can be disclosed only in the notes and which will require a reconciliation.

We believe that to avoid this drift, the IASB should allow more flexibility in the definition of the result before financing and taxes with:

- ✓ A principle-based definition
- ✓ A requirement to provide in disclosures, as an accounting principle, the composition of financing retained by entities
- ✓ An obligation of consistency between the definition of financing in profit and loss and the composition of net debt disclosed in the notes if this the case.

Profit before financing & income tax

Questions:

As above for the elements of "financing", we wonder whether the captions presented in the different staff agenda papers corresponding to the "investing" category will be mandatory or if they are only illustrative.

Preliminary comments

We are rather in favour of presenting the share of profit of both integral and non-integral JVs & associates (on two separate lines, when material) below operating profit, but without a mandatory subtotal separating the results of integral and non-integral JVs and Associates (i.e. without a mandatory subtotal "operating profit and share of profit or loss of integral associates & joint ventures").

Although we agree that two lines of share of profit should be presented, the disclosure of an intermediate result must remain a free choice, according to the degree of relevance specific to each issuer. This would also avoid having two subtotals with identical amounts in the absence of integral JVs or associates.

We also encourage the Board to think about the relevance of specific cases when the share of profit of JVs and Associates is mainly composed of elements which are far-removed from operating profit such as exceptional significant tax or financing items. An alternative presentation may therefore be useful and should be considered.

Operating profit

Questions:

Concerning the presentation by nature or function of operating items, we question the real impact of one of the criteria proposed by the Board, that is, the one relating to the "arbitrary" allocation. We would not want this criterion to be used by some to challenge some of the presentations by function that are today considered relevant and valuable by entities and users, merely on the grounds that some allocation may be judged arbitrary.

We understand that the disclosure of unusual items will be required in a separate note to the financial statements. Does this mean that such items cannot be presented separately in the statement of financial performance, even if they fit perfectly with the definition proposed by the IASB? Will it now be forbidden to present a "recurring operating income" subtotal, as is very commonly presented today (and which is accepted by regulators if adequate explanations are provided in notes to the financial statements.)?

If this is really the Board's intention, then this must be clearly expressed in the forthcoming document for discussion and, in our view, this decision would be very problematic for entities - see following section.

Preliminary comments

We would be very opposed to any prohibition from isolating unusual items on the face of the statement of financial performance since this will prevent entities from maintaining one of the more frequently used indicators, i.e. "recurring operating profit". This would automatically lead to an increase in the number of MPMs presented outside the statement of financial performance.

Moreover, as the definition of unusual items will also be standardised, this concept can no longer be used if it does not fit exactly with the definition given by the IASB. Preparers will thus have to find alternative labels and change the way they communicate about this crucial indicator.

Indeed, given all the constraints imposed on MPMs, especially the requirement to present a reconciliation with NCI and income tax effects, preparers may be tempted to communicate on their performance indicators outside the IFRS Financial reporting documents. We therefore believe that the outcome of the project would be far removed from the initial objective of restoring the relevance and usefulness of financial reporting;

Concerning what we perceive as the strong opposition of the Board to a mixed presentation (function and nature), we note that this position is not consistent with:

- The principles developed in paragraph IAS1.85 which state that additional line items should be presented if such presentation is relevant to an understanding of the entity's financial performance (non-recurring items are such elements);
- The proposals regarding Result before financing and income tax, where the Board mixes "a by function" aggregation (financing) and "by nature" element such as the effect of unwinding the discount on long-term provisions.

Management Performance Measure

Questions:

When an MPM could be directly presented as subtotal in the financial performance statement, since it corresponds to an IFRS-compliant amount but is not one of the those specified in the new proposed paragraph 81A, will the entity still be required to provide a reconciliation in the notes, especially with the effects of NCI and income tax?

Preliminary comments

While we thought that the project also had the objective of promoting the MPMs in the financial statements, it seems to us that the current proposals lead to the opposite outcome, that is:

- More constraints in the presentation of the statement of financial performance, which will automatically lead to more MPMs.
- More constraints in the disclosure of MPMs, which will lead to a transfer of the information outside IFRS financial reporting,
  We note in respect of this comment, that many profit-sharing schemes are today based on "management performance measures" disclosed in financial reporting and thus subject to auditing due process. If such MPMs were to be presented only outside financial reporting, they could be less reliable since they would no longer be audited.

Moreover, we do not understand the merit of requiring the presentation of MPM disclosures in a specific, separate note and not allowing a sole presentation of MPMs to be made in the note about operating segments. This appears to contradict the very purpose of the reporting under IFRS 8 by encouraging the potential disconnection between the Group MPMs and the performance of reportable segments. Furthermore, this prohibition will encourage the duplication of similar information and this seems to us to be an aberration in the current context of rationalizing financial reporting.