**International Accounting Standards Board**

7 Westferry Circus, Canary Wharf London E14 4HD

United Kingdom

29 September 2020

Dear Mr Hoogervorst,

**Draft Comment Letter ED - General Presentation and Disclosures (Primary Financial Statements)**

We are pleased to have the opportunity to comment on the ED since we were in favour of the project as it appeared originally envisaged by the IASB. We understood that the Board's initial approach seemed to offer a reasonable balance between a more structured profit and loss account and a very relevant integration of some non-GAAP measures which would allow the financial statements to recover their role as a vector for the communication of financial information rather than a simple exercise in compliance.

It appears, however, that the Board has gradually modified its approach towards a strong uniformity in the presentation of financial statements which leaves no place for Management Performance Measures (MPMs) in the financial statements, which are instead relegated to the Notes to the accounts and are subject to requirements and reconciliations which, in our view, go well beyond that which is required by the European regulator (ESMA) and may discourage their communication rather than encourage good behaviour.

The clear risk that this project creates in its current form is that it may lead preparers to regard the financial statements as a mere compliance document and to communicate about financial performance using other vectors. We think that the too-rigid structure imposed on the income statement will not allow entities to present the most relevant and most frequently presented performance indicators, such as the recurrent operating result and /or cost of net debt.

We would request the IASB to reconsider its position on the following:

- The banning of a mixed by-nature and by-function approach for the operating result, an approach which is widely used today;
- The banning of the presentation of “unusual” elements on the face of the primary income statement;
- The definition of the financing section which is too “rules-based”;
- The introduction of an investing section, also strictly defined, does not allow entities to present a net cost of financing;
- The reclassification of items of a financing nature into operating profit as a result of the introduction of the notion of “main business activities” whose description in the ED raises many questions;
- The presentation of equity-accounted results and the criteria used to distinguish between integral and non-integral entities;

- The proposed options for presentation in the cash flow statement and the increased lack of consistency with the income statement.

We are of the view that this project in its current form represents a missed opportunity to more closely align the financial statements with the needs of management and financial communication.

If you require any further explanation of the above, please do not hesitate to contact us.

Yours sincerely,

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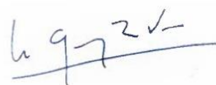
| |  | |

**Question 1**—operating profit or loss Paragraph 60(a) of the Exposure Draft proposes that all entities present in the statement of profit or loss a subtotal for operating profit or loss.

Paragraph BC53 of the Basis for Conclusions describes the Board's reasons for this proposal.

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

The notion of operating result is very widely used in our jurisdiction and we think that it is a key indicator and important element in the understanding of the performance of an entity. In our view, it would therefore be appropriate to require all entities to present this sub-total. We agree that, whatever its sector of activity, an entity should always be able to present a caption in the income statement which reflects its operating performance.

Our reservations and comments in this area are related more to the definition of this sub-total rather than its justification. We explain this in our responses to other questions below.

**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 note that the IASB has decided to define the operating result by default or by exception, that is, that it includes all those elements which are excluded by definition from the other categories. At the same time, in paragraph 46, the first sentence implies a "positive" definition of income and expense relating to the main business activities of the entity, even though the notion of "main business activities" is not defined.

Although we can understand the difficulty of a positive approach to defining the operating profit, the "default" approach presents us with a problem particularly because it is accompanied by the prohibition of a mixed by-function/by-nature approach to the presentation (see further expansion of this point below) . Actually, although paragraph 46 is fairly principles-based, the rules imposed by paragraphs B25 and following modify this substantially. Moreover, the utilisation of a notion of the main business activities which is not defined creates a risk of forcing changes in current practice which the IASB has perhaps not anticipated, and which would merit closer examination prior to the publication of the definitive text of the standard. For example, certain elements of a financing nature might have to be transferred to the operating result whereas today they are presented in the financing section by companies (interest revenue from trade receivables in application of paragraph B33(a)).

In our view, a positive definition of the operating result would ensure that only elements which are directly related to operating performance would be presented in this section of the income statement. This will not be the case with the by-default approach proposed. As a consequence, entities will have to find a way of isolating or highlighting those elements that they judge to be inappropriate for the operating section.

The consequences of an operating result defined by default combined with the prohibition of a mixed presentation:

The presentation in operating profit by default leads to the inclusion in this category of items which may be non-recurrent or not directly related to the operating activity as the entity understands it and which it would like to isolate in the primary income statement. Amongst the preparers in our jurisdiction the practice of presenting a "current" operating result on the face of the income statement is therefore very widely adopted (see the response to Question 10 for more explanation)

Moreover, we note that the IASB:

- intends to define the notion of a "unusual items" and seems to wish to prohibit the presentation of the relevant elements in a distinct and clearly identified line in the profit and loss account, even when the "by-nature" approach is used;
- prohibits the use of a mixed approach by nature and by function in the operational result; and
- provides quite strict guidance as to the choice and consequences between the two approaches to the presentation of the operating result.

We wonder about the appropriateness of the presentation of certain items, such as, for example, gains/losses on disposal of assets or entities, restructuring costs, impairment of goodwill, etc., which would have to be included in the operating result if our understanding of paragraphs B32 and B33, in particular, is correct.

We understand that in a "by-function" presentation, these items would have to be allocated across the various functions presented. However, in some instances such an allocation would be either fairly arbitrary or irrelevant. To remedy this situation, we think that the relevance and usefulness of the financial statements would be greatly enhanced:

- if the IASB would accept that these elements could be isolated outside the major operational functions on the face of the primary income statement and
- if the strict guidance about the choice between "by-function" and "by-nature" did not in these cases restrict entities to the "by-nature" approach whereas all the other indicators (such as B45(d), for example) would suggest an approach by function.

In addition, it is not clear to us how the guidance cited above can be articulated in conjunction with paragraph B15 which states that it can be useful to present these elements separately, and how this is compatible with a by-function presentation. We understand that in the course of a webinar the IASB specified that paragraph B15 could not be applied in the context of a presentation by function. However, we think that the provisions of this paragraph remain relevant, whatever the approach to presentation. We thus think that either the essence of B15 should be reproduced in paragraph 65 or that preparers should be allowed the flexibility of presenting these items separately or not. It seems to us to be inconsistent to require the presentation of the impairment of a financial asset separately and meanwhile prohibiting the separate presentation of the impairment of an asset under IAS 36 which could be much more material and relevant for most entities. In our view, all the items identified in paragraph B15 should be allowed to be presented separately and thus in a mixed approach should be allowed

Finally, it is not clear whether the list of items in paragraph 65 is exhaustive or whether it is necessary to examine each standard to identify similar items. Moreover, this clearly highlights that this is a new phenomenon, concentrated on IFRS 9. In this case, one might question the relevance of making the presentation of such lines obligatory in a financial statement which is intended to be succinct.

Moreover, it would be helpful if the essence of paragraph 24 were referred to, or included in, paragraph 65.

The consequences of the lack of a definition of main business activities

We understand that the Board's approach to this project was to develop its principles firstly for "corporates" and then to adapt them for other types of entity, such as banks, insurers and investment funds. This approach seems to have led to the use of the (undefined) notion "main business activities" along with a series of exceptions from the general principles. Not only does this make the interpretation of the text more complex, it also causes us to wonder whether it will lead to unforeseen consequences.

Although it is clearly the case that certain entities have dual activities (for example, an automotive constructor with an in-house bank) and this warrants reflection as to the most relevant presentation of the two types of activity, we are concerned that the same reasoning might be applied to other cases which are less evident, such as concessions or other long-term construction contracts. Paragraph B29 illustrates entities whose main activity is the financing of third parties. Banks and lessors fall clearly into this category. We are more circumspect about paragraph B29(b) which could be interpreted much more broadly, and be applied to more entities than perhaps the IASB intends, particularly as B26 states that an entity can have more than one main activity. It seems that the only safeguard is the reference to IFRS 8 which would allow preparers not to identify financing as a main activity in each entity. We therefore encourage the Board to define "main business activities" and to carry out a thorough study of the impact that this definition could have on the presentation of certain elements in the income statement.

If one takes as an example the case of an entity involved in construction and concessions, the financial component of the activity is often material, both from a commercial and accounting point of view. Would this mean that, in application of paragraph B28, it would be obligatory to transfer some or all of the financial elements from the financing to the operational result? Have all the potential consequences been anticipated and considered by the IASB?

Similar questions arise about the financial component of lease arrangements in the Retail industry when leasing is a fundamental element of the business model and is an essential part of the way the operation is managed. Should not the effect of the choice of a model based on the rental of space rather than the purchase of space be reflected in the presentation of the financing cost in the operating result?

In the same vein, some raise questions about the presentation of the effect of the unwinding of the discount on "operating" provisions such as long-term warranties, decommissioning and even employee benefits. We wonder whether they can be left in financing when paragraphs 48 and 51 permit or require financing or investing items to be reclassified to operating when they are generated in the course of its main business activities.

We think that a broad interpretation of these provisions will lead to a situation where only the cost of non-specific financing will be presented in "financing".

Finally, according to paragraph B32, income generated by non-consolidated equity investments should be included in the "investment" category. Now, certain shares are "operational" investments from which the entity expects development for its business, such as, for example, from research and

development. Given the provisions about the reclassification of elements linked to the main business activities, should this income be presented in the operational category?

**Question 3**—the operating category: income and expenses from investments made in the course of an entity's main business activities; Paragraph 48 of the Exposure Draft proposes that an entity classifies in the operating category income and expenses from investments made in the course of the entity's main business activities.

Paragraphs BC58–BC61 of the Basis for Conclusions describe the Board's reasons for this proposal.

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

We understand that the classification of income and expenses from such investments in the operating category has to be determined at the outset and cannot be revised, even when a management strategy changes. If one takes the example of an investment in a building, the depreciation of which is included in the operating result for the period (among administration costs, for instance). The entity decides to dispose of the asset as a result of an opportunity arising in the market. We understand that this cannot be classified in the investment category, even though this would make sense and avoid a problem of allocation within the operating category by nature or the need to isolate it in the by-function approach.

We think that the IASB should consider the presentation of disposals which do not fall under the provisions of IFRS 5 and for the impact of which no specific provision is made. The IASB should also consider the presentation of disposals falling under IFRS 5 when an entity ceases to amortise; it may be more relevant to present the final outcome in the investing section rather than in operating profit. If the operational result were to be defined in a positive way, then it would be more difficult to justify these elements being presented in that section.

**Question 4—the** operating category: an entity that provides financing to customers as a main business activity Paragraph 51 of the Exposure Draft proposes that an entity that provides financing to customers as a main business activity classify in the operating category either:

- income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or
- all income and expenses from financing activities and all income and expenses from cash and cash equivalents.

Paragraphs BC62–BC69 of the Basis for Conclusions describe the Board's reasons for the proposals.

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

Please refer to our response to Question 2 as to the general approach adopted by the ED.

We understand that in providing this choice of presentation method the IASB has tried to avoid creating undue complexity. We are not opposed to this.

**Question 5**—the investing category Paragraphs 47–48 of the Exposure Draft propose that an entity classifies in the investing category income and expenses (including related incremental expenses) from assets that generate a return individually and largely independently of other resources held by the entity, unless they are investments made in the course of the entity's main business activities.

Paragraphs BC48–BC52 of the Basis for Conclusions describe the Board's reasons for the proposal.

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

We are not convinced of the usefulness of the investing category for the following reasons:

- although we are favourable to the idea of presenting two different types of equity-accounted investment, we do not think that it is necessary to create a distinct category to lodge one of the types. Entities should be able to choose whether or not to present a sub-total including the results of equity-accounted entities. It should not be mandatory to present a sub-total "operating result including integral …" – see our response to Question 7.

- We are in favour of integrating in the financing result the income from investments relating to the active management of net debt (please see the comments in response to Question 6).

- The presentation by default of the results of hedging and variations in the value of derivatives in "investing" may seem useful but these elements do not necessarily correspond to the definition given to this category and perhaps do not require the creation of a dedicated category;

- The absence of coherence with the Cash flow statement could moreover be confusing. Indeed, although a section "investing" does not appear as such in the income statement, this notion is utilised for the purpose of structuring the profit and loss account and to allocate items between the operational result and the result before interest and tax. Even though the IASB itself explains that it has not sought coherence between the two financial statements, the use of an identical label creates confusion and raises more questions about the classifications. See our response to Question 13.

**Question 6**—profit or loss before financing and income tax and the financing category

(a) Paragraphs 60(c) and 64 of the Exposure Draft propose that all entities, except for some specified entities (see paragraph 64 of the Exposure Draft), present a profit or loss before financing and income tax subtotal in the statement of profit or loss.

(b) Paragraph 49 of the Exposure Draft proposes which income and expenses an entity classifies in the financing category.

Paragraphs BC33–BC45 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?

We are not opposed to making the presentation of the sub-total "profit or loss before financing" category mandatory since we think that it is of use for the comprehension of the financial statements, and furthermore it reflects a current practice.

However, we are opposed to the way it has been defined in the ED, which is too rigid. In particular, it will not permit entities to present a key performance indicator, which is the cost of net debt. Although we understand that the IASB does not wish to standardise the notion of net debt, we do not see why entities should not be able to present on the face of the income statement an indicator which reflects their active management of finance debt provided, of course, that the (in-house) definition of its composition is transparent and consistent over time. The proposal in the ED is not consistent with the requirement of relevance of information and will not portray the reality of the way entities manage the debt.

As an illustration of why we think this proposal is unsuitable, we would cite the following example. Entities frequently decide to borrow at a moment when market conditions are favourable in order to enhance the viability of investment in assets in the near future. Pending realisation of the capital expenditure, the temporarily excess funds are sensibly invested on a short-term basis but not necessarily in cash and cash-equivalents. It would be most relevant to present the income from these investments in the same category as the cost of gross debt, provided that it does reflect the management strategy and is consistently included in the method of calculating net debt which is presented elsewhere. In this instance, we do not think that the uniformity imposed by the ED will result in a benefit which will outweigh the loss in relevance and usefulness.

If the IASB were decide to continue with the proposal in the ED (i.e. exclude from the financing section, income from investments other than cash & cash equivalents.), it might be helpful to maintain the "investing" category and display the income from cash and cash equivalents in that category in order to ensure that all financial income is presented in the same category.

Furthermore, we note that the IASB proposes to include the <u>net</u> interest cost of defined benefit liabilities in this section. This approach is however excluded for the net costs of other long-term provisions, such as, for example, decommissioning provisions, for which entities frequently invest in a dedicated portfolio of assets. We think that it would be more relevant and consistent to present the income from these investments in the same category as the interest cost of the provision.

Finally, we note that the IASB accepts in this category a "mixed" presentation by function (financing of the entity) and by nature (the financial component of certain operational assets or liabilities). This presentation appears to be appropriate here and should be allowed similarly in other sections of the income statement, especially for the operating result.

**Question 7**—integral and non-integral associates and joint ventures

(a) The proposed new paragraphs 20A–20D of IFRS 12 would define 'integral associates and joint ventures' and 'non-integral associates and joint ventures'; and require an entity to identify them.

(b) Paragraph 60(b) of the Exposure Draft proposes to require that an entity present in the statement of profit or loss a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures.

(c) Paragraphs 53, 75(a) and 82(g)–82(h) of the Exposure Draft, the proposed new paragraph 38A of IAS 7 and the proposed new paragraph 20E of IFRS 12 would require an entity to provide information about integral associates and joint ventures separately from non-integral associates and joint ventures.

Paragraphs BC77–BC89 and BC205–BC213 of the Basis for Conclusions describe the Board's reasons for these proposals and discuss approaches that were considered but rejected by the Board.

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

Since IFRS 11 was amended and the proportional consolidation abolished, there are now two very different types of investment in entities included under the equity-accounting method. Even if we are convinced that this amendment leads to irrelevant presentation in the financial performance, we believe that the IASB should first, in the context of the PIR of IFRS11, reconsider the issue of proportional consolidation which would, in particular, allow for the more relevant approach of regrouping the operational elements of the performance of such entities with those of the consolidating investor. Actually, the IASB should first analyse what information has been lost as a result of the elimination of proportional consolidation before it imposes a less qualitative approach to the presentation of the profit or loss account. We understand that even analysts are sceptical about the reclassification into the operational profit of net results which aggregate such diverse elements as the fiscal and financial results of equity-accounted entities. Proportional consolidation would permit a better disaggregation of useful information than equity accounting.

After this first stage of review of IFRS 11, if the Board maintains the removal of proportional, consolidation, we agree that it might be more relevant to present the results of certain types of equity-accounted investment in close proximity to the operating result in the statement of financial performance. We are more reticent about the requirement for a sub-total "operating profit and income…from integral associates and joint ventures",

In our view:

- Although the distinction between integral and non-integral entities may be useful in accordance with its materiality and relevance to the reporting entity, this information could nonetheless be provided solely in the notes.

- We do not agree with the proposed systematic exclusion of the equity-accounted results of non-integral entities from proximity to the operating result. It is the case that some investments do not satisfy the proposed criteria of the ED but that management consider that these are indeed fully part of the operating performance of the reporting entity. This may be the case, for example, for certain equity-accounted vehicles that serve as hedging assets for insurance liabilities and whose result is an essential part of the management of the operational performance. The notion of main business activities should thus permit the results of certain equity-accounted non-integral entities in the second line of operating result

Turning to the criteria proposed for the differentiation between the two types of equity- accounted entity, we think that when a reporting entity owns a large number of such entities these criteria may lead to a very onerous activity of analysis. Moreover, these analyses require a high level of judgement to be applied and this could be a source of endless debate between the interested parties. The practicality of proposed standard could be improved without any reduction in quality if the IASB were to propose some rebuttable presumptions for the analyses. For example, one could presume, in the absence of contradictory evidence, that:

- Equity-accounted entities with the characteristics of a joint venture could be assumed to be « integral » since it is in most cases an operational objective which leads to the setting-up of such structures. This presumption would allow entities to reduce the volume of analysis work required and improve the cost/benefit ratio of the future standard.

- In the case of equity-accounted entities whose result is made up of a significant proportion of non-operational elements (notably financing or taxation elements) would probably be more autonomous entities and thus a priori « non-integral ». This presumption would allow reporting entities to avoid presenting items of too great a diversity in its operating result

**Question 8—**roles of the primary financial statements and the notes, aggregation and disaggregation

(a) Paragraphs 20–21 of the Exposure Draft set out the proposed description of the roles of the primary financial statements and the notes.

(b) Paragraphs 25–28 and B5–B15 of the Exposure Draft set out proposals for principles and general requirements on the aggregation and disaggregation of information.

Paragraphs BC19–BC27 of the Basis for Conclusions describe the Board's reasons for these proposals.

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

We understand the logic behind the descriptions of the roles of the primary financial statements contrasted with the Notes, and the requirement for disaggregation. However, it seems to us that some of the provisions are actually inconsistent with these objectives: for example, the prohibition of the isolating of certain natures of expense in a by-function presentation or on the contrary, the requirement to present other types expense by nature in activities to which they are not always relevant (credit risk, for example).

**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?

We think that providing the information on nature of expense in the case of reporting by function can be complex and onerous to obtain. Our members who report on a by-function basis note that the nature of the expenses is modified by the consolidation process, that inter-company eliminations are made only by function and that the reliability of the consolidation of operating expense by nature is not guaranteed. The modification of the consolidation tools and the assurance of the reliability of the resulting data would generate excessive costs. An entity that uses an analysis of expenses by function does not necessarily perform an exhaustive analysis of its expenses by nature. This because such information is not useful to management when making decisions.

Moreover, we think that the most relevant information by nature is already available:

- Information currently required in the Notes by IAS1;
- Information reported by entities who apply a mixed by-nature/by-function approach. This approach seems justify its existence on this count alone and should, in our view, be maintained.

In response to the needs of some users of financial statements, it might be sufficient to ask preparers to provide more detail about some nature of the expenses such as the employee benefits expenses, depreciation and amortisation expenses, impairment losses.

**Question 10—**unusual income and expenses

(a) Paragraph 100 of the Exposure Draft introduces a definition of 'unusual income and expenses'.

(b) Paragraph 101 of the Exposure Draft proposes to require all entities to disclose unusual income and expenses in a single note.

(c) Paragraphs B67–B75 of the Exposure Draft propose application guidance to help an entity to identify its unusual income and expenses.

(d) Paragraphs 101(a)–101(d) of the Exposure Draft propose what information should be disclosed relating to unusual income and expenses.

Paragraphs BC122–BC144 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 with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

We agree that the notion of unusual items is an important piece of information for the users of financial statements. The identification of such items allows users to adjust the result of the period, thus facilitating the predictability of future results, thus responding to one of the primary objectives of financial statements. It is for this reason that we are convinced that the IASB should not prohibit entities from providing this information in the body of the profit and loss account by the use of an operating result which exclude them even under the by-nature approach.

We are strongly opposed to the idea that it should no longer be possible to present "unusual" material items on the face of the income statement as it could be very useful in identifying trends in performance results which is one of the main objectives of financial statements (to assess future cash-flows). This objective today supported by the current paragraph 85 which requires entities to present additional line items when it is relevant to an understanding of financial performance. Such a prohibition would also lead to the introduction of new non-GAAP indicators to replace items which can be presented directly in the income statement.

The presentation of unusual items in the main financial statements is today a normal and frequent practice among our members and, in our view, preparers show discipline in the use of it by:

- Defining such items in the notes on accounting principles;
- Being consistent and stable in their use over time;
- Providing detail in the notes.

Subject to such discipline, we do not believe that the IASB should impose a very strict definition of what could be considered as "unusual". Furthermore, a number of the terms used in the proposed definition would require further interpretation: for example, "similar in type and amount" implies both conditions of type <u>and</u> amount have to be similar, thus raising the question of whether items where one of these only is similar can be unusual as defined. The condition "several future annual periods" begs the question of how many years that might be – more than two, more than three? It might also be necessary to consider the treatment to be adopted when it turns out that a reasonable expectation that there would be no similar items turns out to be wrong. For this reason, we think that if the IASB wishes to maintain a definition of "unusual" it should be limited to the principle of "income and expenses with limited predictive value".

Where the definition is drawn in the most restrictive manner, this definition may not be applicable to all items which should be identified as notable and isolated. We understand that in these cases an entity would not be able to use the term “unusual” and therefore would have to find a different label. This might well lead to additional complexity in the comprehension of the financial statements.

Indeed, one might end up in a situation where the entity would have to present:

- A note to disclose unusual elements as defined by the IASB, and
- A separate note dealing with MPMs to disclose other elements of an unusual nature which would be distinguished following a different logic.

Whereas currently all such items can be presented directly in the income statement, in future two different notes would be required to provide the same information and in a less accessible place. This double communication does not seem to us to facilitate easy reading and understanding of financial statements.

We think that a better approach would be:

- for those entities that already communicate indicators which isolate non-recurrent elements, to require only one Note which would explain these elements and not impose a supplementary definition, and to require the entity to state clearly its policy for identifying such items and to be consistent and apply it consistently, as is the general practice today.

- for those entities which do not currently have such an approach, to require them to isolate items complying with the IASB’s definition of unusual in one Note. The IASB’s definition should be more succinct as discussed above- “of limited predictive value”.

**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?

Before the IASB deals with the question of the presentation of MPM’s, it seems to us that it should first examine the reasons for which entities use them. In our view, as a result of the exclusion of the entity’s management from the measures set of users of IFRS and the way the notion of stewardship is circumscribed, many of the current standards do not allow management to account for, and present,

its stewardship in a way which is consistent with the manner in which it monitors and controls its performance.

Under the ED's proposals, instead of affording these indicators an important place, they are relegated and subjected to obligations which go beyond what is currently required by our regulator (and which we judged to be largely demanding already). We were favourable to the initial intention of the IASB to afford space in the financial statements for the performance indicators used by management. In Europe in general, and in France in particular, we think we can see a certain discipline in the use and communication of such indicators. These appear mostly in the financial statements (and are therefore audited) but also in other vectors of financial communication with an existing requirement of reconciliation to the financial statements. We think that the same discipline is not present in certain other jurisdictions and that this can lead to unfair competitive advantage. From our discussions with users and analysts of the accounts we understand that these indicators are a precious source of information when their composition is clearly defined, consistent over time and subject to a reasonable level of external verification. A large part of these indicators is presented directly in the financial statements today in accordance with these principles and we do not see any compelling argument to justify their relegation to the notes. The approach used today seems to us to provide clearer and more reliable information. We were thus prepared to accept, in exchange for a small increase in formal structure in the financial statements, the IASB's wish to integrate these indicators on the face of the financial statements, thus imposing universal rigour on their use. Presentation in the body of the financial statements enables all the principal performance indicators to be immediately accessible and set in a context which allows them to be readily understood.

Since, in accordance with these proposals, it would no longer be possible to present certain of these MPM's in the income statement, we accept that they may have to be presented in the notes. We do wonder, however, whether it is within the remit of the IASB to impose such an obligation. We note that at present a large part of the performance indicators pertinent to the income statement are already communicated on a voluntary basis in the financial statements and consequently audited. Our view might be revised in a negative way if the IASB were to extend these obligations to other types of MPM'S.

Finally, we disagree with the proposed reconciliation with the tax and NCI impacts as we seriously doubt the cost/ benefit balance. Such information is not readily available in accounting systems and there is therefore a real risk that it will be calculated in a very arbitrary manner and inconsistently between entities, particularly in respect of the impact of taxation.

Moreover, take the example of a reporting entity which presents a recurring operational result as one of its MPM'S : what is the purpose of presenting the tax and NCI effects in the reconciliation of its operational margin when such elements are never presented in this part of the income statement.

We think that there is only one case where such information might be of use, and that is when the MPM is a result adjusted for different measurement bases from those allowed under IFRS : this would indeed allow one to arrive at a result per share if the shareholders were to require it. In those cases where the MPM's are arrived at merely by different approaches to aggregation or presentation from those allowed by the standard, the effects of tax and NCI do not seem to be of real use.

**Question 12**—EBITDA Paragraphs BC172–BC173 of the Basis for Conclusions explain why the Board has not proposed requirements relating to EBITDA.

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

We do not think that it is within the standard setter's remit to define EBITDA or other MPMs.

**Question 13**—statement of cash flows

(a) The proposed amendment to paragraph 18(b) of IAS 7 would require operating profit or loss to be the starting point for the indirect method of reporting cash flows from operating activities.

(b) The proposed new paragraphs 33A and 34A–34D of IAS 7 would specify the classification of interest and dividend cash flows.

Paragraphs BC185–BC208 of the Basis for Conclusions describe the Board's reasons for the proposals and discusses approaches that were considered but rejected by the Board.

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

We are not opposed to harmonising the starting point and we welcome the maintaining of the indirect approach. However, we do not think that operating profit or loss is the best starting point. On the contrary, we think that profit or loss for the year is a sub-total which requires more lines of reconciliation and therefore provides more information about certain adjustments for non-cash items.

However, we have some concerns about other proposals:

- We note that the elimination of options is not aligned with the requirements of US GAAP and we therefore wonder whether the ED makes the best choices.
- In line with our comments on the subject of the presentation in profit and loss of the income from investments used as an integral part of the management of net debt (which we think should be presented in financing), it would be consistent and logical to present the cash flows related to the interest income in the financing section of the cash flow statement.

- On the topic of interest paid, we think that these should not all be presented solely in the financing section of the cash flow statement as they are not all considered to be linked to financing activities by management. This may be the case for interest on lease liabilities which some reporting entities regard as part of working capital. In the same vein, debt interest paid that will ultimately be capitalised as part of the cost of a fixed asset might be more appropriately shown in the investing section of the cash flow statement.

- We also note that interest income generated by (most) trade receivables would be classified in investing whereas interest paid on trade payables would be shown in financing under these proposals. To the extent that these are both integrated in the overall management of working capital, as is often the case, these should be allowed to be presented in the same category. This should also be the case in the income statement.

- Finally, according to the proposals of the ED, entities will allocate interest income between the investing and financing categories in the profit and loss account, depending upon whether they are generated by cash and cash equivalents or not, whereas they will all be presented in investing activities in the cash flow statement. This appears inconsistent to us.

- We are not convinced by the argument developed in BC208 leading to require dividends received from integral associates and JV within cash-flows from investing activities. We see no reason to consider their undistributed results as an operating income and then change the nature of this performance as an investing cash-flow once it is distributed.

- We would also reiterate the request of banks to reconsider the usefulness of continuing to require a cash flow statement in the context of their activities.

**Question 14**—other comments Do you have any other comments on the proposals in the Exposure Draft, including the analysis of the effects (paragraphs BC232–BC312 of the Basis for Conclusions, including Appendix) and Illustrative Examples accompanying the Exposure Draft?

For many entities the proposed amendments will result in wide-ranging changes both to the structure of the income statement and to the structure and content of the notes to the financial statements, and will lead to consequential modifications to the accounting and consolidation systems, which may be substantial in some groups. We would therefore recommend that the effective date provide for a transitional period sufficiently long to allow groups to prepare thoroughly for the final amendments.

Having said that, there are entities which may find it more manageable to cumulate these changes with those required for other amended standards. In view of the dates of mandatory application of IFRS 17 Insurance contracts and IFRS 9 Financial instruments (as modified by IFRS 4) for insurers, we request that any future finalised standard relating to the presentation and disclosure proposals of this ED permit a voluntary early adoption of its requirements. This would allow affected entities to minimise the disruption that would potentially be caused by a difference in the effective dates.