International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH  

Paris, April 15, 2009  

RE: Discussion Paper - Preliminary Views on Financial Statement Presentation  

Dear Madam/Sir,  

We are pleased to comment on the above mentioned Discussion Paper presenting preliminary views of the IASB and the FASB on the presentation of information in the financial statements. We note that this Discussion Paper is published for public comments at a time when the world is upside down because of the financial crisis. Faced with the scale of this crisis, the Boards may be tempted to overreact based on the lessons learnt from this particular situation. We urge the Boards not to be influenced too much by the current economic context as regards the specific matter of financial statement presentation.  

Having said that, we have noted that those preliminary views on financial statement presentation encompass huge changes compared with the way financial statements are currently presented based on concepts that have been used and understood for decades. Even if the objectives underlying the proposed presentation model are of conceptual interest, we fear their implementation leads to too many changes in presentation. In Europe, the application of IFRSs for consolidated accounts of publicly traded companies is mandatory only since financial year starting on or after 1 January 2005. Even if the new standard resulting from the due process on the financial statement presentation project will probably not be issued before 2011, we think it is too soon to “revolutionize” financial statement presentation since users have just assimilated the existing standards as regards their requirements in terms of financial statement presentation (in the primary financial statements as well as in the notes).  

Among the changes proposed in the Discussion Paper, some relate to issues identified by preparers and users where there is indeed room for improvement. In particular, we welcome the Boards’ proposals in view of the cohesiveness objective and the distinction between the business and the financing sections which, however, may not be relevant for financial institutions and insurance companies. At the same time, we believe the Discussion Paper proposes unnecessary changes. In this respect, our major concerns are listed below:
We strongly disagree with the proposal leading to presenting comprehensive income and its components in a single statement of comprehensive income, even if this statement should display a subtotal of net income for the period. This proposal goes against the comments received by the IASB after phase A of the financial statement presentation project. Besides, in the meantime, the Boards have not conducted further research so as to define what is performance and which items constitute performance. On this subject, we refer to the European Discussion Paper on Performance Reporting issued by the EFRAG in March 2009 as part of its Proactive Accounting Activities in Europe (PAAinE).

We are also against the deletion of the indirect method of presenting cash flows, first because it is the most commonly-used method, and second because the information needed to present a statement of cash flows using the direct method is not always available or may involve an excessive cost/benefit ratio.

Last but not least, the presentation of a reconciliation schedule in the notes is in our opinion symptomatic of the “revolution” the Discussion Paper brings about in terms of financial statement presentation. This reconciliation schedule is far too complex to be implemented without major costs for companies. Besides, we have not identified where the improvement lies in terms of the relevance of the information given in this statement compared with the information provided today by the primary financial statements and the notes.

During March 2009, a joint board meeting was held on financial statement presentation to update the Boards on the field tests on the presentation model proposed in the Discussion Paper. We understand that the field test results will be available for the July joint meeting. We believe it is crucial that the Boards pay great attention to what preparers and analysts having participated to these tests have to say regarding the proposed new format. The field tests conducted by the staff will also be a good opportunity to check that the additional information requested in application of the proposals contained in the Discussion Paper (especially regarding the reconciliation schedule to be presented in the notes) is a reliable and useful piece of information that it is possible to get at a reasonable cost.

Our detailed answers to the questions raised in this Discussion Paper are presented in the attached appendix.

We would be pleased to discuss our comments with you and are at your disposal should you require further clarification or additional information.

Yours sincerely

Michel Barbet-Massin

Head of Financial Reporting Technical Support
Appendix to our letter on the Discussion Paper on the preliminary views on financial statement presentation

Chapter 2: Objectives and principles of financial statement presentation

Question 1

Would the objectives of financial statement presentation proposed in paragraphs 2.5–2.13 improve the usefulness of the information provided in an entity’s financial statements and help users make better decisions in their capacity as capital providers? Why or why not? Should the boards consider any other objectives of financial statement presentation in addition to or instead of the objectives proposed in this Discussion Paper?

If so, please describe and explain.

We agree in principle with the objectives of financial statement presentation as they are proposed in the Discussion Paper. However, we have strong concerns when it comes to implementing these objectives. These concerns are detailed at a later point in this answer.

Besides, the objectives of financial statement presentation appear to be more typical of characteristics rather than real objectives. Thus they should not replace the general objectives of financial reporting as they are stated in the exposure-draft issued by the IASB and the FASB in May 2008 on Conceptual Framework for Financial Reporting:

"The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in making decisions in their capacity as capital providers. Information that is decision useful to capital providers may also be useful to other users of financial reporting who are not capital providers." (OB2)

We support this objective of general purpose financial reporting as well as the fundamental qualitative characteristics – relevance and faithful representation – which are the attributes that make financial information useful. We also broadly agree with the enhancing qualitative characteristics of financial reporting as defined in that exposure-draft which are comparability, verifiability, timeliness, and understandability. Finally, this may be the right place to remind that the exposure-draft also indicates that providing useful financial information is limited by two pervasive constraints on financial reporting – materiality and cost.

If we go into detail, we believe the cohesiveness objective is a valuable objective which may bring positive change as regards the links that would be established between the statement of financial position, the statement of comprehensive income and the statement of cash flows. Besides, since all the items reported within financial statements are not necessarily managed by the same persons (and these persons may have contradictory objectives), it seems useful to overcome this pitfall by proposing a format for financial statements that enables presenting how an entity is managed as a whole.
Nevertheless, we would like to point out an issue regarding the situation where no asset or liability is accounted for in the statement of financial position at the end of the period but items related to this potential asset or liability are accounted for in the statement of comprehensive income or in the statement of cash flows during the same period. For instance, this happens when an entity incurs development costs that do not meet the criteria described in IAS 38 to give rise to an intangible asset. Since the classification of assets and liabilities in the statement of financial position determines the classification of changes in those assets and liabilities in the statement of comprehensive income and cash flows (paragraph 2.29), how should the expenses, revenues, gains, losses or cash flows related to those assets or liabilities not accounted for in the statement of financial position be presented in the statement of comprehensive income and cash flows? This issue is raised in paragraph 2.17 and still, no answer is given although this subject could be of high importance. If the cohesiveness principle were to be applied at a relevant subtotal level rather than line by line, we believe this difficulty would be solved without losing the spirit of the objective.

As regards the second objective presented in the Discussion Paper, we are of the opinion that disaggregating information in the financial statements in a manner that makes it useful in assessing the amount, timing and uncertainty of an entity’s cash flows will lead to extensive primary financial statements no longer easy to read and not well balanced considering the information already disclosed in the notes. Thus, we regret that the Boards did not take into account the fact that the notes already include a lot of useful information that does not necessarily need to be presented on the face of the primary financial statements. In our opinion, detailed information should primarily be given in the notes keeping the financial statements as synthetic as possible. In this respect, we suggest that, before the exposure-draft is issued, more academic work is done about which information should be presented in the notes and why (considering the notes’ objectives compared with the primary financial statements’ objectives). As mentioned before, a fundamental qualitative characteristic of financial reporting is the relevance of the information given to users. We believe relevance is at risk when applying the disaggregation objective to financial statements. To clarify our comments, we refer to the illustrations given in appendix A. We wonder what the financial statements of a major group will look like applying the disaggregation objective since in a very simple situation (“Toolco”), it already seems that financial statements have become more difficult to read.

We disagree with the liquidity and financial flexibility objective since it results in practice in the deletion of the current/non-current classification for assets and liabilities (please refer to our answer to question 11) and since it also results in the disclosure of irrelevant information in case an entity chooses a presentation of its assets and liabilities in order of liquidity (please refer to our answer to question 22). Besides, we believe the objective of liquidity and financial flexibility would not be better reached with the proposed financial statement format rather than with the current format considering specific situations such as the presentation of highly liquid long term investments. Thus, it appears to us that the Boards should propose other “tools” to measure financial flexibility leading to information to be disclosed in the notes.
In any case, we consider that, notwithstanding the objectives defined in the Discussion Paper, there is always a need to keep a balance between the cost and the benefits of producing the information and between too much information and too little information in the financial statements. Although, in general, more information would assist users in making better decisions, too much information, in particular on the face of the primary statements, would make the financial statements too cluttered and difficult to understand.

Question 2

Would the separation of business activities from financing activities provide information that is more decision-useful than that provided in the financial statement formats used today (see paragraph 2.19)? Why or why not?

We agree that presenting separately business activities from financing activities will provide information that is more decision-useful than the information currently presented in the financial statements, especially for entities that are not financial institutions or insurance companies. Actually, this new presentation would be in line with users’ needs in terms of assessing capital employed and the cost of debt. Thus, we understand separating business activities from financing activities will make easy the calculation of financial ratios.

However, apart from the change in presentation of the statement of financial position, the distinction between operating and financing activities based on the definitions given in paragraphs 2.31 and 2.34 will lead to the disappearance of the “net finance costs” line which is currently presented within net income. This financial result encompasses certain amounts that will have to be presented within the business section (either the operating category or the investing category) in application of the proposals included in the Discussion Paper. For instance, time value of items will be presented within the operating or the investing category if the items to which it relates are shown within one of these categories. We would recommend the Boards to carefully assess through field tests the impact of such change in financial statement presentation.

Finally, we doubt this separation will be relevant in all cases. As regards financial institutions, the distinction between activities that lead to value creation and those that show the way business activities are funded or financed will not be as easy to make as it seems to be the case with the Bank Corp illustration (see appendix A of the Discussion Paper). Indeed, as the business of financial institutions and insurance companies consists mainly in creating value through financial instruments, the distinction between business and financing activities seems rather theoretical. We would then recommend the Boards to conduct a specific work (including field tests) on the financial statements of financial institutions.
Question 3

Should equity be presented as a section separate from the financing section or should it be included as a category in the financing section (see paragraphs 2.19(b), 2.36 and 2.52–2.55)? Why or why not?

We agree that equity should be presented as a section separate from the financing section, since the expected returns from owners are quite different from the expected returns from non-owners. However, this implies that the distinction is clearly made between equity and financial liabilities when it comes to financial instruments with characteristics of equity (as reference to the Discussion Paper issued by the IASB in February 2008). In this respect, we refer to the comment letter we sent to the IASB on 29 September 2008 in which we indicated that we are in favour of taking into account the notion of "economic compulsion" in the analysis of an obligation to make cash payments, in order to reflect the economic substance of transactions. Actually, the "split accounting" which has to be made when it comes to account for compound financial instruments in accordance with IAS 32 seems contradictory with the idea conveyed in the Discussion Paper as regards the need to identify the expected returns for owner and non-owner financing in the financial statements, as this return is only known once, for instance, the conversion option has been exercised (or not).

Question 4

In the proposed presentation model, an entity would present its discontinued operations in a separate section (see paragraphs 2.20, 2.37 and 2.71–2.73). Does this presentation provide decision-useful information? Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets and financing liabilities)? Why or why not?

We are of the opinion that presenting discontinued operations separately from the business and the financing activities is decision-useful information. Discontinued operations are obviously not part of the financing section, nor of the business section which should include only "assets and liabilities that management views as part of its continuing business activities" (paragraph 2.31). Since we agree with the definition of the business section, and since discontinued operations are defined as components of an entity that either have been disposed of, or are classified as held for sale (provided other criteria are met) according to the current version of IFRS 5, we believe a separate presentation is appropriate.

Moreover, we note that IFRS 5 already requires presenting discontinued operations separately in the statement of comprehensive income (i.e. after the profit for the period from continuing operations). IFRS 5 also requires disclosing the net cash flows attributable to the operating, investing and financing activities of discontinued operations (using the terminology of IAS 7), either in the notes or in the statement of cash flows. Thus, the separate presentation proposed in the Discussion Paper would enable to achieve the cohesiveness objective, by presenting discontinued operations separately also in the statement of financial position, which is not the case today in application of existing standards.
However, we would suggest the Boards to revisit IFRS 5 again so as to make sure no inconsistencies remain after IAS 1 is revised in accordance with the principles of the Discussion Paper. Actually, IFRS 5 contains disclosure requirements not only for discontinued operations but also for assets classified as held for sale: IFRS 5.38 states that "An entity shall present a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale shall be presented separately from other liabilities in the statement of financial position. Those assets and liabilities shall not be offset and presented as a single amount. (...)"

And yet, the presentation of assets held for sale is not addressed at all in the Discussion Paper. Thus, we believe the Boards should indicate where assets held for sale should be presented in the financial statements. IFRS 5 may therefore need to be revised accordingly.

Question 5

The proposed presentation model relies on a management approach to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment (see paragraphs 2.27, 2.34 and 2.39-2.41).

(a) Would a management approach provide the most useful view of an entity to users of its financial statements?

Even if this question is more intended for preparers and users of financial statements, we believe implementing a management approach to classification of assets and liabilities (and the related changes in those items) in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment, should lead to filling the gap between the non-GAAP measures often used in the management and discussion analysis of financial reports – this part is not covered by a positive assurance from auditors – and IFRS figures presented in the primary financial statements. In this respect, we expect that if this proposal is confirmed in the next future, it will favour consistency between the figures given in the management commentary section of the financial reports and the financial statements section.

However, to avoid any confusion, we would suggest that the Boards change the terminology used (i.e. "management approach") since this could create confusion with IFRS 8 on operating segments in which the amount reported for each operating segment item should be the measure reported to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance. Thus, segment information can be disclosed based on non-IFRS measures. Obviously, primary financial statements should present only IFRS figures.

Besides, we recommend not limiting the management approach to defined areas such as the classification of assets and liabilities (and their related changes) in the face of the statement of financial position. For instance, we believe the management approach should also justify the presentation of revenues, expenses, gains and losses by their function or by their nature in the statement of comprehensive income depending on which presentation is most relevant considering an entity's activities (please refer to our answer to question 16 for greater details). More generally, we note that some proposals within the Discussion Paper are either
contradictory or not clear enough as regards the extent to which financial statement presentation should be impacted by the way an entity’s activities are managed.

Finally, we note that the Boards consider the classification of assets and liabilities using a management approach to be equivalent to applying an accounting policy as defined in IAS 8. Thus, we understand that a change in presentation would be treated as a change in accounting policy (i.e. with a retrospective application unless it is impracticable to do so). We question whether this would be relevant in all cases and ask the Boards to appreciate whether the same accounting consequence should be applied in every situation (for instance in case management changes, in case activities are reorganized, in case an isolated asset is used differently, etc.).

(b) Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach? Why or why not?

Even though we consider comparability between entities is important to users of financial statements, we are of the opinion that getting a precise view of the way an entity is managed outweighs the disadvantage of reduced comparability. Thus we favour a management approach to classification.

Question 6

Paragraph 2.27 proposes that both assets and liabilities should be presented in the business section and in the financing section of the statement of financial position. Would this change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows make it easier for users to calculate some key financial ratios for an entity’s business activities or its financing activities? Why or why not?

We are not in a position to answer this question since we are not users of financial statements. Nevertheless, we note that, for valuation purposes, financial data is always restated. Thus, disclosures are of particular importance (i.e. making easier the calculation of financial ratios is not only a matter of presentation in the primary financial statements).

As regards financial indicators that are used by management to communicate on an entity’s financial situation (for instance, the net debt), we are of the opinion that it is a good thing if such indicators can be derived almost directly from the financial statements. This is why we would suggest to the Boards that they expressly authorize the presentation of subtotals within the financial statements when this is relevant. We believe this is a logical consequence of the management approach.
Question 7

Paragraphs 2.27, 2.76 and 2.77 discuss classification of assets and liabilities by entities that have more than one reportable segment for segment reporting purposes. Should those entities classify assets and liabilities (and related changes) at the reportable segment level as proposed instead of at the entity level? Please explain.

We agree with the Boards on the fact that an entity having more than one reportable segment should classify assets and liabilities (and their related changes) at the reportable segment level instead of the entity level. This principle is all the more relevant as some groups may be engaged in various activities having no link with each other (in case for instance of conglomerates) or some groups may have industrial or service activities on one side, and financial activities on the other side (such as car manufacturers with financing activities).

Question 8

The proposed presentation model introduces sections and categories in the statements of financial position, comprehensive income and cash flows. As discussed in paragraph 1.21(c), the boards will need to consider making consequential amendments to existing segment disclosure requirements as a result of the proposed classification scheme. For example, the boards may need to clarify which assets should be disclosed by segment: only total assets as required today or assets for each section or category within a section. What, if any, changes in segment disclosures should the boards consider to make segment information more useful in light of the proposed presentation model? Please explain.

We believe it is crucial to give more importance to IFRS 8 stability, given its recent effective date of application (1 January 2009) than to a consequential amendment which is not, in our opinion, obviously justified. Too many changes brought to a new standard would probably be difficult to understand and to implement.

Question 9

Are the business section and the operating and investing categories within that section defined appropriately (see paragraphs 2.31–2.33 and 2.63–2.67)? Why or why not?

We agree with the definition of the business section. However, we have a few concerns relating to the operating and investing categories.

While we find the distinction between operating and investing categories of conceptual interest, we think that if the Boards' intention is indeed to make a distinction between core and non-core business (as we understand it), we would like the Boards to define more precisely these notions. Thus, would it be possible to classify as investing assets and liabilities a non-core activity? Or is this category designed in order to present only separate assets and liabilities (for instance, an investment in a non-strategic entity)? If this last interpretation of what should be presented within the investing category is the right one, we wonder why a specific category is needed. Instead, these assets and liabilities might be presented separately within the business section, without needing two further categories (operating and investing).
Last but not least, we find the label “investing” misleading, since the term is already commonly used in order to cover a truly different notion. In this respect, we believe the investing notion, as it is referred to in IAS 7 on the statement of cash flows (i.e. the acquisition and disposal of long-term assets and other investments not included in cash equivalents) should be maintained. It is very useful information in terms of how an entity manages its capital expenditures.

Question 10

Are the financing section and the financing assets and financing liabilities categories within that section defined appropriately (see paragraphs 2.34 and 2.56–2.62)? Should the financing section be restricted to financial assets and financial liabilities as defined in IFRSs and US GAAP as proposed? Why or why not?

On the principle, we agree with the idea of a financing section. However, we are of the opinion that it is very difficult to define such a section. Either the Boards retain an approach based on how financial analysts would use the information contained within the financing section, or how it would be used when it comes to evaluate a company – thus only financial assets and financial liabilities should be presented within the financing section – or the Boards consider a less restrictive definition of the financing section, considering that other means of financing may be used by companies.

For instance, with the current proposed definition, trade accounts would presumably be excluded from the financing section, whereas they may be used as a source of financing by some entities. Actually, applying the cohesiveness objective (with the classification of assets and liabilities in the statement of financial position determining the classification of changes in those assets and liabilities in the statement of comprehensive income and cash flows) implies that an entity classify its trade accounts within the operating section so that the associated revenues can be also presented within the operating section of the statement of comprehensive income. When credit facilities are granted to customers, we believe the question can be asked as whether this rendering of service is incidental or whether it constitutes a different thing (i.e. which should have its own classification).

Chapter 3: Implications of the objectives and principles for each financial statement

Question 11

Paragraph 3.2 proposes that an entity should present a classified statement of financial position (short-term and long-term subcategories for assets and liabilities) except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant.

(a) What types of entities would you expect not to present a classified statement of financial position? Why?
First of all, we would prefer that the IASB maintain the current distinction between current and non-current assets and liabilities rather than introduce a short-term, long-term distinction. Actually, we believe a distinction based on the length of the operating cycle is far more relevant than a distinction based on the contractual maturity or the expected date of realisation or settlement.

We refute the argument presented in paragraph 3.8 of the Discussion Paper consisting in saying that a one-year distinction is simpler and easier to understand than a distinction based on an entity’s operating cycle. In our opinion, an entity’s activities will not be easier to understand because of the classification into the short-term and long-term subcategories in the statement of financial position.

Eventually, we see practical difficulties in applying such classification in case of long-term contracts or activities. Distinguishing the short-term assets and liabilities from the long-term assets and liabilities may not always be possible in such cases.

Having said that, we think that a presentation based on liquidity will probably be retained by financial institutions and insurance companies, as it is already the case today.

(b) Should there be more guidance for distinguishing which entities should present a statement of financial position in order of liquidity? If so, what additional guidance is needed?

We believe there is no need for additional guidance regarding which entities should present a statement of financial position in order of liquidity.

Question 12

Paragraph 3.14 proposes that cash equivalents should be presented and classified in a manner similar to other short-term investments, not as part of cash. Do you agree? Why or why not?

Presenting and classifying cash equivalents in a manner similar to other short-term investments means that the notion of cash equivalents as it is currently defined in IAS 7 would disappear. This also implies that an entity would no longer reconcile its cash and cash equivalents at the beginning and at the end of the reporting period. Thus, we question whether the reconciliation of cash only would be useful information for users of financial statements since the level of cash is not an aggregate which is regularly reviewed by users. Furthermore, we note that normally an entity tries to limit the amount of idle cash.

Having in mind further debates on what should be reconciled at the beginning and at the end of the reporting period, we tend to agree with those who consider that relevant information would be to reconcile net debt because users keep a close eye on this aggregate. Regarding this demand for net debt reconciliation, we note that this is a subject (among others) that is currently being addressed by the staff as part of its researching and discussing work on issues that the Discussion Paper does not address but that the exposure draft will need to address (we refer to paragraph 26 of Agenda paper 4 on Field Test and Project Plan presented as information to observers in the frame of the IASB/FASB meeting held in March 2009).
We welcome what seems to be a change of orientation on a crucial subject for preparers and users of financial statements. However, in case the net debt reconciliation is finally retained, the Boards should precise that high-risk investments should thus be excluded from the calculation, which is not necessarily the case today.

**Question 13**

Paragraph 3.19 proposes that an entity should present its similar assets and liabilities that are measured on different bases on separate lines in the statement of financial position. Would this disaggregation provide information that is more decision-useful than a presentation that permits line items to include similar assets and liabilities measured on different bases? Why or why not?

We note that the current version of IAS 1 already states that “The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that an entity presents them as separate line items. For example, different classes of property, plant and equipment can be carried at cost or at revalued amounts in accordance with IAS 16” (paragraph 59). We agree with this principle and thus agree with the proposal of paragraph 3.19 in the Discussion Paper which consists in requiring that such separate presentation always be made.

**Question 14**

Should an entity present comprehensive income and its components in a single statement of comprehensive income as proposed (see paragraphs 3.24–3.33)? Why or why not? If not, how should they be presented?

First, we would like to refer to the answer we made to the exposure draft relating to Phase A of the Financial Statement Presentation project in July 2006, relating to question 5 (“Do you agree that entities should be permitted to present components of recognised income and expense either in a single statement or in two statements?”):”

“As indicated previously, we strongly disagree with the deletion of the income statement. The income statement must be presented separately from the new statement “other comprehensive income” which includes the movements resulting from non-owner changes in equity.

The criteria for recognising the income and expense must be re-examined in order to determine if all components of the new statement of recognised income and expense have indeed the same nature as the components recognised in the income statement. Indeed, the fact that these components are recognised in equity and not in the income statement underlines that their nature is different from the income and expenses recognised in the income statement.
At this stage of the analysis, and while waiting the completion of the work in progress relating to the conceptual framework and of those relating to performance reporting, movements resulting from non-owner changes in equity disclosed as other recognised income and expense items cannot in our opinion be regarded as part of performance and included in its measure.”

We note that the Discussion Paper issued in phase B goes much further than the exposure draft issued in phase A, despite very negative comments received by the Boards on this subject. And yet, the Boards have not, in the meantime, considered whether items presented within other comprehensive income do contribute to an entity’s performance. In our opinion, it is necessary to think about the relevance of accounting in the same way for items having very different justifications. The other comprehensive income section is often seen as a “black box” which includes items dealing with very specific / complex issues resulting from the application of other standards.

We are of the opinion that some items that are currently presented within the other comprehensive income could be regarded as contributing to an entity’s performance, that is:

- A gain or loss arising from a change in the fair value of an available-for-sale financial asset (in application of IAS 39): practical difficulties often arise when an entity has to identify whether there is objective evidence that the asset is impaired - this impairment leading to the reclassification of the cumulative loss that had been recognised in other comprehensive income from equity to net income. It is sometimes hard to assess whether a decline in fair value is symptomatic of impairment. Thus, the border line between an accounting within other comprehensive income or within profit or loss is sometimes thin.

- The actuarial gains and losses for defined benefit plans (in application of IAS 19): an entity is required to recognise actuarial gains and losses using one of the three following methods:
  - recognition, as a minimum, of a specified portion of the actuarial gains and losses that fall outside a “corridor” of plus or minus 10%; or
  - use a systematic method of faster recognition:
    - immediate recognition of all actuarial gains and losses in profit or loss; or
    - immediate recognition of all actuarial gains and losses in the period in which they occur in other comprehensive income.

In our opinion, having these three different accounting methods shows that actuarial gains and losses do form part of an entity’s performance since they can be accounted for either in other comprehensive income or in net income.
On the contrary, other items (which are also accounted for within the other comprehensive section) have nothing to do with performance. Presenting the following items within the other comprehensive section is just a convention, since the Boards have not yet found a better way to present these items within the financial statements:

- The portion of a gain or loss on a hedging instrument that is determined to be an effective hedge in case of a cash flow hedge (in application of IAS 39): this amount shall be reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the asset acquired or liability assumed affects profit or loss. Since cash flow hedge is meant to hedge a future risk relating to, in some cases, a forecast transaction (i.e. having no accounting effect at inception of the hedge), we believe the gains or losses recognised on hedging instruments can not be regarded as contributing to an entity’s performance when they are presented in other comprehensive income.

- Exchange differences (principally in application of IAS 21): when translating the results and financial position of a foreign operation into a presentation currency, the entity is required to recognise foreign exchange differences in other comprehensive income until it disposes of the foreign operation. As it is stated in BC 13 of IFRIC 16, “The presentation currency will have no economic effect on the parent entity. Indeed, a parent entity may choose to present financial statements in more than one presentation currency, but can have only one functional currency. (...) An economic exchange rate risk arises only from an exposure between two or more functional currencies, not from a presentation currency.” In our opinion, this statement argues in favour of excluding such exchange differences from a statement meant to report an entity’s performance.

**Question 15**

Paragraph 3.25 proposes that an entity should indicate the category to which items of other comprehensive income relate (except some foreign currency translation adjustments) (see paragraphs 3.37–3.41). Would that information be decision-useful? Why or why not?

We agree with the fact that an entity cannot indicate the category to which foreign currency translation adjustments relate. Besides, the information would not be decision-useful.

As regards other comprehensive income items, we believe this will most of the time be easy to do. We also think that this kind of information may be interesting to have and may help analysts anticipate future cash-flows.
Question 16

Paragraphs 3.42–3.48 propose that an entity should further disaggregate within each section and category in the statement of comprehensive income its revenues, expenses, gains and losses by their function, by their nature, or both if doing so will enhance the usefulness of the information in predicting the entity’s future cash flows. Would this level of disaggregation provide information that is decision-useful to users in their capacity as capital providers? Why or why not?

Before answering this question, we note that the current version of IAS 1 gives the choice to an entity to present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant. Thus, IAS 1 is neutral as regards disaggregating income and expense items and leaves it to an entity’s management to decide which presentation is most appropriate considering an entity’s activities.

As the Boards, in their discussion of this issue, concluded that their preliminary view would not result in a major change in practice for entities using IFRSs even though this view seems now to favour a disaggregation by function, we could agree with the suggested level of disaggregation if the Boards clarify (and confirms in the Exposure Draft) that the final choice lies in the hands of the management in order to reflect the way the entity is managed.

Question 17

Paragraph 3.55 proposes that an entity should allocate and present income taxes within the statement of comprehensive income in accordance with existing requirements (see paragraphs 3.56–3.62). To which sections and categories, if any, should an entity allocate income taxes in order to provide information that is decision-useful to users? Please explain.

We are of the opinion that an entity should not be required to allocate income taxes to the business or financing section (or to categories within those sections) because it would not be relevant in all cases to do so. Thus, we agree with the proposal that an entity should be able to allocate and present income taxes within the statement of comprehensive income in accordance with existing requirements. However, if an entity demonstrates that it can properly allocate income taxes to the business or financing section (or to categories within those sections), it should be entitled to do so if income taxes are reviewed this way by tax management within the group. This would be consistent with the idea of a “management approach” ruling the presentation of an entity’s financial statements.

Besides, we note that allocating income taxes – this resulting in presenting income tax expense or benefit in the discontinued operations and other comprehensive income sections in addition to the income tax section – is quite difficult to do in practice with existing requirements as regards allocation of tax to components of profit or loss or equity. In this respect, we refer to the joint IASB / FASB project regarding income taxes which will propose a method for allocating income taxes in accordance with existing requirements. In the light of the comments received on this project, the Boards might want to reconsider this issue.
Question 18

Paragraph 3.63 proposes that an entity should present foreign currency transaction gains and losses, including the components of any net gain or loss arising on remeasurement into its functional currency, in the same section and category as the assets and liabilities that gave rise to the gains or losses.

(a) Would this provide decision-useful information to users in their capacity as capital providers? Please explain why or why not and discuss any alternative methods of presenting this information.

The Discussion Paper proposes that foreign currency transaction gains and losses that are included in net income be presented in the statement of comprehensive income in the same section and category as the assets and liabilities that gave rise to the gains and losses. Foreign currency transaction gains and losses may arise out of two different situations in application of IAS 21:

- On remeasurement of transactions denominated in a foreign currency.
- On remeasurement of foreign currency financial statements into the entity’s functional currency when the functional currency is different from the local currency that is used by the entity.

As regards the first situation, we agree with the Boards that presenting such foreign currency gains and losses in the same section and category as the assets and liabilities that gave rise to the gains or losses would be decision-useful information. Actually, presenting within the financial income (as it is defined today) an aggregated amount resulting from all foreign currency transactions, as it is sometimes made today, makes no sense. In reference to the cohesiveness principle, it seems relevant to present, for instance, foreign currency transaction gains and losses resulting from the remeasurement of commercial receivables denominated in a foreign currency and classified within the operating section in the statement of financial position, within the operating section of the statement of comprehensive income. Nonetheless, we would like to point out that the foreign exchange risk is often managed centrally, not by the operational key people, while assets and liabilities are required under this Discussion Paper to be classified at reportable segment level.

As regards the second situation, we note that the Boards are aware that, in some circumstances, determining the components of the net foreign currency transaction gain or loss on remeasurement of foreign currency financial statements, to facilitate classification in the appropriate sections or categories in the statement of comprehensive income, may be more difficult that simply including the gain or loss on an individual item denominated in a foreign currency in the same category as the asset or liability that gave rise to it (paragraph 3.68 of the Discussion Paper). For this very reason, we disagree with the Boards’ proposal to present the components of any net gain or loss arising on remeasurement into an entity’s functional currency in the same section and category as the assets and liabilities that gave rise to the gains or losses. This allocation would probably be arbitrary and thus would not provide decision-useful information. We would suggest that this amount be rather presented within the operating category of the statement of comprehensive income.
Besides we are of the opinion that translation gains and losses resulting from translating an entity’s functional currency financial statements into the reporting currency, which are included in other comprehensive income, should not be allocated in the same section and category as the assets and liabilities that gave rise to the gains and losses.

(b) *What costs should the boards consider related to presenting the components of net foreign currency transaction gains or losses for presentation in different sections and categories?*

See above.

**Question 19**

*Paragraph 3.75 proposes that an entity should use a direct method of presenting cash flows in the statement of cash flows.*

(a) *Would a direct method of presenting operating cash flows provide information that is decision-useful?*

We strongly disagree with the proposal consisting in eliminating from IAS 7 the possibility of using the indirect method for the presentation of cash flows in the statement of cash flows. We note that almost all preparers use this latter method rather than the direct method. This is because the direct method, which may seem simpler to implement, is indeed very complex. Besides, imposing that an entity should use the direct method only would result in presenting cash flows in a format that admittedly would be compliant with new IFRS requirements, but which would no longer be used as a primary financial statement providing useful information. As the Boards have admitted it in paragraph 3.79, the principal advantage of an indirect method of presenting operating cash flows is that it reconciles net income to net operating cash flows, and many users have asked for that type of reconciling information.

(b) *Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method? Why or why not?*

We are not convinced by the arguments presented in paragraph 3.78 of the Discussion Paper according to which the direct method is more consistent with the proposed cohesiveness and disaggregation objectives than an indirect method. On this subject, we believe the Boards should consider this issue from the only reasonable starting point, which is how to make the indirect method consistent with the proposed cohesiveness and disaggregation objectives. We encourage the Boards to think about some proposals in this respect.

We have identified another major issue resulting from the application “at all costs” of the cohesiveness and the disaggregation objectives which is that the investing activities, in the sense of the current version of IAS 7, will no longer be reflected within the statement of cash flows without additional work to identify capital expenditures. Thus key information currently used would simply disappear from the face of the statement of cash flows.
Eventually, we point out that reconciling cash only is not of most interest compared with reconciling net debt.

(c) Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?

As we see it, the proposed reconciliation schedule is aimed at filling the gap that would be left by the use of the direct method versus the indirect method. In our opinion, this proves that the information provided using the indirect method to present operating cash flows is the most decision-useful information and that it is self-sufficient contrary to the information provided using the direct method.

Question 20

What costs should the boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81–3.83)? Please distinguish between one-off or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?

As mentioned above, we disagree with the proposal consisting in making mandatory the use of the direct method to present operating cash flows since the information related to cash transactions is not currently available and can not be treated reliably with the existing information systems. We leave it to the preparers to list their estimated costs associated with what seems to be a potential major change of their information systems. Besides, once the information related to cash transactions is obtained, we are not even sure that it could be reliable one day, thus creating an issue for the auditors.

Question 21

On the basis of the discussion in paragraphs 3.88–3.95, should the effects of basket transactions be allocated to the related sections and categories in the statement of comprehensive income and the statement of cash flows to achieve cohesiveness? If not, in which section or category should those effects be presented?

We are of the opinion that cohesiveness should be achieved only for usual transactions whereas basket transactions, such as business combinations, are infrequent transactions that require a specific presentation to make sure the users of financial statements identify their impact right away. For instance, we consider that the acquisition of a subsidiary is one transaction, while including its activities in the consolidated financial statements is another one. Thus, the current presentation of acquisition of subsidiaries, associates and investments, net of cash acquired, within the statement of cash flows is very useful information to know how much cash has been paid to acquire which company. In our opinion, these situations justify that the cohesiveness objective be convoluted in order to maintain the relevance of financial statements.
Accordingly, the effects of basket transactions should not be allocated to the related sections and categories in the statement of comprehensive income and in the statement of cash flows. As said before, information relating to the cash effects of investments (or disposals) should be presented in the investing section as we understand it today. Considering the three different proposals made by the Boards in case the effects of basket transactions were not to be allocated, we would prefer alternative B according to which the effects of basket transactions should be presented in the category that reflects the activity that was the predominant source of those effects.

Chapter 4: Notes to financial statements

Question 22

Should an entity that presents assets and liabilities in order of liquidity in its statement of financial position disclose information about the maturities of its short-term contractual assets and liabilities in the notes to financial statements as proposed in paragraph 4.7? Should all entities present this information? Why or why not?

We disagree with this proposal since an entity presents assets and liabilities in order of liquidity in its statement of financial position when this information is more relevant than a classification into short-term and long-term subcategories of the operating, investing and financing liabilities categories (see paragraph 3.2 of the Discussion Paper). Thus we find this proposal in contradiction with allowing two different presentations on the face of the statement of financial position depending on which information is more relevant. The notes are not meant to disclose information that is not useful. Besides, the short-term / long-term distinction enables to assess neither an entity’s solvency nor the amount of future cash flows. Eventually, we believe that the information required in application of IFRS 7 is much more relevant and sufficient in itself (we refer to paragraph 39 regarding liquidity risk which requires that an entity disclose a maturity analysis for financial liabilities that shows the remaining contractual maturities).

Question 23

Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components: (a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments.

(a) Would the proposed reconciliation schedule increase users’ understanding of the amount, timing and uncertainty of an entity’s future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.
Even if the concept underlying this proposal may seem appealing to some, we refuse the idea of presenting such reconciliation schedule in the notes to financial statements. As we said before, we strongly disagree with the proposal consisting in eliminating the indirect method of presenting the operating cash flows. Since the reconciliation schedule reconciles cash flows as they are presented using the direct method to comprehensive income, we can not support this additional proposal. Besides, we would like to comment on the following concerns we also have:

- Even if the Discussion Paper does not address which information should be disclosed in the notes, a reconciliation schedule will never replace the quantitative and qualitative information already included in the notes. With such a proposal, we fear that both relevant quantitative and qualitative information be removed from the notes because of the presentation of a mandatory “summary statement”.

- It is not demonstrated that this schedule provides new information compared with what is already disclosed in the notes in application of existing IFRSs. However, the additional cost for preparers to establish such a schedule seems huge.

- The reconciliation schedule should not serve proving that the cohesiveness objective was reached. Furthermore, financial statements are not meant to give an audit track to users.

- The reliability of the information presented in the reconciliation schedule should be tested while conducting field tests in order to ensure that no practical hurdles are identified.

(b) Should changes in assets and liabilities be disaggregated into the components described in paragraph 4.19? Please explain your rationale for any component you would either add or omit.

In case the Boards decide nonetheless to go on with the idea of a new reconciliation schedule, we would suggest that the reconciliation be made only on certain key items. Thus, in its current form, the reconciliation schedule is far too detailed to be useful and reliable.

(c) Is the guidance provided in paragraphs 4.31, 4.41 and 4.44–4.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.

We leave it to the preparers to assess whether the Discussion Paper comprises sufficient guidance as regards the preparation of the reconciliation schedule. As auditors, we fear that such schedule might not be reliable and that it might entail major audit risk.
Question 24

Should the boards address further disaggregation of changes in fair value in a future project (see paragraphs 4.42 and 4.43)? Why or why not?

As said before, the reconciliation schedule already comprises too much detailed information. Thus, further disaggregation of changes in fair value should probably not be addressed by the Boards in a future project.

Besides, this proposal refers to a larger debate on fair value measurement:

- Either fair value measurement is the right measurement method; in this case, we believe it is not necessary to try to identify the effect of such measurement on an entity's performance. Besides, existing standards require disclosing sufficient information.

- Or it is not the right measurement method for some or all items; in this case, the debate should not be limited to this proposal. In this respect, the comments received as part of the fair value measurement project should be considered by the Boards in order to assess their impact on financial statement presentation.

Question 25

Should the boards consider other alternative reconciliation formats for disaggregating information in the financial statements, such as the statement of financial position reconciliation and the statement of comprehensive income matrix described in Appendix B, paragraphs B10-B22? For example, should entities that primarily manage assets and liabilities rather than cash flows (for example, entities in the financial services industries) be required to use the statement of financial position reconciliation format rather than the proposed format that reconciles cash flows to comprehensive income? Why or why not?

The alternative reconciliation formats presented in the Discussion Paper for disaggregating information in the financial statements are (a) a statement of financial position reconciliation (paragraphs B11 to B13) and (b) a statement of comprehensive income matrix (paragraphs B14 to B16). None of these alternative reconciliation formats is satisfactory in our view since we are against the idea of requiring a reconciliation schedule to be presented in the notes, whichever format it may have. In all cases, we believe the information provided in such schedules will not improve the disclosures in the notes given the high quality requirements that already exist with current applicable standards.
Question 26

The FASB's preliminary view is that a memo column in the reconciliation schedule could provide a way for management to draw users' attention to unusual or infrequent events or transactions that are often presented as special items in earnings reports (see paragraphs 4.48-4.52). As noted in paragraph 4.53, the IASB is not supportive of including information in the reconciliation schedule about unusual or infrequent events or transactions.

(a) Would this information be decision-useful to users in their capacity as capital providers? Why or why not?

As we understand it, the IASB's position as regards the non-presentation of specific information about unusual or infrequent events or transactions in a memo column in the reconciliation schedule is consistent with the fact that the current version of IAS 1 prohibits the presentation of items of income and expense as "extraordinary items". However, we note that the effects of unusual or infrequent events or transactions are, one way or another, presented separately from recurring performance, often by using the line "other income and expense" within the profit or loss from continuing operations before tax and net finance costs. This is because such effects have to be isolated to improve the predictability of future cash flows. Besides, this presentation answers users' need of isolating non-recurring items. Without such information, it would be for instance impossible to determine the amount of normative EBITDA. Thus, we agree with a proposal consisting in better supervising a practice that already exists. If the reconciliation schedule is not required eventually, we ask the Boards to make another proposal on how such information should be presented in the primary financial statements.

(b) APB Opinion No. 30 Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, contains definitions of unusual and infrequent (repeated in paragraph 4.51). Are those definitions too restrictive? If so, what type of restrictions, if any, should be placed on information presented in this column?

We are not opposed to using the definitions included in APB Opinion No. 30 as regards unusual or infrequent events or transactions. However, we are of the opinion that the identification of such items could also be left to management's judgement in case the identification process is precisely described in the notes relating to accounting methods.

(c) Should an entity have the option of presenting the information in narrative format only?

No, an entity should not have the option of presenting the information in narrative format only. To ensure comparability among entities, a specific section of the primary financial statements should be dedicated to disclosing unusual or infrequent events or transactions.