la SOCIÉTÉ FRANÇAISE
des ANALYSTES FINANCIERS

November 25th 2015

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

ED Conceptual Framework for Financial Reporting.

Comments by the French Society of Financial Analysts (SFAF) Financial Analysis and Accounting Commission

Dear Sir,

The French Society of Financial Analysts, SFAF (Société Française des Analystes Financiers) is pleased to submit its contribution as part of the consultation undertaken by the International Accounting Standards Board (IASB) on the Exposure Draft on Conceptual Framework for Financial Reporting.

SFAF represents more than 1,600 members in France and is itself a member of the European Federation of Financial Analysts Societies (EFFAS) which comprises 29 member organizations representing more than 16,000 investments professionals. Its Accounting and Financial Analysis Commission intends to represent analysts and fund managers in the debate on accounting standards. Financial analysts are among the principal users of corporate financial statements and therefore wish to express their opinion on the implementation of new or revised accountings standards.

For this reason, our Society, through its Accounting and Financial Analysis Commission, is keen to respond to your consultation on the Conceptual Framework for Financial Reporting.

Preliminary points

We fully agree with the unchanged paragraph 1.2 defining users as existing and potential capital providers (equity and debt) and paragraph 1.3 linking financial reporting with the management's stewardship of the entity's resources.

Even though the point is not covered specifically in the exposure draft, we would like to stress that most users of consolidated financial statements have a parent company approach, i.e. are concerned by the net interest (including debt) of the parent company in its consolidated subsidiaries. This has some important consequences, as demonstrated by the very contra-intuitive effects of non-controlling interests in IFRS 3, resulting from the current entity approach. Most users believe that controlling interest and non-controlling interest are different in nature.
We are thus pleased when reading paragraph 3.24 implying that investors and lenders in a subsidiary should get information through the consolidated accounts of subsidiary, and not through the parent (consolidating) consolidated accounts. This simple statement (reflecting the

real life of users) acknowledges how far away we are form the entity approach, and we expect that it will mean that the forthcoming accounting standards will be closer to the parent company approach.

We also would like to stress that for all users of financial information (except when they deal with holdings or investment companies) the starting point, in real life, is revenues and costs, and certainly not assets and liabilities. To give a practical illustration of that, just think how business modelling is done in real life: starting with the income statement, then the cash-flow, and lastly, the balance-sheet. While most analysts would not oppose to defining assets as a starting of the conceptual framework (simply because they never read a conceptual framework), it is quite the opposite of their everyday life. We are, nevertheless, reassured by the statement that “the statement of profit and loss is the primary source of information about an entity financial performance for the period” (paragraph 7.23).

Finally, we are pleased that the Exposure Draft reiterates that Comparability is one of the main qualitative characteristics of useful financial information. Most of users we spoke with consider indeed that it is one of the main criteria financial statements must comply with. We understand that Comparability has been such a characteristic for a very long time. Unfortunately some of the current standards that should have been elaborated according to this characteristic and are used to assess the companies performance are sometimes of little help in this respect (e.g. IFRS 8, and also IAS1 or to some extent IAS 7), in particular since many of the items that are of common use are not well if not at all defined thus leaving a lot of variations between issuers and frustrations among users.

Definition of OCI

Beyond these preliminary points, we believe that for users of financial statements the main point of interest of the conceptual framework, because of its practical consequences, is the definition of OCI.

Many of us have been part of the debate over Net income/OCI/CI debate during the last decade in various places (including in Joint International Group on Performance Reporting, later re-christened, Financial Statement Presentation, working for the FASB and the IASB), with a lot of concepts, but no realistic approach/conclusion. SFAF Accounting Commission wrote several comment letters on this matter during this period.

As a starting point, we fully agree with the view that profit or loss is the primary source of information on financial performance, i.e. that the net profit, in spite of its (widely known) limitations, is the starting point. We have never seen any users using comprehensive income as a starting point to assess the performance of a group: net profit has been this starting point for years. The fact that comprehensive income has not been used, in spite of being reported by all European groups for many years, is a simple proof of this reality. This is fully consistent with some polls done by SFAF among its members a few years ago[1] and by various studies and outreach events organised by both the FASB and the IASB. We thus believe that this pre-eminence of net profit over comprehensive income is one the most widely accepted reality among users all around the globe.

Secondly, we are extremely pleased to see that the Board recognizes, after years of debate and research, that there is no single solid concept to justify the existence of all Other Comprehensive Income items. And that the Board also recognises that OCI items are now defined by incomes / expenses that one reasonable user would not accept to be included in the reporting of performance for a period. In this case, such an item should be treated as an OCI, in a specific

[1] 86% of respondents to a poll organized by SFAF considered that the net income (and not the comprehensive income) was the starting point of any financial analysis - SFAF Press Release 7th April 2010 - « Actualité comptable, le point de vue des utilisateurs de l’information financière »
http://www.sfaf.com/images/home/pdf/Actualite_comptable_le_point_de_vue_des_utilisateurs_information_financiere.pdf

standard. This acknowledgement is a very pragmatic approach and is very close to the way users look at OCIs items: items that may useful to understand the financial situation, or to help us making a valuation, but certainly not something that should be included in the net profit, our favourite starting point to assess performance. We consider however that OCI items should be limited.

Thirdly, we have doubts about the rule stating that all OCI items have to recycled. We feel in particular that it could have some unexpected / unwanted consequences: should, thus, actuarial gains or losses on pensions be considered as part of net income? We strongly believe that most users will be very uncomfortable with such a choice.

As a more general comment on this difficult subject, we would like to congratulate the IASB as the proposed approach is not rocket science (pure concepts) and recognized the pre-eminence of providing practical and relevant information to users. We thus disagree with two dissenting opinions stating that we need a concept based approach in this case.

Concept of prudence

The exposure draft is introducing the concept of prudence in the conceptual framework. As it is presented in the exposure draft, we haven't a clear understanding of the outcomes of this concept and even would consider it has no clear practical consequence.

The role of Financial Statements

We are rather surprised that paragraph 3.6 doesn't make any reference to the statement of cash flow as being part of the financial statements. Such a statement is of primary importance for users and we recommend IASB to include this reference in the Conceptual Framework. Moreover, the cash flow statements has a clear advantage, i.e. its final line (cash and cash equivalent) is one of the less disputed one in the financial statements and is considered as one of the most reliable.

We are also in favour of an improvement of IAS 1 and IAS 7 to better capture the performance of the companies and help assessing cash flows and therefore respond to the needs of users.

We thank you for the opportunity given to us to provide our view on such important aspects of financial reporting and remain available for any further information.

Yours faithfully,

Jacques de Greling
Co-Chairman of Accounting and
Financial Analysis Commission
jdegreling@sfaf.com

Bertrand Allard
Co-Chairman of Accounting and
Financial Analysis Commission
ballard@sfaf.com

SFAF – Société Française des Analystes Financiers
24, rue de Penthièvre 75008 PARIS
France
Tél : +33 (0) 1 56 43 43 10
www.sfaf.com