

JOINT OUTREACH EVENT

BETTER COMMUNICATION

SUMMARY REPORT

PARIS

6 SEPTEMBER 2017

Introduction

EFRAG, together with the Autorité des Normes Comptables (the ANC) and the IASB, organised a joint outreach event in Paris on 6 September 2017 on better communication. This report has been prepared for the convenience of European constituents.

The joint outreach event was one of a series organised across Europe following the publication of IASB's Discussion Paper DP/2017/1 *Disclosure Initiative - Principles of Disclosure* (the 'IASB DP') and the IASB's ongoing research project on Primary Financial Statements.

The purpose of the outreach event was to:

- stimulate the debate in Europe;
- understand users' needs, in particular from those that did not intend to submit a comment letter to EFRAG or the IASB, and their main concerns;
- receive input from participants for EFRAG and the ANC comment letters to the IASB; and
- learn to what extent the preliminary comments as set out in EFRAG's draft comment letter are shared by users and other constituents that attended the meeting.

The event was chaired by M. Nicolas de Paillerets, member of the EFRAG TEG and of the ANC's French Accounting Standards Commission.

Françoise Florès, IASB member, participated in the event and presented the IASB current initiatives on Better Communication including the Primary Financial Statements and Principles of Disclosure projects.

Hocine Kebli (EFRAG Senior Technical Manager) presented EFRAG's preliminary views and the input received from similar outreach events held across Europe since June 2017.

About 30 people attended the event with a good mix of preparers, users, academics, regulators and accounting organisations

The event covered the following topics:

- What place should standardisation make for non-IFRS information?
- Is it possible and desirable for the IASB to define more performance measures?
- Is it possible and desirable to break down activity-based financial statements?
- Is digitalised reporting compatible with structured reporting?

Opening comments and presentations

Opening and welcome

Nicolas de Paillerets opened the outreach event and welcomed the participants. He highlighted the importance of the IASB work on Better Communication and how the feedback from the meeting would be used by EFRAG and the ANC in responding to the IASB's consultation.

For each of the discussed topics Cédric Tonnerre, Technical Director at the ANC, provided a short introduction. Françoise Florès provided an overview of the IASB's ongoing initiatives and Hocine Kebli provided a summary of the feedback received by EFRAG at previous events.

Discussion

Main comments received

Non-GAAP measures are useful and should not be restricted. However, guidance to discipline their use and achieve greater consistency and comparability would be useful.

What place should standardisation make for non-IFRS information?

The use of non-GAAP financial measures provides issuers with flexibility in communicating useful, entity-specific information. Non-GAAP financial measures provide additional insight into an issuer's financial performance, financial condition and/or cash flow.

However non-GAAP financial measures typically lack a standardised meaning and, even so, are generally not comparable from one issuer to the next. A recent survey among 50 European entities had provided evidence that the content and structure of financial statements of entities could vary significantly even within the same industry.

Problems arise, when non-GAAP financial measures are presented inconsistently, defined inadequately, or obscure financial results determined in accordance with GAAP. Users strives for guidance helping to understand how the information is generated and how it reconciles with IFRS measures. Some noticed that, depending on the industry, common practices of similar non-GAAP ratio are used. It was noted that the French securities regulator already required such disclosures for non-

GAAP measures presented in the Annual Report. The IASB should not try to restrict or regulate the use of non-IFRS information

Some participants observed that a related issue to consider was the incorporation by reference of IFRS information that is placed outside of the financial statements. Both presented challenges for the audit of the financial information and raised the question of the boundaries of the financial statements and their role in the global context of the whole information communicated by entities.

Those participants generally considered that cross-referencing should only be allowed between documents that are presented and at the same time on the same terms as the Financial Statements.

Is it possible and desirable for the IASB to define more performance measures?

Some participants, while appreciating the work done by the IASB, expressed doubts as to whether it would be possible for the IASB to define EBIT and EBITDA. Moreover, such metric is applicable only in certain industry (not in the financial one). The IASB should rather focus on:

Defining an EBIT measure may be useful but may be difficult to achieve. More granular information is needed across the financial statements

- developing principles and general guidelines that would help entities determine such metrics; and
- defining more line items for the statements of financial position and the statement of income and on providing guidance to better explain and reconcile non-IFRS information.

Some participants while agreeing that more granular information is needed in the definition of additional line items, considered that there could be merits in the IASB to providing principles to determine a commonly-used measure such as EBIT, even if the definition would not be a 'perfect' metric for all stakeholders. It would provide a more robust and comparable starting point for users to do their analyses.

Some participants considering that the option to present the statement of income either by nature or by function should be reconsidered as it was contributing to the lack of comparability. Presentation by nature was favoured by users because it allows a better linkage with the statement of cash-flows. The

widespread use of EBIDTA as a key metric, in particular in the US, provided evidence of that importance for users

Regarding the IASB's proposals on the Management Performance Measures (MPM), one participant observed that, based on a recent survey, entities seem to communicate a lot on measures that are presented within segment information which were not always IFRS measures and would not easily reconcile to MPM.

Lastly one participant considered that it was important to determine consistently non-IFRS information that is presented inside and outside financial statements, in particular when adjustments such as infrequently occurring items are made.

Is it possible and desirable to break down activity-based financial statements?

Reconciling the information contained in the statement of financial position, statement of income and statement of cash flows should be facilitated.

Participants were first reminded that the IASB had no ongoing comprehensive project on the presentation of financial statements by activities. The issue had arisen when trying to define the 'interest' component in determining EBIT. The IASB was looking for more consistency between the statement of income and the statement of cash flow but had no project regarding the presentation of the statement of financial position.

Participants expressed mixed views as to whether the financial statements should be presented by activity.

- Some participants assessed the greater informative value of cohesive financial statement presentation presented by activities noting that they facilitate the reconciliation of information across statements
- Some participants observed that the allocation of some types of revenue and expenses by activities would be largely arbitrary (for instance allocating finance income and expenses between investing and financing activities) and therefore would result in limited informative value. They observed that the IASB had already tried to work on a financial statements presentation project which was discontinued in 2010.

Some participants also noted that a breakdown between operating, investing and financing categories will not be suited for all industries and in particular for financial services. The IASB clarified that, at this stage of their discussions on the

Primary Financial Statements project the focus had been on industries other than financial services.

Participants generally concurred that it was not always easy to reconcile the information contained in the statement of financial position and in the statement of cash flows; in particular regarding the changes in indebtedness.

More granular information was needed to allow reconciliations and, as an example, to identify the cash and non-cash changes in assets and liabilities. In this respect, analysts are especially interested in more granularity in cash-flow statement and income statement.

Is digitalised reporting compatible with structured reporting?

Digitalised reporting does not remove the need for structured information.

Participants generally concurred that the implications of the increased use of technology on the presentation of financial statements and disclosures was an important matter that needed also to be further considered by the IASB.

Participants noted that digitalised reporting does not remove the need for structured information. Investors wanted structured quantitative data not always bound by the document the information is legally presented in, along with management's explanation of the results, which tends to be both quantitative and qualitative. It was also noted that less sophisticated users may also be less reliant on digitalised information

Digital reporting improves the searchability of information and allows to sift through data and crunch the numbers and allows a better linkage of the information across the financial statements. Data help screening and targeting entities prior to (and not in place of) further analysis. However, it was noted that it also creates a number of challenges regarding the role and boundaries of the financial statements and the perimeter of the audit that needed to be considered.

Participants also discussed the effects of the IFRS Taxonomy and the European Union's Single Electronic Reporting Format project.

Some participants questioned whether having a single electronic reporting format may not result ultimately in imposing a single format for the presentation of the financial statements.

It was noted that current IFRS Standards did not specify a format for financial statements and there was a risk that the templates developed in the context of the IFRS Taxonomy may limit the presentation options for preparers. One preparer stated that currently used electronic data are based on strictly detailed rules-defined statement and formats provided by regulators. Translating a full financial report may be more challenging.

The IASB reminded that the objective of the IFRS Taxonomy was to classify information presented and disclosed in IFRS Financial statements. XBRL is the language that labels companies' financial and other data with codes from standard lists (taxonomies) so that investors, auditors and analysts can more easily locate and analyse desired information. One participant noted that one limitation of the IFRS Taxonomy was that it was reducing the accounting object to its definition in IFRS Standards, losing then contextual information on the business and on the comprehensive activity of the entity. This translation/reduction process may not be neutral.

Conclusion - Closing remarks

Nicolas de Paillerets thanked the participants in this event for the valuable feedback, which will be considered by EFRAG in the drafting of its final comment letter and closed the meeting.