

## PRO-ACTIVE ACCOUNTING ACTIVITIES IN EUROPE (PAAinE)

### PERFORMANCE REPORTING A SUMMARY OF COMMENTS IN RESPONSE TO THE EUROPEAN DISCUSSION PAPER

APRIL 2010

The summary of comments received in response to the Discussion Paper Performance Reporting, which was issued in March 2009, has been prepared by the staff of EFRAG as part of Europe's PAAinE initiative.

The summary of comments is being issued by:

- EFRAG,
- the Danish standard-setter (Foreningen af Statsautoriserede Revisorer (FSR)),
- the French standard-setter (Autorité des Normes Comptable (ANC)),
- the German standard-setter (Deutsches Rechnungslegungs Standards Committee e.V. (GASB)),
- the Italian standard-setter (Organismo Italiano di Contabilità (OIC)),
- the Polish standard-setter (Komitet Standardów Rachunkowość (KSR)),
- the Spanish standard-setter (Instituto de Contabilidad y Auditoría de Cuentas (ICAC))
- the Swedish standard-setter (Rådet för finansiell rapportering (FSR)), and
- the UK standard-setter (Accounting Standards Board (ASB)).

Copies of the summary are available from the websites of those bodies issuing the document.

## **About the PAAinE**

EFRAG and the European National Standard Setters have agreed to pool some of their resources and work together more closely so that Europe as a whole can participate more effectively in the global accounting debate. It was agreed that this initiative should in the beginning concentrate on longterm pro-active work. The objective of the initiative is to stimulate debate on important items on the IASB agenda at an early stage in the standardsetting process before the IASB formally issues its proposals. The initiative has the joint ambitions of representing a European point of view and exercising greater influence on the standard-setting process. This initiative is known as the “Pro-active Accounting Activities in Europe” (or PAAinE) initiative.

Several projects have commenced under the PAAinE initiative, and the Discussion Paper *Performance Reporting* was the result of the PAAinE project that related to the joint IASB/FASB project on Financial Statement Presentation.

Work carried out under the PAAinE initiative can take a number of different forms and the full objectives of the initiative are:

- to stimulate, carry out and manage pro-active development activities designed to encourage the debate in Europe on accounting matters and to enhance the quality of the pro-active input to the IASB;
- to co-ordinate and resource monitoring work of IASB and FASB projects; and
- to try to ensure, as far as is practicable, that the messages Europe gives the IASB are consistent.

A further description of the pro-active work is available on EFRAG website ([www.efrag.org](http://www.efrag.org)).

## **Introduction**

- 1 In March 2009 EFRAG issued for public comment *Performance Reporting: A European Discussion Paper* (PAAinE DP).
- 2 This PAAinE DP followed an initial discussion paper issued in November 2006 *What (if anything) is wrong with the good old Income Statement?* The purpose of the PAAinE DP was to discuss some fundamental issues about the presentation of financial performance, including the following:
  - (a) definition of performance;
  - (b) key and bottom lines, including the notion of “net income”;
  - (c) recycling; and
  - (d) disaggregation models.
- 3 These issues relate to the Financial Statements Presentation project undertaken jointly by the IASB and the FASB; however they did not form part of the Discussion Paper *Preliminary Views on Financial Statements Presentation* issued in October 2008 (IASB DP). The ultimate objective of the work within the PAAinE Performance Reporting project is to develop the European views on these issues and to communicate them to the IASB, so they are considered in the Financial Statements Presentation project.
- 4 Written comments on this PAAinE DP were invited and sixteen comment letters were received. A list of respondents is set out in Appendix 1. An overview is included below.
- 5 Comments were received from:

|                    | <b>DK</b> | <b>FR</b> | <b>DE</b> | <b>IT</b> | <b>NL</b> | <b>PG</b> | <b>CH</b> | <b>UK</b> | <b>EU</b> | <b>Global</b> |
|--------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|---------------|
| Preparers          |           | 1         | 1         |           |           |           | 1         | 1         |           |               |
| Accounting firms   |           |           |           |           |           |           |           |           |           | 1             |
| Accountancy bodies |           |           |           |           |           |           |           | 2         | 1         |               |
| Standard-setters   | 1         | 1         | 1         |           | 1         | 1         |           | 1         |           |               |
| Others             |           |           |           | 1         |           |           |           |           | 1         |               |

- 6 The purpose of this note is to summarise those comments. The summary will be published on the websites of the issuers of the PAAinE DP and on the websites of some other European National Standard-Setters.

## **Overview and summary**

- 7 The objective of the PAAinE DP was to encourage debate within Europe on the key performance reporting issues, which were not fully addressed in the IASB DP, specifically:
- What is “performance”?
  - Is there a need to have key lines in the statement(s) of income and expense? If so, then what is its (or their) purpose and what should it (or they) represent?
  - Should the bottom line of a statement of income and expense be a key line?
  - Is recycling needed?
  - Which disaggregation system (or systems) have both merit and are capable of being implemented?
- 8 The PAAinE DP looked at how the term “performance” was used, what companies reported when the reported performance and whether users focused on particular performance numbers. It observed that, in fact, there was no agreement as to what performance represented at a detailed level; and that different users of financial statements had different approaches to what constituted “performance”. Empirical research suggested that companies used a range of different measures to explain their performance, and although most of the performance measures used had their merits, none exhibited much greater value relevance than others.
- 9 The PAAinE DP notes that performance is a complex, multi-faceted notion that cannot be encompassed in one or a few numbers. Nevertheless both preparers and users want some key performance reporting lines to convey headline numbers and to provide a starting point for analysis. It is therefore important that items of income, expense, gains and losses are disaggregated, grouped and aggregated in a way that ensures that the most useful key lines are presented. The paper notes that whether recycling is needed also depends on the aggregation/disaggregation model used. The final chapters of the paper discuss various disaggregation models.
- 10 Overall, the respondents supported the initiative to discuss these fundamental issues of reporting performance and found the analysis useful. For example, ANC in its comment letter noted the following:
- The paper provides useful analysis on the current state of play in the accounting framework, including inconsistencies in the determination and (non-)recycling of Other Comprehensive Income (OCI) items and the lack of definition of the notion of performance. Referring to academic conflicting views and to diverse ways of reporting performance, the discussion paper rightly highlights the fact that it addresses a controversial issue and that assessment of performance cannot be reduced to one figure. It appropriately notes that this requires the use of non-financial elements.*
- 11 Ten respondents were supportive of the overall direction proposed in the PAAinE DP, that is to focus the analysis on key performance reporting lines and on an appropriate disaggregation model rather than on trying to define the term

“performance”, although some had concerns or suggestions in respect of individual issues discussed in the paper. For example, ASB in its comment letter noted the following:

*We welcome that the DP (in chapters 3 and 4) has usefully focused the debate on the important performance reporting issues by setting aside some of the less important issues that were clouding the debate. For example, we strongly support the DP’s statements that:*

- performance is a complex, multi-faceted issue that cannot be encompassed in one or a few numbers;*
- key lines are very important for a variety of reasons, but whether these lines are the bottom line or somewhere else in the statement is not a major issue;*
- the debate over one or two statements is peripheral as long as key lines that meet user needs are reported.*

- 12 Six other respondents did not agree with the approach proposed in the PAAinE DP and suggested that the first step should focus on the notion of “performance” and on the content of performance statement(s). The following was noted in the comment letters:

*We do not agree that there is no generally agreed notion of what performance or, more precisely, financial performance represents. There are different views regarding the meaning of financial performance; in order to develop a consistent model of reporting on the economic situation of an entity, it is essential to agree on a broad view at least. In our opinion, the discussion in the first part of the paper is not of great value to the evaluation of the models presented later on. The development of and the debate on the different models does not follow from the discussion of what performance does or does not represent. We suggest that the next step of the debate should focus on the development of a general understanding of the notion of financial performance; this is absolutely vital for developing a consistent and stringent model for disaggregating income and expense. (GASB)*

*We also disagree with the direction taken in the paper. Instead of stimulating debate on how to best report performance, the paper induces the view that controversy about net income being a key performance indicator is useless and void of content. In the same manner, the whole issue of recycling is dealt with in quite a biased fashion. (ACTEO)*

*BUSINESSEUROPE believes there is a need for a measure of reporting performance and providing a conceptual definition of net income. We feel that an income statement based on balance sheet movements is not considered useful, particularly when the balance sheet includes items measured at amounts that are not an indicator of expected future cash flows. [...] The BUSINESSEUROPE approach would be to strip out the movements in the balance sheet that obscure the presentation of performance. (BUSINESSEUROPE)*

13 One respondent suggested that the paper would be more useful if it moved towards tentative conclusions. However, a number of others encouraged further work and analysis, in particular, in respect of the following:

- (a) Definition of performance and content of the performance statement(s).
- (b) Impact of business models on the notion of performance and disaggregation approaches.
- (c) Impact of the “management approach” to segment reporting on reporting performance.

14 The significant comments included the following:

- (a) **The main issue is not disaggregation but to define “performance” and determine the content of performance statement(s):** As mentioned above in paragraph 12, six respondents did not agree with the overall approach proposed in the PAAinE DP, which focused on defining key performance lines and on an appropriate disaggregation model. In their view, the next step of the debate should focus on the development of a general understanding of the notion of financial performance, because it is absolutely vital for developing a consistent and stringent model for disaggregating income and expense. For example, ANC in its comment letter noted the following:

*We are not convinced by these latest conclusions and we believe that the main issue is to determine what should be in or out of the performance statement, a question linked to the definition of incomes and expenses in the Conceptual Framework and objectives regarding representation of performance. Once performance is defined, the bottom line is as a consequence one of the most important key lines, as it will indicate the dividing line between elements assessing performance and elements that do not.*

- (b) **Align the work in this PAAinE project to that of the IASB within the *Financial Statements Presentation* project:** eight respondents indicated that it would be more fruitful if the work in this project had been aligned with the IASB’s discussion within the *Financial Statements Presentation* project. In particular, in considering the appropriate disaggregation model, they suggested to explore further the model, which the IASB proposed in its DP. For example, ACCA noted the following in its comment letter:

*ACCA welcomes EFRAG contributing to the debate on performance reporting, with this DP providing a sound analysis of the key issues in this area. However, we believe the work of EFRAG would be more fruitful were it more closely aligned to that of the IASB. While this DP was developed in parallel to the IASB’s discussion paper, *Preliminary views on financial statements presentation* (issued October 2008) which also looked into aspects of performance reporting, we believe it would have been more appropriate for this DP to have taken into account some of the suggested proposals in the IASB paper.*

- (c) **“Net income”, recycling and two performance statements – are significant changes really necessary?** Three respondents argued whether changes to the current way of reporting performance are really justified, in particular in respect of retaining “net income” line and the option to present non-owner changes in equity in two performance statements. For example, the following was noted in the comment letters:

*Although we recognise that current practice needs more guidance on Performance Reporting, we believe that significant changes in standards should only be made when they lead to clear and significant improvements. (DASB)*

*We also feel that it is worth highlighting the point that there is value in the current financial statement presentation whereby the concept is well understood by a variety of user groups and that the case for change has not been effectively made. (CPC)*

- (d) **Recycling is not a secondary issue:** five respondents disagreed that recycling is a secondary issue and argued that recycling on its own is an important element to consider in establishing what performance is. For example, FEE noted in its comment letter:

*Finally, we do not believe that recycling is a secondary issue. The issue of recycling is a direct consequence of the difference between the recognition / measurement criteria used in preparing the statement of financial position and those used in establishing performance. There may be valid reasons for those differences to continue to exist. The reasons that led to the development of the concept of recycling need to be analysed in order to determine whether it is really appropriate to do away with the concept.*

15 Responses to individual questions in the PAAinE DP are discussed in detail below.

### The existing performance reporting model

#### *PAAinE DP*

- 16 The PAAinE DP in Chapter 2 provided a summary of the existing performance reporting model as prescribed in current accounting standards (including how net income is segregated from other items of income and expense) and how those standards have developed.
- 17 Question 1: Do you think there is anything else in the development of existing standards (apart from that discussed in chapter 2 that should be taken into account when considering the way forward for performance reporting?)

18 In addition to the analysis presented in the PAAinE DP, the respondents suggested that the following is taken into account in considering the way forward for performance reporting:

- (a) IASB's proposals in the *Financial Statements Presentation* project, for example, a single statement of comprehensive income;
- (b) the definition of income and the related recognition criteria in the Framework, as well as the underlying thinking;
- (c) the current use of business models in some standards that determines recognition and measurement criteria and therefore the presentation of performance;
- (d) the consequences of the introduction of current values on the distinction between profit and loss and other comprehensive income;
- (e) the reasons for requiring recognition in or out of profit and loss or other comprehensive income;
- (f) an analysis of the consistency of the split between items recognised in profit and loss or other comprehensive income;
- (g) the relevance of the IFRS 8 "management approach" for performance reporting (i.e., whether the statement of comprehensive income should be consistent with the approach, or the focus should be on comparability with other entities);
- (h) an analysis of the existing presentation requirements (components of net income, OCI components, use of recycling) showing whether those requirements provide consistent and meaningful information content;
- (i) earnings per share (EPS), as they are viewed by many as an important performance indicator and while the IASB has switched focus from net income to comprehensive income, EPS has remained based on net income.

### **What is performance?**

*PAAinE DP*

- 19 The PAAinE DP in Chapter 3 noted that at the level at which standards are written, there is no generally agreed notion of what represents "performance" and that in fact performance is a complex, multi-faceted issue that cannot be encompassed in a single or even few numbers.
- 20 Question 2: Do you agree with the observation in this chapter that, at the level at which standards are written there is no generally agreed notion of what represents "performance" and that in fact performance is a complex, multi-faceted issue that cannot be encompassed in one or a few numbers? If you do not, please explain your reasoning.
- 21 Overall, the majority of respondents agreed with the observation in the PAAinE DP that at the level at which standards are written, there is no generally agreed notion of what represents "performance" and that in fact performance is a complex, multi-faceted issue that cannot be encompassed in a single or even few numbers.

- 22 One respondent suggested that the discussion within the development of the Framework and standards should be focused on the “entity performance” and “financial performance”. In addition, another respondent suggested that a comprehensive study of performance cannot be detached from discussions about “what is the definition of an entity?” and “who are the real users of financial statements?”.
- 23 As mentioned in paragraphs 12 and 14, six respondents disagreed with this conclusion in the PAAinE DP and with the overall direction of the paper.
- 24 In addition, although FSR did not disagree with the overall approach in the paper, it noted the following in its comment letter:

*We agree that there is no generally agreed notion of what represents performance and what is meant by the term. On the contrary, we suppose you may argue that stakeholders have their own ways of measuring performance for the purpose of their individual assessment of the enterprise’s performance. In this context, it is important to consider whether there is a generally agreed notion of the concept of performance of which all stakeholders are aware. It may be that there is a general need to supplement this with other indicators or sub-indicators of performance.*

- 25 Those respondents, who did not agree with the conclusion in the PAAinE DP in respect of the definition of performance, encouraged further analysis and work, especially considering the following:

- (a) **Identify criteria (principles) for what represents performance:** FEE noted the following in its comment letter:

*As noted in the DP, “performance is a complex, multifaceted issue that cannot be encompassed in one or a few numbers”. As such, we believe that it would be important that criteria (principles) are identified of what represents performance. This is a topic that is currently underdeveloped in IFRSs. We believe that this topic should be the subject of further analysis in order to ensure that the criteria retained are the most relevant.*

- (b) **Management strategies and objectives:** Nestle suggests the following in its comment letter:

*On the basis of the definition of the revised Framework, there should be a definition of performance that reflects profit and cash flow generation of an entity based on management’s strategies and objectives. The starting point of such performance should be based on net profit that reflects underlying sustainable earnings and should not include items ... related to change in value of assets and liabilities.*

- (c) **Content of income statement and OCI:** One respondent suggested in its comment letter that the definition of performance is closely related to the content of the income statement and OCI, and that the main issue is to determine what should be in or out the performance statement. The full quote of the related comment is included in paragraph 14(a) of this document.

## **Key lines, bottom lines and recycling**

*PAAinE DP*

- 26 As the PAAinE DP concludes that performance cannot be represented in a single number, it considers other ways of presenting it, including the necessity and importance of key line(s) and bottom line(s), the number of statements of income and expense that might be needed and the extent of recycling of items of income and expense between categories of statements that might be necessary.

*Key lines*

*PAAinE DP*

- 27 The PAAinE DP in Chapter 4 notes that the current performance reporting model is more reflective of a time when “net income” represented all (or nearly all) recognised income and expenses as essentially equivalent to “comprehensive income”. However, with the increasing complexity of business and increasing number of assets and liabilities, which are re-measured on a current basis, presentation of re-measurement differences has been an issue that has not been clearly, or consistently, dealt with in IFRS.
- 28 Although no single number (key line) can capture everything about a company's performance that a user will need, because of the complex and multi-faceted nature of company performance, there is still a need for key lines to provide a basis for communication to the market and as a starting point for users' analysis. Those key lines need to be relevant and understandable, but also need to strike an appropriate balance between standardisation of the key lines and allowing preparers to focus on what they view as the “headline” aspects of performance.
- 29 The PAAinE DP also discussed the following different approaches to comparability and flexibility:
- (a) key lines and their content are defined, no additional key lines are permitted;
  - (b) key lines and their content are defined, but additional key lines are permitted;
  - (c) key lines are defined, but preparers are allowed to determine their content;
  - (d) certain key lines are identified, but preparers are allowed to use other lines.
- 30 Question 3: Do you agree that key lines are still useful, though only because of their value as a basis for communication to the market and as a starting point for analysis and comparison? If you do not, please explain your reasoning.
- 31 Questions 4: Do you agree that, in order to fulfill this function, it is important that there are clear principles that underpin what is included and excluded from the key line(s) (in order to make their content understandable) and those principles need to be such that the content of a key line is standardised to a fair degree (in order to ensure the necessary comparability).

32 Question 5: This chapter discusses the need for standard setters to balance the competing demands of comparability and flexibility, in order to give users fairly consistent starting points for analysis, while allowing management to present income and expenses in a manner that reflects the particular circumstances of the entity. Has the range of approaches to flexibility and comparability given in the chapter been appropriately described? What do you believe would offer the best approach in practice?

33 All respondents, who addressed Question 3 in their comment letter, agreed that key lines are important and provide decision useful information.

34 For example, ASB noted in its comment letter:

*We also consider that whilst a key line cannot encompass all aspects of performance, it can be an indicator of performance or summary measure. For example, a person's health cannot be boiled down to one or two measures because health is a complex and multi-faceted issue, however, measures such as body weight and blood pressure are still useful indicators in themselves. We believe that the same is true of key lines and ratios.*

35 E&Y in its comment letter suggested that the determination of key lines and bottom lines, which provide decision useful information, is dependent on a comprehensive approach to recycling:

*We share EFRAG's view that the current performance reporting model is more reflective of a time when "net income" represented all (or nearly all) recognised income and expenses as essentially equivalent to "comprehensive income". However, with the increasing complexity of business and the reliance in IFRS on the re-measurement of assets and liabilities on a current basis, presentation of the re-measurement differences (as well how and whether such differences are to be subsequently recognised in net income) has been an issue that has not been clearly, or consistently, dealt with in IFRS. We believe that the determination of key lines and bottom lines, which provide decision useful information, is dependent on a comprehensive approach for such reclassification adjustments.*

36 ACTEO stressed in their comment letter the need for a **single** more comprehensive indicator of financial performance:

*Key lines are undoubtedly useful. There is hardly any debate about that. The mere fact that there is strong interest in indicators such as revenue or gross margin does not negate the need for **one** more comprehensive indicator of financial performance that users find useful as a starting point in their analysis of the operations of the period and on the basis of which management is expected to communicate.*

37 There was divergence in views in respect of approaching comparability and flexibility. Some respondents noted that it might be difficult to define one approach that fits all industries or sectors.

38 Of the fourteen respondents, who address Questions 4 and 5 in their comment letter, ten supported either option B, outlined in paragraph 29 of this document, or a combination of option B and option C. One respondent also noted that this approach is similar to the approach that we know today, except that only two well-

defined key lines are required, i.e., net income and comprehensive income. In addition, further work has been suggested to obtain a better understanding of the best approach in practice, for example, carrying out field tests by industries in order to get further information on how to operationalise the approaches.

- 39 One respondent argued that standard-setters should adopt option A, outlined in paragraph 29 of this document, specifying not only the key lines but also their content.
- 40 Three respondents argued that the entity's business model should be considered in striking the balance between the comparability and flexibility. ANC noted the following in its comment letter:

*Nevertheless, our major remark is that we would have preferred a more thorough analysis of the implication of a presentation that really fits with the business model of entities. We are indeed convinced that the most relevant flexibility is the one that allows for a presentation in line with the business model, with the objective to appropriately reflect its capacity to generate net cash inflows through a cash cycle. Once general requirements are set to fairly take into account the business model's implications, further flexibility may not appear so necessary or relevant for the definition of key lines.*

*Bottom line and one vs two statements of performance*

*PAAinE DP*

- 41 The PAAinE DP in Chapter 4 suggested that it is not necessary for the "bottom line" of a performance statement(s) to be a key line, and thus the issue of whether there should be one performance statement or more than one is of little significance. The key issue is to ensure that the information within the statement(s) is disaggregated and categorised in a useful way so that the right key lines are presented.
- 42 Question 6: This chapter finds no evidence that it is important for the "bottom line" of statement(s) of income and expense to be a key line. Do you agree that it is not important for the "bottom line" of statement(s) of income and expense to be a key line? If you do not, please explain your reasoning.
- 43 Question 7: Assuming it is correct that there is no evidence that it is important for the "bottom line" of statement(s) of income and expense to be a key line, do you agree that it follows that the number of performance statements provided is not particularly important either. And thus that the one or two performance statements debate is a non-issue; the real issue relate to the key lines. Do you agree with this analysis and conclusion? If you do not, please explain your reasoning.

- 44 All, but two, respondents, who addressed Question 6 in their comment letter, did not agree that it is not important for the "bottom line" of statement(s) of income and expense to be a key line. Although one respondent, which did not disagree with this statement, noted that the "bottom" may be the most logical place to enable users of financial statements to locate important measures such as net income easily. Amongst of the arguments for the "bottom line" being a "key line", respondents mention that FEE noted the following in its comment letter:

*If there is one single statement, the “bottom line” will effectively represent the addition of all the key lines that are reported in the statement. In this sense, the “bottom line” will become a “key line” per se. If the bottom line is not a key line, it is questionable whether the statement presenting the resulting figure of income and expense elements achieves what should be its purpose, i.e. presenting a meaningful summary of the evolution of the situation of the entity during the period. This is why we believe that it is important that principles be formulated as to what should be included in the “bottom line” in order to ensure that the result in not simply a meaningless compilation of income and expenses.*

- 45 The respondents were split on the question of a single statement of performance, although the majority **did not support the “one performance statement” approach**.
- 46 Five respondents did not oppose to a single performance statement, although one of them noted that requiring one or two performance statements is not a significant issue, and therefore the option for two statements should be retained.
- 47 One respondent noted that it does not perceive significant benefits to a single statement approach if reclassification adjustments continue to be required, particularly since the IASB and the FASB have decided to retain the presentation of profit or loss and earnings per share as required performance measures.
- 48 FSR noted in its comment letter that the debate about whether to include one or two performance statements is less important, and that the important thing is to discuss what subtotals financial statements users find important. However, it also noted the following:

*The number of performance statements may, however, be psychologically important due to history behind them with the users primarily focusing on P/L for the year as a performance total. It may therefore be difficult to explain why income – which historically was not considered part of the total performance of the enterprise due to volatility, among other parameters, or because such income had not been realised – prospectively should be considered part of the enterprise’s total performance.*

### Recycling

#### PAAinE DP

- 49 The PAAinE DP in Chapter 4 suggested that recycling is mainly an issue if a realised / unrealised split is the main disaggregation criterion for the statement(s) of income and expense. Therefore recycling is really a secondary issue and the main issue is which disaggregation model should be used.
- 50 Question 8: Do you agree that recycling is mainly an issue if realised / unrealised split is the main disaggregation criterion for the statement(s) of income and expense, that therefore recycling is really a secondary issue and that the main issue is which disaggregation model should be used? If you do not, please explain your reasoning.
- 51 Question 9: Would the issue of recycling on its own affect your decision as to the best approach to disaggregation? Please explain your reasoning.

- 52 The respondents were split in views in respect of recycling.
- 53 Three respondents noted that recycling should not be permitted under any circumstances. The following was noted in the comment letters:

*We note that in our view it is a fundamental principle that gains and losses should be reported only once, in the period in which they arise (subject to recycling cash flow hedging gains/losses, as long as the current accounting continues). Recycling breaches this principle. (ICAEW)*

*The realised / unrealised split is only considered relevant to the balance sheet, not to income statement. If the issue of recycling was relevant, the additional complexity and clutter that might be brought to the primary statements could influence the choice of disaggregation model. (CPC)*

- 54 As mentioned in paragraph 14(d) of this document, five respondents disagreed that recycling is a secondary issue and argued that recycling on its own is an important element to consider in establishing what performance is. The following was noted in the comment letters:

*Recycling is necessary in certain circumstances to arrive on the “true” income figures, despite the recognition and/or valuation requirements in the balance sheet. Therefore, other comprehensive income components should not be mixed with the items presented currently in the income statement. We note that in practice, net income is still considered as the main performance measure. This figure should not be blurred with other comprehensive income. (DASB)*

*The main goal in this debate is to be able to define the one performance indicator that will be the relevant starting point for the analysis and a robust basis for quick and easy financial communication. We therefore would agree that the main issue is to identify how to make the relevant segregation between the changes in assets and liabilities that ought to be reflected in that one performance indicator and those that should be presented separately. However this does not lead us to think that recycling is a secondary issue. Recycling may be absolutely necessary to make that one performance indicator fully relevant or make the rationale on which it is based hold. A change in an asset or liability may not be relevant to the performance analysis in one period and be relevant to that analysis in a later period. (ACTEO)*

#### **Possible model for disaggregating income and expense**

*PAAinE DP*

- 55 The PAAinE DP in Chapter 5 suggested that the main issue underpinning performance reporting is the disaggregation model. The paper discusses various disaggregation models and their advantages and disadvantages. The models discussed included the following:

(a) Recurring versus non-recurring.

- (b) Business model approach.
- (c) Realised versus unrealised.
- (d) Core versus non-core.
- (e) Operating versus investing versus financing.
- (f) Non-holding versus holding.

56 The paper also discussed disaggregation models with more than one level of disaggregation.

57 Question 10: Do you have any comments on the basic models of disaggregation presented in this chapter? Are there any other broad types of model that would have been worth exploring?

58 Question 11: Is the discussion of the advantages and disadvantages of each disaggregation model fair and complete? If not, how could it be improved?

59 Question 12: Which of the models of disaggregation – or combination of models – to you favour and why do you believe it meets the needs of users better than the alternatives?

60 As mentioned in paragraph 14(b), eight respondents indicated that it would be more fruitful if the work in this project had been aligned with the IASB's discussion within the *Financial Statements Presentation* project. In particular, in considering the appropriate disaggregation model, they suggested to explore further the model, which the IASB proposed in its DP. E&Y noted the following in its comment letter:

*In our comment letter to the IASB/FASB discussion paper on financial statements presentation, we expressed support to classify the statement of comprehensive income into a business and financing section, including further disaggregation into operating and investing segments as part of the business section as well as debt and equity in the financing section, as the primary model for disaggregating the statement of comprehensive income. We believe that this type of disaggregation model achieves the objective of separating the central activities of a reporting entity from the "other" activities, which we understand from surveys conducted by you, as noted in the Discussion Paper, it useful to financial statement users. This manner of classifying income and expense items would also increase the level of cohesiveness of the "flow" statements as such classification would be aligned with IAS 7 regarding the presentation of cash flow information.*

61 DASB stated its preference for retaining the current practice in respect of disaggregation:

*As the paper does not indicate that an alternative model would render significant improvements to the current practice, we would prefer to maintain current practice on this matter.*

62 Four respondents suggested that disaggregation model should take into account the entity's business model. ANC mentioned the following in its comment letter:

*We favour the preliminary application of a business model approach to determine what the main component of the entity's performance is. [...] A business model describes and determines the operational process for a certain type of activity covering a certain number of transactions. Therefore, it implies a specific pattern of the performance realisation. According to such patterns, elements that cannot be considered as part of the income statement should not be recognised in the performance statement, even if they are recognised in the statement of financial position (as OCI). Recycling in the income statement will occur when elements become realised. The business model would therefore determine what should be recognised as the most significant element of the performance and the related timing recognition before considering how presentation of performance should be structured within the income statement in order to distinguish between performance related to the business model and performance that does not relate to it (through disaggregation criteria).*

- 63 FEE noted that it would favour a principle-based model to allow the necessary flexibility for management to reflect the particular circumstances of the entity.

**Next steps**

- 64 The comments received on the PAAinE DP will be considered in developing views when responding to the IASB due process documents related to the Financial Statements Presentation project.
- 65 In addition, EFRAG will consider the need for any further work on the project. If any further work is considered appropriate, then it will be considered by EFRAG's Planning and Resources Committee which sets the programme of pro-active work.

## **Appendix 1**

### **List of respondents**

The comment letters were received from the following respondents:

#### *Preparers and representative bodies of prepares*

- Co-operative Performance Committee (CPC) (UK)
- Bundesverband Öffentlicher Banken Deutschlands (Association of German Public Sector Banks – VOB) (Germany)
- Nestlé (Switzerland)
- Association pour la participation des entreprises françaises à l'harmonisation comptable internationale (ACTEO), Association Française des Entreprises Privées (AFEP) and Mouvement des Entreprises de France (MEDEF) (France)

#### *Accounting firms*

- Ernst and Young (E&Y) (Global)

#### *Accountancy bodies*

- The Institute of Chartered Accountants in England and Wales (ICAEW) (UK)
- The Association of Chartered Certified Accountants (ACCA) (UK)
- The Federation of European Accountants (FEE) (EU)

#### *Standard-setters<sup>1</sup>*

- Autorité des Normes Comptable (French Accounting Standards Board) (ANC<sup>2</sup>) (France)
- Comissão de Normalização Contabilística (Portuguese Accounting Standards Board) (Portugal)
- Dutch Accounting Standards Board (DASB) (Netherlands)

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<sup>1</sup> Comments from the National Standard-setters generally consider comments raised by their constituents, including users

<sup>2</sup> The French Accounting Standards Board is formerly known as Conseil National de la Comptabilité (CNC). The official name was changed *after* the comment letter in respect of the PAAinE DP had been issued. However, for convenience purposes the French Accounting Standards Board is referred to as "ANC" through this document.

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- Foreningen af Statsautoriserede Revisorer (Danish Accounting Standards Committee) (FSR) (Denmark)
- German Accounting Standards Board (Germany)
- UK Accounting Standards Board (ASB) (UK)

*Others*

- BUSINESSEUROPE (Europe)
- Dr. Luigi Borre and Dr. Lorenzo Gelmini of University of Novara (Italy)



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