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PAAinE Discussion Paper 2– *The Performance Reporting Debate. What (if anything) is wrong with the good old income statement?*

The Swedish Enterprise Accounting Group (SEAG) is a forum for Chief Accountants from the largest Swedish listed companies. The SEAG is administered by the Confederation of Swedish Enterprise, to which most participating companies of the SEAG are joined.

Representing preparers' point of view, the SEAG welcomes the opportunity to comment on the above-mentioned discussion paper.

SEAG supports in general the discussion of the PAAinE and its views on the issue of performance reporting.

We read your questions under section 1.15 very much in line with the answers prepared by BUSINESSSEUROPE. Below we make some further comments.

One general observation is that we would like a section which would address "Performance reporting for whom?" and "The performance of whom?" since the answers to these questions would be part of the necessary framework for further discussions regarding the composition of the different components of performance to be reported.

- A. Is there a need to have a key line in the statement(s) of income and expense that succinctly summarises entity performance, acts as a headline number in corporate communication and can be used as a starting point for further analysis? If so, what should this (or these) key line(s) represent?

In the financial reporting today, net income and operating income are used in all reports. And the use as such verifies the need of these key lines. The difficulty to define operating income or EBIT should not deter the standard setter from addressing the issue but rather encourage to accept the fact that there is no detailed definition to this and, therefore, a principle based definition is needed.

Also the widely used key line EBITDA should be considered by the standard setter and also in this case from a principle based perspective. This solution together with a requirement on the reporting entity to specify its definition of the key lines should give users a relevant information of the development of the entity over time and also facilitate comparability between entities.

- B. What are the attributes of ‘performance’ in the context of financial reporting of an entity? Are there different types of performance (for example, management performance, entity performance) and if so, what are the types? What do they encapsulate and how can/should they be differentiated?

Here we would like to highlight the difference in logic between the presentation of the balance sheet and the income statement. We support the “solution” to handle this after net income and to include it in OCI.

- C. Is ‘net income’ (in its current form or a variation thereof) a meaningful and necessary notion? If so, what should it represent and how are items included in net income to be differentiated from other items of income and expense?

In the answer by BUSINESSEUROPE, we do not completely agree with the term “hypothetical posts”, since there are instances e. g. in well functioning financial markets where fair values would not be addressed as “hypothetical”.

However, we would like to stress the need for showing net income. It gives a piece of information which to the user indicates the entity’s short and long term ability to generate distributable equity. The net income item also includes the effects of how the capital structure of the entity is arranged. This is something that differentiates net income from key lines such as EBIT and EBITDA. Therefore it is also important not to include items in this part of the statement which disturbs the net income information, something which supports a separation between net income and OCI.

- D. Does the bottom line of a statement of income and expense bear more weight and significance than other lines of the statement simply by virtue of being at the bottom? Consequently, how many statements of income and expense should there be and why?

Theoretically not, but it requires a good analytical ability of the user of the information and even more additional information than today to avoid misunderstanding. However, the bottom line in interim reporting is used differently compared to in full year reporting since some items, especially taxes, are more informative in the last case, i.e. for a full year.

Consequently, our view is that there should be two statements, net income and OCI. Sometime in the future it might be possible to bring them to one but then again, the treatment of the different logic between the balance sheet and the income statement must be resolved first.

- E. Is recycling needed? If so, what should it be used for and on what criteria should it be based?

Yes, however there is a need for further discussion of the reasoning behind whether an item should be recycled or not. This holds not only for future standards but also for existing ones.

- F. Which of the following disaggregation criteria both have merit and are capable of being implemented? How would you define the terms used in those criteria and what are the pros and cons of using the criteria for disaggregation purposes? *(NB. Please specify your own criteria if the criteria you believe to be necessary are not listed below)*. Disaggregation by function; Disaggregation by nature; Fixed vs. variable; Recurring vs. non-recurring; Certain vs. uncertain; Realised vs. unrealised; Core vs. non-core; Operating vs. non-operating; Sustainable vs. non-sustainable; Operating vs. financing vs. other; Controllable vs. uncontrollable; Based on actual transactions vs. other; Cash flow vs. accruals; Re-measurement vs. before re-measurement; Holding gains and losses vs. non-holding gains and losses.

All the terms mentioned in the questions are, to various degree, used in the financial reporting today. However they are not defined or discussed in the standards, and this opens for a variety of entity-specific definitions without violating the requirement of “financial reporting according to IFRS”. A policy based definition of the terms would improve financial reporting for both users and preparers.

- G. Are the current IFRS provisions in relation to the netting of items of income and expense appropriate? What (if any) are the specific areas where the current requirements allow information essential for analysis to be concealed or, alternatively, do not permit netting where it would result in more useful information?

See BUSINESSEUROPE’s comments.

- H. What is the underlying nature of the adjustments made by entities when reporting non-GAAP measures in their communications with the markets? What are the adjustments seeking to achieve? Please provide specific examples illustrating this. Should any of these non-GAAP measures be incorporated into the IFRS financial reporting model? If that would be desirable, is it feasible and how should it be done?

The EBIT and EBITDA are the two main measures which are relevant to the users beside what is defined in the IFRS today. These two should be covered by a policy based definition. In addition, the reporting entity would have to clearly disclose how it applies these measures with regard to such a definition .

- I. In determining the optimum degree of standardisation of the reporting formats, what is the right balance between comparability and flexibility? In other words, is the level of standardisation in the current IAS 1 appropriate or should more precise formats be prescribed? If the latter, what are the specific areas that should be more stringently prescribed?

The current IAS 1 is appropriate.

However in order to arrive to a level of EBIT, some definitions are still lacking. To begin with, net income is defined through the complete standards of IFRS. Secondly, deducting taxes as described by IAS 12 gives the income before tax. However in order to reach the level EBIT, one more component is needed, requiring a definition of “net financial income and expense”. Having these components available, would also provide for the definition sought for of Earnings Before Interests and Tax.

We are pleased to be at your service in case further clarification to our comments will be needed.

Yours sincerely,

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