European Financial Reporting Advisory Group
35 Square de Meeus
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23 December 2009

Our Ref: TECH-CDR-861

Dear Sir

Performance reporting

ACCA (the Association of Chartered Certified Accountants) is pleased to have this opportunity to comment on the Discussion Paper (DP) 'Performance reporting– a European discussion paper'. The DP was considered by ACCA's Financial Reporting Committee and I am writing to give you their views.

Overall comments

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 statement 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.

ACCA responses to specific questions raised by EFRAG

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?

We understand that the purpose of the DP is partly to explore areas which are yet to be addressed by the IASB, such as the retention of the 'net income' line and recycling between different categories of income and expenses. However,

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as we mentioned in our general comments above, it would have been more useful for the DP to have considered in more detail the proposals in the IASB paper. For example, the IASB paper has already proposed a single statement of comprehensive income.

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.

In our letter to the IASB, dated 9 April 2009, which commented on the proposals in their joint discussion paper with the FASB, we supported the use of a single statement of comprehensive income, which would include all components of performance. In essence we do not think there are fundamentally different types of performance, as management are ultimately responsible for all aspects of the entity.

However we do agree that there is an inherent limitation of applying one measure of performance, especially as it relates to wider non-financial factors which can also be crucial to understanding the overall performance of an entity. While individual users and analysts may apply different measures in their models for valuing an entity, ultimately they are assessing the overall performance. We believe that this would be aided by a more flexible approach to the presentation of the income statement, supplemented by the provision of alternative performance measures in the management commentary of the financial statements. As noted in the DP, key performance indicators used by management, which cannot always be encapsulated in the primary statements, are important for external users of the financial statements. We therefore welcome the current IASB project on management commentary, which we believe is an important step in the debate on reporting overall performance of an entity.

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.

We agree that while developments in technology and the increased use of eXtensible Business Reporting Language (XBRL) in particular will change how

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financial statement are analysed by users, it is important to have consistent key lines which allow general comparability. Key lines, such as the current profit for the year line should be retained as a subtotal, which would represent a starting point for analysis and comparison.

Question 4: Do you agree that, in order to fulfil 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).

It is clearly important to establish a set of principles as to what should be included in the key line(s), in order to maintain a level of consistency and therefore allow comparability between entities. We therefore support the identification of certain key lines, with prescribed content.

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?

As noted in our response to Question 2, we do not believe that there are different types of performance when assessing management. However, we believe it is important for management to be able to reflect the performance of their individual entity on the basis of how it is managed, and therefore we agree that there should be an element of flexibility about what are presented as additional key lines. It is therefore important to establish a set of principles as a basis for any prescribed content. We would therefore support Option B under paragraph 4.13 of the DP, where identified key lines are mandatory, with prescribed content, but giving preparers the option to present additional lines. It should then be up to the preparers to decide whether they wish to disclose that 'extra' information, which would have to be aligned to the mandated key lines (as noted in paragraph 4.15(b)), on the face of the primary statement or in the notes.

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In essence we believe that Option C is not fundamentally dissimilar to Option B, and perhaps some industry-based field-testing would help to resolve what level of prescription is required, and what common additional key lines are commonly used. It is our understanding for example, that entities in the Oil and Gas industry provide an additional 'key' line in their quarterly reporting, showing 'Current cost of supplies', as this is deemed an important measure for users and management.

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.

As already mentioned we support a single statement of performance. This statement should have a bottom line of total recognised gains and losses in the period, with the retention of the C*urrent profit for the period after tax* as a starting pointing for analysis.

However, we do agree that the bottom line in such as statement may in itself not always be a meaningful number, given that certain items will not be included (such as those noted in paragraph 2.5 of the DP) and that this number will be formed on the basis of a mixed measurement basis, again as noted in the DP. It is therefore important to analyse the various component elements that make up the single statement and the bottom line number.

Question 7: In chapter 4, the paper observes 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. Assuming that is correct, 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 issues relate to the key lines. Do you agree with this analysis and conclusion? If you do not, please explain your reasoning.

We accept that a statement containing all recognised items of income and expenses could be presented in either one or two component statements. We favour a single statement as this is less complex for users, and would allow preparers the flexibility to provide details of more components, while arriving at a single, standardised bottom line.

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Question 8: Do you agree that recycling is mainly an issue if a 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.

We agree that recycling is essentially only an issue if disaggregation is based on realised / unrealised income and expenses. In a single performance statement, clearly there would only be recycling within that statement, although individual line items would be affected.

While we agree that recycling is to some extent a secondary issue, we would like to see this kept to a minimum, accepting that it would be unavoidable if the present accounting for cash flow hedging is maintained.

Question 9: Would the issue of recycling on its own affect your decision as to the best approach to disaggregation? Please explain your reasoning.

In a single performance statement the issue of where realised and unrealised income and expenses are show is less critical, and we therefore do not believe that the issue or recycling should be the key decision when considering the best approach to disaggregation.

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?

We have responded to Question 10, as part of our response to Questions 11 below.

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

We believe that the models presented in the paper reflect the most viable potential types of disaggregation, and we can see some merit in many of them. However, when considering a model for disaggregation it is vital to ensure that the correct balance is maintained between allowing preparers flexibility in how they present individual line items, while ensuring there is an appropriate level of standardisation for users to be able to consistently use that information. In this respect, we do not believe that the current reporting model is in need of major overhaul at all.

In the case of distinguishing between recurring / non-recurring and that of the business model approach, which both appear to offer information in a way that would suit most users, the models would not be practicable. As noted in the paper, both rely heavily on management's interpretation of what is recurring or how assets and liabilities are managed. While this could indeed serve to highlight how companies are managed differently, the overall potential lack of comparability would not be in the interest of users. This subjectivity is also an issue for the core / non-core distinction. Given that such information does potentially provide useful information, we would see disaggregation on such bases as a useful form supplementary disclosure.

We can also see how disaggregation based on a realised / unrealised distinction may provide useful information. However, there are again potentially issues with making that distinction. This is illustrated in the example on page 44 of the DP, where it could be questioned why impairment to inventory and PP&E are shown as unrealised, whereas 'depreciation' and 'write-down of accounts receivables' are shown as realised. We also agree with the disadvantages noted in the DP and in particular the fact noted in paragraph 5.24 (b) about the notion of realisation varying between jurisdictions.

We note that the IASB discussion paper has already proposed a disaggregation model of income and expenses by nature and by function. While we see some benefits to other models, we believe it is more practical to consider the proposals in that discussion paper, which seek to base disaggregation of income and expense by nature and by function. In our comment letter to the IASB on their proposals, we agreed that disaggregation by nature and function would provide useful information depending on the objectives. Thus in terms of co-ordination with the cash flow statement and in the estimation of future cash flows a disaggregation by nature is likely to be more helpful, while co-ordination with segmental analysis would be aided by a functional analysis.

We would however prefer much of the detail to be kept off the face of the statement of comprehensive income, and included in the notes.

ACCA

Question 12: Which of the models of disaggregation—or combinations of models— do you favour and why do you believe it meets the needs of users better than the alternatives?

Overall, we favour disaggregation by nature and function, and which would look fairly similar to the existing structure, which would include the following categories of activity

- Operating / business
- Financing
- Discontinued operations
- Tax
- Other

There should be sub-totals between each of these categories, and the 'other' category should be prescribed. Indeed, we believe that the major issue in relation to performance reporting is what is included in the 'other' category and we believe that this is an area which would have been worthy of further exploration in the DP.

As noted in the DP, some of the these categories would perhaps also need to be defined more carefully in accounting standards, especially 'financing'.

If there are matters arising from any of the above please be in touch with me.

Yours sincerely

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