EFFAS THE EUROPEAN FEDERATION OF FINANCIAL ANALYSTS SOCIETIES

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Comments: EFRAG's Draft Comment Letter. Re: IASB ED/2019/7 *General Presentation and Disclosures*

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Dear Jean Paul:

EFFAS' Commission on Financial Reporting ("CFR", "Commission", "we") has reviewed EFRAG's Draft Comment Letter ("the DCL") and we are pleased to share our comments.

We would like to acknowledge the thorough review of the ED by EFRAG and appreciate the methodology used to develop the DCL. It is very useful for users for a better understanding of the proposal to depict the current practice and the impact of the presentation of the proposed financial statements.

Question - 1
We support the approach of the ED and EFRAG's response. There is need for better-defined subtotals and better disaggregation. We also agree with EFRAG's comments regarding the presentation on the face of the statement of profit and loss of the subtotal "operating profit or loss" with its subsequent labelling.

In this regard, as stated in our letter to the IASB, labelling should be consistent, and an entity should use the same label for the same concept. Room for an entity to use different labels for the same concept should be eliminated. i.e. net income to describe profit and loss. We disagree with this point of the ED.

Question - 2
We support EFRAG's response.

We accept the approach of the ED for the classification of the operating category although we suggest a different wording for paragraph 46 of the ED. When a financial analyst or investor reads that an account or subtotal includes all items that are not specifically classified in other categories - "residual"- the user tends to think, or rather to question, the quality and meaning of such a subtotal. It seems that when items cannot be clearly defined and or classified, they are "dumped" into the operating category.

Regarding the concept of "an entity's main business activities" we understand to what it refers to. However, we agree with EFRAG on the importance of having a clear guidance on this notion as it might involve significant judgment. For instance, since there might be subsidiaries with different activities than the parent company, it would be useful to know whether or not they are included "in main business activities".

Question - 3
We have some doubts about EFRAG's comment regarding the enhancement of comparability between entities. We noted in our comments to the IASB that Paragraph 48 of the ED is confusing and needs clarification and improvement. We believe that the ED does not present a direct definition of investments that should be classified in the operating category of income and expenses but a "definition" by "default".

Regarding paragraph 33 of EFRAG's DCL, users would like to have the separation proposed by EFRAG. However, preparers have to address the potential difficulties of presenting such a separation.

Question - 4
We agreed with EFRAG's views. The proposal states that information related to financing to customers as a main business activity will be provided and considered operating profit particularly in the financial sector. As we indicated in our comments to the IASB regarding paragraph 51 of the ED, *"… the operating category should be specific and avoid proposing options…. that can impair comparability."*

We believe that paragraph 41 of the DCL needs some clarification. We do not consider that paragraph 51 (b) relates to non-financial institutions.

Question - 5
We agree with EFRAG's comments particularly as it highlights the complexity of how the proposal is presented.

Regarding EFRAG's question to constituents, paragraph 57, we consider income and expenses from cash and cash equivalents as financing activities. An entity investing in short-term financial instruments is part of its day-to-day financing and management of working capital for its regular business activities. We will consider these investments as part of their operating activities.

Question - 6
We agree with EFRAG's comments. As we noted in our comments on the ED to the IASB, "…*we think that the sub-total should capture an entity's financing activities that is not included in the operating category. Income and expenses of an entity as a result of borrowings (i.e. loans, bonds, etc...) and investment of its cash and cash-equivalent position as part of its regular business activity should be classified within the financing category*".

We are not clear on EFRAG's Question to constituent, paragraph 76 of the DCL and as it relates to B47 of the ED.

Question - 7
We consider that this point introduced in the ED deserves a thorough review. We agree with EFRAG that defining integral and non-integral associates and joint ventures would give users more insights into the way the reporting entity sees its own business model.

We also consider that introducing the integral and non-integral associates and joint ventures as a sub-total gives this account a relevance in the financial statements that we believe is not needed.

However, we do not necessarily agree that splitting between integral and non-integral will provide an enhanced potential for comparability as an element of judgement in the classification might be introduced. Then, the result reflected in a subtotal might be of little use.

Question – 8
We agree with EFRAG's comments.

As we indicated in the letter to the IASB, notes are an indispensable complement to the financial statements and should provide enough disaggregation and material information to facilitate a comprehensive understanding of an entity's assets, liabilities, equity and cashflows. It is important for users that financial information prepared using IFRS is differentiated from financial information prepared for regulators or other institutions.

Question – 9
We do not agree that an entity has the option to present its operating expenses based on the nature or function of its expenses. We firmly believe that this approach hampers the possibility of comparability between companies.

CFR is of the opinion that a presentation based on the nature of the expenses provides a more useful understanding of the actual operating cost of an entity, a more disaggregated breakdown of expenses and more information of the operating costs of the operation.

We are aware that preparers might have to make adjustments to disclose additional information when presenting by nature. An entity presenting its expenses on a by function basis should also present a full reconciliation with by nature.

Question – 10
We support EFRAG's comments and support ED's proposal to include a definition of unusual items and develop requirements for the disclosure of unusual income and expenses. A further and needed step will be however -as EFRAG notes- to improve the definition of unusual and reduce or eliminate the diversity of reporting "unusual, "extraordinary" and "non-recurrent" items under the same concepts. Additionally, the definition needs further clarification particularly when it refers to "similar in type and in amount". An entity's event can be different in nature and amount i.e. environmental contingency, restructuring cost, spin-off…, and still be "unusual".

Regarding the presentation of unusual items in the financial statements, introducing a line item might increase the risk of impairing comparability and involve an element of subjectivity. Unusual incomes and expense can be explained and fully disclosed in the notes.

Regarding EFRAG's suggestion on its response remarks, we think that "… that items that occur presently in the business, but only for a limited period of time…", the period of time should be limited. Otherwise, a" non-recurrent" event becomes a recurrent event.

Question - 11
EFRAG's approach reviewing AMP (ESMA) and MPM (ED proposal), is useful and highlights the differences between the requirements. Working eventually in a convergence will be advisable and facilitate users' analysis. MPMs reconciled with IFRS subtotals, we think, will prevail.

Regarding particularly the ED proposal, we think that information used in public communication outside financial statements should be consistent and reconciled with information provided by the income statements. Entities presenting financial information in press releases which is difficult to reconcile with the standards hinders proper analysis and valuation.

Management performance measures should be included and reconciled with the totals and subtotals of the income statements. This is a key point for users as it establishes the link between companies' operating performance and how the metrics are presented for valuation purposes. Consistency is needed whether the information is presented in the financial statements or outside the financial statements.

As we noted in our comments on the ED, following this project the IASB should consider improving segment reporting (IFRS 8) by requiring that for each identified segment its operating profit be reported. This is of the utmost importance as comparability is even more important for financial analysts when using segment information.

Question – 12
We agree with EFRAG's suggestion, this is a key point for users. EBITDA, and EBIT, are very useful metrics widely used in financial markets and for valuation when properly defined. The main problem is that they are performance measures, and as such, defined in a wide variety of ways and therefore there is not consistency in the meaning.

We support that EBITDA is included in the scope of the MPMs disclosures and reconciled with the corresponding IFRS subtotal of the statements of financial performance.

Question - 13
We agree with EFRAG's comments and support operating profit or loss as the starting point for the indirect method. The ED proposal should reduce the limited disaggregation and the use of general labels like "other non-cash items" with no more explanation use in the statement of cash-flow presentation. Historically, the statement of cash flows is often presented in such a way that makes it difficult for users to understand the flows.

Question – 14
We agree. IASB should reconsider and improve the segment reporting standard (IFRS 8), a subject of extreme importance for users, the statement of cash flow (IAS 7) and discontinued

activities (IFRS 5).If you would like to further discuss the views expressed in this letter, please do not hesitate to contact us.

Yours sincerely,

Javier de Frutos, Chairman
On behalf of EFFAS Commission on Financial Reporting

EFFAS was established in 1962 as an association for nationally based investment professionals in Europe. Headquartered in Frankfurt am Main, EFFAS comprises 15-member organizations representing more than 16,000 investment professionals. The Commission on Financial Reporting is a standing commission of EFFAS aiming at proposing and commenting on financial issues from an analyst standpoint. CFR members are Javier de Frutos (Chairman, IEAF-Spain), Jacques de Greling (Vice-Chairman- SFAF, France), Friedrich Spandl (ÖVFA, Austria), Henning Strom (NFF, Norway), Serge Pattyn (BVFA/ABAF, Belgium) Luca D'Onofrio (AIAF, Italy) and *Dr. Carsten Zielke (DVFA, Germany)*