GROUPE RENAULT

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Re; ED/2019/7 General Presentation and Disclosures

Dear Board Members and Staff,

Thank you for the opportunity to comment on the above-mentioned exposure draft. We agree overall on the need to improve the presentation and disclosure of information in an entity's financial statements, but we have major concerns about the ability of some of the proposed changes to lead to improvement, and fear that some of them will be counterproductive.

We were initially very interested by the project as originally envisaged by the IASB. We understood that the Board's initial intention was to propose a balanced approach, with a more structured and comparable statement of profit or loss and the inclusion of some performance measures (non-GAAP measures) in the statement of profit or loss, such that the financial statements retained or regained their status as the main channel for external financial reporting, rather than being a pure compliance exercise.

It appears, however, that the Board has progressively shifted its initial approach towards stronger uniformity in the presentation of the statement of profit or loss, leaving no room for flexibility or inclusion of some of the major Management Performance Measures (MPMs) currently used.

Our main concern is that applying the proposed changes would lead to a disconnection between (i) the financial statements as used by management to take relevant financial decisions and (ii) the IFRS financial statements published to comply with applicable regulations, which would thus become a pure compliance exercise. Doing so would jeopardize the relevance of IFRS financial statements and make them less reliable.

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Question 1 - Operating profit or loss

Paragraph 60(a) of the Exposure Draft proposes that all entities present in the statement of profit or loss a subtotal for operating profit or loss.

Paragraph BC53 of the Basis for Conclusions describes the Board's reasons for this proposal.

Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

Question 2 - The operating category

Paragraph 46 of the Exposure Draft proposes that entities classify in the operating category all income and expenses not classified in the other categories, such as the investing category or the financing category.

Paragraphs BC54–BC57 of the Basis for Conclusions describe the Board's reasons for this proposal.

Do you agree with this proposal? Why or why not? If not, what alternative approach would you suggest and why?

We agree that there was a need to define operating profit or loss, as it is clearly one of the main P&L metrics used by investors, analysts and other users of financial statements. It is also a fundamental metric for employees as it is usually one of the Key Performance Indicators used for profit sharing schemes.

Paragraph BC53 of the Basis for Conclusions indicates that the proposed definition will increase the comparability between entities. We are not convinced that such improved comparability will be achieved by defining operating profit or loss as a residual category and strictly laying down what must be included in both the financing and investing categories. Doing so will result in different companies including unusual items of very different natures in this residual category, making greater comparability very dubious.

The lack of definition of the "main business activity" concerns us less than the lack of definition of the main components of the operating profit or loss, now defined as a residual category. If we take the example of an entity presenting its statement of profit or loss based on functions (as prescribed by paragraph 68, if this represents the most useful information for users), there is currently no definition of these functions or their content. The main functions used in our industry are (i) cost of sales, (ii) Research and development costs and (iii) Selling and General Administrative expenses ("SG&A"). None of these functions are defined by IFRS (although paragraph 71 states that presenting cost of sales separately is mandatory, it gives no definition of cost of sales). Consequently some expenses such as impairment losses on trade receivables, and warranty costs, are already presented either in Cost of sales or in SG&A, dramatically jeopardizing comparability between entities in the same industry, and the ED offers no improvement to this situation.

Furthermore, some natures of expenses / costs such as goodwill impairment cannot be clearly allocated to any of the above-mentioned functions, and as the ED seems to prohibit using a mixed presentation (i.e. by function and

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by nature) for the statement of profit or loss, entities will have different ways to allocate it, rendering comparability between competitors impossible.

Due to the restrictive or unclear definitions of the financing and investing categories, it seems to us that applying the proposed standard will oblige every entity to change their definition of operating profit or loss, as some income or expenses currently excluded from this sub-total will, if they do not meet the definition of the two other categories, automatically be included in it. This could for instance be the case for the cost of factoring trade receivables (as part of the management of net financial debt), and some hyperinflation or foreign exchange impacts which our Group currently presents in the financial result but could be considered as not belonging to the financing category as defined in § 49 to 52 of the ED. We are therefore convinced that the proposed new IFRS-compliant operating profit or loss will not be used by the management, as it would no longer be considered relevant for management purposes - and we are not convinced that it will be useful for other users either. Having two different definitions of operating profit or loss will create confusion and result in IFRS financial statements being considered as a pure compliance exercise. Such a situation would jeopardize their reliability, as IFRS reporting would no longer be considered relevant by major Finance departments such as the Performance & Control department, which have a key role in terms of internal control and ensuring the reliability of the financial information published. The operating profit or loss presented to investors and analysts will remain unchanged, and the IFRS financial statements could lose relevance as a channel for external communication by the management.

It seems to us that a far more effective way of enhancing comparability would be to better define the content of the functions, allow more flexibility in the definition of the financing and investing categories, and allow mixed presentation in the statement of profit or loss. It makes no sense to consider that a residual category will be more comparable when different entities are accounting for very different situations depending on the geographical areas covered, the way they are developing their business (internal growth or business combinations), and the very different unusual events they encounter during the periods presented.

Question 3 - The operating category: income and expenses from investments made in the course of an entity's main business activities

Paragraph 48 of the Exposure Draft proposes that an entity classifies in the operating category income and expenses from investments made in the course of the entity's main business activities.

Paragraphs BC58–BC61 of the Basis for Conclusions describe the Board's reasons for this proposal.

Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

We agree with this proposal.

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Question 4 - The operating category: an entity that provides financing to customers as a main business activity

Paragraph 51 of the Exposure Draft proposes that an entity that provides financing to customers as a main business activity classify in the operating category either:

- income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or
- all income and expenses from financing activities and all income and expenses from cash and cash equivalents.

Paragraphs BC62–BC69 of the Basis for Conclusions describe the Board's reasons for the proposals.

Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

We agree with this proposal. In our industry it is customary to both manufacture vehicles and provide financing to our customers. The Sales Financing segment is considered as a main business activity and is currently presented in our operating result. Although this activity is less material than the manufacturing activity, it is nevertheless considered as one of our two main business activities and is one of our operating segments as defined by IFRS 8.

See excerpts from our disclosure notes below:

Sales financing revenues and operating margin recognition

SALES FINANCING REVENUES

Sales financing revenues are generated by financing operations for sales of vehicles to dealers and end-users. These financing operations take the form of loans from the Sales Financing segment companies, and are carried in the balance sheet at amortized cost under the effective interest rate method, less any impairment. Income on these contracts is calculated so as to give a constant interest rate over the period, and is included in sales revenues.

SALES FINANCING COSTS

The costs of sales financing are considered as operating expenses and included in the operating margin. They mainly comprise interest incurred by sales financing companies to refinance their customer loan transactions, other costs and revenues directly related to administration of this type of refinancing (temporary investments, hedging and management of exchange and interest rate risks), and the cost of risks related to receivables. Refinancing comes from

diversified sources: public and private bond issues, public and private securitization backed by Automotive segments loans, negotiable debt instruments, savings collected and financing from credit institutions and assimilates.

COMMISSIONS PAYABLE TO BUSINESS INTERMEDIARIES

Commissions are treated as external distribution costs, and therefore deferred as contract acquisition costs, so as to give a constant interest rate over the term of the financing contracts.

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Question 5 - The investing category

Paragraphs 47–48 of the Exposure Draft propose that an entity classifies in the investing category income and expenses (including related incremental expenses) from assets that generate a return individually and largely independently of other resources held by the entity, unless they are investments made in the course of the entity's main business activities.

Paragraphs BC48–BC52 of the Basis for Conclusions describe the Board's reasons for the proposal.

Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

We are not convinced by the necessity of creating an investing category, even though it makes sense to exclude some of the income and expenses defined as being part of this category from the operating profit or loss.

In our view it would have been far more relevant to put in the same category all the income and expenses related to the net financial debt, and to define this metric, which is very widely used by the entities in our industry. The current practice of presenting the net cost of gross financial debt less income on cash and cash equivalents <u>and other financial assets</u> (such as marketable securities) held for financing rather than investing purposes, seems far more relevant than introducing this new category with a very narrow and nevertheless unclear definition.

Having a significant level of cash and cash equivalents <u>and other financial assets</u> (such as marketable securities) is common in our industry and is part of the entity's liquidity risk management. The financial crisis of 2009 and the recent Covid-19 pandemic have illustrated the need for such levels of cash, cash equivalents <u>and other financial assets</u> to manage this liquidity risk. Reporting other financial assets (such as marketable securities) held for financing purposes separately from the net financial debt is not relevant and does not really provide any useful additional information to the users of financial statements. It would also create an illusion of consistency between the statement of profit or loss and the statement of cash flows, due to the similar category names used in both of these primary financial statements (see answer to question 13 for further discussion of this point).

The definition of the investing category is in our view not sufficiently clear to ensure consistent and comparable application by the different entities applying IFRS.

Question 6 - Profit or loss before financing and income tax and the financing category

(a) Paragraphs 60(c) and 64 of the Exposure Draft propose that all entities, except for some specified entities (see paragraph 64 of the Exposure Draft), present a profit or loss before financing and income tax subtotal in the statement of profit or loss.

(b) Paragraph 49 of the Exposure Draft proposes which income and expenses an entity classifies in the financing category.

Paragraphs BC33–BC45 of the Basis for Conclusions describe the Board's reasons for the proposals.

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Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

We would have agreed with this proposal if the financing category had encompassed not only the income and expenses related to the gross financial debt and cash and cash equivalents but also the income or loss related to financial assets held for financing purposes and treated as part of the net financial debt, as indicated in the answer to the previous question.

The presentation of integral associates and joint ventures before this subtotal also raises a major concern for us in terms of relevance of the information presented (see answer to question 7).

Question 7 - Integral and non-integral associates and joint ventures

(a) The proposed new paragraphs 20A–20D of IFRS 12 would define ‘integral associates and joint ventures’ and ‘non-integral associates and joint ventures’; and require an entity to identify them.

(b) Paragraph 60(b) of the Exposure Draft proposes to require that an entity present in the statement of profit or loss a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures.

(c) Paragraphs 53, 75(a) and 82(g)–82(h) of the Exposure Draft, the proposed new paragraph 38A of IAS 7 and the proposed new paragraph 20E of IFRS 12 would require an entity to provide information about integral associates and joint ventures separately from non-integral associates and joint ventures.

Paragraphs BC77–BC89 and BC205–BC213 of the Basis for Conclusions describe the Board’s reasons for these proposals and discuss approaches that were considered but rejected by the Board.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

It is very common in our industry to participate in joint ventures either because it is mandatory in certain jurisdictions or because it makes sense economically to share with competitors the huge capital expenditures needed to produce new vehicles and comply with ever-stricter regulations.

We do not anticipate any major difficulty in applying the proposed definition of integral and non-integral associates and joint ventures, and we consider that almost all our current associates and joint ventures will qualify as integral associates and joint ventures, mainly because of paragraph 20 D (a) of IFRS 12.

On the other hand, we fundamentally disagree with the analysis presented in the Basis for conclusions (BC77-BC 89) regarding the nature of the presentation issues we are facing and how we should address these issues. The presentation issues we are facing are the direct consequence of having replaced proportionate consolidation for jointly-controlled entities by the equity method as defined by IAS 28 when IFRS 11 superseded IAS 11 in 2013. The implementation of IFRS 11 had dramatic and very damaging consequences in terms of the relevance of the information provided by IFRS financial statements in our Industry, mainly due to the importance of the Chinese market and the common use of joint ventures by car manufacturers in China. Due to IFRS 11, no Chinese car manufacturers are among the leading worldwide manufacturers by revenues, and yet they are among the world leaders based on car registrations, with the Chinese market representing 21.4 million cars registered or sold in 2019 out of 64.3 million worldwide.

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All major car manufacturers participating in the Chinese market are therefore accounting for a very significant portion of their business using a very questionable accounting method (i.e. the equity method defined by IAS 28). It would have been more sensible to wait for the post-implementation review of IFRS 11 before proposing this definition of integral associates and joint ventures and requiring presentation of their results just after the operating profit or loss, outside the investing category, which is certainly not solving the major issues raised by IFRS 11 in terms of relevance of the financial information provided for users.

In the specific case of our company, even though our activity in China is not material, we are not convinced that what is proposed will enhance the relevance of the information provided. Indeed, Renault is the main shareholder of the Japanese car manufacturer Nissan, with a stake of 43.7% (as of June 30, 2020), and in 2019 Nissan was the world's 6th–largest car manufacturer in terms of production volumes and Renault the 9th. We created an Alliance with Nissan years ago and Mitsubishi Motors Corp joined this Alliance more recently. We have some converged functions inside this Alliance such as the Purchasing function, and we are developing common production platforms. It therefore seems obvious that Nissan will be analysed as an integral associate for Renault, and Mitsubishi Motors Corp. as an integral associate for Nissan.

Creating a new subtotal of the profit or loss of integral associates and joint ventures, to be presented before the investing and financing categories, is very questionable in our case, as the magnitude of the Nissan net income compared to Renault's financials and the relative weight of non-operating items (such as taxes) in Nissan net income could be so material that presenting it in this proposed subtotal would be particularly confusing and potentially misleading. We can illustrate this with Renault's 2017 to 2019 financials. The following table compares key indicators related to the Group Renault statement of profit or loss as published over this period and as they would have looked if we had added Renault's share in Nissan's net income, considered as a proxy for the "Operating Profit or loss and income and expenses from integral associates and joint ventures" prescribed by the ED.

Key indicators	As published			
	2016	2017	2018	2019
Revenues	51 243	58 770	57 419	55 537
Operating margin	3 282	3 854	3 612	2 662
% of Group revenues	6,4%	6,6%	6,3%	4,8%

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	New presentation			
	2016	2017	2018	2019
Revenues	51 243	58 770	57 419	55 537
Operating margin + share of Nissan result	5 023	6 645	5 121	2 904
% of Group revenues	9,8%	11,3%	8,9%	5,2%
of which impacts of :				
- Takata recall	*-0,5%*			
- Disposal of Calsonic Kansei		*0,5%*		
- U.S. tax reform		*1,3%*		
Impact of major one-off impacts	-0,5%	1,7%	0,0%	0,0%
% of Group revenues excl. One offs	10,3%	9,6%	8,9%	5,2%

This comparison shows that the "Operating Profit or loss and income and expenses from integral associates and joint ventures" is materially impacted by Renault's share in Nissan's net income, which accounts for between 9% and 73% of the operating margin depending on the year, and in 2018 included a material impact (representing 19 % of operating margin) related to the U.S. tax reform: under the ED, this would be included in a subtotal before the "Profit or loss **before** financing and **tax"**, which is particularly misleading.

Question 8 - Roles of the primary financial statements and the notes, aggregation and disaggregation

(a) Paragraphs 20–21 of the Exposure Draft set out the proposed description of the roles of the primary financial statements and the notes.

(b) Paragraphs 25–28 and B5–B15 of the Exposure Draft set out proposals for principles and general requirements on the aggregation and disaggregation of information.

Paragraphs BC19–BC27 of the Basis for Conclusions describe the Board's reasons for these proposals.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

We agree that the primary financial statements should enable comparison between entities and between reporting periods for the same entities as stipulated by paragraph 20 (a) and (b), and identification of items or areas about which to seek additional information in the notes as stated by paragraph 20 (c), but defining the operating category as a residual category and forbidding mixed presentation in the statement of profit or loss (as stated by paragraph B46) will critically jeopardize these aims.

We see no consistency between what is prescribed by paragraph 42, obliging entities to present additional line items in the statement of financial performance (including by disaggregating required minimum line items) when such presentation is relevant to the understanding of the entity's financial performance, and the requirements of paragraph B46 forbidding to do so. If we are presenting a statement of profit or loss by function and we have for instance a material expense / income item such as impairment of goodwill (specific nature of expense), should

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we present it separately or not? - if not, that would jeopardize the correct understanding of our performance and our ability to present financials comparable to other entities or other periods.

The prescription of paragraph B46 is particularly disturbing as it makes an exception for some types of expense (as stipulated in paragraph B47 and detailed in paragraph 65) such as impairment losses in accordance with section 5.5 of IFRS 9 (paragraph 65 (b) (ii)), without giving any justification for such exceptions and their usefulness for users.

We consider that this inconsistency must be at least clarified in the final standard, and we strongly suggest amending B46 and paragraph 65 (b) (ii) to ensure that paragraph 42 will be applied with no restriction. This, in our view, is a prerequisite to ensure that the objectives of primary financial statements described in paragraph 20 will be effectively met.

Question 9 – Analysis of operating expenses

Paragraphs 68 and B45 of the Exposure Draft propose requirements and application guidance to help an entity to decide whether to present its operating expenses using the nature of expense method or the function of expense method of analysis. Paragraph 72 of the Exposure Draft proposes requiring an entity that provides an analysis of its operating expenses by function in the statement of profit or loss to provide an analysis using the nature of expense method in the notes.

Paragraphs BC109–BC114 of the Basis for Conclusions describe the Board's reasons for the proposals.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

We strongly disagree with these proposals for the following reasons:

- We consider that if the entities using the function method have demonstrated that this method is the one providing the most useful information to users of their financial statements, they should not also have to provide information by nature, given that entities using the nature method are not required to provide additional information by function. Introducing such dissymmetry in the disclosure requirements depending on the method used could lead some entities to choose the nature method simply to avoid the cost of reporting by both function and nature. There was a similar outcome with IFRS 8 (or to be more precise with SFAS 131): more information is required of entities using operating segments rather than geographical segments.
- We strongly disagree with what is stated in paragraph BC110 (i.e. "(..) useful information can be lost because entities choose which method to use and because, in practice, many entities use a mixture of both methods"). Entities do not choose a method with the aim of avoiding giving relevant information, but because it has been considered by the management as the most relevant for decision-making and is common practice in their industry, providing comparable information. As already stated in our previous answers (see answers to question 2 and 7), banning mixed presentation in the statement of profit or loss is one of the major flaws of this ED, and will dramatically jeopardize the relevance of the information provided and the comparability between entities. Forbidding such mixed presentation and introducing a

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new disclosure note to compensate for the corresponding loss of useful information is a very poor makeshift solution.

- We do not understand why some users are adamantly claiming that an analysis of expenses by nature will allow them to better forecast future operating expenses, when such information is currently not available internally and yet management is able to make budgets and mid-term plans based on the function method. It makes no sense to consider certain information key for users when such information is not internally available.
- We strongly disagree with the unsupported statement made in paragraph BC 113 (i.e. "The strong support for this proposal from users of financial statements has led the Board to conclude that the benefits of having information about operating expenses by nature would be likely to exceed the costs"). The recent implementation of IFRS 16 has shown the dramatic underestimation of costs generated by the implementation of new standards compared to the benefit of the information provided. The cost of providing reliable information by nature for entities using reporting by function is in no way comparable to the costs generated by the implementation of previous standards, as it concerns all operating expenses, not only a specific nature of income or expense such as revenue for IFRS 15 or rental expenses for IFRS 16. Although information by nature is commonly available in the financial information used by individual entities, that is mainly due to their statutory financial statement requirements. Therefore, this information is specific to each subsidiary / country based on local requirements and is rarely consistent from one entity / country to the other. Providing consistent information by nature at Group level will be particularly costly and will oblige us to account for expenses by nature under two sets of accounting rules (local requirements and IFRS requirements). The analysis of rental expenses done to apply IFRS 16 requirements was a good indicator of the heavy workload necessary to implement consistent definitions. Once the nature is consistently defined, we would have to eliminate intragroup transactions for each reporting period. Given the tight closing deadlines and the cost of analyzing and eliminating intragroup transactions by function (with three main functions), such work for both function and nature will be highly complex and extremely costly for all future periods.

Question 10 - Unusual income and expenses

(a) Paragraph 100 of the Exposure Draft introduces a definition of 'unusual income and expenses'.

(b) Paragraph 101 of the Exposure Draft proposes to require all entities to disclose unusual income and expenses in a single note.

(c) Paragraphs B67–B75 of the Exposure Draft propose application guidance to help an entity to identify its unusual income and expenses.

(d) Paragraphs 101(a)–101(d) of the Exposure Draft propose what information should be disclosed relating to unusual income and expenses.

Paragraphs BC122–BC144 of the Basis for Conclusions describe the Board's reasons for the proposals and discuss approaches that were considered but rejected by the Board.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

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We agree that information about unusual income and expenses may improve the relevance and the comparability of financial statements, but wish to make the following comments on the proposals made in the ED:

- The definition given in paragraph 100 seems highly judgemental and overly restrictive, which will lead to a lack of comparability and relevance in the information provided. A broader definition considering not only predictive value but also comparison with past periods when some expenses have been materially different from one period to the other would add more relevance to the information provided.
- Users of Financial Statements want separate reporting in the operating performance not only of items that are not reasonably expected to occur in the coming years, but also of some material expenses not representative of the business and / or showing very material changes from one period to the other, such as restructuring expenses, to help them estimate what the operating performance would have been without these impacts and form an idea of future operating performance. The definition proposed by the ED will therefore not meet the needs of some key users, and these users will continue to ask for such information.
- As unusual income and expenses will not adequately meet the analysts' and investors' needs, entities will certainly continue to report unusual items corresponding to their own current definitions. Uding two different definitions will ultimately create more confusion than relevance.
- To give such information only in a dedicated disclosure note will clearly jeopardize the relevance and comparability of the statement of profit or loss between entities. It would have been preferable to allow entities to disaggregate these unusual items in their statement of profit or loss as prescribed by paragraph 42 (see answer to question 8). This is currently done in France in application of the current paragraph 85 of IAS 1 (paragraph 42 of the ED), and French entities thus use their IFRS financials directly for financial communication, more than entities in other countries.
- It is unclear in the ED if the adjustments accounted for in year N+1 (or later years) of an item considered as meeting the definition of unusual income or expense as stated in § 100 in year N can themselves qualify as an unusual income or expense. Clarification on this point would be helpful.

Question 11 – Management performance measures

(a) Paragraph 103 of the Exposure Draft proposes a definition of 'management performance measures'.

(b) Paragraph 106 of the Exposure Draft proposes requiring an entity to disclose in a single note information about its management performance measures.

(c) Paragraphs 106(a)–106(d) of the Exposure Draft propose what information an entity would be required to disclose about its management performance measures.

Paragraphs BC145–BC180 of the Basis for Conclusions describe the Board's reasons for the proposals and discuss approaches that were considered but rejected by the Board.

Do you agree that information about management performance measures as defined by the Board should be included in the financial statements? Why or why not?

Do you agree with the proposed disclosure requirements for management performance measures? Why or why not? If not, what alternative disclosures would you suggest and why?

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As indicated in our answers to questions 1 and 2, we are convinced that defining the operating category as a residual category will mean that no entity's operating profit or loss can be consistent with the operating performance measure they are currently using or the segment results as prescribed by IFRS 8.

We are therefore convinced that applying this new ED will lead to new Management performance measures that were not considered as such previously. This will make IFRS financial statements less and less relevant for external communication and presentation of the financial performance to users, and also for internal use by management and employees / trade unions for profit sharing performance metrics.

As a listed European Entity, we already apply the requirements of EU regulations and more particularly the regulations on Alternative Performance Measures and all requirements of the Transparency Directive, the Market Abuse Regulation and the Prospectus Directive. We are concerned that the proposed new IFRS requirements will add further disclosures on top of all the information already provided on this topic in the EU, and thus create confusion if EU regulations differ from IFRS requirements.

In our view, adding specific disclosure requirements to reconcile MPMs with GAAP measures will not give more relevant information than current mandatory disclosures in the EU. On the other hand, we consider that it could help to ensure consistency of definitions over time.

We strongly oppose the new requirement stipulated in paragraph 106 (c) regarding the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation. Disclosing this information is pointless and offers no demonstrated added value or cost/benefit analysis. As indicated in the ED, determination of the income tax impact may be so difficult that the ED offers some practical expedients. We fail to see why preparers should take the responsibility for applying such expedients which could ultimately be irrelevant or misleading, and why any users that consider such information relevant should not work it out for themselves using the practical expedient they consider the most adequate. A management performance measure is by definition a measure defined by management, and we do not see why such information on tax and non-controlling interest impacts should be demanded when no similar information is used internally or has ever required by IFRS 8 on the segment results, which can be a non-GAAP measure but would be an MPM according to the definition in the ED.

All this additional information is very costly and time-consuming to produce and puts IFRS issuers at a great disadvantage compared to U.S. GAAP issuers for instance, which is a real concern in the EU. Adding such irrelevant information is, in our view, inconsistent with what was stated in the Disclosure initiative project.

Question 12 - EBITDA

Paragraphs BC172–BC173 of the Basis for Conclusions explain why the Board has not proposed requirements relating to EBITDA.

Do you agree? Why or why not? If not, what alternative approach would you suggest and why?

We do not publish EBITDA and will therefore not answer this question.

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Question 13 - Statement of cash flows

(a) The proposed amendment to paragraph 18(b) of IAS 7 would require operating profit or loss to be the starting point for the indirect method of reporting cash flows from operating activities.

(b) The proposed new paragraphs 33A and 34A–34D of IAS 7 would specify the classification of interest and dividend cash flows.

Paragraphs BC185–BC208 of the Basis for Conclusions describe the Board's reasons for the proposals and discusses approaches that were considered but rejected by the Board.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

We agree with the proposal related to the starting point of the Statement of cash flows, although using the operating profit or loss could give a false impression that only operating items are contributing to the operating flows, which is not true, as the operating flows category is the residual category for all flows not corresponding to financing or investing flows.

We strongly disagree with some of the other proposals made, for the following reasons:

- Obliging entities to present cash interest payments in cash flows from financing activities and cash interest income in cash flows from investing activities will end the comparability between IFRS and U.S. GAAP financial statements, which will severely jeopardize comparability between entities in our industry where the main entities use either U.S. GAAP (Ford, General Motors, Toyota) or IFRS (French and German entities for instance). This proposal is particularly disturbing: all the compelling arguments detailed in paragraph BC 203 are rejected based on the presumed consistency between operating profit or loss and operating cash flows. The cash flows from operating activities are a residual category of cash flows in IAS 7 and there is no consistency between the investing and financing categories of IAS 7 and the ones proposed in the ED for the statement of profit or loss. See examples illustrating the lack of consistency below. The argument of paragraph BC204 (b) is therefore erroneous and cannot justify rejecting all the compelling arguments of BC203. We therefore strongly recommend only allowing interest paid and received to be presented in operating cash flows in the statement of cash flows.
- Obliging entities to present all dividends received in the investing category is even more disturbing. This also creates a difference with U.S. GAAP, but this difference is even worse than in the case of interest because of the very relevant analysis performed by U.S. GAAP on this issue, which is totally disregarded in the basis for conclusion of the ED. We strongly recommend including in the basis for conclusion the discussion presented in the **EITF Issue No. 15-F,** "Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments" issued in September 17, 2015 and June 10, 2016 (issue 6). See additional comment below.
- In our view, presenting the dividends received from integral associates and joint ventures in investing cash flows is unjustified, and we note that paragraph BC208 once again uses the false argument of the supposed consistency between the categories in the statement of profit or loss and in the statement of cash flows. This argument is even less convincing here, as considering the criteria for classifying an associate or joint venture as integral, the share in the profit or loss of integral associates or joint ventures is of an operating nature more than an investing nature.

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Alleged consistency between the Statement of Profit or Loss categories (as defined in the ED) and the cash flow categories defined by IAS 7:

We are not convinced that there is a demonstrable consistency between the categories defined in the statement of profit or loss and in the statement of cash flows. It is therefore unjustified to use this argument to change the classification of certain cash flows from the current IAS 7 instructions. The following examples are illustration of this lack of consistency:

- Capital expenditure is included in investing cash flows and the corresponding P&L impacts (i.e. depreciation and amortization) are in the operating profit or loss.
- When we buy an item of property, plant & equipment through a lease, the P&L impact of this acquisition is reflected both in the operating category (depreciation of the right of use) and the financing category (the interest included in the rental expense). The corresponding cash payments are all presented in the Financing category in the Statement of cash flows.
- The recent IFRIC agenda paper on reverse factoring has indicated that when payables have been included in a reverse factoring arrangement with a financial institution, the payment of the payable to the financial institution will have to be reported as a financing cash flow even if the P&L impact of this payable is in the operating category of the statement of profit or loss.

Main conclusion of EITF – Issue N° 15-F (issue 6):

This EITF analysed several issues related to the Statement of Cash flows and more specifically the classification of certain receipts and cash payments. Issue 6 is particularly relevant as it analyses the classification of distributions received from Equity Method Investees. It concluded that such distributions will be presumed to be returns **on** investment and classified as cash flows from operating activities, unless the investor's cumulative distributions received less distributions received in previous years that were determined to be returns **of** investment exceed the cumulative equity in earnings recognized by the investor. When such an excess occurs, the current period distribution, up to this excess, should be considered a return of investment and be classified as cash flows from investing activities.

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