RÉPUBLIQUE FRANÇAISE
Liberté
Égalité
Fraternité

AUTORITÉ
DES NORMES COMPTABLES

Paris, 28 September 2020

Patrick de Cambourg

AUTORITE DES NORMES COMPTABLES
5, PLACE DES VINS DE FRANCE
75573 PARIS CEDEX 12

Phone : 01 53 44 28 53
Mail. : patrick.de-cambourg@anc.gouv.fr
Internet : www.anc.gouv.fr

Mr Hans Hoogervorst
IASB Chair
7 Westferry Circus, Canary Wharf
LONDON, E14 4HD
United Kingdom

PDC n°30

IASB Exposure Draft ED/2019/7: General Presentation and Disclosures

Dear Hans,

I am writing to you on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned IASB Exposure Draft (ED). ANC welcomes the opportunity to comment on the IASB's proposals included in the ED. Our letter sets out the most important matters that interested stakeholders involved in ANC's due process have identified.

The need for standard-setting

ANC observes that the IASB's proposals are of particular interest in France where the presentation of financial statements has been subject to long-standing scrutiny and discipline. Consistent with many French constituents' view, ANC thinks that accounting requirements cannot be limited to the question of how to measure and recognise individual assets, liabilities, expenses and income. Presentation and disclosure requirements ensure that financial statements provide relevant information—in particular by enabling users to understand an entity's financial position, financial performance, cash-flows and stewardship. From this point of view, ANC thinks that the existing requirements in IFRS Standards, in particular those in IAS 1 *Presentation of Financial Statements,* insufficiently specify how an entity presents its financial statements.

In the absence of a robust presentation framework, ANC published recommendations on the presentation of IFRS financial statements[1] in 2004. ANC has been regularly updating those recommendations since then to reflect amendments to existing IFRS Standards and the requirements in new IFRS Standards. ANC's recommendations reflect the consensus among French stakeholders on how an entity should present its position, performance and cash flows. Accordingly, many entities apply ANC's recommendations. With hindsight, ANC thinks its recommendations have improved the relevance and comparability of French entities' financial statements.

[1] ANC's Recommendation (2020-01) on the presentation of financial statements
ANC's Recommendation (2017-02) on the presentation of financial statements for banks
ANC's Recommendation (2013-05) on the presentation of financial statements for insurance companies.

The lack of robust presentation framework also led ANC to:

- recommend in 2015[2] that the IASB set a high priority to a project that would improve the presentation and disclosures in financial statements, in particular the reporting of an entity's financial performance.
- carefully monitor the development of taxonomy. In ANC's view, the dearth of presentation requirements creates a risk that taxonomy could be used to standardise financial statements.

In the light of this background, ANC welcomes the IASB's standard-setting project on general presentation and disclosure. The expectation that entities provide more comparable information about the reporting of their financial performance, together with the increasing use of management performance measures (MPMs), have made this project more apposite over the past few years.

ANC's overall feedback

The IASB proposes to improve how information is communicated in the financial statements, with a focus on information included in the statement of profit or loss. To meet that objective, the IASB proposes to require entities to (a) present new defined subtotals in the statement of profit or loss, (b) disaggregate information in a better way, and (c) disclose information about MPMs. The ED also includes miscellaneous proposals—in particular to make targeted modifications to the statement of cash flows.

ANC agrees with the ED's objectives and scope.

ANC supports *in principle* many of the IASB's proposals in relation to the presentation of subtotals. ANC agrees with the proposal that an entity should present an operating, investing and financing categories in its statement of profit or loss (Questions 1–6). Notwithstanding its support for the presentation of those categories, ANC partly disagrees with, or seeks clarifications on, how the ED defines those categories. In particular, the operating category will provide useful information only if it faithfully represents what it purports to represent ie if it effectively, from both management and users' perspectives, captures income and expenses from an entity's main business activities and present them in a way that enhances the understanding of an entity's performance—defining accurately the other categories of the statement of profit or loss will help achieve that objective. ANC also supports many of the IASB's proposals for the presentation of integral or non-integral associates and joint-ventures (Question 7).

ANC has mixed views on the IASB's proposals in relation to the disaggregation of information. ANC supports the proposed principles and general requirements on the aggregation or disaggregation of information (Question 8). However, ANC disagrees with most of the IASB's proposals about the disaggregation of operating expenses (Question 9). While agreeing with the requirement to disclose in a single note information about unusual items, ANC disagrees with the IASB's proposed definition for such items.

ANC partly agrees with the IASB's proposals on MPMs (Question 10). ANC agrees that any standard-setting should aim to increase the quality of disclosures about MPMs. However, ANC thinks the IASB's proposals could apply to a large population of measures and thus, could be costly to implement.

As a final note, ANC disagrees with the IASB's proposals in relation to the statement of cash flows (Question 13) and recommends the IASB define EBITDA (Question 12).

Appendix A to this letter includes ANC's detailed comments on each question included in the Exposure Draft.

ANC's main concerns

As explained above, ANC supports the thrust of the project. However, ANC is concerned that some proposals in the ED might not result in an entity providing relevant information and/or might be difficult or costly to implement. In particular, ANC has concerns about (a) the classification of some items of income and expenses in the statement of profit or loss that might prevent the presentation of relevant information and that might not enhance the understanding of an entity's performance, (b) the absence of definitions or detailed application guidance for some key requirements and, (c) the cost of some requirements that might not exceed their expected benefits.

---

[2] When ANC expressed its views on the 2015 IASB's Agenda Consultation.

Classification of income and expenses

ANC thinks that some of the proposed requirements might result in an entity presenting in separate categories (for example in the investing category on the one hand, in the financing category on the other hand) items of income and expenses that are, from management's perspective, interrelated. This is most notably the case when an entity implements asset-liability management strategies—for example when an entity invests in financial assets (the returns of which would be presented in the investing category applying the proposed requirements) to secure the funding of liabilities (the unwinding effect of which would be presented in the financing category). In those circumstances, ANC thinks relevant to present such income and expenses in the same category. Accordingly, ANC recommends either (a) amending the definition of the financing category, or (b) not requiring the presentation of a 'profit or loss before financing and income tax' subtotal in the statement of profit or loss (see Question 6).

Furthermore, the IASB proposes that an entity shall not provide an analysis of expenses classified in the operating category using a mixture of (a) the nature of expense method and (b) the function of expense method. Nonetheless, ANC considers that this mixture may be relevant in some circumstances—for example, when an entity recognises significant impairment losses on goodwill or items of property, plant and equipment and uses a by-function analysis of its operating expenses. ANC therefore recommends an entity be permitted to present specific expenses by nature regardless of the analysis of operating expenses retained.

Lack of detailed application guidance

The ED does not include any definition for two concepts that ANC considers as essential.

First of all, the ED does not specify what a 'main business activity' is. This notion is central to classify (a) income and expenses in one of three proposed categories of the statement of profit or loss (see Questions 3–4) and (b) interests and dividends in the statement of cash flow (see Question 13). ANC questions how stakeholders will understand this concept. Furthermore, the IASB proposes some accounting policy choices that will build on this notion. ANC is concerned that the lack of definition for this notion might result in a loss of comparability. Consequently, ANC recommends the IASB (a) define 'main business activity' or (b) link it more explicitly to the notions of 'operating segment' and 'parts of an entity that are not an operating segment or part of an operating segment' in IFRS 8 *Operating Segments*.

ANC furthermore notes that the IASB proposes to define MPMs as subtotals of income and expenses that are used in public communications outside the financial statements. The IASB does not define 'public communications outside the financial statements'. ANC understands that this notion may be very broad and thus, could capture many measures—this, in turn, could significantly increase the cost of preparing, reviewing and auditing the information disclosed about MPMs. Accordingly, ANC recommends the IASB clarify the boundaries of MPMs.

As a final note, ANC observes the IASB has not developed any specific application guidance for the classification of some items of income and expenses that are usually material and that investors usually restate when analysing an entity's performance (because such items have little, if any, predictive value). Such items include impairment losses for goodwill, gains or losses associated with (a) the loss of control of a subsidiary or with (b) the remeasurement of a previously held equity interest in an acquiree when a step acquisition occurs. ANC also notes that the operating category is defined as a 'default' one. Accordingly, applying the IASB's proposals, ANC understands that an entity would present the aforementioned items of income and expenses in the operating category. In ANC's view, such classification is questionable. Therefore, ANC recommends the IASB explicitly consider the presentation of such items and develop adequate presentation requirements.

Cost of some proposed requirements that might exceed their expected benefits

ANC has been made aware of the significant costs that entities would incur if two IASB's proposals were to be implemented.

Providing an analysis of all operating expenses using the nature of expense method for entities that present their statement of profit or loss using the function of expense method is, by far, the most costly proposed requirement. This is a great matter of concern for French constituents. In ANC's view, users' main information needs could be satisfied by requiring an entity to disclose *some, but not all,* expenses by nature (such as the employee benefits expenses, depreciation and amortisation expenses, impairment losses).

The requirement to disclose for each MPM the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation between the MPM and the most directly comparable subtotal or some specific subtotals may also be costly. ANC considers that this requirement is burdensome and not relevant especially as such effects are not disclosed for the MPM itself and the most directly comparable subtotal when this subtotal excludes the effects of income tax and non-controlling interests.

Should you need any further information, please do not hesitate to contact me.

Yours sincerely,

Patrick de Cambourg

Appendix A

ANC's detailed comments on Exposure Draft 2019/7

Question 1 - Operating profit or loss

Paragraph 60(a) of the Exposure Draft (ED) 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?

The IASB proposes requiring the presentation of a subtotal for operating profit or loss. That operating profit would include all income and expenses classified in the operating category. ANC supports this proposal. In ANC's view, the presentation of a subtotal for operating profit or loss would improve the comparability of entities' financial performance and thus, should result in a significant improvement to financial reporting. ANC also observes that French entities usually present a similar subtotal in their statement of profit or loss because both entities' management and users of financial statements consider this subtotal as providing useful information.

However, in ANC's view, the presentation of this subtotal will provide useful information only if the investing and financing categories are well-defined and encompass material income and expenses—this is because the operating category is defined as a 'default category' (see Question 2). Otherwise, there is a risk that some stakeholders question the usefulness of the information derived from those categories and then use MPMs to provide information that, they think, would be more useful than the information derived from the proposed requirements. In those circumstances, the publication of MPMs linked to operating profit (for example 'adjusted operating profit') would remain a widespread practice and comparability would not be significantly improved—efforts to increase comparability through the use of this subtotal may be of no avail and the benefits of any standard-setting may be limited. ANC's concerns in this respect are developed further in Questions 2–6.

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?

ANC understands the reasons for the IASB's approach to define the operating category as a default category. Notwithstanding this, ANC makes the following recommendations:

- ANC considers that defining the operating category as a residual one will inevitably lead to conflate some income and expenses with dissimilar characteristics—ie items of income and expenses that are non-recurrent and/or not directly linked to the operating activity, with income and expenses that are both recurring and directly linked to the operating activity. For example, ANC thinks that the classification by default of some items in the operating category may lead, in some instances, to a questionable outcome. Accordingly, ANC recommends the IASB consider the presentation of such items (see below for a description of those items).
- ANC is concerned about the lack of definition of 'main business activity'. Thus, ANC recommends the IASB either develop requirements in this respect or discuss the link between 'main business activity' and the existing notions of 'operating segment' and 'parts of an entity that are not an operating segment or parts of an operating segment' in IFRS 8 *Operating Segments*.
- ANC seeks clarifications about the presentation of income and expenses that are not related to an entity's main business activities and thus, recommends the IASB fine-tune the definition of the operating category;
- ANC recommends clarifying the presentation of operating income and expenses when an entity has several main business activities (for example a manufacturer providing financing to its customers) to achieve the presentation of relevant information.

- *Operating category defined as a default category*

As explained in Question 1, ANC supports the creation of an operating category in the statement of profit or loss. ANC understands that an entity classifies in this category all income and expenses that are not classified in the other categories as set out in paragraph 46(a)–46(e) of the ED. The definition of those other categories, together with some exceptions to those definitions (in particular the exceptions set out in paragraphs 48 and 50–51), are likely to result in an entity including in the operating category all income and expenses arising from its main business activities. ANC acknowledges that developing a principle-based definition of the operating category would have been the best approach from a conceptual perspective. However, ANC supports the practical way forward retained by the IASB in this respect.

Having said that, ANC observes that defining the operating category as a default one has some inherent limitations. Applying the proposed amendments, an entity may present in the operating category some items of income and expenses that are non-recurrent and/or not directly related to its main business activities such as the disposal of non-current assets. Owing to the prohibition to provide an analysis of expenses classified in the operating category using a mixture of the nature of method and the function of expense method (paragraph B46 of the ED—see Question 9), an entity may not be permitted to present such items of income and expenses as separate lines items in its statement of profit or loss.

More specifically, ANC notes that this ED neither explicitly specifies nor provides a category that would apply to some items of income and expenses that are (a) frequently material and (b) restated by investors when analysing an entity's financial performance. ANC notes that the following items may not be classified in the investing category and thus, may have to be presented in the operating category, by default:

- impairment loss for goodwill;
- gains and losses related to non-current assets held for sale as part of continuing operations (i.e. not eligible to a separate presentation as a discontinued operation in the statement of performance applying IFRS 5 *Non-current Assets held for Sale and Discontinued Operations*[3]);
- the gain or loss arising from the loss of control of a subsidiary as specified in paragraphs B98–B99A of IFRS 10 *Consolidated Financial Statements;* and
- the gain or loss related to the remeasurement of the previously held equity interest in an acquiree when the entity obtains control of that acquiree in steps in accordance with paragraphs 41–42A of IFRS 3 *Business Combinations.*

ANC notes that those items pertain, in substance, to investments or divestments decisions—they do no relate operating activities. Accordingly, ANC strongly questions the relevance of presenting such items in the operating category. ANC also questions the effect of their inclusion in that category on the direct comparability of the operating profit or loss between entities relying on organic and those relying on external growth. ANC thinks that the concerns about how such items affect the usefulness of operating profit subtotal and the comparability of the statement of profit or loss may lead entities to present their own MPMs, such as an operating profit excluding such items. Accordingly, ANC recommends the IASB discuss explicitly the presentation of such items and develop adequate presentation requirements.

ANC considers that such items could be included in the investing category—in this case, the definition of the investing category would need to be amended so as to include income or expenses related to changes in the consolidation scope (see Question 5).

- *Definition of a 'main business activity'*

ANC agrees that all items of income and expenses related to an entity's main business activity shall be included in the operating category (except for the items discussed above). ANC observes that the notion of 'main business activity' is essential to identify income and expenses to include in, or exclude from, the investing and financing categories. This is in particular essential when the reporting entity is a conglomerate and, in general, when that entity operates activities that are not limited to manufacturing activities. Nonetheless, the ED does not explain what a main business activity is. In ANC's view, defining the operating category as a default category is acceptable only if the other categories (such as investing and financing categories), their purposes and scopes are accurately defined. Accordingly, ANC is concerned that the lack of definition for main business activity may (a) lead to the extensive use of judgement and thus, may affect the comparability of financial statements and (b) ultimately trigger requests to the IFRS Interpretations Committee (IFRS-IC)—ANC is concerned that, in those circumstances, given the lack of definition for this notion, the IFRIS-IC may be unable to answer these requests.

Therefore, ANC recommends the IASB provide a definition for 'main business activity'. ANC also recommends the IASB link it with the notions of 'operating segment' and 'parts of an entity that are not an operating segment or part of an operating segment' in IFRS 8. ANC observes that this would leverage notions that are well-understood in practice by both the preparers and users of financial statements.

[3] Note that paragraphs 33 and 33A of IFRS 5 do not specify the position of the single amount to be presented in the statement of financial performance

- *Presentation of information about income and expenses that are not related to any entity's main business activities*

ANC notes that the ED does not specify how an entity would classify income and expenses that (i) are not related to its main business activities and (ii) do not meet the definition of items to be presented in the investing and financing categories. ANC understands that these items of income and expenses would be classified, by default, in the operating category. However such items would then only partly meet the definition of items to be classified in the operating category—this is because, applying the definition of operating category in paragraph 46 of the ED, they would not represent information about income and expenses from the entity's main business activities. ANC asks whether its understanding of the proposed definition is correct and, if so, suggests the IASB fine-tune this definition.

- *Presentation of operating income and expenses from different main business activities*

ANC observes that the ED does not specify how an entity presents the operating category when that entity has several business activities. In particular, the ED does not explain how an entity presents the operating category when it classifies in that category items of income and expenses applying (i) paragraph 46 of the ED and (ii) paragraphs 48, 51–52 of the ED. This is the case of a manufacturer providing financing to its customers. Illustrative Example 11 hints that, in such circumstances, an entity would present income and expenses separately for each activity. ANC agrees that this presentation provides useful information but thinks any standard-setting should be explicitly prescriptive in this respect. In this case, the purpose of standard-setting should not be to bring uniformity between entities' financial statements—instead, it should enable users to compare, without the use of MPMs, the operating performance of entities that have several business activities with the performance of entities with a single business activity.

In addition, any standard should indicate whether the income and expenses from each activity and the related subtotals should be presented excluding or including inter-activities transactions: if one holds the view that they should be presented excluding inter-activities transactions—because consolidated financial statements always exclude all intercompany transactions—there is a risk that the subtotals presented might be irrelevant and/or misleading as well as potentially confusing with segment information. Therefore, ANC recommends the IASB discuss explicitly this matter and develop adequate presentation requirements.

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?

Notwithstanding its concerns about (a) the lack of definition for 'main business activity' (see Question 2) and (b) about including in operating profit some items of income or expenses (as listed in Question 2 under the section 'Operating category defined as a default category'), ANC agrees that income and expenses from investing activity made in the course of an entity's main business activities shall be presented in the operating category. In particular, ANC agrees that, as an exception to the principle set out in paragraph 47 of the ED, insurers, investment properties, investment companies and banks may classify items of income and expenses from their investing activity in the operating category.

However, ANC seeks clarifications about how the exception set out in paragraph 48 of the ED would apply when the investing activity (a) funds existing or new main business activities, or (b) becomes itself one of the entity's main business activity:

- let's consider a manufacturer investing in financial assets and using the returns arising thereof to build up a cash reserve. The manufacturer would use the cash to make acquisitions related to its main business activities. In those circumstances, it is unclear if the entity assesses that the income and expenses related to these investments are part of (a) the investing category applying paragraph 47 of the ED or (b) the operating category applying paragraph 48 of the ED (because the returns from the investments help fund a *new* business activity or support the organic growth of an existing main business activity).
- let's now assume that the manufacturer has accumulated an amount of cash reserves that is important and that the activity of investing in financial assets makes a significant contribution to the manufacturer's financial position and performance. In those circumstances, the investment activity could be considered as a new main business activity.

Therefore, ANC recommends that the IASB develop requirements specifying the circumstances in which an investing activity is considered as a main business activity.

Paragraph BC60 of the ED explains that the IASB developed the requirement in paragraph 48 having in mind the activity of insurance entities—this paragraph explains that investing in assets that generate returns individually and largely independently of insurers' other resources is an important activity performed in the course of their main business activities although it may not be their main business activity. ANC also notes that insurers also have investments in associates and joint ventures, the returns of which are used to fund insurance claims. These returns affect the amounts paid to the policyholders for both participating contracts and non-participating insurance contracts. However, ANC notes that the requirement in paragraph 48 of the ED does not apply to income and expenses from non-integral associates and joint ventures. This requirement does not apply to integral associates and joint venture either. ANC disagrees with this restriction as it would create a 'presentation mismatch' that would fail to reflect the way insurers manage their activity—this is because an insurance entity would present in the investing category income and expenses from associates and joint ventures while it would present the effects of the changes in insurance liabilities in the operating category.

Accordingly, ANC recommends reconsidering the scope of the requirement in paragraph 48 to include income and expenses from associates and joint ventures.

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?

Paragraph 51 of the ED requires an entity that provides financing to its customers as a main business activity to classify part, or all items of, income and expenses that have a financing nature in the operating category. The entity has an accounting policy election as to whether it reclassifies (a) income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers (paragraph 51(a) of the ED), or (b) all income and expenses from financing activities and all income and expenses from cash and cash equivalents (paragraph 51(b) of the ED).

ANC agrees in principle with the proposed requirement in paragraph 51 of the ED. Nonetheless, ANC thinks that:

- the lack of definition for 'main business activity' may result in the population of entities applying paragraph 51 of the ED being too wide;
- the accounting policy election set out in paragraph 51 of the ED should be restricted. In ANC's view, entities whose financing activity is not their *major* business activity should not be permitted to classify in the operating category all income and expenses from financing activities and all income and expenses from cash and cash equivalents—those entities should, instead, be required to classify in the operating category only income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers. In other words, such entities should be required to apply the presentation requirement specified in paragraph 51(a) of the ED;
- the IASB should specify the method an entity should use to allocate financial income and expenses in the operating category when the entity applies paragraph 51(a) of the ED.

- *The scope of entities applying paragraph 51 of the ED*

ANC agrees that income and expenses of financial institutions or manufacturers that provide financing to their customers as a main business activity shall be included in the operating category of their statement of profit or loss. Nonetheless, the lack of definition for 'main business activity' makes it difficult to assess the scope of entities applying the requirement in paragraph 51 of the ED (and the policy election herein). For example, when an entity is the party to a construction contract or service concession arrangement including a significant financial component, the entity may conclude that it is also engaged in the business activity of providing finance to its customers and thus, may apply paragraph 51 of the ED. The uncertainty about the scope of entities that would apply that requirement, together with the presentation election included in that paragraph, may result in a significant loss of comparability between entities (see Question 3 for ANC's recommendations with respect to the lack of definition for 'main business activities').

- *The accounting policy choice in paragraph 51 of the ED*

  - Case of financial institutions

ANC agrees with the IASB's observation in paragraph BC63 of the ED that the financing category is not relevant for most financial institutions. Therefore, ANC expects these entities to apply the presentation specified in paragraph 51(b) of the ED. In ANC's view, such a classification would provide useful information.

  - Other entities (that provide financing to their customers as one of their *main* business activities but *not* as their *major* business activity)

ANC is concerned that an entity that provides financing to its customers as one of its *main* business activity but not as its *major* business activity (for example a manufacturer providing financing to its customer as a main business activity) would be permitted to apply the presentation specified in paragraph 51(b) of the ED. In those circumstances, the classification in the operating category of all income and expenses from financing activity and all income and expenses from cash and cash equivalents would lead to the inclusion, in the entity's operating profit, of income and expenses related to its financing structure. This option may hamper the comparison of operating profit between one manufacturer that would provide financing to its customers and another manufacturer that would not do so.

ANC holds the view that the presentation election specified in paragraph 51(b) of the ED should be limited to entities whose major business activity is to provide financing to their customers. An entity that provides financing to its customers only as one of its main business activities (but not as its major business activity) should only be required to apply the presentation specified in paragraph 51(a)—ie to classify in the operating category only items of income and expenses from financing activities and from cash and cash equivalents, that relate to the provision of financing to customers.

Therefore, ANC recommends the IASB require an entity to:
- use the method of classification that provides the most useful information to users of its financial statements. Requirements in this respect could specify factors or indicators that an entity would consider when deciding which classification method provides the most useful information; or
- classify all income and expenses from financing activity and all income and expenses from cash and cash equivalents in the operating category only if the activity of providing financing to its customers is its *major* business activity. ANC notes that IFRS 5 already includes a reference to 'major line of business' that it may be helpful to consider.

- *Allocation of financial income and expenses (paragraph 51(a))*

If an entity were to elect, applying paragraph 51(a), to classify in the operating category only income and expenses from financing activities that relate to the provision of financing to customers and if the financing liabilities were not to be specific to one activity, the entity would have to apportion the expenses related to those financing liabilities between those that shall be presented in the operating category and those that shall be presented in the financing category. ANC notes that, in such circumstances, the ED does not specify the method an entity shall use to perform the aforementioned allocation.

ANC acknowledges the IASB's observations in paragraphs BC64–BC66 of the ED about the difficulties of performing such an allocation. ANC also understands those difficulties led the IASB to permit the presentation in paragraph 51(b) of the ED. However, given the shortcomings of the presentation specified in paragraph 51(b) of the ED, ANC thinks the IASB should investigate further the feasibility of specifying an allocation method when an entity retains the presentation in paragraph 51(a) of the ED.

Therefore, ANC recommends the IASB specify an allocation method in this respect.

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?

In ANC's view, income and expenses related to investing activities that are not made in the course of a main business activity should, in principle, be excluded from the operating category. Therefore, ANC supports the proposal that an entity shall present an investing category in the statement of profit or loss.

Nonetheless, ANC is concerned about:

- the adequacy of the definition provided for the investing category;
- the fact that the ED does not specify requirements for some common transactions, events or conditions; and
- the possible presentation 'mismatches' that may arise between the investing and financing categories.

- *Adequacy of the definition for the investing category*

In ANC's view, an entity is not generally expected to hold material investments that would not be made in the course of its main business activities. Consequently, ANC thinks that the proposed definition for the investing category is too narrow in scope. In most cases, that category would include income and expenses related to financial assets that are held for liquidity reason (for example the funding of long-term liabilities such as environmental liabilities) or as a temporary use of excess cash—ie in relation to an entity's financing and treasury management. Unless an entity withholds significant balances of financial assets other than cash or cash equivalents to benefit from a tax advantage (such as the non-taxation of profits held overseas that applies in some jurisdictions), the investing category as defined in this ED is expected to include non-material amounts. This could undermine the need to present such a category in the statement of profit or loss.

If the IASB were to follow ANC's recommendation set out in Question 2[4], the investing category would be expected to include material amounts—this would fully justify the presentation of that category in the statement of profit or loss.

- *Transactions, events and conditions not addressed in the ED*

ANC has been made aware of practical difficulties in applying the definition of 'investing category' to some common transactions, events or conditions:

- entities happen to dispose of[5], or impair, their trade receivables applying the requirements in IFRS 9 *Financial Instruments*. Some asked whether entities should present the income or expense (loss) arising therefrom in the investing category—because entities could sell the receivable and generate a return individually and largely independently of other resources their hold—or in the operating category. ANC observes that IE6 presents impairment losses on trade receivables as part of the operating category but thinks such a presentation cannot solely be deduced from the reading of paragraphs 47–48 of the ED.

[4] As a reminder, ANC identified material items of income or expenses that may be presented in the operating category applying the existing definitions for the operating and investing categories, but that should, in ANC's view, rather be presented in the investing category (subject to changing the definition of that category). Such items include income or expenses pertaining to changes in the consolidation scope.
[5] As part of their working capital management.

- entities may waive a capital expenditure decision that, had it been carried out, would have created an asset that would have generated a return individually and largely independent of other resources held by the entity. In those circumstances, some asked in which category an entity shall classify the costs related to that failed capital expenditure.

Accordingly, ANC recommends the IASB set out specific requirements in relation to such common transactions, events or conditions.

- *Presentation 'mismatches' between the investing and financing categories*

ANC observes that entities may implement asset-liability management strategies. For example, some entities invest in financial assets or equity instruments to secure the funding of long-term liabilities that arise as part of their main business activities (such as decommissioning liabilities). In those circumstances:

- income and expenses related to those financial assets or equity instruments are expected to be presented in the *investing* category applying the requirements in paragraph 47 of the ED—this is because they may account for returns arising from investments that are generated individually and largely independently of other resources held by the entity.
- some items of income and expenses related to the long-term liabilities are expected to be presented in the *financing* category (unwinding effect).

In the absence of any specific presentation requirement in this respect, an entity would have to present in separate categories items of income and expenses that are, from management's perspective, intertwined ('presentation mismatch'). Such a mismatch may result in:

- a reduction in the comparability of the subtotal of profit or loss before financing and income tax in some circumstances, and
- an increase in the use of MPMs outside the financial statements.

    - <u>Comparability of the subtotal of profit or loss before financing and income tax</u>

Paragraph BC47 of the ED says that the subtotal of profit or loss before financing and income tax serves a similar purpose to a consistently defined EBIT—ie enabling users to analyse an entity's performance independently of how that entity is financed. ANC observes that an entity that would use the returns from its cash and cash equivalent balances to fund its long-term liabilities would present the related income in the financing category, applying paragraph 49(a) of the ED. Should the funding be made using financial assets that are not cash or cash equivalents or are equity instruments, the related income would be presented in the investing category. Accordingly, an entity that funds its long-term liabilities with returns from its cash or cash equivalents balances would have a lower profit or loss before financing and income than an entity using other financial assets or equity instruments. Permitting an entity to present the income from those other financial assets or equity instruments in the financing category, together with the unwinding effect computed on the liabilities, would ensure that subtotal of profit or loss before financing and income tax is unaffected by the nature of the underlying items used to fund the liabilities.

- Use of MPMs

ANC observes that users of financial statements in France support the presentation, in the statement of profit or loss, of a subtotal called 'cost of net debt'[6]. French stakeholders say this subtotal—that is usually made of several line items—provides useful information because it enables to present interest expenses computed on liabilities arising from financing activities together with income (or expenses) related to the financial assets used to back those liabilities. This is because the management of these assets and the decisions about debt and equity financing are interrelated.

Applying the proposed requirements in the ED, the presentation of such subtotal in the statement of profit or loss would be possible only when the income and expenses of liabilities arising from financing activities is managed in connection to items of income and expenses from cash and cash equivalents. ANC expects entities that fund liabilities with other financial assets or equity items to use a MPM to provide information that, they think, users would find useful. This MPM would be presented in the notes to the financial statements. In ANC's view, this would significantly impair the benefits of the proposed standard-setting.

- ANC's recommendations

To address the concerns about the mismatch issue described above, ANC recommends the IASB explore two alternative solutions:

- Solution 1: permit income or expenses from financial assets or equity instruments that are used as part of an asset-liability management strategy be presented in the financing category (rather than in the investing category), together with the income or expenses from the liability (arising from financing activities) to which they relate. This would ensure comparability between entities and enable entities to present a 'cost of net debt' subtotal.
- Solution 2: not require the presentation a profit or loss before financing and income tax subtotal in the statement of profit or loss. That subtotal would not be part of the subtotal whose presentation is required by paragraph 60 of the ED, but would be included in the subtotals specified by IFRS Standards that are not management performance measures as listed in paragraph 104 of the ED. This would give entities flexibility in presenting the line items included in the financing and investing categories and thus, would allow them to present a 'cost of net debt' subtotal.

[6] ANC's Recommendation (2020-01) on the presentation of financial statements defines 'cost of net debt' as the difference between the expenses of financial liabilities and the income (or expenses) related to cash and cash equivalents and other financial assets such as assets that are legally or contractually allocated to the payment of the debt.

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

- *Income and expenses from financing activities*

As explained in Question 5, ANC supports the creation of a financing category that, as proposed by the IASB, includes (a) income and expenses from cash and cash equivalents, (b) income and expenses on liabilities arising from financing activities and (c) interest income and expenses on other liabilities, but that should also include income or expenses from financial assets or equity instruments that are used as part of an asset-liability management strategy. In ANC's view, such a revised definition would provide comparable and useful information.

ANC agrees that income and expenses from cash and cash equivalents are not part of the investing category. This is because the management of cash and cash equivalents is strongly linked to the management of debt.

- *Profit or loss before financing and income tax*

ANC agrees that a subtotal similar to the Earnings Before Interest and Tax (EBIT) subtotal provides useful information. Consequently, ANC agrees, in principle, with the IASB's proposal to require entities to present a subtotal called 'profit before financing and income tax'. However, ANC's support depends on the IASB's retained approach for the presentation of income or expenses from financial assets or equity instruments that are used as part of an asset-liability management strategy. Should the IASB not require an entity to present such items in the financing category, ANC would support *permitting* but not requiring entities to present this subtotal (see Question 5).

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?

ANC agrees in principle with the IASB's proposals in relation to integral and non-integral associates and joint ventures. ANC observes that a substantial proportion of IFRS preparers in France—those that have material associates or joint-ventures—have already applied a presentation for associates and joint ventures that is similar to the IASB's proposal. ANC is not aware of any practical difficulty in this respect and thinks the IASB's proposals can be operationalised without entities applying extensive judgment. Notwithstanding its support, ANC suggests the IASB reassess the relevance of the definition for integral joint ventures and associates. ANC also reiterates its reservations expressed in Question 3 about the presentation of income and expenses from associates and joint ventures when the entity invests in associates and joint venture in the course of its main business activities (case of insurance entities).

- *Definition of integral versus non-integral associates and joint-ventures*

The IASB proposes to include in IFRS 12 a definition for integral associates and joint ventures that reads as follows: 'associates and joint ventures accounted for using the equity method that are *integral to the main business activities* of an entity and hence do not generate a return individually and largely independently of the other assets of the entity' (emphasis added). Paragraph 20D of IFRS 12 states that '…a significant interdependency between an entity and an associate or joint venture would indicate that the associate or joint venture is integral to the main business activities of the entity…'. Paragraph 20D goes on and provides a set of indicators that helps an entity identify when such an independency exists.

ANC agrees with the proposed set of indicators that helps distinguish whether an associate or joint ventures are integral to an entity's main business activities. ANC acknowledges that such an assessment may requires the use of judgment. However, ANC thinks the judgement involved is not substantially different from judgements already required in applying other IFRS Standards. ANC thinks that entities' management are well-positioned to exercise that judgement.

ANC notes that an associate or a joint venture that an entity assesses as being integral to its main business activities (applying paragraph 20D of IFRS 12) will meet the definition of an integral associate or joint venture as specified in Appendix A to IFRS 12 if the associate or joint venture does not generate a return individually and largely independently of the other assets of the entity—in the Board's view, the existence of such returns is a consequence of the associate or joint venture being integral to the entity's main business activities. However, ANC has made been made aware of circumstances in which an associate or joint venture could meet all of the indicators specified in paragraph 20D of IFRS 12 but would fail to meet the definition of integral associates or joint ventures because it generates a return individually and largely independently of the other assets of the entity. ANC suggests the IASB reassess the relevance of the definition for integral (and non-integral) joint ventures and associates to bring them in line with the indicators in paragraph 20D of IFRS 12—ANC thinks this could be achieved by removing 'and hence do not generate a return individually and largely independently of the other assets of the entity' from the definition of integral associates and joint ventures.

- *Separate presentation of the share of profit or loss of integral and non-integral associates and joint ventures*

ANC concurs with the IASB's proposal to require entities to present separately their share of profit or loss of integral associates and joint ventures from their share of profit or loss of non-integral ones.

- *Operating profit or loss and income and expenses from integral associates and joint ventures*

ANC regrets that IASB did not consider further allowing or requiring entities to split the share of profit or loss of integral associates and joint ventures so as to present the associates and joint ventures' operating, investing, financing categories in the corresponding categories of the reporting entity's statement of profit or loss.

As it is, ANC agrees that the share of profit or loss of integral joint ventures and associates should not be part of the operating category because it combines operating and non-operating income and expenses (for example, financing expenses or income tax). Accordingly, it may be helpful to present a subtotal that encompasses, without conflating the two notions, the operating profit or loss and the income and expenses from integral associates and joint ventures. However, an entity would present that subtotal only if the share of profit or loss of integral associates and joint venture is material.

In ANC's view, the label of this subtotal could be shortened as follows: '*profit or loss from operating category and integral associates and joint ventures*'.

- *Amending IFRS 12* Disclosure of Interests in Other Entities

ANC agrees with the proposed disclosure requirements in paragraph 20E of IFRS 12. They would provide more granular information about an entity's interests, and the risks associated with the entity's interests in associates and joint ventures.

Having said that, ANC questions the relevance of amending IFRS 12 to (a) define integral and non-integral associates and joint ventures, (b) provide indicators to help entities apply those definitions, and (c) set out requirements for when a change in classification may be appropriate. In ANC's view, the proposed consequential amendments to IFRS 12 in paragraphs 20A–20D of that Standard should be included in the Standard that is expected to supersede IAS 1—this is because those requirements are not consistent with the objectives set out in paragraph 1 of IFRS 12.

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?

ANC supports the IASB's efforts to improve the definition of the roles of the primary financial statements and the notes. However, in ANC's view, this definition is too descriptive. ANC recommends the definition be based on the objectives of general purpose financial reporting as mentioned in the *Conceptual Framework for Financial Reporting*.

ANC supports the IASB's proposals on the aggregation and disaggregation.

- *Roles of the primary financial statements and the notes*

The proposed description of the roles of the primary financial statements and the notes is based on the description included in the 2017 Discussion Paper *Disclosure Initiative—Principles of disclosures*. Consistent with its feedback on the aforementioned Discussion Paper, ANC considers that the proposed definition describes neither conceptually nor factually the purpose of primary financial statements and their notes. In ANC's view, the definition should focus on (a) the determination of the boundaries of the primary financial statements and notes, (b) what they are expected to present and (c) the nature of the information to be disclosed. ANC thinks that the role of the primary financial statements should focus on the overall position, performance, cash flows and stewardship of an entity, rather than the elements (assets, liabilities, equity, income, expenses) included in those financial statements. ANC considers that the IASB should consider the overall relevance of primary financial statements and how they meet users' needs rather than trying to specify a list of items that an entity should present in those primary financial statements. This would better help entities decide on (a) the information to provide in the primary financial statements or in the notes and (b) the required level of detail to provide useful information.

- *Aggregation and disaggregation*

ANC supports the IASB's proposals for principles and general requirements on the aggregation and disaggregation of information. In particular, ANC agrees with the IASB's decision not to introduce a quantitative threshold for the disaggregation of a group of items.

Paragraph 28 of the ED specifies that if the aggregation steps described in paragraph 28 do not lead to descriptions that result in a faithful representation, an entity shall disclose in the notes information about the composition of the aggregated items. Illustrative Examples 6, 8, 9 and 10 illustrate the requirement in paragraph 28 by presenting statements of profit or loss with line items beginning with the label 'other'. In this case, the illustrative examples specify that paragraph 28 requires the composition of the line item to be analysed in the notes. However the examples do not illustrate any such analysis. ANC thinks an illustration of that analysis could have been helpful.

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?

ANC agrees, in principle, with the IASB's proposal to require entities to present in the statement of profit or loss an analysis of operating expenses using either the nature of expense method or the function of expense method. In particular, ANC agrees with the factors set out in paragraph B45 for entities to consider when determining which analysis of expenses to use. However, in ANC's view:

- any standard-setting should not prevent entities from presenting their statement of profit or loss using a mixture of both methods. This is because that presentation may provide the best information for some line items (such as impairment losses related to goodwill if maintained as part of the operating category—see question 5—or to an item of property, plant and equipment).
- the requirement to disclose, in a single note to the financial statements, an analysis of the entity's total operating expenses using the nature of expense method whenever the entity presents an analysis of operating expenses using the function of expense method may result in significant implementation costs. Those likely costs may outweigh the overall benefits.

- *Mixture of both methods*

Paragraph B46 of the ED specifies that an entity shall not provide an analysis of expenses classified in the operating category using a mixture of (a) the nature of expense method and (b) the function of expense method (except for the presentation of the line items listed in paragraph 65 of the ED). Paragraph BC111 of the ED explains that this explicit proposed requirement is a response to users' concerns that useful information could be lost when entities use a mixture of both methods.

ANC disagrees with the IASB's observation and proposed requirement. ANC thinks that (a) no useful information is lost when entities adequately use a mixture of both methods and (b) the statement of profit or lost is more relevant when some items are presented separately irrespective of the method used to classify operating expenses.

ANC has identified some circumstances in which the statement of profit or loss may not provide useful information[7] if a mixture of both methods is not used. For example, an entity may have recognised an impairment loss related to its trade receivables and a material impairment loss on its goodwill. If the entity were to present its expenses using the function of expenses method, the entity would be required to:

- allocate the impairment loss on goodwill to the functions,
- present a separate line item for the impairment loss on the trade receivables applying paragraph 65(b) (ii) of the ED.

In this case, the statement of profit or loss would not directly provide information about the impairment loss on goodwill ie an event that is significant to an understanding of the entity's performance. However that statement of profit or loss would directly provide information about the impairment loss on the entity's trade receivable. In ANC's view, this outcome would not be satisfactory.

Furthermore, because IFRS Standards do not define functions, allocating some expenses (such as impairment

[7] In those circumstances, an entity may not abide by requirement in the paragraph 42 of the ED.

loss) to line items by function can be complex.

Accordingly, ANC recommends that an entity present additional line items when such presentation is relevant to an understanding of its financial performance, regardless of the analysis of operating expenses retained. In this case, the statement of profit or loss would mix by-function and by-nature methods.

- *Additional disclosure requirement when an entity uses the function of expense method*

ANC thinks that the IASB's proposal to require entities that present an analysis of expenses using the function of expense method to also provide in the notes an all analysis of their operating expenses using the nature of expense method is costly to implement. In ANC's view, the benefits in terms of financial reporting are not sufficient to justify the related implementation costs. An entity that uses an analysis of expenses by function does not necessarily perform an exhaustive analysis of its expenses by nature. This is because such information is not useful to management when making decisions.

However, ANC appreciates users' information needs. ANC agrees that an analysis by nature may provide useful information and help users forecast an entity's future performance. In ANC's view, the main users' information needs could be met by requiring an entity to disclose only *some* expense amounts such as the employee benefits expenses, depreciation and amortisation expenses and impairment losses.

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?

ANC agrees with the IASB's proposals to disclose unusual income and expenses in a single note. Information about such items may improve the relevance of financial statements. Notwithstanding its support, ANC has some recommendations about this part of the project.

- *Definition of unusual income and expenses*

ANC thinks that the definition of unusual expenses and income gives too much importance to the future. This definition should also consider past events to determine whether an item is unusual or not. ANC thinks that the frequency at which an event occurred in the past would indicate whether it is reasonable to expect that income or expenses that are similar in type and amount will not arise for several future reporting periods.

Furthermore, ANC considers unusual income and expenses should be defined as those that are related to an unusual event. In some cases, expenses and income, although usual, can be linked to unusual events and as such, information in the notes of these items could be useful. The inclusion of this criterion may improve the practical application of the definition and may provide more useful information.

For example, consider an entity that underwent a cyber-attack of a considerable magnitude. Given the security of its IT systems and the remediation actions subsequently taken, a similar attack is unlikely to occur once again. This event caused a shutdown of the entity's production but some expenses continued to be incurred during that period (employee benefits expenses, depreciation and amortisation expenses, etc.). This event also led the entity to incur expenses to restart production; the amount of these expenses is significant but lower than the amount of the expenses incurred during the production shutdown. Applying paragraph 100 of the ED, the shutdown expenses may not be considered as unusual while restart expenses may be considered as unusual. Thus, information on the expenses related to this cyber-attack may be incomplete because only a portion of the expenses—ie the expenses incurred to restart the production—may be disclosed. In those circumstances, ANC holds the view that disclosing in the notes all expenses incurred during the shutdown would provide relevant information about this event and thus, that those expenses should be considered as being unusual. Therefore, ANC recommends extending the definition of unusual income and expenses to all income and expenses that are linked to an unusual event (ie an event that cannot reasonably be expected to arise in the future), even if the income and expenses will probably arise for several future annual reporting periods.

- *Application to an event such as Covid-19*

Finally, ANC asks how the proposed requirements for unusual income or expenses would have been applied had they been effective during the Covid-19 event (or how they would apply if they were to be effective during an event similar to the Covid-19 crisis—ie an event whose pervasiveness is unique).

During the Covid-19 crisis, many entities did not recognise any revenue and incurred additional expenses. ANC does not know what information an entity would have to disclose in the notes to the financial statements if the entity were to apply the IASB's proposal in such circumstances. However, in ANC's view, relevant information about this event should be complete and unbiased. Therefore, ANC thinks that users should be able to obtain an estimate of:

- the decrease in income and expenses as a result of this event;
- the additional income and expenses resulting from this event.

ANC suggests that the robustness of the proposed definition for unusual income or expenses be verified, or 'stress-tested', by ensuring that it captures:

- a one-off event partially affecting an entity (for example, the fire on a plant) and a major, globalised event (such as a Covid-19 event); and
- all income and expenses related to an event, and not only incremental income and expenses (such as an impairment loss).

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?

ANC agrees that entities should be required to provide information about MPMs and thus, supports standard-setting in this respect. ANC also agrees with the proposed requirement in paragraph 105 of the ED whereby MPMs shall faithfully represent aspects of the financial performance of the entity to users of financial statements and be described in a clear and understandable manner that does not mislead users. ANC considers that (a) the information disclosed in the financial statements and in the management commentary must be interconnected and, (b) financial statements are the appropriate document to present the reconciliation between information disclosed in management commentary and information of the financial reporting. Having said that, ANC notes that some French constituents consider that the disclosure of information on MPMs in the financial statements may create practical difficulties and could end up duplicating information already provided in the materials containing MPMs—such as press releases, management commentary, etc.

However, ANC is concerned about the proposed definition of a MPM. Additionally, ANC has concerns about the information that an entity shall provide in the notes to the financial statements in relation to MPMs.

To improve comparability of these measures, ANC considers that the list of subtotals specified by IFRS Standards as set out in paragraph 104 of the ED could be extended.

- *The scope of MPMs*

Paragraph 103(a) of the ED states that '*MPMs are subtotals of income and expenses that are used in public communications outside financial statements* […]'. ANC understands that if an entity uses a MPM in such communications and meets the requirements in paragraphs 103(b)–(c) and 105 of the ED, it shall provide information in relation to that MPM in a note to the financial statements.

ANC notes that the ED does not define the notion of 'public communication outside the financial statements'. ANC also understands that this notion could be interpreted so as to include the information presented in any financial document or comment, irrespective of the medium used (website, social networks, press releases, etc.) and recipients. ANC also understands that this notion may encompass an entity's management commentary. If that interpretation were to prevail, the scope of MPMs would end up by being very wide. Thus, ANC is concerned about the resources that may be needed to prepare, review and audit information about MPMs. ANC strongly recommends the IASB clarify the boundaries of MPMs to specify the measures that would fall in the scope of the proposed requirements.

In addition, this ED does not take into account local regulations that may already set out requirements in relation to MPMs. For example, the ED does not consider the existing European regulations, in particular the Transparency Directive, Market Abuse Regulation or the Prospectus Directive. Accordingly, IFRS preparers located in the European Union would have to apply several different regulations on a similar subject and may have to duplicate information to meet the requirements in those regulations. ANC suggests the IASB liaise with regulators to develop common principles for MPMs and thus, ensure the information in the notes to the financial statements does not duplicate the information provided outside the financial statements.

ANC also notes that some existing regulations about alternative performance measures (APM)—in particular the *ESMA guidelines on APMs 2015/1415*—require an entity to provide information about measures that are not limited to subtotals of income and expenses (such as measures based on subtotals of the statement of financial position, of the statement of cash flows, etc.). ANC suggests the IASB consider whether the requirements on MPMs as specified in the ED should also apply to those other measures.

- *The information that an entity discloses about management performance measures*

Paragraph 106(b) of the ED requires an entity to disclose for each MPM a reconciliation between the MPM and the most directly comparable subtotal or some specific subtotals. Paragraph 106(c) of the ED requires an entity to disclose for each MPM the income tax effect and the effect on non-controlling interests for each item disclosed in the aforementioned reconciliation.

On the basis of its investigations, ANC understands that the information required in paragraph 106(c) of the ED may be costly to provide. In addition, ANC thinks that it is burdensome to disclose the income tax effect and the effect non-controlling interests for each item disclosed in the reconciliation because the entity would not disclose such effects for the MPM itself and the most directly comparable subtotal when this subtotal excludes the effects of income tax and non-controlling interests. For example, if the entity were to reconcile the MPM with the operating profit, the entity would have to disclose the effect on income tax or on non-controlling interests for each reconciling item while neither the MPM nor the operating profit include the effect of income tax or of non-controlling interests. ANC agrees that the disclosure of such effects may enable users to determine information that is similar to 'adjusted' earnings per share but users may not systematically be interested in that information. Accordingly, ANC recommends the IASB not proceed with the requirements in paragraphs 106(c)–(d).

- *Measures presented in the statement of financial performance*

Paragraph 109 of the ED states that a subtotal that is included in the statement of profit or loss applying paragraph 42 may be a MPM. ANC understands that a measure that an entity *only* presents in its statement of profit or loss will not meet the definition of a MPM as set out in paragraph 103—this is because a MPM is used in public communication *outside financial statements*. However, the same measure may meet the definition of a MPM if the entity also presents it outside its financial statements. In ANC's view, a subtotal that is presented in the statement of profit or loss should not be considered as a MPM, irrespective of whether it is presented outside the financial statements. This is because the information an entity discloses in the notes about a MPM presented in the statement of profit or loss would duplicate the information provided in the statement of profit or loss itself—the reconciliation between the MPM and the most directly comparable subtotal or total is easy to read on the face of the statement of profit or loss. ANC acknowledges that the entity would not provide the information required in paragraph 106(c) of the ED in those circumstances. However, given its views on that information (see above), ANC is not concerned about the loss of information that may arise therefrom.

- *Increase in the number of subtotals specified by IFRS Standards*

ANC welcomes the IASB's proposal in paragraph 104 of the ED to not consider some specific subtotals as MPMs.

Nonetheless, ANC thinks that the list set out in paragraph 104 could be extended to include subtotals presented in the primary financial statements or outside that are based on concepts or notions specified by IFRS Standards. In other words, the IASB's proposals should aim to narrow the use of MPMs in practice by increasing the number of subtotals specified by IFRS Standards. ANC considers that there is still room to define others subtotals. This would reduce the diversity in the way entities define such measures and thus, improve comparability. For example, ANC suggests adding in paragraph 104 of the ED an 'operating profit before depreciation, amortisation, impairment of intangible assets, property, plant and equipment and impairment of goodwill' subtotal (see Question 12).

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?

ANC regrets that the IASB narrowed its analysis of EBITDA to the label of that subtotal, without really taking into account the substance that users and preparers give to it. ANC observes that users commonly use EBITDA as a benchmark subtotal to compare the operating performance of non-financial entities[8]—in ANC's view, this is a sufficiently compelling argument to propose requirements in relation to EBITDA.

EBITDA is commonly computed as follows:

Operating profit + Depreciation, Amortisation and impairment losses on fixed assets[9].

Consistent with the aforementioned computation, ANC considers that EBITDA should be calculated before any impairment loss (or any reversal of impairment loss) on goodwill, intangible assets, property, plant and equipment. The label 'EBITDA' may not currently capture impairment losses because the notion of EBITDA was developed in the 1980s, ie at times when impairment allowances were not common—goodwill was amortised at that time.

Given the widespread use of EBITDA, ANC thinks that this measure should be included in the list of subtotals specified by IFRS Standards that are not MPMs for the purpose of this standard-setting project (paragraph 104 of the ED). Consistent with its view about to define EBITDA, ANC recommends adding to the list of subtotals set out in paragraph 104 of the ED the subtotal 'Operating profit or loss before depreciation, amortisation, impairment of intangible assets, property, plant and equipment and impairment of goodwill'.

[8] EBITDA is not considered as relevant for financial entities.
[9] Verminmen and al. (2009), *Corporate Finance*, p. 35.

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?

ANC observes that the ED only partially amends IAS 7 *Statement of Cash flows*. ANC agrees with the approach retained by the IASB *in the context of this project* to make limited changes to the statement of cash flows. In ANC's view, any consequential amendments to IAS 7 resulting from this standard-setting project should be minor and aim to increase the comparability for the statement of cash flows.

Having said that, ANC considers that there is still room for further reflection on the statement of cash flows. In ANC's view, the IASB should consider undertaking specific standard-setting on IAS 7. This could lead the IASB to consider the following matters: cash flow statement for financial institutions, the presentation of operations related to the management of an entity's working capital (such as reverse factoring operations), etc.

- *Starting point for the indirect method*

ANC welcomes the IASB's proposal to define the starting point for the indirect method of reporting cash flows from operating activities. ANC observes that most entities use the profit for the year as the starting point even if they present a subtotal of operating profit or loss in the statement of financial performance.

ANC notes that the use of profit or loss as a starting point for the indirect method enables entities to present, in the operating category, a subtotal including all income and expenses without accruals of the cash flow statement. French preparers usually present this subtotal that is considered as (a) a measure of the potential cash flows from income and expenses and (b) a proxy of the cash effects of profit (or loss).

Furthermore, the use of profit or loss as starting point for the indirect method helps users understand how profit is converted into cash flows. This is because reconciling items usually have informational value—they help users measure all accruals, not only operating accruals. In ANC's view, an entity that would use operating profit as a starting point for the reconciliation would present a reduced number of reconciling items and thus, may deprive users of information about accruals. ANC observes that the reconciling items in the indirect method are commonly used to understand the conversion of profit into cash flows.

Consequently, ANC recommends the IASB require profit or loss to be the starting point for the indirect method of reporting cash flows from operating activities.

- *Classification on interest and dividend cash flows*

ANC considers that the presentation elections set out in IAS 7 for the classification of interest and dividends hamper comparability. Accordingly, ANC supports the IASB's proposal to remove these elections.

The ED proposes that most companies classify (a) interest and dividends paid in financing and (b) interest and dividends received in investing. Currently, entities can also classify these cash flows as operating for the purpose of presenting their recurring cash flows. The IASB could have taken this perspective into account in its discussions.

ANC notes that an entity that (a) provides financing as a main business activity or invests in the course of its main business activities in assets that generate return individually and largely independently of other resources and (b) classifies the related income or expenses in more than one category of the statement of profit or loss, shall make an accounting policy choice (applying new paragraph 34C of IAS 7) to classify dividends received, interests paid and received each in a single category of the statement of cash flows. ANC has the following comments on those requirements:

- ANC considers that this accounting policy choice impairs comparability between (a) two entities that shall make that choice but also (b) an entity that shall make this choice and another one that shall not make it––because that entity does not provide financing to its customers as a main business activity or does not invest in the course of its main business activities in assets that generate return individually and largely independently of other resources. For example, a manufacturer that provides financing to its customers as a main business activity could classify all cash flows from interests paid in the operating activity (or in the financing activity) but a manufacturer from the same industry that does not provide such financing (for example because this activity is subcontracted to an independent bank with which it has an agreement) would have to classify interests paid in the financing activity. Consequently, users could not compare the cash flows from operating and financing activities for these two entities that operate in the same industry.
- ANC notes that in those circumstances an entity would present the cash flows in a single category of its statement of cash flows and may present the related income or expenses in two categories of its statement of profit or loss. The IASB acknowledged there would not be any full alignment between the two statements. ANC understands the arguments put forward by the IASB to justify its approach. However, ANC thinks that alignment should be achieved whenever possible and especially when an entity splits its financing income and expenses in two categories.

Accordingly, ANC recommends that an entity be permitted to present the cash flows in a manner that is consistent with the presentation retained for the related income and expenses. ANC notes that this recommendation, together with its recommendation set out for Question 3[10], would help achieve comparability.

[10] In its answer to Question 3, ANC recommends that when an entity provides financing to customers in the course of one of its main business activity but *not* as its *major* business activity, it not be permitted to classify, in its statement of profit or loss, all interests as an operating activity but only interests that relate to that main business activity.

Question 14 – Other comments

Do you have any other comments on the proposals in the Exposure Draft, including the analysis of the effects (paragraphs BC232-BC312 of the Basis for Conclusions, including appendix) and Illustrative Examples accompanying the Exposure Draft?

- *Usefulness of statement of cash flows for financial institutions*

In 2017, ANC set up a working group including preparers and users of financial statements (financial analysts) to assess the relevance of requiring financial institutions to present a cash flow statement.

This working group observed that preparers use the cash flow statement neither as a financial performance measurement tool nor as a tool for monitoring or managing risks related to the liquidity risk in banks. Preparers in the insurance industry do not even use this statement to monitor companies' solvency.

The working group also observed that analysts do not use the cash flow statement. Analysts are rather interested in additional information that help them assess:
- the liquidity risk in banks,
- the capital adequacy constraints for these regulated industries and the resulting impact on the ability to these entities to pay dividends, and
- the solvency of insurance companies.

In this way, ANC recommends that the IASB undertake research on the usefulness of the statement of cash flows for financial institutions.

- '*Statement(s) of financial performance'*

The IASB's proposals mainly relate to the statement of profit or loss. ANC considers that net income is more value-relevant than comprehensive income[11] and thus, that that the statement of profit or loss is essential to an understanding of an entity's performance. Therefore, ANC considers preferable to present separately the statement of profit or loss and the statement of comprehensive income.

ANC notes that this ED proposes to change the label of the paragraphs dedicated to the statement of profit or loss and the statement of comprehensive income. In IAS 1, the title is '*Statement of profit or loss and other comprehensive income'* whereas the title proposed in this ED is '*Statement(s) of financial performance*'.

Because (i) profit or loss remains the main measure of an entity's performance and (ii) the ED does not amend the statement of comprehensive income, ANC suggests the IASB retain the existing label, ie 'Statement of profit or loss and other comprehensive income'.

[11] See for example: Mechelli, A., and Cimini R.. "Is comprehensive income value relevant and does location matter? A European study." *Accounting in Europe* 11.1 (2014): 59-87.