COMMENTS TO
EFRAG DISCUSSION PAPER 2:
THE PERFORMANCE REPORTING DEBATE.
WHAT (IF ANYTHING) IS WRONG WITH THE GOOD OLD INCOME STATEMENT?

Comments elaborated and presented by Prof. Giuseppe Ceriani and Beatrice Frazza.

With the present paper we would like to express to EFRAG our point of view about the debated issues, giving for the questions stated in the discussion paper our opinion and suggestions.

IASB is thinking about a new income statement, which can be considered a **comprehensive income statement**, where all the items of income and expense are considered; precisely IASB is thinking about a double income statement, in order to realize its idea.

The idea of a double income statement is well known to the Italian economic doctrine; in fact, up to 1974, when a new law prescribed an only obligatory income statement, the legal income statement was accompanied by another account, named "conto esercizio industriale" (or "manufacturing account", or "compte d'exploitation"), which illustrated the single elements that constituted the voices included into the income statement.

Today the question is not so different: IASB is thinking about a double income statement, in order to distinguish different types of income and expense.

In fact, the Italian law prescribed a double income statement because the accountability followed the "patrimonial system", proposed by Fabio Besta; the original version of this system implies the inscription, into the income statement, of the only "gross results" related to the variations of the assets and liabilities; the second account, "conto esercizio industriale", was used in order to understand the elements that constituted these "gross results".

As we told, IASB has a similar problem: it aims to realize a comprehensive income statement which shows all the net variations of the assets and liabilities caused by the operations, in order to allow the users of the financial statement to understand the company's income and profitability.

Evidently, as what happened in Italy, the approach followed by IASB follows the "patrimonial system".

We know that the project of the IASB for the reporting comprehensive income implies the allocation of the items of income and expense into five main areas: Operations, Financing and investing activities, Tax, Discontinuing operations and Comprehensive income; it also distinguishes the items related to operations from those which are related to remeasurements.

First of all, we can agree that a comprehensive statement of income ad expense, which reports all current period items of income and expense – realised and not realised –, can be useful, in order to represent the whole complex of income and expense of the period.

But we also think that this statement of income and expense **should distinguish the realized items from the non realized ones**.

In effects, in our opinion, the concept of realisation must be the key line to follow when preparing the statement of income and expense: realised and non realised items must be distinguished, because the realised ones allow to get an economic income, which can be distributed to the shareholders without damaging the capital maintenance; on the contrary, the non realised ones lead to a configuration of economic income partially forming: if we distribute the part which is forming we risk to damage the capital maintenance.

Consequently, the idea on which the current reporting model seems to be based is not completely wrong: the current model uses the recycling for those item which can be considered realised (for example gains and losses related to foreign operations and to financial assets), while it doesn't use recycling for those elements which can't be considered realised (for example changes in the property, plant, equipment revaluation surplus and profit or losses on defined benefit pension plans).

The new IASB project of comprehensive income statement distinguishes the items of income and expense with reference to their nature, but it doesn't consider properly the principle of realisation; we want to remember that the American approach (which is based on the Holding Tank Approach), on the contrary, allow us to distinguish the realised items from the non realised ones.

We also have to aknowledge that distinguish the realised items from the non realised ones is often very difficult; in addition, the financial statement should be considered as "system of values and symbols": it is possible to separate the values only if we have a precise objective to reach.

In this case the objective should be the determination of the distributable income and the amount of all the variations in the assets and liabilities which constitute a non distributable income, because if we distribute it we risk to damage the capital maintenance.

We think that this approach is similar to the "dualistic vision" proposed at the end of 1900 by the German doctrine; this vision stated that if we want to show a capital which can be useful in the market negotiations we have to calculate a configuration of capital which reflects the "economic capital", which means the economic value of the company determined for its transfer; the related income should represent the part which can be distributed without damaging the capital maintenance.

In other words, capital and income are antithetic and correlative; the objective which should guide the determination of capital and income is the capital maintenance, and the consequent distinction between realised and non realised items.

For this reasons we think that the income statement should answer to **an only aim**: illustrating the condition of economic equilibrium of the company; there aren't different types of performance to illustrate: the only performance to consider is related to the capacity of the company to produce income, in order to reach and maintain the economic equilibrium.

In addition, we want to remember that the focus should be on the economic aspects, and not on the cash flows: accrual principle allow to see the economic income of the entity, while the cash flow allow to see only the financial condition of the entity.

What we said allow us to conclude that only one statement of income and expense is necessary, if it expresses clearly the different types of income component, showing if they have objective origin (related to a trade) or they are only estimated.

Specifically, we suggest to adopt the income statement named "**logical structure**", proposed by Pietro Onida (1926) and later by Edoardo Ardemani (1964) and Giovanni Ferrero (1968), which shows and distinguishes the initial estimated component, the objective origin component and the final estimated component:

LOGICAL STRUCTURE

Initial estimated negative component of income Objective origin negative component of income (related to trades) Final estimated negative component of income	Initial estimated positive component of income Objective origin positive component of income (related to trades) Final estimated positive component of income
Net income	(Net income)

This type of income statement allow the users to have enough information in order to derive all the type of economic income they want (with the classification of the elements by nature of by destination or other), and also the cash flows.

The “logical structure” allow to show all the current items of income and expense – like IASB aims to do – without using any disaggregation criteria, because it considers that the income is generated by the combination of operations which constitute the business management; the only followed criterion is the one that allow to distinguish objective and estimated items, in order to understand if the income determined can be distributable or not, in order to assure the capital maintenance.

By elaborating this type of income statement the users can obtain all the types of income statement and all the partial results they want to know.

Finally, we want to express our **doubts on IAS 1**, which should be more precise when it describes the voices to indicate into the income statement: the proposal of two types of income statement, stating the only minimum obligatory content is not completely satisfying in the optic of a standardization: more details and prescription should be added.

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