Technical Director
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Dear Sir

The Performance Reporting Debate

The Association of Chartered Certified Accountants (ACCA) is pleased to have this opportunity to comment on the Discussion Paper 2 (DP) 'The performance reporting debate – what if anything is wrong with the good old income statement'. The DP was considered by ACCA's Financial Reporting Committee and I am writing to give you their views.

Overall comments

ACCA welcomes EFRAG's initiatives in taking a proactive role in the financial reporting debate and we look forward to EFRAG's further paper on the subject.

We broadly supported the proposals of the IASB in the revision to IAS1 of March 2006 'A revised presentation', especially that there should a statement containing all recognised items of income and expenditure (SORIE). We accepted in our response that this statement could be presented in either one or two component statements, though we favour in principle that there should be a single SORIE. We consider that the provision of two statements might be more complex and confusing for users than the provision of just one, particularly if the names of these statements would not be standardised but left to preparers to decide.

In principle we think that accounting standards should not provide very detailed prescriptions of the items and structure within a performance statement that because the variability of reporting entities means that flexibility is needed, but that a few key items should be provided as standard. While providing these standardised measures management

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should also be encouraged to provide outside the financial statements their key performance indicators (KPI), as envisaged in the Management Commentary project at IASB. We think that project should be given a higher priority than it currently seems to enjoy. We do not see the case for making more radical changes to the format for reporting financial performance – we are not sure that the current reporting model is severely broken.

ACCA responses to specific questions raised by EFRAG

A. Should there be a key line as a starting point for further analysis?

As noted above we support in principle a single statement of performance which will have as a bottom line total recognised gains and losses in the period. As a starting point for further analysis something like the current profit for the year after tax should also be required as a subtotal. There should be a debate about whether the 'other' items of income and expenditure that a subtotal of profit for the year implies should comprise the current list or whether items might be added or subtracted. The 'other' items should principally relate to items which revalue or restate in some way the opening balance sheet.

B. Are there different types of performance?

We do not think that fundamentally there are different sorts of performance and that management are in the end responsible for all aspects of the entity, which is why we favour a single statement in the financial statements to show all recognised elements of performance. As noted above management should be encouraged to provide the performance in the period on the basis of their KPIs outside of the financial statements in a management commentary.

C. Is 'net income' a meaningful notion?

In principle profit for the year might not be meaningful as

- Certain items are not included (including revaluation gains, restatements of interests for foreign exchange rate changes, cash flow hedges, fair value changes in available-for-sale financial instruments, actuarial gains/losses) and it is not always clear the basis for choosing which goes where
- A bottom line measure when there are mixed measurement bases (e.g. historical cost realised profits and also fair value changes) is not in itself going to have much meaning

That said within a single SORIE the choice of which items go where remains important, but is less critical.

D. Is the bottom line significant and how many statements of performance should there be?

We support a single statement of performance, with presentation of the various component elements. As noted in C above the bottom line will often in itself not be a very meaningful number. The significant objective should be to provide an analysis of the various component parts.

E. Recycling

If there is a single performance statement any recycling would be within that statement. The main argument against recycling is recording of an item more than once in the performance statement – which might be true of individual lines in a single performance statement but not for the statement as a whole. Even so we would have a preference against recycling, though we accept that recycling seems unavoidable with cash flow hedge accounting as it is done at present for example. Recycling should be kept to a minimum.

F. Disaggregation criteria that have merit and could be implemented?

We favour a structure along the lines of the following categories

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

We would expect sub-totals between each of these categories. The profit for the year would come as a subtotal before the final item in the above list. We note that current IFRS provide some workable definitions of tax and discontinued operations. In answer to Question A above we discussed the question of the 'other' category – this should be a strictly limited list defined in accounting standards and not left to preparers to decide. We are not sure that IFRS currently have a workable definition of financing and that would need to be developed. In certain categories of business (such as deposit taking and lending entities) 'operating' and 'financing' might be rolled together. 'Operating' should be the default category.

Within the operating category the main choice would seem to be between disaggregation by function or by nature. We can see merits for each depending on the objectives. In terms of co-ordination with the cash flow statement a disaggregation by nature is likely to be more helpful, while co-ordination with segment analysis will be aided by a functional analysis.

G. Netting off under current IFRS

The current IFRS provisions on netting off are generally appropriate and we are not aware of any major problems with this.

H. Non-GAAP reporting measures

Non-GAAP measures are likely to be used where companies believe these measures better represent the performance of the company and its development, than profit for the year. Incorporating these into IFRS would create more GAAP measures. The thrust of the performance reporting debate seems to be a view that one line cannot encapsulate performance. Increasing the number of standardised measures, however, will not necessarily stop companies reporting their own measures. Each line or category of income/expenditure required by GAAP raises the need for a workable definition which will often be quite difficult to achieve.

As previously stated above we support a limited number of GAAP measures and for management also to report performance using KPIs. With KPIs or any other non-GAAP measures what is also essential is adequate disclosure of the basis of calculation and reconciliation to the standardised performance measures, to address the question of comparability between entities and from one period to another.

I. Degree of standardisation in IAS1 appropriate?

We would broadly agree the current level of standardisation in IAS1 to be appropriate.

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

Yours sincerely

Richard Martin
Head of Financial Reporting