Société Française des Analystes Financiers
Membre de l EFFAS

LE PRESIDENT

21st July 2006

IAS 1 Amendments
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir,

The French Society of Financial Analysts, SFAF (Société Française des Analystes Financiers), is pleased to submit its contribution as part of the consultation undertaken by the International Accounting Standards Board (IASB) on its ED – Amendment IAS 1 presentation of financial statements - A revised presentation.

SFAF represents more than 1,600 members in France and is itself a member of the European Federation of Financial Analysts Societies (EFFAS). Financial analysts are among the principal users of corporate financial statements and therefore wish to express their opinion on the implementation of new or revised accountings standards.

For this reason, our Society, through its Accounting and Financial Analysis Commission, is keen to respond to your consultation on IAS 1 Presentation of financial statements.

General comments:

We support the idea of presenting the "balance sheet" at the beginning of the earliest presented periods, as it will necessarily provide additional information for the financial analysts.

In contrast, we do not agree with the name changes as we consider that the amendments are conceptually unfunded.

Additionally, the terms « balance sheet », « income statement », and "cash flow statement" are widely used all over the world by preparers, financial analysts and in the accounting and financial literature.

Finally, we consider that changing names of financial statements is premature at this stage as it relates to the conclusions on debates, which will be included in Phase B of the project.

Regarding the number of statements that an entity should present, we support the idea of presenting three "balance sheets," unless there is inconsistency with the presentation of the other financial statements in term of comparison and analysis.

We support the proposal of segregation among changes that arise from transactions with owners in their capacity as owners from other changes in equity as we consider that this amendment may provide a clear segregation.

We also support the requirement to disclose reclassification (commonly referred to as "recycling") adjustments relating to each component of other recognised income and expense.

More specifically, this reclassification disclosure will be quite useful for users to understand the impact of reclassification on net income (profit) and comprehensive income (total recognized income and expense).

Regarding the idea of disclosing information of income tax relating to each component of "other recognised income and expense," we suggest that this information should be presented in the appendix as it would provide too much complexity if disclosed in financial statement.

We consider that the idea of presenting earnings per-share on the face of the "statement of recognized income and expense" is not the main issue at least for financial analysts.

We remind that the FASB members and staff have already established through interviews that "there seems to be little interest among most analysts in comprehensive income as a key performance metrics…"

We believe that at this stage of the project, the disclosure of a comprehensive income (total recognized income and expense) per share is completely premature. This matter should only be discussed after reaching definitive conclusions on Phase B of the project.

We would like to mention that one major global investment bank has recently discussed internally whether to replace "net income" by "comprehensive income." After considerable work, its final decision was to maintain the net income.

Our responses to the specific questions are set out in the appendix.

Appendix

Questions 1 and 2 – A complete set of financial statements

The Exposure Draft proposes that the titles of the financial statements should be as follows:

(a) Statement of financial position (previously 'balance sheet');

(b) Statement of recognised income and expense;

(c) Statement of changes in equity; and

(d) Statement of cash flows (previously 'cash flow statement').

The Board does not propose to make the changes of nomenclature mandatory (see paragraph 31 of the draft Standard and paragraphs BC4 and BC5 of the Basis for Conclusions).

Question 1 – Do you agree with the proposed titles of the financial statements (bearing in mind that an entity is not required to use those titles in its financial statements)? If not, why?

According to paragraph BC5, the main reason for the name changes is to match the statement's title with both its contents and the opinion rendered by auditors to enhance the usefulness of the financial statements. We believe that this name changes are, in fact, related to concept changes, that could be decided at a later stage of this project. It is thus completely premature to change the titles of the financial statements.

Additionally, we consider that the names changes bring no value to the users of financial statements. We strongly believe that the terms « balance sheet », « income statement », and "cash flow statement" are widely used all over the world by preparers, financial analysts and in the accounting and financial literature. Moreover, we are convinced the offering option to use other titles that those suggested in the ED will only increase the confusion in the mind of users. Lastly, this confusion will undoubtedly be increased by the translation in various languages.

We also believe that that the proposed title changes are going against the IASB stated goal to use plain language. Using rocket-science names for concepts widely used around the world for decades could turn out to be a big mistake for IASB in terms of credibility.

As a conclusion, we strongly believe that the suggested changes are irrelevant to the project at the current stage and, more importantly, will bring absolutely no value to users.

The Exposure Draft introduces a requirement to present a statement of financial position as at the beginning of the earliest period presented in the financial statements. Therefore, in addition to notes, an entity would be required to present three statements of financial position, and two of each of the other statements that form part of a complete set of financial statements (see paragraphs 31 and 39 of the draft Standard and paragraphs BC6–BC9 of the Basis for Conclusions).

Question 2 – Do you agree that a statement of financial position as at the beginning of the period should be part of a complete set of financial statements, and that an entity presenting comparative information should therefore be required to present three statements of financial position in its financial statements? If not, why?

In principle, we would favour the presentation of the balance sheet at the opening of the period, as it provides additional and relevant information.

Nevertheless, we would like to draw the Board attention that according to EU Commission Regulation 809/2004, entities should present three comparative periods. Consequently, the amendment would imply presenting four balance sheets. We doubt that this additional presentation would be relevant to users in most cases.

Additionally, in most cases the information would be available with the previous set of information. We would suggest requesting the presentation of the opening balance sheet only in case of changes to the balance sheet previously published.

Questions 3–5 – Reporting owner changes in equity and recognised income and expenses

The Exposure Draft proposes to require entities to present all changes in equity arising from transactions with owners in their capacity as owners (ie 'owner changes in equity') separately from other changes in equity (ie 'non-owner changes in equity' or 'recognised income and expense'). Non-owner changes in equity would be presented in either (a) a single statement of recognised income and expense, or (b) two statements: a statement displaying components of profit or loss and a second statement beginning with profit or loss and displaying components of other recognised income and expense (see paragraphs 81 and 82 of the draft Standard and paragraphs BC11–BC20 of the Basis for Conclusions).

Question 3 – Do you agree that non-owner changes in equity should be referred to as 'recognised income and expense' (bearing in mind that an entity is not required to use the term in its financial statements)? If not, why?

Is the terminology used in the Standard important if entities are permitted to use other terms in their financial statements? If so, what term would you propose instead of 'recognised income and expense'?

We support the idea of segregating changes that arises from transaction with owners from other changes in equity.

Nevertheless, the chosen term (recognized income and expense) is not explicit. This term has no background and thus can be misleading. Instead, we would recommend to use the term comprehensive income, which is already used in some countries (the UK and US notably) in their financial statements. Additionally, the concept of comprehensive income is already widely used, and understood, in the accounting literature. Creating a new term will only bring more confusion.

Question 4 – Do you agree that all non-owner changes in equity (ie components of recognised income and expense) should be presented separately from owner changes in equity? If not, why?

We support the proposal of segregation among changes that arise from transactions with owners in their capacity as owners from other changes in equity.

We would also suggest the Board to have a clearer definition of the owners as this point was widely criticized in most comments to the recent Business Combination project.

Question 5 – Do you agree that entities should be permitted to present components of recognised income and expense either in a single statement or in two statements?

If so, why is it important to present two statements rather than a single statement?

If you do not agree, why? What presentation would you propose for components of recognised income and expense that are not included in profit or loss?

We believe that entities should present the recognized income and expense in two statements as long as no decision on Phase B of the project is reached. At this stage, we strongly believe it is necessary to draw the line between the net income and the other comprehensive income and thus, to have two statements.
Lastly, as the major purpose of this Phase A of the project is convergence towards SFAS 130, we do not understand why the presentation of other recognized income and expense (other comprehensive income) is not allowed in the face of statement of changes in equity.

Questions 6 and 7 – Other recognised income and expense—reclassification adjustments and related tax effects

The Exposure Draft requires the disclosure of reclassification adjustments relating to each component of other recognised income and expense (see paragraphs 92–96 of the draft Standard and paragraphs BC21–BC23 of the Basis for Conclusions).

Question 6 – Do you agree with this proposal? If not, why?

We strongly support the requirement to disclose reclassification (commonly referred to as "recycling") adjustments relating to each component of other recognised income and expense.

We consider that "statement of other recognized income and expense," and the recycling mechanism should exist as they offer important virtues to financial analysts.

The Exposure Draft requires the disclosure of income tax relating to each component of other recognised income and expense (see paragraph 90 of the draft Standard and paragraphs BC24 and BC25 of the Basis for Conclusions).

Question 7 – Do you agree with this proposal? If not, why?

We do not support the idea of disclosing information of income tax relating to each component of other recognised income and expense. Even if, the presentation tries to provide more information through a fine segregation, we consider from practical point of view that this information will provide complexity without necessarily providing additional information. Disclosing this detailed information in the appendix seems to be the most desirable solution.

Furthermore, we do not understand why this information should be disclosed for other comprehensive income components and not for the net income statement components.

Instead, we would prefer to have tax impacts of some component of net income statement (e.g. capital gains, pension costs…..).

Question 8 – Presentation of per-share measures

The Exposure Draft does not propose changes to IAS 33 *Earnings per Share*. Therefore, earnings per share will be the only per-share measure presented on the face of the statement of recognised income and expense. If an entity presents any other per-share measure, that information is required to be calculated in accordance with IAS 33 and presented in the notes (see paragraph BC26 of the Basis for Conclusions).

Question 8 – Do you agree that earnings per share should be the only per-share measure that is required or permitted to be presented on the face of the statement of recognised income and expense? If not, which other per-share measures should be required or permitted to be presented on the face of a statement and why?

We agree that "earnings per share" should be the only per-share measure that is required or permitted to be presented on the face of the statement of recognised income and expense and therefore no changes to IAS 33 should be made as part of this project.

Conclusion:

The Exposure Draft on presentation of financial statements reflects the effort undertaken to achieve the project on performance reporting.

SFAF believes that performance reporting is one of the main projects in term of usefulness for financial analysts.

We thank you for the opportunity given to us to provide our view on such important aspects and remain available for any further information.