la SOCIÉTÉ FRANÇAISE
des ANALYSTES FINANCIERS

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Exposure Draft "General Presentation and Disclosures"
Comments by the Financial Analysis and Accounting Committee of the French Society of Financial Analysts (SFAF)

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 IASB on the Exposure Draft "*General Presentation and Disclosures*".

SFAF represents more than 1,400 members in France and is itself a member of the European Federation of Financial Analysts Societies (EFFAS), which comprises 18 member organizations representing more than 15,000 investments professionals. Its Accounting and Financial Analysis Committee was created to represent analysts, fund managers and professional investors in the debate on accounting standards. 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.

General comments:

For users of Financial Statements, the statement of profit and loss represents the most important statement they look at in order to understand and assess the past and expected performance of a company. Therefore, General Presentation and Disclosures is a key project for users and they have high expectations that their views will be taken into consideration.

SFAF in its comment letter on the agenda consultation, in 2015[1], stressed that, among a list of key subjects, this was really the top priority for users.

SFAF is thus very grateful for the efforts pursued by IASB in improving the Financial Statements presentation. Users of financial statements clearly consider that the present situation (IAS 1) is very frustrating with insufficient requirements for disaggregation, from a pure presentation aspect and also with an unclear separation between operating and financing categories. In this respect, we consider as very positive that the Board has developed the Exposure Draft around the following principles:

- Introduction of new subtotals in the statement of profit or loss;
- Better disaggregation;
- Introduction of management performance measures in the notes to the financial statements.

Therefore, we would like to thank the Board and the staff for the good work done on many points in this major subject. Conversely, we are not convinced by some other proposals (introduction of the notion of integral associates, and 'per function' disaggregation), as explained in more detail in this letter.

Beyond that, it should be noted that, following the completion of this key project, further improvements to IAS 7 (cash flow statement), IFRS 8 (segment reporting, a very important subject for users) and IAS 34 (Interim reporting) will be needed accordingly, if only to reflect the changes to the profit and loss statement.

We also believe that the presentation of the balance sheet could also be further researched in a later stage of the project which is less urgent.

Question 1: Operating profit or loss

- ***Paragraph 60(a) of the Exposure Draft proposes that all entities present in the statement of profit or loss a subtotal for operating profit or loss.***
- ***Paragraph BC53 of the Basis for Conclusions describes the Board's reasons for this proposal.***
- ***Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?***

We strongly agree with the proposal. The current lack of a defined operating profit or loss measure is a major issue as many companies define their own operating profit or loss without any standardization. This situation does not allow to properly compare issuers and their reported performance, a situation that has been criticized by users for many years.

We would like, however, to add some points:

Interconnection between operating and financing may be of importance in the business model of certain industries. Such is the case for instance in the construction and aerospace sectors, where finance income on accounts receivables could be considered as operating revenue, as

[1] SFAF comment letter available at https://www.sfaf.com/wp-content/files/SFAF-Comment_letter_on_Disclosure_IAS7_2015-04-17_Final.pdf

it is a key component of their contracts. We note that IFRS 15 recognizes that in certain situations, interests are a component of the sales contract (whether charged separately or included in the selling price), which need to be recognized separately as finance income, but this class of finance income is different from income earned on investments and justifies a different classification.

Question 2: The operating category

- ***Paragraph 46 of the Exposure Draft proposes that entities classify in the operating category all income and expenses not classified in the other categories, such as the investing category or the financing category.***
- ***Paragraphs BC54–BC57 of the Basis for Conclusions describe the Board's reasons for this proposal.***
- ***Do you agree with this proposal? Why or why not? If not, what alternative approach would you suggest and why?***

We agree with the Board. While, in a first approach, we would have been supportive if the project had defined positively the operating category, we consider the Board's approach as being pragmatic, as long as investing and financing categories are precisely defined. We note that in the statement of cash flow (IAS 7), the operating activities category is defined as everything which is not investing or financing cash flows. We understand that the Board proposal is consistent with this principle. Under such assumptions, this definition would improve to a certain extent comparability among issuers, however the category would remain very broad and further disaggregation would be needed.

We would support including the financing component of pensions expenses in the operating section. We are aware that this point has been discussed heavily for many years, with no definitive arguments for either solution. We would nevertheless point to the fact that most companies manage pensions as a single cost, and they do not separate the service cost and the interest cost. Such a decision would also be consistent with the approach used by companies providing financing to customers as a main activity. We also note that cash outflows to pensions funds (or directly to employees) would in most cases be entirely classified in the operating section of the cash flow statement.

For other long term provisions such as dismantling or decommissioning provisions, the question could be more tricky and we would recommend a requirement that companies clearly disclose in the notes the classification of the financial impact (expense & income) of such long term provisions. It is very important for users as changes in interest rates are accounted for in P&L and not in OCI.

In order to be fully useful, we also consider that the notes should help understand which (and how much) of the operating costs reported in the current period are expected to result in a significant cash outflow in a future reporting period. We understand that this could be seen as an improvement to the disclosures related to the statement of financial position as it would allow an improved analysis of the liabilities' maturity.

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

- ***Paragraph 48 of the Exposure Draft proposes that an entity classifies in the operating category income and expenses from investments made in the course of the entity's main business activities.***
- ***Paragraphs BC58–BC61 of the Basis for Conclusions describe the Board's reasons for this proposal.***
- ***Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?***

We agree with this proposal, as long as it is accompanied by proper disclosure.

More precisely, for such income and expenses, we would also need linkage to the corresponding amounts in the statement of financial position (assets, liabilities).

We would also expect that such amounts are properly recognized in the operating segments (i.e. at segment level-for income and expenses and for assets & liabilities).

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

- ***Paragraph 51 of the Exposure Draft proposes that an entity that provides financing to customers as a main business activity classify in the operating category either:***
  - ***income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or***
  - ***all income and expenses from financing activities and all income and expenses from cash and cash equivalents.***
- ***Paragraphs BC62–BC69 of the Basis for Conclusions describe the Board's reasons for the proposals.***
- ***Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?***

We feel comfortable with this pragmatic approach, even though we recognise that allowing an option of classification (either only the financing for customers, or all financing) is not our preferred method. Disclosures should be clear about which amount of financing has been classified within operating, and whether or not it includes only financing to customers, as there is a need to distinguish between finance income that arises from a primary business activity and that which results from the investment of free cash flows. Some safeguards should be introduced to prevent possible abuses.

Similarly, we would suggest that the interest component of pensions should be included in the operating section (see Question 2).

Question 5: The investing category

- ***Paragraphs 47–48 of the Exposure Draft propose that an entity classifies in the investing category income and expenses (including related incremental expenses) from assets that generate a return individually and largely independently of other resources held by the entity, unless they are investments made in the course of the entity's main business activities.***
- ***Paragraphs BC48–BC52 of the Basis for Conclusions describe the Board's reasons for the proposal.***
- ***Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?***

We agree with the definition of the investing category, even if we believe that for application it may involve groups of (similar) assets that generate a return independently of other resources. There are however some issues to be addressed, such as the accounting on profit from non-monetary short term investments, or from investments in start-ups (which could be considered as part of the main business activity or as pure financial investments).

Question 6: profit or loss before financing and income tax and the financing category

- ***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.***
- ***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?***

We agree with this proposal, as such a subtotal is commonly used, at least as a starting point for the financial analysis, and it will enhance comparability among issuers.

There are however some issues to be addressed.

Paragraph 49 of the ED classifies in the financing category:

(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 (pensions …)

Paragraph B35 considers the following income and expenses from financing liabilities as part of the financing category:

(a) debentures, loans, notes, bonds and mortgages;

(b) lease liabilities; and

(c) trade payables (for example those negotiated on extended credit terms).

Paragraph B37 considers also as part of the financing category interest income and expenses on liabilities not arising from financing activities such as:

(a) net interest expense (income) on a net defined benefit liability (asset) applying IAS 19 Employee Benefits;

(b) unwinding of the discount on a decommissioning, restoration or similar liability;

(c) unwinding of the discount on other long-term provisions, for example warranty provisions and deferred consideration for a business combination; and

(d) increases in the present value of the costs to sell a non-current asset (or disposal group) held for sale that arise from the passage of time as discussed in paragraph 17 of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Only the unwinding of discounts on decommissioning or other long-term provisions is mentioned above (B37 b) & c)). Some key information is missing with regard to the effect of changes in interest rates (except for pensions, cf. our comment in Question 2) that are accounted within the statement of profit or loss.

In addition, paragraph 65 mentions, with regard to IFRS 9 (impairment losses, gain or losses on derecognition of financial assets measured at amortized cost), the amounts that should be presented in the statement of profit or loss. But it does not mention in which category (operating, financing, investing) these amounts should be presented.

We therefore recommend requiring the issuers to disclose clearly the principles used for the classification of such items in the statement of profit or loss.

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

The Board proposes to define 'integral associates and joint ventures' and 'non-integral associates and joint ventures', and to require an entity to classify its equity-accounted associates and joint ventures as either integral or non-integral to the entity's main business activities. The Board also proposes to require an entity to provide information about integral associates and joint ventures separately from that for non-integral associates and joint ventures. The Board proposes that an entity would be required to:

(a) classify, in the integral associates and joint ventures category of the statement of profit or loss, income and expenses from integral associates and joint ventures, and present a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures (paragraphs 53 and 60(b) of the Exposure Draft);

(b) present, as cash flows from investing activities in the statement of cash flows, cash flows from investments in integral associates and joint ventures separately from the cash flows from investments in non-integral associates and joint ventures (proposed new paragraph 38A of IAS 7);

(c) present, in the statement of financial position, investments in integral associates and joint ventures separately from investments in non-integral associates and joint ventures (paragraphs 82(g)–82(h) of the Exposure Draft); and

(d) disclose, in the notes, information required by paragraph 20 of IFRS 12 for integral associates and joint ventures separately from non-integral associates and joint ventures (proposed new paragraph 20E of IFRS 12).

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?

We are not supportive of the approach proposed by the Board, and we believe that this is one of the weak points of the Exposure Draft.

This approach is indeed requiring the exercise of management's judgment and in our view, it will not be easy or meaningful to separate integral from non-integral associates and JVs. Depending on the year, we could indeed see some associates or JV's reclassified from one category to the other one. While this may in rare instances be justified by changes in the business, there is a risk that changes be driven by window-dressing reasons.

Since the proposal includes the definition of a new subtotal, being the sum of operating profit or loss and income and expenses from integral associates and joint ventures, some companies may be tempted to include profit making associates and JV above this subtotal and to exclude the loss making ones, considered as non-integral.

We also note that including profit or loss from associates at this level of the statement of profit and loss, where companies report the consequences of their business choices in operating and financing activities, results in including performance of operating and financing assets and liabilities which are not controlled or jointly-controlled by the reporting entity.

In addition, we consider as meaningless the new defined subtotal (operating profit or loss and income and expenses from integral associates and joint ventures). There are several reasons for this:

- It is a mix of operating results (for the main business activity), financing results and taxes (as they pertain to integral associates and joint ventures), whereas taxes and interest expenses for the parent company and controlled entities is presented below this level in the statement of profit or loss;
- It has no conceptual basis with regard to the appreciation of profitability (either from a margin ratio point of view, when compared to revenues), or when computing a return on capital employed (ROCE).

We believe that no financial analyst would use this subtotal.

Presenting such a subtotal, in the statement of profit or loss would therefore disturb the users by presenting a subtotal which has no signification.

We also consider that this approach looks like an attempt to solve the problems linked to how consolidation is now defined (elimination of proportionate consolidation by IFRS 11). We observed in the past that the definition of joint operation in IFRS 11 is based too much on a legal analysis and not enough on a business analysis. But we acknowledge this matter needs to be discussed separately as part of the PIR on IFRS 11, and is not a general presentation question.

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

The Board proposes to describe the roles of the primary financial statements and the notes. The Board also proposes principles and general requirements on the aggregation and disaggregation of information; the principles would be applicable both to presentation in the primary financial statements and disclosures in the notes.

- ***Paragraphs 20–21 of the Exposure Draft set out the proposed description of the roles of the primary financial statements and the notes.***
- ***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?***

Aggregation and disaggregation are key issues for financial analysts. As we have observed, there are too many cases where financial statements lack sufficient disaggregation. The issue is that a lack of disaggregation is detrimental to the quality of financial analysis, either from an historic or forward-looking perspective.

We therefore support the objective of the Board to improve aggregation / disaggregation based on robust principles. We understand that this subject needs to be addressed for the statement of profit or loss and the balance sheet, but also for the statement of cash-flow which requires significant improvements in this respect. While we agree that requiring numerical threshold would not be the right way to address this issue, we hope the solution adopted by the Board will eliminate the many cases where we have seen an "other" category that represents a large share of the operating costs. In some cases, the amount of "other" is also the result of a very significant expense compensated by a significant income of similar amount.

Anyway, once this standard is implemented, we recommend to follow how it is applied by companies, and if necessary, to improve it so as to respond to the need of users of financial statements.

Question 9: analysis of operating expenses

The Board proposes to continue 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. The Board proposes the method presented should be the one that provides the most useful information to users of financial statements. In addition, the Board proposes to describe the factors to consider when deciding which method of operating expense analysis should be used (paragraph B45 of the Exposure Draft). An entity that presents an analysis of operating expenses using the function of expense method in the statement of profit or loss would also be required to disclose in a single note an analysis of its total operating expenses using the nature of expense method.

- ***Paragraphs 68 and B45 of the Exposure Draft propose requirements and application guidance to help an entity to decide whether to present its operating expenses using the nature of expense method or the function of expense method of analysis. Paragraph 72 of the Exposure Draft proposes requiring an entity that provides an analysis of its operating expenses by function in the statement of profit or loss to provide an analysis using the nature of expense method in the notes.***
- ***Paragraphs BC109–BC114 of the Basis for Conclusions describe the Board's reasons for the proposals.***
- ***Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?***

We have significant reservation about these proposals. We have repeatedly expressed in the past our strong preference for a disaggregation of operating costs by nature[2], and maintaining a presentation option is a major weakness of this exposure draft. This preference is very

[2] For instance, see SFAF comment letter on the Discussion Paper on Financial Statement Presentation in 2009, in particular page 3. Available at https://www.sfaf.com/wp-content/files/SFAF-FSP-IASB-COMMENT-LETTER-14042009_2_.pdf

common among European users. We have also heard similar frustration from our American colleagues.

We continue to believe that maintaining this option for disaggregation is inconsistent with one the major goals of this project, providing more detailed and *comparable* information to users.

Paragraph B45 d) recognizes that the allocation of expenses to the various functions could be arbitrary, which is one of the major drawbacks of its method, as it reduces comparability over time (when changes are made without restatement of preceding periods) and between issuers. This point has been highlighted by users repeatedly. We note, in particular, that paragraph 70, when defining function expenses, mentions only the cost of sales, implying that the other functions are a free choice for any company, an approach that can only prevent any comparison. Furthermore, paragraph 71 does not define what are the components of cost of sales (the only compulsory 'per function' line) implying that even this key line is different between one company[3] and another one. Another important point is the very large proportion of cost of goods sold in the cost structure (up to 80 % in some instances!) without any clear analysis of these costs, making this information useless when making projections of future costs. Lastly, but no less importantly, with an allocation of expenses by function, the link with the cash flow statement is lost, whereas this linkage is of the utmost importance for users. These important points explain why most users prefer the allocation of expenses by nature.

Presenting the expenses by function would also be inconsistent with the mandatory by nature presentation of the items in other comprehensive income, resulting in one part of the statement of comprehensive income presented per function, and the other one per nature.

With regard to the choice of the method, by nature or by function, we consider that the criteria proposed by the ED are not robust enough. We consider that they are flexible enough to allow any issuer to freely choose which method to adopt. In addition, we do not agree with the specific criterion that relates to the way the business is managed. We believe the business model approach in standard setting should be limited to specific aspects (e.g, IFRS 9). We tend to think that financial statements are not published to explain the ways the business is managed (this is more the role of the management commentary, including management performance measures): because of their stewardship / accountability, they need to present the past performance of the company in a way that is understandable for any external investor and to allow for a proper anticipation of future performance.

We note that the current standard (IAS 1) requires companies using the 'by function' method to publish in the notes a disclosure of major expenses by nature (and not the reverse when using a 'by nature' classification). In fact, this means that the Board already recognizes in its ED the superior usefulness for users of the 'by nature' method. **We strongly support the requirement of a complete per nature disclosure, as we consider it as a significant first step in the right direction**. We fully agree with the statement in BC 113: "The strong support for this proposal from users of financial statements has led the Board to conclude that the benefits of having information about operating expenses by nature would be likely to exceed

[3] 15 years ago, in the FASB-IASB international working group on Performance Reporting, the CFO of a major pharmaceutical group using per function presentation said that they had built a benchmark of the cost structure of their main competitors according to their reporting. He confessed that the only conclusion they had reached was that this benchmark was useless.

the costs". However, should the Board maintain the option of a 'by function' presentation, there are some issues to be solved.

As we understand this requirement only addresses the presentation of annual financial statements, it will leave the users with no useful information when they try to analyze interim financial statements. We consider IAS 34 should be amended consequentially so that companies should be required to provide an analysis of expenses by nature in their interim financial statements, every time they disclose a cost structure[4].

A large proportion of issuers do not provide their complete financial statements at the time they release their annual or interim results. It means that analysts work with unsatisfactory/incomplete information to provide their investment advice, as they are not in a position to wait until the complete financial package is published. This is a major drawback: in reality, it prevents users from using the presentation by nature when analyzing a company's performance. We consider that such an issue could be addressed by the Board, but acknowledge it is more a market-regulation issue that a standard setting issue. **We thus consider that disclosing by-nature information in interim reporting is a necessary improvement to the Exposure Draft.**

More generally, we consider that any improvement to the annual financial statements, as a consequence of the revision of IAS 1, should also apply to interim financial statements and requires a revision of IAS 34.

Question 10: Unusual income and expenses

The Board proposes introducing a definition of 'unusual income and expenses'; and proposes requiring all entities to disclose unusual income and expenses in a single note.

The Board also proposes application guidance to help an entity to identify its 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.

[4] There are cases where the COGS (Cost of Goods Sold) represents more than 95% total operating costs with a disaggregation by nature in the notes, which is then very valuable. However, without any corresponding disaggregation in the interim financial statements, it leaves the users with poor information.

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?

We agree with the Board that the unusual items are not only related to expenses but also to revenues.

We agree that such income and expenses should be presented in a single note. There are numerous benefits with this solution:

All information will be easily available in a single note, so that any user will easily make his/her own analysis or adjustments.

We understand that some issuers would have liked to present a line 'profit before unusual items'. This has frequently been the case in France[5], where users are familiar with such a presentation, which is not mandatory. However, many issuers have departed from this recommended presentation, and have created their own one. This guideline has never prevented issuers from publishing their own management-defined performance measure or other alternative performance measure (APM).

We consider it as highly valuable if the Board provides an application guidance to help identify what are unusual income and expenses, even if this could be challenging. This should prevent companies from publishing "homemade" unusual income and expenses, which would be detrimental to a comparison between issuers and potentially to a fair representation of the performance of the company.

Question 11: Management performance measures

The Board proposes to introduce a definition of 'management performance measures' and require an entity to disclose them in a single note. Management performance measures are subtotals of income and expenses that:
(a) are used in public communications outside financial statements;
(b) complement totals or subtotals specified by IFRS Standards; and
(c) communicate to users of financial statements management's view of an aspect of an entity's financial performance.

An entity would comply with the general requirements in IFRS Standards for information included in financial statements when it provides these measures; for example, each performance measure must faithfully represent an aspect of the financial performance of the entity. However, the Board does not propose additional restrictions on management performance measures, such as only allowing an entity's management to provide measures based on amounts recognised and measured in accordance with IFRS Standards (paragraphs BC155 and BC158–BC162).

[5] The French standard-setter issued a recommendation on the format of primary financial statements when IFRS became compulsory.

The Exposure Draft also proposes to specify the information an entity would be required to disclose about management performance measures, including a reconciliation to the most directly comparable total or subtotal specified by IFRS Standards.

(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?

While we consider that Management performance measures (MPMs) should not be disclosed within the primary Financial Statements, we support the way the Board has addressed this issue. We consider that MPMs are useful and form an important part of the financial communication of the issuers. We agree that MPMs should be disclosed in the notes to the Financial Statements and not on the face of them. We nevertheless believe that the Board is proposing a very narrow scope for the MPMs, as we understand that important business indicators which are not directly related to the P/L (such as net debt, free cash flow, free operating cash flow, key metrics…) are not covered by this disclosure. We believe that for analysts, having to look elsewhere for their corresponding reconciliations would be cumbersome. Also, making such information a part of the notes presents the advantage of being audited, while it will not prevent issuers to communicate on them. This would present the advantage of providing useful and reliable additional information, while the primary financial statements would remain more comparable.

We consider it a requirement to publish a reconciliation between any MPM and the next IFRS subtotal as well as providing an explanation of their usefulness. Companies should also provide an explanation of the reason for any change in MPM with a comparison on the same basis with the preceding year (more than one year would be welcome). Companies should also state that these MPMs are entity specific and not necessarily comparable to other issuers' MPMs, as they could share the same label / name but the not the same content / meaning. We consider that ESMA has done a rather good work with its recommendation on this subject, even though we note that a number of companies do not comply with ESMA's guidelines on APMs as reported by ESMA itself in its report published on the 20th of December 2019.

Question 12: EBITDA

The Board does not propose to define earnings before interest, tax, depreciation and amortisation (EBITDA) in this project. The Board considered, but rejected, describing operating profit or loss before depreciation and amortisation as EBITDA. However, the Board proposes to exempt from the disclosure requirements for management performance measures a subtotal calculated as operating profit or loss before depreciation and amortisation (paragraph 104(c)).

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?

The notion of EBITDA is very important for users of financial statements. We recognize that the calculation based on its wording may be different from the common usage by analysts, and that it is hard to define a standardized EBITDA. Nevertheless, this will not prevent users to define their own EBITDA, should they need it. Financial statements should in this respect allow users to compute their own EBITDA.

We consider therefore as very useful the definition of an operating profit before D&A and would more than welcome it.

However, we remind the Board that there are several issues with the direct use of EBITDA as a performance measure, and users understand these limitations:

EBITDA, just like gross or operating profit, has to be analyzed by taking also into consideration the invested capital. For a company, the higher the invested capital, the higher the EBITDA should be. This is why the operating profit is so important for users, as it includes both the cash generated by the operation, and also an expense reflecting the operating capital invested.

Two companies in the same industry with same levels of EBITDA may not really be comparable. EBITDA also depends on the financial structure of the company (Is the company owning its assets or leasing them, or has it contracted with third parties by signing contract services arrangements?)

We also understand that the main reason for not making the operating profit before D&A a compulsory subtotal is very much related to the choice by the Board of not requiring a ‘per nature’ presentation of the costs, in spite of numerous requests from users.

Question 13: Statement of cash flows

The Board proposes to require an entity to use the operating profit or loss subtotal as the starting point for the indirect method of reporting cash flows from operating activities.
The Board also proposes to reduce the presentation alternatives currently permitted by IAS 7 and to require that, in the statement of cash flows, an entity classifies interest and dividend cash flows as shown in Fig 2.

(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?

The statement of cash flow is a major part of a company's financial statements and should deserve a special attention.

Currently, there are several issues that prevent a satisfactory and efficient use of the statement of cash flow, including:

- Lack of disaggregation requirements in the operating cash flow;
- Too many classification options;
- Lack of linkage with the statement of profit or loss and the balance sheet;
- Unsatisfactory impacts of IFRS 16 and reduction of the meaning/understandability of the cash flow from operations and from investing;
- Lack of explanations in the notes.

While we welcome any improvement to IAS 7, and we appreciate the initiative undertaken by the Board in this Exposure Draft, we would fully support a new project aiming at making the statement of cash flows truly useful.

We agree with the proposal of the Board to remove options regarding the classification of interests and dividends cash flows. However, we would prefer to have interests paid in the operating sections (as it is generally the case for taxes). Nevertheless, whatever the option retained by the Board, we consider that the corresponding amounts should be clearly disclosed as each analyst may have his/her own restatement methodology.

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?

We welcome and thank the Board for having undertaken this very important project. While it will not solve all the issues, it is a real improvement to the current situation.

We consider that the Board should undertake other projects that would be very beneficial to the users community, such as operating segments (IFRS 8), statement of cash flow (IAS 7) and discontinued activities (IFRS 5).

We thank you for the opportunity given to us to provide our view on such important aspects of financial reporting for users. If you would like to further discuss the views expressed in this letter please do not hesitate to contact us.

Yours faithfully,

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