la SOCIÉTÉ FRANÇAISE
des ANALYSTES FINANCIERS

27 September 2021

Mr. Andreas Barckow
Chairman
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
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Request for Information - Third Agenda Consultation
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 Request for Information "*Third Agenda Consultation*".

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 accounting standards.

For this reason, our Society, through its Accounting and Financial Analysis Commission, is keen to respond to your consultation on the Request for Information - Third Agenda Consultation.

We consider that the top priority in terms of standard setting is to **conclude the Primary Financial Statement (PFS) project**, as the current weaknesses of IAS 1 have resulted, for many years, in major frustrations for users of financial statements in IFRS, and logically has resulted in strong demands for significant improvements. This is why SFAF Accounting Commission already identified this matter as the key project for IASB Agenda Consultation in 2015[1], after being involved in technical debates that were already 15 years old, but with no material result. We note, with pleasure, that the current project tries to tackle better disaggregation, increased number of sub-totals, and removing some options, three points that were at the heart of our demands. **We thus wish that this project is finalised swiftly**, in order to deliver quickly a very significant, and very tangible, improvement of the financial information provided to financial analysts.

We also note this key project, in its final form, should take the utmost attention to the remarks and suggestions made by the user community during the consultation process, in particular concerning integral associates and per nature presentation / information (for interim periods). The comment letter[2] from the European Federation of Financial Analysts Societies (EFFAS) Commission on Financial Reporting on these two matters demonstrates how widely supported are these views.
Due to the extreme importance of this subject for the users, we also suggest that, once applied, the IASB will quickly move to post-implementation process, and possibly involve IFRIC, to ensure that possible weaknesses are managed in an acceptable timeframe.

On the top of the standard-setting improvements requested by the financial analysts is still the significant change of **Segment Reporting, IFRS 8.** This standard has resulted in a major frustration from the user community, as the IASB introduced the "management approach", which, as a logical consequence, impedes any comparability between companies and even, for a single company, over time. This situation is in strong contradiction with the benefit of having International Financial Reporting Standards, that, as a minimum, should bring more comparability, not less. We note that the post-implementation review, in spite of our strong demands, did not deliver any real improvement. **Segment information is of the utmost importance for financial analysts** as it allows to analyze and understand financial information in the context of the sector knowledge, which is at the very heart of their professional duties.
We strongly hope that the completion of the Primary Financial Statement project will be used to deliver quickly strong and significant improvements for the Segment Reporting, as the use of common sub-totals for the financial statements should lead to proper disclosure of similar sub-totals at segment level, with complete reconciliation when needed.

The third most important standard improvement needed is **a complete reshuffle of Business Combination and subsequent goodwill accounting.** SFAF Accounting commission, as early as 2003[3], had stated that IFRS 3 underlying concepts were flawed (impairment test not testing only the acquired goodwill, and "indefinite" economic life of goodwill resulting in no-amortization) and that it will deliver very poor results. As almost twenty years of practice has demonstrated, the standard is not working. As stated in our recent comment letter[4] on IASB's Discussion Paper, the impairment test is unanimously seen by users as providing little or no information, and there is a

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[1] SFAF Comment letter available at: https://www.sfaf.com/download/157/
[2] EFFAS comment letter available at:
https://effas.net/images/pdf/Comments/EFFAS_Comments_on_IFRS_Standards_ED-2019-7_on_General_Presentation_and_Disclosures_September_2020.pdf
[3] SFAF comment letter available at: https://www.sfaf.com/download/29/
[4] SFAF comment letter available at: https://www.sfaf.com/download/329/

wide consensus view among users that this test offers so many ways to deliver the result that the management wants to display that it brings absolutely no guarantee that the goodwill acquired is not overvalued over time. It has resulted in a widely recognised phenomenon, commonly known as "too little, too late". We note that despite our letter during the post-implementation review[5] clearly identified the flaws and the failure of the standard to provide credible information, it resulted in no material changes. And we feel very much frustrated when we hear that we should provide a new argument to re-introduce amortization: the mere fact that the current standard is simply not working is a very real, and important, argument that the Board has to consider to fulfill its mission. As a more general statement, we believe that this general failure of impairment tests to deliver proper results has also caused some loss of credibility of financial information, accountants, auditors, boards and audit committees, not only in the investor community but also in the wider general public.

The following standards should also be considered at the top of IAS Agenda for improvements, are they are source of major drawbacks for the user community.

IAS 7 Statement of Cash Flows

We consider also that there are a lot of improvements to be made on the Statement of Cash Flows, as it has been very often recalled. Better disaggregation, better linkage with the Statement of profit and loss and with the Statement of financial position, better disclosures, less options are the key subject in this field.

In addition, we consider that the Statement of Cash Flows should provide the analyst with the necessary information that will allow him/her to easily compute any issuer free cash flow, according to his/her own definition, depending on his/her needs since there is indeed not a single definition of Free Cash Flow.

More recently, since the introduction of IFRS 16, the statement of cash flows has become increasingly complex to understand and is a major frustration for users.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

As a general statement, IFRS 5 has resulted in financial information that is very complex, and in many cases of little use for financial analysts. The inconsistency between information provided in the P/L and balance sheet with the one in the cash flow statement is also a source of frustration. We also note that stopping fixed asset depreciation results in some counter intuitive effects.

In addition, while some activities of a company are said to be sold, but still under the control of the companies, information on the statement of profit and loss and, potentially, on the statement of cash flow, are disappearing, thus reducing the relevance of the financial statements.

Conversely, as we need to get a consolidated view of a company, even if some assets are held for sale, we also need proforma accounts for the past period for a company that has made an acquisition, so as to get a fair view of the performance of this company.

[5] SFAF comment letter available at: https://www.sfaf.com/download

IAS 34 Interim Financial Reporting

While we expect some projects to provide better information within the annual financial statements (e.g. PFS), IAS 34 does not allow to expect similar improvements for interim financial statements, which is a major drawback. We therefore urge the Board to consider a revision of IAS 34, so as to incorporate such improvements.

We also note the recent introduction of **IFRS 16** has resulted, as we expected, in a newer generation of asset structuration, and that these points need to be addressed not to distort too much the comparability between companies.

Finally, with regard to the overall balance of the Board main activities, we consider that the Board should **first consider improvements to standards that are achievable** in a foreseeable future, and not waste time on concept developments that prove later to be theoretical without any practical application. In particular, the Board should first consider how improvements of standards or development of activities are useful to the investor community, which are the primary users of financial statements.

In addition, we would like to add some comments regarding non-financial information. Such information, when disclosed, should encompass an economic sense and not embellish the situation. Such non financial information should be easily linked to the financial information, so as to better understand and forecast the financial information of such company.

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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