la SOCIÉTÉ FRANÇAISE
des ANALYSTES FINANCIERS

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Mr. Hans Hoogervost
Chairman
International Accounting Standard Board
30 Cannon Street
London EC4M 6XH
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Discussion Paper "Disclosure Initiative — Principles of Disclosure".

Comments by the French Society of Financial Analysts (SFAF)
Financial Analysis and Accounting Commission

Dear Sir,

The French Society of Financial Analysts, SFAF (Société Française des Analystes Financiers), is very pleased to submit its contribution as part of the consultation undertaken by the IASB on the Discussion Paper "*Disclosure Initiative—Principles of Disclosure"*.

SFAF represents more than 1,500 members in France and is itself a member of the European Federation of Financial Analysts Societies (EFFAS) which comprises 26 member organizations representing more than 15,000 investments professionals. Its Accounting and Financial Analysis Commission intends to represent analysts and fund managers 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.

First, we stress that Disclosures are a key part of financial statements. From a general point of view, we consider that their main goal is to complement and provide the needed additional information users require to understand the primary financial statements. Disclosures are indeed key for users to take investing decisions.

Our response is however focused on aspects SFAF Accounting and Financial Analysis Commission is considering as being key for users of financial statements, or where there can provide some inputs.

Question 1

Paragraphs 1.5–1.8 describe the disclosure problem and provide an explanation of its causes.

(a) Do you agree with this description of the disclosure problem and its causes? Why or why not? Do you think there are other factors contributing to the disclosure problem?

(b) Do you agree that the development of disclosure principles in a general disclosure standard (ie either in amendments to IAS 1 or in a new general disclosure standard) would address the disclosure problem? Why or why not?

Answer

Although users are not preparers, we tend to agree with the description of the disclosure problem and its causes. It appears too often that disclosures are built with a “tick the box” approach, and that the results is a source of frustration for users. However, we have seen over the last years some improvements. A good illustration happened in France where the AMF (French Market Authority) initiative has resulted in improving disclosures from a significant numbers of issuers.

We consider also that the development of principles in a general disclosure standard would help addressing the disclosure problem as it will provide consistency among the various standards with regards to disclosures.

Question 2

Sections 2–7 discuss specific disclosure issues that have been identified by the Board and provide the Board’s preliminary views on how to address these issues.

Are there any other disclosure issues that the Board has not identified in this Discussion Paper that you think should be addressed as part of this Principles of Disclosure project? What are they and why do you think they should be addressed?

Answer

We consider that IASB should provide more illustrative examples as the concepts developed in this Discussion Paper are sometimes difficult to appreciate.

Question 3

The Board's preliminary view is that a set of principles of effective communication that entities should apply when preparing the financial statements as described in paragraph 2.6 should be developed. The Board has not reached a view on whether the principles of effective communication should be prescribed in a general disclosure standard or described in non-mandatory guidance.

The Board is also of the preliminary view that it should develop non-mandatory guidance on the use of formatting in the financial statements that builds on the guidance outlined in paragraphs 2.20–2.22.

(a) Do you agree that the Board should develop principles of effective communication that entities should apply when preparing the financial statements? Why or why not?

(b) Do you agree with the principles listed in paragraph 2.6? Why or why not? If not, what alternative(s) do you suggest, and why?

(c) Do you think that principles of effective communication that entities should apply when preparing the financial statements should be prescribed in a general disclosure standard or issued as non-mandatory guidance?

(d) Do you think that non-mandatory guidance on the use of formatting in the financial statements should be developed? Why or why not?

If you support the issuance of non-mandatory guidance in Question 3(c) and/or (d), please specify the form of non-mandatory guidance you suggest (see paragraph 2.13(a)–(c)) and give your reasoning.

Answer

We agree with the principles listed in paragraph 2.6. However, we would like to stress that if there is a potential trade-off between the "entity-specific" and "comparability" characters, such trade-off should not be at the expense of comparability, which is of utmost importance for users of financial statements.

With regard to the standard, we consider that a general disclosure standard would be better than a non-mandatory guidance. However, there are several issues to be considered. Depending on the countries, some market authorities or local legislation / regulation may require specific information to be included in the disclosures. As users we believe that such local standard should by principle be consistent and applied consistently with the principles set in paragraph 2.6.

Finally, for the use of formatting in the financial statements only, we consider a standard would be better suited than a non-mandatory guidance. We believe indeed that such a guidance would result, in the end, in a wide variety of presentations that, depending on the circumstances, may not respond to the need of users (with respect, among other aspects, to their practical usefulness) and may alter comparability. A standard would not prevent an issuer to provide additional information in a complementary format, if it is considered to be useful.

Within the Discussion Paper, in the paragraph 2.3, we understand the Board is considering, as a preliminary view, that a non-mandatory guidance on formatting is more suitable than a general disclosure standard. However, it seems unable to explain in details its position, whereas the paragraphs 2.20 to 2.22 would be very helpful in establishing such a standard (with the paragraph 2.22 being already well structured). This standard could introduce the "comply or explain" approach, so as to satisfy the users needs while the standards requirements would be followed when necessary.

Question 4

The Board's preliminary views are that a general disclosure standard should:

● specify that the 'primary financial statements' are the statements of financial position, financial performance, changes in equity and cash flows;

● describe the role of primary financial statements and the implications of that role as set out in paragraphs 3.22 and 3.24;

● describe the role of the notes as set out in paragraph 3.28, as well as provide examples of further explanatory and supplementary information, as referred to in paragraphs 3.26–3.27; and

● include the guidance on the content of the notes proposed in paragraphs 7.3–7.7 of the Conceptual Framework Exposure Draft, as described in paragraph 3.7.

In addition, the Board's preliminary views are that:

● it should not prescribe the meaning of 'present' as presented in the primary financial statements and the meaning of 'disclose' as disclosed in the notes; and

● if it uses the terms 'present' and 'disclose' when describing where to provide information in the financial statements when subsequently drafting IFRS Standards, it should also specify the intended location as either 'in the primary financial statements' or 'in the notes'.

Do you agree with the Board's preliminary views? Why or why not? If you do not agree, what do you suggest instead, and why?

Answer

We generally agree with the Board' views. In particular, we agree with the Board proposal that the Statement of cash flows is a key component of the primary financial statements. Our view remains unchanged. In our 2015 Comment letter to IASB (Conceptual Framework), we stated indeed that the Statement of cash flows should be a part of the primary financial statements. We also recently stressed this point in our comment letter to the FRC on its consultation to cash flows statement improvement. As the Conceptual Framework is still under renovation, we think that there is an opportunity for the Board to fully confirm that the Statement of cash flows is a part of the primary financial statements.

Moreover, we consider that the role of the notes is to clarify and supplement the information included in the primary financial statements. In particular, we fully agree, as presented in the paragraph 3.28, that the role of the notes is to provide further information necessary to disaggregate, reconcile and explain the items recognized in the primary financial statements, which, unfortunately, is not always the case, as many users will tell. We believe that the role of the notes is *also* to provide the information needed to detail and explain what is not recognized within the primary financial statements (e.g. off-balance sheet items, backlog and commitments etc.).

Finally, we consider that the issuer should complete the notes so that the information provided is relevant, reliable, comparable and understandable, as indicated in IAS 1. IAS 1 states also that a "fair presentation also requires an entity to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance". In a nutshell, the objective of the Principles of Disclosure project is to improve the communication, while still maintaining a fair presentation of the issuer financial position, financial performance and cash flows. It should not result at the end with lower quality disclosures.

Question 5

The Board's preliminary view is that a general disclosure standard should include a principle that an entity can provide information that is necessary to comply with IFRS Standards outside financial statements if the information meets the requirements in paragraphs 4.9(a)–(c).

(a) Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?

(b) Can you provide any examples of specific scenarios, other than those currently included in IFRS Standards (see paragraphs 4.3–4.4), for which you think an entity should or should not be able to provide information necessary to comply with IFRS Standards outside the financial statements? Why? Would those scenarios meet the criteria in paragraphs 4.9(a)–(c)?

Answer

IFRS Information provided outside but not within financial statements should be an exception (for instance an IFRS information in the management report, but not included in the Financial Statement). Disclosures located outside such financial statements must be perceived as being of the same quality as the ones that stay within the financial statements. Cross reference is thus key so that any information, that users are expected to read in the notes but located elsewhere, are easily available and accessible in a practical manner. We would however consider that financial statements (primary financial statements and notes) have to be considered as a self-supporting document and prefer, as a general rule, that disclosures stay within the financial statements as much as possible.

If however some IFRS information were to be disclosed outside the financial statements, it should be easily available to users of financial statements, and, maintained over time, as long as the financial statements are available.

Question 6

The Board's preliminary view is that a general disclosure standard:

● should not prohibit an entity from including information in its financial statements that it has identified as 'non-IFRS information', or by a similar labelling, to distinguish it from information necessary to comply with IFRS Standards; but

● should include requirements about how an entity provides such information as described in paragraphs 4.38(a)–(c).

Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative(s) do you suggest, and why?

Answer

As a principle, we believe that financial statements should focus on IFRS information. Financial statements are perceived, if not assumed, by users as being IFRS audited information. In addition to specific requirements linked to local regulation, non-IFRS information can therefore be included in the notes on a selective basis, with the objective of enhancing the relevance of IFRS figures and making them understandable. Non-IFRS information should however be labeled as such. We believe also that, as a general rule, this non-IFRS information should also be audited, and if not audited, it should be disclosed.

Question 7

The Board did not discuss whether any specific information—for example, information that is inconsistent with IFRS Standards—should be required to be identified as described in paragraphs 4.38(a)–(c) or should be prohibited from being included in the financial statements.

Do you think the Board should prohibit the inclusion of any specific types of additional information in the financial statements? If so, which additional information, and why?

Answer

Please cf. Question 6

Question 8

The Board's preliminary views are that it should:

● clarify that the following subtotals in the statement(s) of financial performance comply with IFRS Standards if such subtotals are presented in accordance with paragraphs 85–85B of IAS 1:

● the presentation of an EBITDA subtotal if an entity uses the nature of expense method; and

● the presentation of an EBIT subtotal under both a nature of expense method and a function of expense method.

● develop definitions of, and requirements for, the presentation of unusual or infrequently occurring items in the statement(s) of financial performance, as described in paragraphs 5.26–5.28.

(a) Do you agree with the Board's preliminary views? Why or why not? If you do not agree, what alternative action do you suggest, and why?

(b) Should the Board prohibit the use of other terms to describe unusual and infrequently occurring items, for example, those discussed in paragraph 5.27?

(c) Are there any other issues or requirements that the Board should consider in addition to those stated in paragraph 5.28 when developing requirements for the presentation of unusual or infrequently occurring items in the statement(s) of financial performance?

The feedback on Question 8 will be considered as part of the Board's Primary Financial Statements project.

Answer

We generally agree with IASB about the presentation of EBIT and EBITDA. We nevertheless note that it is one of the main points, if not the key point, of the Primary Financial Statements project currently under discussion, and should thus be taken into this perspective. Beyond this statement, we favor the definition of EBIT and EBITDA and it inclusion within the financial statements. We also note the widely supported request for EBITDA is a simple reflect of the strong preference of users for a per nature presentation of the income statement, a point that has been repeated, for many years, by SFAF and EFFAS.

We consider also that the use of unusual and infrequently occurring items could be allowed provided they are limited in nature, well defined, explained and not "cherry picked" by the issuers, i.e. their definition is valid for all entities. In addition they have to be consistent over time. Such characteristics seem to us necessary so as to provide a true and fair view of the performance issuer and to preserve the comparability between issuers. The French experience with the ANC recommendation[1] has been helpful (even if it has not been perfect) in this respect. An English version had existed when the recommendation was first published in October 2004.

[1] ANC recommandation has been is available at the following address: http://www.anc.gouv.fr/files/live/sites/anc/files/contributed/ANC/2.%20Normes%20internationales/NI%202013/Recommandation_2013_R03.pdf. This recommendation outlines in particular a current operating profit (as an option) in addition to an operating profit, with a limited number of items in between.

Both the French and the English version mentioned SFAF as being part of the Working Group that was set-up to elaborate this recommendation.

Question 9

The Board's preliminary view is that a general disclosure standard should describe how performance measures can be fairly presented in financial statements, as described in paragraph 5.34.

Do you agree with the Board's preliminary view? Why or why not? If you do not agree, what alternative action do you suggest, and why?

Answer

First, we consider that non-GAAP measures can provide useful and relevant information in addition to IFRS information. However, we believe that IFRS information is the starting point for the users.

We agree with IASB that a general disclosure standard should describe how performance measures could be fairly presented in financial statements, as described in paragraph 5.34. The Board can positively consider the ESMA guidance on APM's as a way to properly address this issue.

In addition, we see some merits in improving the statements of cash flows, as we have explained over the years.

Question 10

The Board's preliminary views are that:

● a general disclosure standard should include requirements on determining which accounting policies to disclose as described in paragraph 6.16; and

● the following guidance on the location of accounting policy disclosures should be included either in a general disclosure standard or in non-mandatory guidance (or in a combination of both):

● the alternatives for locating accounting policy disclosures, as described in paragraphs 6.22–6.24; and

● the presumption that entities disclose information about significant judgements and assumptions adjacent to disclosures about related accounting policies, unless another organisation is more appropriate.

(a) Do you agree with the Board's preliminary view that a general disclosure standard should include requirements on determining which accounting policies to disclose as described in paragraph 6.16?

Why or why not? If you do not agree, what alternative proposal(s) do you suggest, and why?

(b) Do you agree with the Board's preliminary view on developing guidance on the location of accounting policy disclosures? Why or why not? Do you think this guidance should be included in a general disclosure standard or non-mandatory guidance (or in a combination of both)? Why?

If you support the issuance of non-mandatory guidance in Question 10(b), please specify the form of non-mandatory guidance you suggest (listed in paragraphs 2.13(a)–(c)) and give your reasoning.

Answer

We generally agree with the Board proposal. Location of disclosures is indeed key for a better a understanding of the issuer financial situation. We think new or change in accounting policies should be presented separately (most probably, in the first part of the notes), but not in a boilerplate language. We appreciate having the accounting policy and the related judgement presented in the same note as the information to which they relate.

We consider also that the issuer should state that unnecessary and/or unrelevant accounting policies are not disclosed in the notes. In addition, we would suggest to put an emphasis on avoiding duplication of disclosures for a given accounting policy.

Question 11

The Board's preliminary view is that it should develop a central set of disclosure objectives (centralised disclosure objectives) that consider the objective of financial statements and the role of the notes.

Centralised disclosure objectives could be used by the Board as a basis for developing disclosure objectives and requirements in Standards that are more unified and better linked to the overall objective of financial statements.

Do you agree that the Board should develop centralised disclosure objectives?

Why or why not? If you do not agree, what alternative do you suggest, and why?

Answer

We consider with interest the Board proposal. We consider indeed that a central set of disclosure objectives could improve consistencies among disclosures and preclude any lack of disclosure for a specified standard. However this proposal remains at this stage very theoretical. The identification of objectives should not drive to disclosures that are not responding to the need of users of financial statements (e.g. lack of information that is useful).

Question 12

The Board has identified, but not formed any preliminary views about, the following two methods that could be used for developing centralized disclosure objectives and therefore used as the basis for developing and organising disclosure objectives and requirements in Standards:

● focusing on the different types of information disclosed about an entity's assets, liabilities, equity, income and expenses (Method A); or

● focusing on information about an entity's activities to better reflect how users commonly assess the prospects for future net cash inflows to an entity and management's stewardship of that entity's resources (Method B).

(a) Which of these methods do you support, and why?

(b) Can you think of any other methods that could be used? If you support a different method, please describe your method and explain why you think it might be preferable to the methods described in this section.

Methods A and B are in the early stages of development and have not been discussed in detail by the Board. We will consider the feedback received on this Discussion Paper about how centralised disclosure objectives might best be developed before developing them further.

Answer

Method B appears to be more flexible. However, Method B would require considerable judgement from issuers and could cause application issues if it is not sufficiently prescriptive. In addition, the Board should consider that comparability across issuers is key and that too much flexibility might result in a loss of comparability.

Illustrative examples would help in better understanding the outcomes of methods A & B.

Question 13

Do you think that the Board should consider locating all disclosure objectives and requirements in IFRS Standards within a single Standard, or set of Standards, for disclosures? Why or why not?

Answer

We consider this to be more a question for preparers, auditors and regulators. Whatever the outcome, it should not be at the expense of quality of financial statements.

Question 14

This section describes an approach that has been suggested by the NZASB staff for drafting disclosure objectives and requirements in IFRS Standards.

(a) Do you have any comments on the NZASB staff's approach to drafting disclosure objectives and requirements in IFRS Standards described in this section (the main features of the approach are summarised in paragraph 8.2 of this section)?

(b) Do you think that the development of such an approach would encourage more effective disclosures?

(c) Do you think the Board should consider the NZASB staff's approach (or aspects of the approach) in its Standards-level Review of Disclosures project? Why or why not?

Note that the Board is seeking feedback on the NZASB staff's overall approach, rather than feedback on the detailed drafting of the paragraphs on the use of judgement in the NZASB staff's example 1 or the detailed drafting of the specific disclosure requirements and objectives included in the NZASB staff's examples 2 and 3. In addition, the Board is not seeking feedback on where specific disclosure objectives and requirements should be located in IFRS Standards (except as specifically requested in Question 13).

Answer

There are certainly some interesting considerations within the Tier 2 approach as proposed by NZ ASB. However, at this level, we would need some real examples to assess whether the information that would be useful to users would be available. The potential issue is that two companies with the same characteristics may have different disclosures for other reasons than regulatory if these companies have not the same perception or understanding of the need of users of financial statements. Illustrative "real" examples should help to get a better understanding of the approach. A feed-back from the NZ ASB might also be helpful.

Question 15

Some stakeholders say that the way that disclosures are drafted in IFRS Standards might contribute to the 'disclosure problem', as described in Section 1. Some cite in particular the absence of clear disclosure objectives and the presence of long lists of prescriptively written disclosure requirements in Standards (see paragraph 8.4).

Nevertheless, other stakeholders observe that specific disclosure requirements might be simpler to use than applying judgement when determining how to meet disclosure objectives.

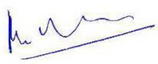
Do you think the way the Board currently drafts IFRS Standards contributes to the disclosure problem? Please give your reasoning. If you think the current drafting contributes to the disclosure problem, please provide examples of where drafting in Standards could be improved and why.

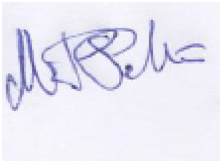
Answer

We consider this to be more a question for preparers, auditors and regulators. Whatever the outcome, it should not be at the expense of quality of financial statements.

We thank you for the opportunity given to us to provide our view on such important aspects of financial reporting for users. We really hope that the views of users will drive the work of the IASB and remain available for any further information.

Yours faithfully,





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