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Ref.: ACC/HvD/LF/ID

Dear Mr. Enevoldsen,

Re: Pro-active Accounting Activities in Europe (PAAinE) - Discussion Paper on Performance Reporting

- (1) FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the Discussion Paper on Performance Reporting (the "DP"), issued as part of Europe's PAAinE initiative.
- (2) We commend EFRAG on its efforts to provide an analysis of key issues surrounding financial performance. However, we do not share the conclusion that the only important issue that remains to be debated on performance reporting is the issue of disaggregation. We believe that a more thorough debate is required on other key issues.
- (3) As noted in the DP, "performance is a complex, multifaceted issue that cannot be encompassed in one or a few numbers". As such, we believe that it would be important that criteria (principles) are identified of what represents performance. This is a topic that is currently underdeveloped in IFRSs. We believe that this topic should be the subject of further analysis in order to ensure that the criteria retained are the most relevant.
- (4) We also believe that the discussion about what is performance would benefit if it was developed further to consider potential differences across industries. In this regards, we suggest that, in order to obtain a better understanding of the best approach in practice, it may be useful to carry field tests by industries.

- (5) We agree that it is important that there are clear principles of what constitutes performance and that a fair degree of standardisation is required to ensure comparability. At the same time, we also believe that flexibility is necessary in order to ensure that the performance number(s) presented by an entity appropriately reflects its own business model and its own cash conversion cycle. The right balance between flexibility and standardisation can only be achieved if clear principles of what constitutes performance are established at the onset.
- (6) Finally, we do not believe that recycling is a secondary issue. The issue of recycling is a direct consequence of the difference between the recognition/measurement criteria used in preparing the statement of financial position and those used in establishing performance. There may be valid reasons for those differences to continue to exist. The reasons that led to the development of the concept of recycling need to be analysed in order to determine whether it is really appropriate to do away with the concept.

Our responses to the questions in the Invitation to comment of the DP are included as an Appendix to this letter.

For further information on this letter, please contact Leyre Fuertes, Project Manager.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'H. van Damme', with a long horizontal flourish extending to the right.

Hans van Damme
President

Appendix - Responses to the questions in the Invitation to comment of the Pro-active Accounting Activities in Europe (PAAinE) – Discussion Paper on Performance reporting

Chapter 2

Question 1: Do you think there is anything else in the development of existing standards (apart from that discussed in chapter 2) that should be taken into account when considering the way forward for performance reporting?

- (7) We believe that Chapter 2 of the DP provides a proper overview of the issues in relation to the performance reporting model as prescribed in existing standards. However, we note that the DP does not take into account the proposal of a single performance statement considered in the IASB/FASB Phase B Discussion Paper Preliminary Views on Financial Statement Presentation.
- (8) Also, as noted in our response to Question 8, we regret that the DP does not provide a detailed analysis of the issue of recycling. In our view, the concept of recycling is an important element to consider in establishing what performance is. Recycling is a direct consequence of the difference between the recognition/measurement criteria used in preparing the statement of financial position and those used in establishing performance. The issue remains of actuality as can be noted by the recent debates as part of the development of IFRS 9. As noted in Chapter 3 of the DP, users currently pay more attention to “net income” than to “comprehensive income”. This appears to indicate that users give greater importance to certain income and expenses items in establishing performance and that, accordingly, it may be of importance to consider whether recycling is a concept that should be maintained.

Chapter 3

Question 2: Do you agree with the observation in this chapter that, at the level at which standards are written, there is no generally agreed notion of what represents ‘performance’ and that in fact performance is a complex, multi-faceted issue that cannot be encompassed in one or a few numbers? If you do not, please explain your reasoning.

- (9) We agree that it might not be possible to have one sole definition of performance at the level of individual standards. As noted in the DP, “performance is a complex, multifaceted issue that cannot be encompassed in one or a few numbers”. As such, we believe that it would be important that criteria (principles) are identified of what represents performance. This is a topic that is currently underdeveloped in IFRSs. We believe that this topic should be the subject of further analysis in order to ensure that the criteria retained are the most relevant, in particular on whether it is desirable to maintain a distinguishing line between elements currently reported in net income and those reported in other comprehensive income.

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- (10) Once the principles underlying the definition of performance reporting are clearly established, management will be able to apply these criteria when assessing what are the key performance measures and explaining why these have been chosen by way of disclosures. Users of information need to know how management has concluded that the performance measures used are key performance indicators. Setting clear criteria of what represents performance would ensure that there is a minimum degree of comparability between entities while allowing the necessary degree of flexibility to take into account specific elements that are considered important by management in its assessment of performance.
- (11) We also believe that the discussion in the DP about what is performance would benefit if it was developed further to consider potential differences across industries. For example, whether performance reporting would differ if the entity operates in the banking or insurance sector.

Chapter 4

Question 3: Do you agree that key lines are still useful, though only because of their value as a basis for communication to the market and as a starting point for analysis and comparison? If you do not, please explain your reasoning.

- (12) We agree that key lines are useful as a starting point and also to provide a basis for comparison by users of the information reported.

Question 4: Do you agree that, in order to fulfil this function, it is important that there are clear principles that underpin what is included and excluded from the key line(s) (in order to make their content understandable) and those principles need to be such that the content of a key line is standardised to a fair degree (in order to ensure the necessary comparability).

- (13) As explained in our response to Question 2, we agree that it is important that there are clear principles and a fair degree of standardisation to ensure comparability.
- (14) While we believe that standardisation is important, we also believe that flexibility is necessary in order to ensure that the performance number(s) presented by an entity appropriately reflects its own business model and its own cash conversion cycle. The right balance between flexibility and standardisation can only be achieved if clear principles of what constitutes performance are established at the onset.
- (15) We also note that it might not be possible to have one sole definition of performance at the level of individual standards. See our comments in paragraph 9 of this letter.

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Question 5: This chapter discusses the need for standard setters to balance the competing demands of comparability and flexibility, in order to give users fairly consistent starting points for analysis, while allowing management to present income and expenses in a manner that reflects the particular circumstances of the entity. Has the range of approaches to flexibility and comparability given in the chapter been appropriately described? What do you believe would offer the best approach in practice?

- (16) We agree that the range of approaches to flexibility and comparability given in this chapter has been appropriately described.
- (17) In general, we would favour a principles-based approach to allow the necessary flexibility for management to reflect the particular circumstances of the reporting entity. We also acknowledge that there must be a certain degree of standardisation to meet the users' needs for comparable information.
- (18) A balance should be struck between what is prescribed (i.e. setting mandated key lines) and the level of flexibility necessary to adapt to the individual circumstances of the entity concerned. This also means allowing for the flexibility to add key lines and for the preparers to decide on the composition of the key lines, so long as it is possible for users to understand this composition by adequate disclosures.
- (19) In our opinion, a combination of approaches B and C would appear to offer the best approach in practice. As proposed in approach C, we believe that certain key lines should be mandatory and that a principles-based definition should be provided of their contents. Entities would be allowed, respecting these principles, to decide on the composition of the key lines. In addition, as proposed in approach B, entities should be allowed to add key lines as long as their content is explained in sufficient detail in the notes and the overall principles are respected.
- (20) However, in our view, further work is necessary in order to obtain a better understanding of the best approach in practice. We suggest, for instance, carrying field tests by industries in order to get further information on how to operationalise the approaches.
- (21) We note that it might be difficult to define one approach that fits all industries or sectors. Regardless of the approach favoured in practice, we think that it would be important to ensure that there is sufficient information disclosed in order to ensure that users have a proper understanding of what constitutes the performance reported.

Appendix - Responses to the questions in the Invitation to comment of the Pro-active Accounting Activities in Europe (PAAinE) – Discussion Paper on Performance reporting

Question 6: This chapter finds no evidence that it is important for the "bottom line" of statement(s) of income and expense to be a key line. Do you agree that it is not important for the "bottom line" of statement(s) of income and expense to be a key line?

- (22) We do not agree that the "bottom line" should not be a key line.
- (23) If there is one single statement, the "bottom line" will effectively represent the addition of all the key lines that are reported in the statement. In this sense, the "bottom line" will become "a key line" per se. If the bottom line is not a key line, it is questionable whether the statement presenting the resulting figure of income and expense elements achieves what should be its purpose, i.e. presenting a meaningful summary of the evolution of the situation of the entity during the period. This is why we believe that it is important that principles be formulated as to what should be included in the "bottom line" in order to ensure that the result is not simply a meaningless compilation of income and expenses.
- (24) If there are two statements, we would hope that some clear principle would distinguish what is in each statement. If so, the total of it should mean something, and could be a key line. Another issue would arise: which of the two totals is more important? This does not mean that each bottom line is not a key line (in the same manner as certain subtotals may be key lines). However, as part of the analysis of what is performance, it is important to truly assess whether both bottom lines would indeed represent performance or whether one of the bottom lines represents current performance and the other line represents something else (and what is this something else?).

Question 7: In chapter 4, the paper observes that there is no evidence that it is important for the "bottom line" of statement(s) of income and expense to be a key line. Assuming that is correct, do you agree that it follows that the number of performance statements provided is not particularly important either. And thus that the one or two performance statements debate is a non-issue; the real issues relate to the key lines. Do you agree with this analysis and conclusion? If you do not, please explain your reasoning.

- (25) We do not agree that the "bottom line" should not be a key line and refer to our response to Question 6.
- (26) We agree that the important issue for users is whether the disaggregation of income and expenses is done in a meaningful way that produces the key lines that are required.

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Question 8: Do you agree that recycling is mainly an issue if a realised/unrealized split is the main disaggregation criterion for the statement(s) of income and expense, that therefore recycling is really a secondary issue and that the main issue is which disaggregation model should be used? If you do not, please explain your reasoning.

- (27) The concept of realised vs. unrealised is not well defined and, accordingly, the question of whether or not recycling would arise under other disaggregation criteria may depend on how broadly (or narrowly) this concept is defined.
- (28) Regardless, we do not believe that recycling is a secondary issue that can be avoided by choosing an alternate disaggregation criterion. The issue of recycling is a direct consequence of the difference between the recognition/measurement criteria used in preparing the statement of financial position and those used in establishing performance. There may be valid reasons for those differences to continue to exist. The reasons that led to the development of the concept of recycling need to be analysed in order to determine whether it is really appropriate to do away with the concept. Eliminating recycling appears to indicate that performance is simply the net difference between the statement of financial position at the beginning and at the end of the period (except for transactions with shareholders). Recycling needs to be addressed in the IASB projects on performance reporting and presentation of financial statements. However, we acknowledge that addressing the issue of “recycling” will require time given the complexity of the issue and the different views held.
- (29) Having said this, we agree that the issue of which disaggregation model should be used is a key issue. As explained in our response to Question 7, the important issue for users is whether the disaggregation of income and expenses is done in a meaningful way that produces the key lines that are required (as detailed paragraph 26 of this letter).

Chapter 5

Question 9: Would the issue of recycling on its own affect your decision as to the best approach to disaggregation? Please explain your reasoning.

- (30) The issue of recycling on its own would not affect our decision as to the best approach to disaggregation. As already noted in our responses to Questions 7 and 8, the important issue is to find the appropriate model for disaggregation. The issue of recycling is a separate debate.

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Question 10: Do you have any comments on the basic models of disaggregation presented in this chapter? Are there any other broad types of model that would have been worth exploring?

- (31) We are not aware of any other broad types of model that would have been worth exploring.

Question 11: Is the discussion of the advantages and disadvantages of each disaggregation model fair and complete? If not, how could it be improved?

- (32) We think that the discussion of the advantages and disadvantages of each disaggregation model in the DP is appropriate.

Question 12: Which of the models of disaggregation – or combinations of models – do you favour and why do you believe it meets the needs of users better than the alternatives?

- (33) We favour a model of disaggregation that reflects the way the business is conducted. In our view, subject to our comments in paragraph 34 of this letter, this objective might be best achieved with the application of the proposed disaggregation split between operating vs. investing vs. financing as a first level of disaggregation and core vs. non-core as a second level of disaggregation within operating.
- (34) When commenting on the “Disaggregation” objective proposed in the proposals of the IASB/FASB Phase B Discussion Paper Preliminary Views on Financial Statement Presentation (FEE comment letter to EFRAG issued on 17 April 2009), we agreed with EFRAG that the disaggregation objective should not always require information to be provided on the face of the statement(s) and that it might be better addressed by disclosing the more detailed information in the notes to the financial statements. We also raised some concerns regarding the proposed separation of business activities from financing activities and noted our preference for not systematically separating the items presented if there is no clear indication that this is feasible or that it will provide more useful information.
- (35) In addition, as indicated in paragraph 33 of this letter, a disaggregation split between core vs. non-core might be helpful. In general, a single disaggregation model might not be sufficient in practice to provide adequate information to a wide range of users. We also note that deciding on which model of disaggregation would meet best the needs of users might be a matter of disclosure.

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- (36) In our view, the model of disaggregation between realised vs. unrealised might prove difficult in practice since there is no generally agreed definition of what is “realised” and “unrealised”. In addition, we note that the interpretation of realisation varies widely between jurisdictions.
- (37) In the illustration on page 44 of the DP of a model based on realised/unrealised distinction, the presentation of some of the elements that are reported under realised profit or unrealised profit is debatable.
- (38) In general, as noted in our response to Question 5, we would favour a principles-based model to allow the necessary flexibility for management to reflect the particular circumstances of the entity. We also acknowledge that there must be certain degree of standardisation to meet the users’ needs for comparable information.