

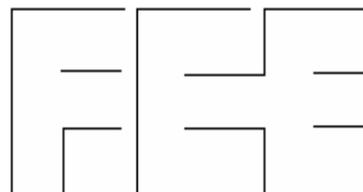
Date  
5 April 2007

Le Président

Fédération  
des Experts  
Comptables  
Européens  
AISBL

Av. d'Auderghem 22-28  
1040 Bruxelles  
Tél. 32 (0) 2 285 40 85  
Fax: 32 (0) 2 231 11 12  
E-mail: secretariat@fee.be

Mr. Paul Ebling  
Secretary General  
EFRAG  
Avenue des Arts 13-14  
1000 BRUXELLES



commentletter@efrag.org

Dear Mr. Ebling,

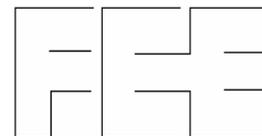
Re: EFRAG PAAinE Discussion Paper 2 “The Performance Reporting Debate”

1. FEE (Fédération des Experts Comptables Européens, European Federation of Accountants) is pleased to submit its views on the EFRAG PAAinE Discussion Paper 2 “The Performance Reporting Debate”. We welcome the PAAinE initiative to stimulate the discussion in Europe on performance reporting, given the strong views held on the issue in Europe and the attempt to come to a European view to contribute to and influence the joint IASB/FASB project on Financial Statement Presentation.
2. Many questions raised in the Discussion Paper are difficult to answer as long as there is no agreed definition of performance. Furthermore, the performance reporting project is closely linked to the Framework discussions.

Invitation to comment

*Question A: Is there a need to have a key line in the statement(s) of income and expense that succinctly summarises entity performance, acts as a headline number in corporate communication and can be used as a starting point for further analysis? If so, what should this (or these) key line(s) represent?*

3. From a conceptual point of view, we have doubt whether performance can be reflected in one single number as a measurement of performance, since accounting is too complex. The performance of a company should be assessed with a basket of measures. It would be helpful to define some further line items to reflect the overall performance of the company and to foster comparability between companies. However, in practice, one key line item, often net income, is focused on. As practice shows that the one key line changes over time and companies invent new key lines, it may be better to have defined, standardised line items than each company defining its own number(s) in the light of comparability. We note that consistent application is difficult to achieve. The net income notion is one of the line items for performance assessment and should continue to be focused at.



Question B: *What are the attributes of 'performance' in the context of financial reporting of an entity? Are there different types of performance (for example, management performance, entity performance) and if so, what are the types? What do they encapsulate and how can/should they be differentiated?*

4. First of all, there is a need to define performance, since it is understood in different ways. Performance needs to be related to the objectives of financial statements. This issue is still under discussion within the IASB and PAAinE. We believe that both projects cannot be separated. This question is therefore difficult to answer before more progress is made on the Framework project.
5. One could argue that both management and the entity are supposed to have the same objective of creating value. Accordingly, from a conceptual point of view, performance could be defined as the change in the entity's value in the reporting period. However, it is not possible to capture the whole notion of performance reporting through financial reporting, even though disclosures in the management commentary might be helpful. Management can itself choose the appropriate measures to be judged on as long as it is clearly communicated. Management may be expected to evaluate in the context of the entity performance the issues that cannot be controlled by them, such as for example changes in interest rates. In this respect, there could be a layered approach using several earnings indicators to assess the quality and the volatility of net income. Management performance measures need to be further explored, for example in the Management Commentary.

Question C: *Is 'net income' (in its current form or a variation thereof) a meaningful and necessary notion? If so, what should it represent and how are items included in net income to be differentiated from other items of income and expense?*

6. We refer to our response to Questions A and B. We cannot see that one figure can be suitable. But we are aware of the fact that in practice such a figure is often used. It is difficult to draw the line between net income and other income and expenses. In the future, more defined line items may be included in the performance assessment. This will make the net income line item more meaningful in assessing performance of a company when it is combined with other measures of performance. A clear concept of which picture of the financial position and financial performance financial reports should portray has to be developed in connection with the current Framework discussions.

Question D: *Does the bottom line of a statement of income and expense bear more weight and significance than other lines of the statement simply by virtue of being at the bottom? Consequently, how many statements of income and expense should there be and why?*

7. We expressed our doubts (see Questions A and C) on the appropriateness for one key line item. Although the bottom line and the key line item are not necessarily the same, we have similar comments on both figures. As the discussion paper sets out, the need for a fundamental change has not been demonstrated. Therefore, first a more fundamental discussion needs to take place as referred to before on the definition of performance and the objectives of financial statements.

Question E: *Is recycling needed? If so, what should it be used for and on what criteria should it be based?*

8. The notion of recycling is currently not applied consistently and perceived as being complex, especially for the users of financial statements. As long as there are different recognition criteria in balance sheet and income statement, some kind of recycling is needed. For example, the current recognition criteria in the balance sheet allow for the recognition of holding gains, that might reverse before they can be realised or that even are unlikely to be realised, because the respective assets are intended for the use in the operating business instead of for immediate sale, there is a need to distinguish those items of income. They have to be shown in a separate statement and excluded from the above mentioned key respectively bottom line. Therefore, the need for recycling remains. However, the current concept of recycling have to be reviewed and aligned with the concept of performance. Recycling would need to be underpinned by robust principles.

*Question F: Which of the following disaggregation criteria both have merit and are capable of being implemented? How would you define the terms used in those criteria and what are the pros and cons of using the criteria for disaggregation purposes? (NB. Please specify your own criteria if the criteria you believe to be necessary are not listed below.)*

- *Disaggregation by function;*
- *Disaggregation by nature;*
- *Fixed vs. variable;*
- *Recurring vs. non-recurring;*
- *Certain vs. uncertain;*
- *Realised vs. unrealised;*
- *Core vs. non-core;*
- *Operating vs. non-operating;*
- *Sustainable vs. non-sustainable;*
- *Operating vs. financing vs. other;*
- *Controllable vs. uncontrollable;*
- *Based on actual transactions vs. other;*
- *Cash flow vs. accruals;*
- *Re-measurement vs. before re-measurement;*
- *Holding gains and losses vs. non-holding gains and losses.*

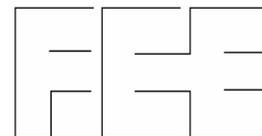
9. In our opinion, it is difficult to find many relevant disaggregation criteria that distinguish in presenting income and expense in two statements or within one statement, since it is not possible to apply these criteria consistently or to enforce these criteria. Some criteria might be useful within a statement (e.g. function, nature, operating/financial). Some might be useful for supplementary commentary or disclosure (e.g. recurring/non, controllable/non). Some criteria are difficult to define ("realised/unrealised"; "certain/uncertain", "sustainable/non-sustainable", "re-measurement", etc.) and therefore not reliable or enforceable.

*Question G: Are the current IFRS provisions in relation to the netting of items of income and expense appropriate? What (if any) are the specific areas where the current requirements allow information essential for analysis to be concealed or, alternatively, do not permit netting where it would result in more useful information?*

10. We are not aware of any fundamental problems with the application of IAS 1 in this respect. However, the offsetting in the income statement involves some ambiguities, in particular IAS 1.35. For example, it is not clear whether gains from foreign currency translation from one currency can be netted with losses from foreign currency translation resulting from an other currency. Another example is that, in case of commodity trading, it provides a clearer picture when net income is presented rather than gross. Not only offsetting is an issue to be addressed also the possible disaggregation of items for instance in relation to interest rate swaps, on the presentation of an ineffective part of the hedge, or if hedge accounting is not applied. There is a need for principles underpinning what could or should be netted off.

*Question H: What is the underlying nature of the adjustments made by entities when reporting non-GAAP measures in their communications with the markets? What are the adjustments seeking to achieve? Please provide specific examples illustrating this. Should any of these non-GAAP measures be incorporated into the IFRS financial reporting model? If that would be desirable, is it feasible and how should it be done?*

11. We are of the opinion that non-GAAP measures should not be defined in the financial reporting model. Companies will continue to develop new non-GAAP measures and non-GAAP measures depend on the industry. Companies need to be allowed to include non-GAAP measures in the narrative financial reporting. However, non-GAAP measures need to be clearly labelled and



separated from measures required by the IFRSs. Transparency needs to be provided, in that non-GAAP measures should be reconciled to the figures in the financial statements.

*Question 1: In determining the optimum degree of standardisation of the reporting formats, what is the right balance between comparability and flexibility? In other words, is the level of standardisation in the current IAS 1 appropriate or should more precise formats be prescribed? If the latter, what are the specific areas that should be more stringently prescribed?*

12. We are of the opinion that there is no current need to change IAS 1. Any changes to IAS 1 would be premature as long as there is no clarification on the definition of performance and the objectives of financial statements. If, at a later stage, IAS 1 were to be changed, then usefully some more guidance on formats could be included.

We would be pleased to discuss any aspect of this letter you may wish to raise with us.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Jacques Potdevin', is written over a horizontal line.

Jacques Potdevin  
President