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PARIS, 10 April 2009

Mrs Denise Gomez
International Accounting Standards Board
30 Cannon Street

LONDON EC4M 6XH
UNITED KINGDOM

Le Président

JFL/IGG

N° 25

Financial statements presentation

Discussion Paper

Dear Mrs Gomez,

I am writing on behalf of the CNC to give you our comments on the above-mentioned Discussion Paper.

In both this cover letter and our detailed comments, we keep in mind the fact that this joint IASB/FASB project deals with the primary statements, and not with other types of disclosures such as in the notes to the financial statements.

Please note that section 7 of this letter addresses issues specific to banks, credit institutions and insurance companies. Unless specifically indicated, the views expressed in the CNC letter and its appendix concern financial institutions and insurance as well as other activities.

1. The financial statements presented as per the model proposed entail some very positive and major evolutions for industrial entities

Users of financial statements, especially analysts and valuators, have long been using valuation techniques based on the Modigliani and Miller theory and the weighted average cost of capital. The value of the economic asset is determined independently from the financing structure of the entity. Accounting has not taken into account the progress of modern finance to reflect it in the presentation of financial statements, thus constraining users to perform numerous restatements when, paradoxically, accounting standards more and more resort to financial valuation methods.

This project therefore represents a real progress for the users of financial statements :

- The separation of business and financing activities, consistent with the economic asset valuation model widely used by the financial markets, is a major progress in terms of both form and substance. It is a necessary condition for the financial statements to capture the notion of value creation,
- The creation of a financing section which may include, as a deduction from traditional financing liabilities, treasury assets , facilitates the determination of the entity's financing cost,
- The introduction of an investing category, which is equivalent to what is usually referred to as "financial investments" or "non consolidated investments" and which is usually separately evaluated from the core business of the entity, may be useful for certain entities, as well as for analysts and valuators, albeit with some reservations,
- The presentation of certain items such as hedging gains and losses (whether exchange or interest rate) is clarified as they are allocated to the underlying assets and liabilities,
- Finally, the general cohesiveness objective between the different primary statements (statement of financial position, income statement, statement of cash flows) is of course a major improvement. This cohesiveness is the starting point in providing all the items for the economic calculations and for meaningful and major ratios.

2. The importance of the project is such that the objectives of primary financial statements need to be reminded as a preliminary

The IASB/FASB Discussion Paper proposes three new objectives for the presentation of financial statements :

- Cohesiveness,
- Disaggregation,
- Liquidity and financial flexibility.

Amongst the above three new objectives, two raise questions as regards primary financial statements :

- Cohesiveness is undisputedly an improvement. It is a very structuring notion as it establishes logical connections between the financial statements. The CNC however wonders whether the starting point, in terms of classification of items, should rather be the income statement than the statement of financial position as the income statement is the basis of users' analyses.

However :

- The objective of disaggregation would be to provide users with information regarding future cash flows in terms of timing and uncertainty. Although this objective is praiseworthy, it is nonetheless unrealistic : how can primary financial statements provide information enabling the assessment of the uncertainty of cash-flows ? No illustration of this rather theoretical objective is provided. It may lead to a multiplication of subtotals, which contradicts the nature itself of primary financial statements which should remain synthetical to be legible and understandable, as well as useful for the users of financial statements.
- The liquidity and financial flexibility objective is unrealistic as regards primary financial statements. Such information, which is very useful, should be provided in the notes. From an operational point of view, the short term/long term presentation on the face of the statement of financial position is less relevant than the existing current/non-current distinction : indeed the notion of operating cycle is particularly useful, and breaking down items such as inventories and customer advance payments would be as difficult from a practical standpoint as of little relevance from an analysis standpoint.

The following three traditional and essential objectives need to be reminded and better taken into account :

- Comparability which should lead the definition of sections (business/financing) and of certain homogeneous totals and subtotals which would help in comparing the financial position and the performance between entities ;
- Understandability which should lead to preferring legible financial statements as well as statements that are sufficiently synthetical,
- Assessment of management’s stewardship.

The three new objectives proposed by the Discussion Paper are more akin to characteristics than to objectives. They should not relegate to the background the primary objectives of financial statements, as presented in the joint IASB/FASB Conceptual Framework exposure-draft :

- Provide information that is useful to equity investors, lenders and other creditors,
- Provide information regarding the entity’s capacity of generating cash flows, thus enabling the creation of value, the reimbursement of borrowings, the payment of interest (lenders), and of dividends (equity providers),
- Provide information to assess management’s stewardship.

These objectives are supplemented by the following qualitative characteristics :

- Relevance and faithful representation,
- Comparability,
- Understandability,
- Verifiability.

The above-mentioned objectives and characteristics are moreover comparable to those of the European Regulation of 19 July 2002 adopting IFRS as European accounting standards, which states :
« This Regulation has as its objective the adoption and use of international accounting standards in the Community with a view to harmonising the financial information […] to ensure a high degree of transparency and comparability of financial statements […]”. “The international accounting standards can only be adopted if […] they meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.”

Finally, in any future standard on the presentation of financial statements, beyond the characteristics shared by all financial statements, it is fundamental that the objective of each individual primary financial statement be defined. Such objectives are not currently defined under IAS 1. These objectives should reflect users’ expectations and direct the options taken in terms of presentation.

3. The promotion of comprehensive income as the central measure of performance in lieu of net income has no proven conceptual justification and entails significant risks for financial markets

The objective of promoting a single statement is to replace net income by comprehensive income as the central measure of an entity’s performance, the bottom line total of a statement being the most important measure of an income statement. Such a decision is fundamental.
However, comprehensive income does not seem to answer the main objectives and characteristics assigned to financial statements :

- Understandability : other comprehensive income items are transitory value adjustments and not financial performance items. Adding up other comprehensive income items, and therefore comprehensive income, can be a source of major confusion for the financial markets,
- Predictability of future cash-flows : other comprehensive income items have no predictive value. They often are long term changes in value, not to be realised within the next periods, or that management has no intention of realising,
- Assessment of management's stewardship : management's performance is neither internally nor externally assessed based on comprehensive income. This measure is not used in the value creation and entity valuation methods.

Comprehensive income includes virtual gains and losses of a highly hypothetical nature and sometimes for very significant amounts : using it as the central performance measure may only contribute further to financial market instability and increase the lack of confidence from users.

The Boards cannot therefore impose such an indicator without a thorough conceptual debate, ie without having previously defined how the financial performance of an entity should be measured (Conceptual Framework project) and without having first answered the following question : if other comprehensive income items were undisputedly part of performance, why do they currently exist ?

The main reasons are that other comprehensive income items :
- are part of future but not current performance,
- are sometimes unrealised and may overturn in the future,
- prevent the net income figure from being too volatile, which is all the most understandable in view of the preceding two points.

Thus :
- some items resulting from cash-flow hedges or foreign currency translation have nothing to do with performance, because they may find a counterpart in items that are not yet recognised at the balance sheet date ;
- other items such as fair value changes on Available For Sale financial instruments and pensions do represent some sort of performance, but not that of the performance of the period in the acception of accrual accounting, otherwise the related standards (IAS 39 and IAS 32) would long ago have required them to be recognised in the income statement. On the contrary, these standards require that for AFS, their fair value changes be recognised in equity except in the case of impairment and give a choice in the accounting for pensions between recognition in the income statement, spreading out through the income statement or recognition in equity.

It is therefore not acceptable to propose to « correct », through this project with an identical presentation in the income statement, different accounting treatments as well as existing choices in the balance sheet (between equity an income statement) both under current standards as in the published projects.

For the above reasons, the CNC suggests that the current IAS 1 requirements which authorise the presentation of the statement of comprehensive income in two statements, one displaying components of profit or loss and the other displaying components of other comprehensive income, not be changed without the call for debate having taken place.

4. The proposed changes to the statement of cash-flows are not the changes users and preparers call for

The Boards are proposing two major changes : preparing and presenting the statement of cash-flows using the direct method and eliminating the notion of « cash equivalents ».

The arguments put forward in the discussion paper to justify the superiority of the direct method are not convincing. Quite to the contrary, all the users with which the CNC has talked consider that the indirect method enables users to very quickly determine cash flows as well as the period cash flows from operating activities. They also point out that the requirement of the direct method entails a mandatory additional reconciliation schedule which is complex, long and costly to set up.
The separate presentation of « cash equivalents » and their exclusion from the statement of cash-flows to only retain the notion of cash, representing liquidities and term deposits, is not operational for large entities. Indeed, their " cash equivalents " are a major part of their treasury management : by excluding them, the statement of cash-flows loses some of its relevance.

To the contrary, a real improvement would be to :
- keep the current notion of " cash equivalents " in the statement of cash-flows, whilst separately presenting it from cash,
- define the notion of net debt, which could correspond to the balance of the financing section of the statement of financial position,
- define the objective of the cash-flow statement as that of measuring the change in net debt from one period end to the next.

Moreover for financial institutions, the meaningfulness of the cash flow statement and consequently its usefulness is questioned. However, should insurance companies be required to establish a cash flow statement, the treatment of cash equivalents mentioned above and in response to question 12 would have to be adapted to their business.

5. The primary financial statements need to remain synthetical and understandable

Transparency and understandability are not synonymous with large quantities of information.
As regards primary financial statements, they must remain sufficiently synthetical and standardised to be able to be used quickly without any major risk of interpretation and without having to systematically go through the notes. For example, it should be possible to quickly analyse the data from numerous entities within the same sector to determine averages or industry multiples.

The Discussion Paper does not take this direction into account. To the contrary, it appears to call for the multiplication of information on the face of financial statements, which, as previously noted, are primary financial statements :
- by encouraging disaggregation leading to a multiplicity of line items within summary statements, even though users would prefer more disaggregation than current practice,
- by requiring the implementation of complex and fastidious methods such as the direct method for the statement of cash-flows which also necessitates a detailed and complex reconciliation schedule to, in some way, come back to information provided by the indirect method,
- by promoting analysis schedules of the statement of comprehensive income, based on a matrix approach of such complexity that it makes the understanding of the entity's performance near to impossible (see Statement of Comprehensive Income Matrix).

In this respect, it seems to us that the Boards' approach is one that is more directed towards supplying users with data at the most disaggregated level possible, with the risk of producing financial statements solely for the investors who have the adequate sophisticated tools at their disposal to be able to perform their analyses. To us, such approach would exclude those investors who have a need for summary and relatively simple financial statements to effect quick comparisons between entities in order to help them deciding how to allocate their resources.

6. The management approach should, in some areas, enhance the relevance of the presentation of financial statements. Its area of application and limits could however be somewhat clarified to preserve the objective of comparability.

The Boards encourage the presentation of financial statements in the way that seems the most relevant for the entity's management.
This approach has numerous advantages and enhances the understanding of the entity's activities and performance.

The management approach is useful, and maybe even necessary, in a variety of areas. For instance :

- in defining operating segments or cash-generating units, thus reflecting the operating organisation of the entity, within the context of segment information (IFRS 8),
- in the presentation of the income statement either by function or by nature : in this area, the Boards should not put forward the approach by function, which, for certain groups such as financial groups or conglomerates, is not relevant. Management should be able to choose the presentation that is the most relevant in respect of the entity's business and operations.

The Discussion Paper does not seem to clearly express the amount and definition of totals and subtotals included in the primary financial statements : in some places, the intention seems to leave a total degree of liberty (see § 2.27), whereas in others, there is some type of "guidance" (§ 2.34) which requires management to justify its thought process.
In still other places (§ 2.45), the Boards seem to think that entities will naturally choose a common approach.
Finally, there are some inconsistencies with the existing standards IAS 1 and IAS 32 with respect to the definition of « financial assets and liabilities » and of « financing assets and liabilities ».

The CNC would like the Boards to clarify their intention with more pervasive principles or guidelines, particularly with respect to the limit between the financing and business categories in order to :

- enhance the relevance of financial statements,
- avoid the multiplication of non-gaap measures.

Thus, consistently with entity valuation methods, the Boards should take into account widely accepted and used notions within the financial world such as :

- capital employed and return on such capital (for example, net operating profit after tax)
- net financial debt and cost of capital.

In this context, one could consider a "comply or explain" approach in certain areas.

7. The Discussion Paper’s proposals seem more suited for commercial entities than for financial institutions and insurance companies.

Beyond already-mentioned issues with which financial institutions and insurances companies are also concerned (comprehensive income, management approach vs. comparability, etc.), specific consideration has to be made for those entities.

Both for financial institutions and insurances companies, the Boards do not resolve the irrelevance of the presentation of a statement of cash-flows for such types of entities. The issue already exists, the current statement of cash-flows being neither useful for preparers, nor analysed by users.

Furthermore, in the case of financial institutions,, the relevance of the Discussion Paper’s proposals is not demonstrated as the proposed presentation categories (operating, investing, financing) do not appear to contribute to improve the relevance of their financial statements since splitting elements between operating and financing sections is not relevant (in particular and contrary to the example provided under the Bank Corp illustration, financial debt is not considered by financial institutions as a refinancing resource but as an operating liability). Moreover, financial institutions will make little or no use at all of the investing category.

Moreover, in this current period of financial instability, it would be appropriate to:

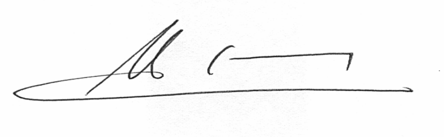
- limit introducing major changes –which, besides, may not appear as meaningful for financial institutions- in the presentation of the financial statements of those institutions in the short term, which could be confusing for the financial markets,
- take into account the impacts that such a project could have on prudential reporting, with prudential supervisors using IFRS in defining prudential reporting.

Finally, the CNC considers that the Boards should, in view of their respective specificities, consider the use of specific models of financial statements for financial institutions and insurance companies. For insurance companies that should be done in liaison with the insurance contract project.

Our detailed answers to the Discussion Paper’s questions are set out in the Appendix.

We hope you find these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,



Jean-François Lepetit

APPENDIX

Question 1
*Would the **objectives of financial statement presentation** proposed in paragraphs 2.5–2.13 improve the usefulness of the information provided in an entity's financial statements and help users make better decisions in their capacity as capital providers? Why or why not? Should the boards consider any other objectives of financial statement presentation in addition to or instead of the objectives proposed in this discussion paper? If so, please describe and explain.*

The CNC considers the general approach to this Paper as positive, although in applying it, we would like to draw the Board's attention to the cost/benefit ratio for both preparers and users of financial statements.

The IASB/FASB Discussion Paper proposes three new objectives for the presentation of financial statements :

- Cohesiveness,
- Disaggregation,
- Liquidity and financial flexibility.

The three new objectives proposed by the Discussion Paper are more akin to characteristics than to objectives. They should not relegate to the background the primary objectives of financial statements, as presented in the joint IASB/FASB Conceptual Framework exposure-draft :

- Provide information that is useful to equity investors, lenders and other creditors,
- Provide information regarding the entity's capacity of generating cash flows, thus enabling the creation of value, the reimbursement of borrowings, the payment of interest (lenders), and of dividends (equity providers),
- Provide information to assess management's stewardship.

These objectives are supplemented by the following qualitative characteristics :

- Relevance and faithful representation,
- Comparability,
- Understandability,
- Verifiability.

The above-mentioned objectives and characteristics are moreover comparable to those of the European Regulation of 19 July 2002 adopting IFRS as European accounting standards, which states :
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Finally, in any future standard on the presentation of financial statements, beyond the characteristics shared by all financial statements, it is fundamental that the objective of each individual primary financial statement be defined. Such objectives are not currently defined under IAS 1. These objectives should reflect users' expectations and direct the options taken in terms of presentation.

On the three more specific "objectives" assigned to financial statement presentation by the DP, the CNC has the following more detailed comments.

Cohesiveness objective

As previously indicated and as mentioned in our cover letter, the CNC views the general approach as well the cohesiveness objective as positive.

We do, however, have the following concerns regarding limitations to the cohesiveness objective :

- **Classification of the effects of the time value of money (and/or discounting)** : for instance on pension liabilities or on any other long term liabilities or assets (qualifying assets for instance for which interest is capitalised in accordance with IAS 23). Since according to the cohesiveness objective, in the example of pension liabilities for instance, the net pension asset or liabilities is most probably going to be classified in the operating section (see § 2.45), the related expense, which includes the interest cost, will also be classified in the operating section. There are two minds as to whether this 'cohesive' conclusion is accurate, as for some of our constituents this part of a long term liability is considered as a way of financing the entity. Thus, identifying the different components in the same operating category as proposed in § 2.46 would not be a satisfactory answer for those constituents, unless such items are presented separately from other components of the period expense.
- **Review of some requirements to other standards :** although the DP has a working assumption that it is not addressing recognition or measurement requirements provided in other standards regarding individual assets, liabilities or transactions (§ 1.22), we believe that the cohesiveness objective might bring about changes to some recognition requirements of other standards which might contradict the objective, such as in IFRS 5 on discontinued operations (separate balance sheet presentation of discontinued operations, assets held for sale as 'investing') or in IAS 38 on development costs, or even on IAS 37 with respect to dividends payable (see our answer to question 3). Moreover, the proposed cohesiveness objective's starting point is from classifying the assets and liabilities in the statement of financial position, when in some cases other starting points may be considered, for instance in the case of expenses or income or even cash flows which are not represented by an asset or a liability at the end of the period (e.g. research costs) (§ 2.17). The CNC therefore wonders whether such definition, recognition and measurement issues shouldn't be addressed at the same time. The CNC also wonders whether the classification starting point should be the income statement since this statement is the first one the users look at in their analysis (in this respect, we point out that in the illustrations provided at the end of the DP, the Boards present the statement of comprehensive income as the first of the set of financial statements).

Disaggregation objective

In addition to concerns expressed in our cover letter and as mentioned in the DP (§ 2.10), a balance needs to be found between too much information (as in too much disaggregation) and too little information. It is precisely this point over which the CNC has some concerns. When looking at the examples provided at the end of the DP, say the Toolco example, we find the financial statements of the company rather complex for an entity which appears to be rather simple. What would such financial statements look like if one added one or more of the following situations within the entity :

- Not 100%-owned subsidiaries, thus having to present share of the group line items etc.
- Classification of a subsidiary in the investing section (§ 2.66), thus having to present its individual assets and liabilities along the same disaggregation as in the operating category with the related implications regarding the statement of comprehensive income and statement of cash-flows. The Board has a working assumption in § 2.66 that the investing category should be relatively limited, if not non-existent in some cases. The CNC questions whether such an assumption is adequate and calls for more thorough field testing to support this assumption.
- Occurrence of a business combination during the period (simplifying assumption in A1).
- Occurrence of vesting of shares or stock options during the period (simplifying assumption in A1).

It would have been helpful if the DP had mentioned whether the examples' proposed formats are those that would be expected in those cases or whether it would be possible to present the same entities in more synthetical formats, some of the disaggregation being provided in the notes to the financial statements.

Also, to the extent that it is proposed that the total assets/total liabilities not be presented on the face of the statement of financial position but disclosed in the notes, the CNC is in total disagreement with this proposal.

Liquidity and financial flexibility objective

The CNC considers that such an objective has virtue but is concerned with respect to the fact that practical implementation might lead to issues that may be wider than anticipated. As mentioned in our cover letter, it is also unrealistic.

For industrial and service companies, more so than for financial entities such as banks, the CNC considers that there is a conflict between a management approach and the liquidity objective.

There are in fact two different notions to consider :

- Liquidity, which may easily be apprehended in the financial statements through a "less than a year, more than a year" classification of financial assets and liabilities (excluding shares in equity) and,
- A 'realisable' characteristic which would be more appropriate regarding non financial assets and liabilities as well as shares in equity, and which is more difficult to make apparent in the financial statements. It would be better apprehended through the current/non current distinction.

As mentioned further in our answer to question 11, the CNC has a strong preference for the actual current/non current distinction based on the entity's operating cycle, especially within a 'management approach' as opposed to the DP's proposed 'less than one year, more than one year" classification.

The CNC is not convinced that the financial statements, both actual and under the proposed formats, are very helpful in directly apprehending an entity's liquidity, and even more so as regards financial flexibility, when considering some of the following examples :

- A finance lease is not realisable in the short term, therefore the classification of part of the liability as short term is not really relevant ;
- Short term off balance sheet commitments ;
- Highly liquid long term investments.

Based on the above, the CNC wonders whether the liquidity and financial flexibility objective should be at the same level as the other two objectives and would not best be reflected through disclosures in the notes.

Question 2

*Would the **separation of business activities from financing activities** provide information that is more decision-useful than that provided in the financial statement formats used today (see paragraph 2.19)? Why or why not?*

As mentioned in our cover letter, except for financial services entities, the CNC welcomes the proposed format which clearly distinguishes business activities from financing activities and believes that it would be decision-useful for users, as it is consistent with very widely used financial models and is based on a separate analysis of :

- the return on business assets (including intangible and tangible assets as well as net working capital requirements),
- the cost of debt.

As such the distinction facilitates the calculation of return on capital employed type of ratios.

However, the proposed distinction could lead to major changes from current practice as a lot of groups still present a 'financial' result, which would include any item that is of financial nature such as : interest income/expense, foreign exchange gains and losses, changes in fair value on trading financial instruments, effects of hedges, time value of items (effects of discounting, pensions interest cost), etc. Thus, the consequences of such a major change need to be fully appreciated, through field tests for example.

As further discussed in our answers to question 5 and to question 10 on the definition of the financing section, there seems to be an opposition between the management approach and the limitations set in the examples and definitions proposed.

Question 3

Should ***equity*** *be presented as a section separate from the financing section or should it be included as a category in the financing section (see paragraphs 2.19(b), 2.36 and 2.52–2.55)? Why or why not?*

The CNC agrees with the DP's proposal to present equity as a category separate from that of financing in order to:

- Reflect the distinction between shareholders (i.e. owners) and creditors (i.e. non-owners);
- Distinguish between the cost of debt (which flows through the income statement) and that of capital,

However, the CNC notes that there is a conflict between the management approach and IAS 32, because the search for financing could lead to either banks or shareholders, an issue which is even more acute with instruments such as hybrid instruments, for which there may be some inconsistencies as regards their classification within equity according to IAS 32, where they would in substance contribute to the financing of the entity and should then be classified in the financing section according to the discussion paper.

As regards dividends payable (§ 2.48), the CNC does not support the Board's proposal and believes that the following two different situations need to be considered:

1 – At year end Y, dividend for year Y is not declared. According to IAS 37, it should remain classified within the equity section. However, when it is declared in year Y+1 and if paid immediately, cohesiveness should lead to classifying this payment within the equity section in the Statement of Cash Flows ;

2 – In a similar context, but with the dividend declared in year Y+1 not paid immediately and still due at year end Y+1, it becomes part of the financing section as per IAS 32 and should be classified accordingly in the Statement of Financial Position at year end Y+1. If payment occurs during year Y+2, then it should be shown within the financing section of the Statement of Cash Flows of year Y+2. Cohesiveness should also lead to a classification within the equity section of the dividend payable.

The CNC considers in this case that the cohesiveness principle should be taken further than the DP currently does and that would thus require amendments to be made to IAS 37, which the Board, according to its working assumption in § 1.22, did not intend to do.

Regarding the financing/equity distinction, the CNC also would like to point out that the Board has a project on the debt/equity distinction which may have some financial statement presentation impacts, even on the DP's proposals.

Question 4

In the proposed presentation model, an entity would present its ***discontinued operations*** *in a separate section (see paragraphs 2.20, 2.37 and 2.71–2.73). Does this presentation provide decision-useful information? Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets and financing liabilities)? Why or why not?*

The CNC agrees with the DP's proposed presentation of discontinued operations in a separate section in each of the financial statements since isolating these items enables users to better assess the entity's ongoing activities' performance.

The CNC would however like to point out to the fact that this requirement might actually be inconsistent with actual requirements of IFRS 5, which should then be examined as part of this project, for instance with respect to the separate presentation of discontinued operations on the face of the statement of financial position.

However, this question raises other questions with respect to :

- the separate classification of discontinued operations vs. a classification of such operations in the investing category ;
- the classification of assets held for sale and the investing category : should such assets always be classified in the investing category ?

Question 5

The proposed presentation model relies on a ***management approach*** *to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment (see paragraphs 2.27, 2.34 and 2.39–2.41).*

(a) Would a management approach provide the most useful view of an entity to users of its financial statements?

(b) Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach? Why or why not?

The Boards encourage the presentation of financial statements in the way that seems the most relevant for the entity's management.
This approach has numerous advantages and enhances the understanding of the entity's activities and performance.

The management approach is useful, and maybe even necessary, in a variety of areas. For instance :

- in defining operating segments or cash-generating units, thus reflecting the operating organisation of the entity, within the context of segment information (IFRS 8),
- in the presentation of the income statement either by function or by nature : in this area, the Boards should not put forward the approach by function, which, for certain groups such as financial groups or conglomerates, is not relevant. Management should be able to choose the presentation that is the most relevant in respect of the entity's business and operations.

However, there are some difficulties in apprehending how the concept of ‘management approach’ is to be understood, especially since the DP seems to limit it in a number of ways, unlike the management approach referred to in IFRS 8, Operating segments, with some considering the management approach as being rather ‘permissive’ and others considering it to be restricted (see the discussion on the definition of the financing section in our answer to question 10).

Indeed, the Discussion Paper does not seem to clearly express the amount and definition of totals and subtotals included in the primary financial statements : in some places, the intention seems to leave a total degree of liberty (see § 2.27), whereas in others, there is some type of “guidance” (§ 2.34) which requires management to justify its thought process.
In still other places (§ 2.45), the Boards seem to think that entities will naturally choose a common approach.
Finally, there are some inconsistencies with the existing standards IAS 1 and IAS 32 with respect to the definition of « financial assets and liabilities » and of « financing assets and liabilities ».

The CNC notes that if a “full management” approach was applied, amongst other aspects :

- An entity should be able to classify non financial assets and liabilities in the financing section ;
- Customer advance payments could be classified in the financing section, if management finances its business with them ;
- An entity should be able to present its statement of financial position under the actual current/non current classification ;
- A change in classification should be distinguished from a change in criteria for classification only the last being a change in accounting policy requiring retrospective application (see below) ;
- An entity should be able to decide to disaggregate its income statement either by nature or by function.

Therefore, the CNC questions whether the terminology used is appropriate. For instance, one could refer to the ‘business use/purpose of assets, liabilities and transactions’ to avoid confusion.

The CNC would also like the Boards to clarify their intention with more pervasive principles or guidelines, particularly with respect to the limit between the financing and business categories in order to :

- enhance the relevance of financial statements,
- avoid the multiplication of non-gaap measures.

Thus, consistently with entity valuation methods, the Boards should take into account widely accepted and used notions within the financial world such as :

- capital employed and return on such capital (for example, net operating profit after tax)
- net financial debt and cost of capital.

In this context, one could consider a “comply or explain” approach in certain areas.

Regarding the entity’s policy of classifying assets and liabilities in the different sections as being an accounting policy (§ 2.41), some understand that any change in classification should lead to retrospective application. The CNC considers that it would not be appropriate in all situations : there is a difference between a change of criteria for classification (that is accounting policy) and a change in the use of an asset or a change in a business from “core” (ie operating) to “non core” (ie investing). How would a decision taken by new management be taken into account ? Lack of clear guidance may not guarantee the permanence of accounting policies and undermine comparability across entities. We understand from § 2.42 that this is an area where the Board is going to be looking into that we strongly encourage.

Question 6

Paragraph 2.27 proposes that both assets and liabilities should be presented in the business section and in the financing section of the ***statement of financial position****. Would this change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities? Why or why not?*

As previously mentioned, except for financial services entities, the CNC is rather in favour of the business/financing distinction proposed in the DP. We do, however, have some questions with respect to the distinction between the two categories : guidelines or pervasive principles will probably be necessary to avoid inconsistencies such as classification of elements taken in consideration for gearing assessment or the classification of lease liabilities, which, in our view, needs to be consistent with the classification of borrowings incurred with respect to capital expenditures (which is not the case looking at the Toolco example of the DP).

The CNC also has the following concerns :

- Regarding dividends payable, we understand from § 2.48 that "the classification of dividends payable and the related cash flows should be based on the existing classification of dividends payable as a liability." The CNC recognises that this is probably due to the limitations set in the DP in § 1.22 where it is stated that the DP does not address any recognition nor measurement provisions from other standards. However, the CNC considers that, consistently with our answer to question 3 as with the cohesiveness approach, dividends payable should be classified within equity.
- When associates are included in the operating category, the result would be a mix of an operating result and of a net result, thus making it impossible to calculate the Return on Capital Employed ratio. Users consider that the ROCE should be easily determinable, without neither major nor systematic restatements. We note that in § S 8 it is indicated that this presentation is designed "to make it easier to users to calculate some key financial ratios".

As already stated in our answer to question 5, guidance may have to be developed to help differentiate the situations that might occur and lead to a change of classification and their related accounting treatment.

Question 7

Paragraphs 2.27, 2.76 and 2.77 discuss classification of assets and liabilities by entities that have ***more than one reportable segment*** *for segment reporting purposes. Should those entities classify assets and liabilities (and related changes) at the reportable segment level as proposed instead of at the entity level? Please explain.*

The CNC agrees that for most assets and liabilities, the approach proposed in the DP of classifying those assets and liabilities (and related changes) at the reportable segment level is logical as it would better represent the way an asset or a liability is used within the entity. Moreover it generally corresponds to current practice in groups having for instance both manufacturing and banking segments.

We note, however, that there are some assets, such as goodwill and intangibles, and liabilities, such as pensions and stock options, which may be directly managed at the chief operating decision maker level and not at segment level. Also, should the financing of the entity be reflected as an operating segment, proper restatement should have to be performed at a central level to avoid presenting the financing of the entity as a whole under the operating section.

We also note that in applying this approach, further information will need to be disclosed in order to help users in their analysis. This will, for instance, be the case for an entity which has two very different types of activities such as manufacturing and banking activities. Although the information required might be provided in the disclosures with respect to segment reporting, there should at least be some disclosures about how the assets and liabilities are classified with a reference to the disclosures on segment reporting.

The CNC however is not convinced by the rationale provided in § 2.77 which states that the approach proposed by the DP would better represent the way an asset or liability is used within the entity, "because, by definition, reportable segments include operations that are similar in nature and economic behaviour". We consider such a statement to be in contradiction with the management approach as defined in IFRS 8, since reportable segments may, for instance, consist of legal entities engaged in a variety of operations. Similarity in nature and economic behaviour only comes in at an aggregation phase of segments initially defined.

The CNC considers therefore that the IASB should be more explicit about its rationale. In addition, the notes to financial statements should clearly indicate how the assets and liabilities are classified at the segment reporting level, so that there isn't any misunderstanding from the users about the nature of the consolidated financial statements. Any difference in nature should also be quantified as much as possible.

More generally, users have told us that they fear however that the management approach, used for segment reporting for classification purposes, may reduce the comparability between entities and reduce the quality of financial statements reporting. In order to mitigate this, please refer to our answer to question 5 on the management approach.

Question 8

The proposed presentation model introduces sections and categories in the statements of financial position, comprehensive income and cash flows. As discussed in paragraph 1.21(c), the boards will need to consider making ***consequential amendments to existing segment disclosure requirements*** *as a result of the proposed classification scheme. For example, the boards may need to clarify which assets should be disclosed by segment: only total assets as required today or assets for each section or category within a section. What, if any, changes in segment disclosures should the boards consider to make segment information more useful in light of the proposed presentation model? Please explain.*

The CNC considers that the relevant measure in terms of assets and liabilities to be disclosed under IFRS 8, if any, would be the total of operating assets and of operating liabilities by segment, as well as the amounts related to those operating assets and liabilities which may be managed at a central level and appear in a separate column of the schedule (goodwill, intangible assets, pensions, stock options..).

Regarding the investing category, users have told us that, should the definition as proposed in the DP remain in the future, and because the DP states that this category should not be significant (see question 9), there would be no need to disclose investing assets or liabilities. However, as stated in our answer to question 9 with respect to the 'investing' terminology, users have told us that they strongly need the measure of capital expenditure by segment. We note that this measure could also be disclosed under the above suggestion of total operating assets to remain within the boundaries of the provisions of the DP.

As for the financing section, since net debt is analysed based on its aggregation at entity level, users have told us that they would not require a disaggregation by segment because it would not be relevant for them.

However, in making such changes as the above to the requirements of IFRS 8, the CNC notes that this could change the 'spirit' of IFRS 8, which is essentially to require disclosure of the information if it is provided to the CODM.

Question 9

Are the ***business section*** *and the* ***operating and investing categories*** *within that section defined appropriately (see paragraphs 2.31–2.33 and 2.63–2.67)? Why or why not?*

The CNC welcomes the introduction of an investing category, which is equivalent to what is usually referred to as "financial investments" or "non consolidated investments" and which is usually separately evaluated from the core business of the entity, may be useful for certain entities, as well as for analysts and valuators, albeit with some reservations

Indeed, the DP introduces some level of confusion by using a well established notion (investing) which is applied to a different concept. The current well established notion of investing refers to investments in the future such as capital expenditures, research expenses, etc, whereas the investing section in the DP refers to the "non-core" activities of the entity, with the investments in the future thus to be included in the operating section.

Should the Board persist in the definition as proposed by the DP, which, as mentioned in our cover letter could be useful, the CNC would prefer a less confusing terminology to be used. The CNC recognises that such exercise is difficult but believes that a more precise definition of the items to be included in that category should be given which could facilitate the application.

However, the CNC and the users note that the current proposals would in effect make it more difficult for users to determine the free cash flow ratio, as capital expenditures, etc will be classified within the operating section:

- The cohesiveness principle pushes the notion of free cash flow (business as usual) as opposed to strategic investments (capex, R&D) down to a second level, whilst
- The management approach in itself could enable the isolation of items that management would like to see as separate (such as items to determine free cash flow);

Moreover, we understand that the Board expects the investing section to be relatively insignificant, which we also understand would certainly be the case for banks and insurance companies. If it is the case, the CNC questions the relevance of such category, especially since the CNC believes that some of the items included in the investing section as per the DP could be captured within segment reporting under IFRS 8.

The CNC is however not convinced that it will be the case :

- The investing category would almost certainly be used in the case of strategic reorientation, especially when IFRS 5 criteria are not met ;
- We are concerned with the possibility of including subsidiaries in the investing section because they are considered as "non core" as the disaggregation objective might make the financial statements less intelligible (§ 2.66 - see our answer to question 1 on the disaggregation objective).

We also wonder about whether pension benefit plans acquired in a business combination which deal only with retired employees (ie the liability no longer accrues due to active employees) could be included under the proposed investing section.

Question 10

*Are the **financing section** and the **financing assets and financing liabilities categories** within that section defined appropriately (see paragraphs 2.34 and 2.56–2.62)? Should the financing section be restricted to financial assets and financial liabilities as defined in IFRSs and US GAAP as proposed? Why or why not?*

It has been difficult for the CNC to fully understand what the management approach means (see our answer to question 5), partly from little understanding what the IASB understands as the 'definition of financial assets and liabilities as those terms are defined in IFRS'? Indeed, we note that:

- IAS 32.11 provides a definition of financial assets and liabilities, which includes financial instruments such as employee benefit plans which are excluded from the scope of IAS 32 by IAS 32.4(b). The CNC has therefore been struggling with whether employee benefit related net assets or liabilities could be included in the financing section. § 2.45 is not very helpful in this regard since we are unsure of whether the Board would allow such a classification when it says 'Because […], an entity would most likely classify the net asset or liability in the operating category'. According to this definition, we understand that the nature of the items which could be included in the financing section could be quite broad.

- IAS 1.54 states which financial assets and liabilities should, as a minimum, be presented on the face of the statement of financial position. For the assets, the financial assets caption (IAS 1.54(d)) would exclude investments accounted for using the equity method, trade and other receivables and cash and cash equivalents. For the liabilities, the financial liabilities caption (IAS 1.54(m)) would exclude trade and other payables as well as provisions. Although we recognise that cash would often be included in the financing category (as per the DP's Toolco example), if this caption is the one the Board was considering, then the nature of the items which could be included in the financing section would actually be significantly narrowed down from the above-referred to definition in IAS 32.

It would therefore be helpful if the Board were to be more specific with the definition intended, specifically for its constituents to be able to understand whether it is the Board's intention for the following items to be included in the financing section:

- Trade accounts receivables and payables, including customer and supplier advance payments;
- Pension net asset/liability.

Also, there was no consensus on the relevance of the proposal (§ 2.34) to base the classification of a financial asset or a financial liability within the appropriate section of the concept of interchangeability. At least, it is suggested that the Board should clarify and give more guidance on how to use it.

Two alternatives have been explored by the CNC regarding the issue of defining the financing section:

1 – limiting financing liabilities to borrowings that explicitly bear an interest rate

2 – relying on the proposed management approach, which should be supplemented by pervasive principles or guidelines.

To conclude, the CNC would like the Boards to clarify their intention with more pervasive principles or guidelines with respect to the limit between the financing and business categories (approach 2 in the above alternatives), coupled with a "comply or explain" approach.

On another subject, and as mentioned in our cover letter, the financing category does not appear to be relevant for financial institutions (banks and credit institutions) as refinancing is considered as operating.

Question 11

Paragraph 3.2 proposes that an entity should present a ***classified statement of financial position*** *(short term and long-term subcategories for assets and liabilities except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant.*

(a) What types of entities would you expect ***not*** *to present a classified statement of financial position? Why?*

(b) Should there be more guidance for distinguishing which entities should present a ***statement of financial position in order of liquidity****? If so, what additional guidance is needed?*

On a general perspective, the CNC shares the view of the Board on the usefulness of a classified statement of financial position. Nevertheless, as mentioned in our cover letter, the CNC does not support the Board's proposal as regards the short term and long term criterion for preparing such a classified statement. It believes that the classification should keep relying on the current / not current criterion, based on the operating cycle of the entity, as it is a well understood and widely accepted criterion amongst users, even more since § 4.5 of the DP would require entities with operating cycles longer than one year to describe their operating cycle in the notes to the financial statements.

Besides, the CNC believes the presentation of the statement of financial position in order of liquidity to be in general more relevant for financial activities (financial institutions and insurance companies), which should then not be required to present a classified statement of financial position.

Concerning guidance, the CNC does not believe that more guidance is necessary for distinguishing which entities should present a statement of financial position in order of liquidity.

Question 12

Paragraph 3.14 proposes that ***cash equivalents*** *should be presented and classified in a manner similar to other short-term investments, not as part of cash. Do you agree? Why or why not?*

As mentioned in our cover letter, the CNC is not opposed to separating cash equivalents from cash, provided that the current definition of cash equivalents in IAS 7 is retained and that the cash equivalents line appears next to the cash line. Here, the solution appears to be an improved disaggregation.

The CNC considers that the DP's proposal, if we understand that cash equivalents will be treated as other short term investments ie. as AFS and therefore possibly not included in the financing section (§ 3.18), would lead to the financing category not being aligned with the notion of net debt.

Another consequence might be that financial income will be shown together with the gains on disposal of AFS. The recycling feature of AFS would allow companies to include profit on AFS (cash equivalents) when they decide to dispose of these cash equivalents.

Also, the separate presentation of « cash equivalents » and their exclusion from the statement of cash-flows to only retain the notion of cash, representing liquidities and term deposits, is not operational for large entities. Indeed, their “ cash equivalents ” are a major part of their treasury management : by excluding them, the statement of cash-flows loses some of its relevance.

In the case of insurance companies, specific consideration should be made to cash and cash equivalents which are managed together and separately from the other financial assets and consequently have to be classified in the statement of financial position separately from those other financial assets.

Question 13

Paragraph 3.19 proposes that an entity should present its ***similar assets and liabilities that are measured on different bases*** *on separate lines in the statement of financial position. Would this disaggregation provide information that is more decision-useful than a presentation that permits line items to include similar assets and liabilities measured on different bases? Why or why not?*

The CNC believes that the Board’s proposal would not contribute to the understandability of the statement of financial position. Rather, this type of information should be presented within the notes, bearing in mind that the CNC is not in favour of any type of presentation from the former model developed in the “performance reporting” Boards’ proposal.

The Board should, as a minimum, clarify the meaning of ‘measured on different bases’. Is such meaning limited to a cost/fair value measurement distinction or is it more than that, being understood that in this case, this would result in more disaggregation with the final question being: what would the Board require, as a minimum, to be presented on the face of the statement of financial position ?

Question 14

Should an entity present comprehensive income and its components in a ***single statement of comprehensive income*** *as proposed (see paragraphs 3.24–3.33)? Why or why not? If not, how should they be presented?*

As mentioned in our cover letter, the CNC is still opposed to the presentation of a single statement of comprehensive income encompassing the income statement and the other comprehensive income (OCI) items. For reference, we have included in italic below extracts of our comment letter to the Phase A of the financial statement presentation project (dated July 2006) which resulted in amendments to IAS 1 :

« We do not agree with the proposal of suppressing the income statement. The income statement should be kept as a separate statement. If the Board wants to enhance information about “other recognised income and expense (=OCI)”, these components should be presented separately from the income statement. Different presentations should be authorised (see SFAS 130 for instance).

We do not agree with the wording “profit or loss” to replace “net income” and propose to keep “net income” in order to respect the Framework and use similar wording as in SFAS 130.

In the Basis for conclusions of the Exposure Draft, among of the determining reasons for pushing forward one single statement instead of two are:

- Income and expenses are defined in the Framework,

- Components of Profit or loss (or net income) are not,

- There are no clear principles or common characteristics that can be used to separate items into two statements.

We do not subscribe to this rationale:

- Paragraph 71 of the Framework specifies that "the definition of income and expenses identify their essential features but do not attempt to specify the criteria that would need to be met before they are recognised in the income statement",

- Main recognition criteria for components of income and expense are the following:

- More probable than not (Framework paragraph 83),

- Reliable measurement (Framework paragraph 83).

- Other recognised income and expense have in the past been excluded from net income and recorded directly in equity because they were not considered to meet the recognition criteria,

- Nor were they considered as part of the entity performance in accordance with Framework § 69.

- Even if there are no common characteristics for these components, it has been considered relevant to exclude them from net income by implementing specific accounting standards.

We are not dealing with a mere presentation issue, but with a major conceptual change involving both conceptual and recognition issues:

- Conceptual issue: the definition of income and the definition of performance should be dealt with within the Framework project,

- Recognition issue: the Revenue recognition project will determine if components of the proposed "statement of recognised income and expense" are actually income and expense.

There will be ample time when current projects on Framework and Revenue recognition are coming to an end, to decide whether one or two statements are necessary.

For the time being, a straightforward rule to determine which components should be excluded from net income is to apply existing standards."

The CNC considers that most of the reasons above are still valid and, current standards being what they are, prefers retaining the choice of presenting one or two statements as currently proposed under IAS 1.

Moreover, the CNC considers that, even though the total 'net income' is retained in the DP, requiring the presentation in one single statement of comprehensive income is a further step towards eliminating the notion of OCI by subsuming them within other sections of the income statement, even more, since the DP proposes, when possible, indicating to which sections the individual items of OCI relate (see question 15). The CNC does not agree with underlying concept changes being made through a project dealing with financial statement presentation, for example as regards cash flow hedging, which needs to be looked at first.

Question 15

*Paragraph 3.25 proposes that an entity should indicate the category to which items of **other comprehensive income** relate (except some foreign currency translation adjustments) (see paragraphs 3.37–3.41). Would that information be decision-useful? Why or why not?*

The CNC considers that OCI have no predictive value in terms of future cash-flows as they mostly relate to unrealised gains or losses over assets and liabilities, and even items not yet recorded as assets or liabilities, which are not, unless otherwise stated, expected to be realised immediately. The only predictive value would precisely be if the underlying items were to be realised immediately.

The CNC therefore is not convinced of the decision-usefulness of such a requirement, which seems to be useful only at the time of recycling, and following the answer to question 14, is actually rather opposed to it.

The CNC does however recognise that it would be feasible for items such as changes in fair value on AFS and on CFH, revaluation surpluses, actuarial costs whereas it would most likely not be for foreign currency translation adjustments and hedges of an investment on a foreign operation. The CNC also acknowledges that it would serve the cohesiveness objective. However, taking into account the disaggregation objective, this might actually lead to more line items in the OCI section : imagine for instance a manufacturer which has a bank as a subsidiary, it could have changes in the fair value on AFS in each section, therefore three lines would be required on the face of the statement of comprehensive income. In this case, since the CNC is not convinced of this information being decision-useful, we would prefer it to be disclosed in the notes to the financial statements.

Question 16

*Paragraphs 3.42–3.48 propose that an entity should further **disaggregate** within each section and category in the statement of comprehensive income its revenues, expenses, gains and **losses by their function, by their nature,** or **both** if doing so will enhance the usefulness of the information in predicting the entity's future cash flows. Would this level of disaggregation provide information that is decision-useful to users in their capacity as capital providers? Why or why not?*

The DP seems to express a preference for a disaggregation within each section and category in the statement of comprehensive income by function (§ 3.42), whereas current IAS 1.99 states : « should present […] based on either their nature or their function […] whichever provides information that is reliable and more relevant ».

The CNC questions how the Board has come to this conclusion and the higher usefulness of the presentation by function with respect to the predictability of future cash-flows :

- It is more subjective than a disaggregation by nature (for instance with respect to personnel costs) ;
- When a disaggregation by function is required, further disaggregation by nature is also required, both under the proposals in the DP (§ 3.42) as in current IAS 1 (albeit limited to certain operating items in aggregate, ie not split between cost of goods sold, selling and general expenses...), which tends to prove that the information provided by function is not perfect in this respect (as stated in IAS 1.105) ;

- A description in the accounting policies is necessary at any rate.

Moreover, does it meant that if an entity wants to disaggregate by nature, it will have to prove that such disaggregation is preferable in terms of predictability of future cash flows ?

Going beyond that, the CNC wonders whether it is still relevant to oppose the two types of disaggregation, ie shouldn't this be an area where the 'management approach' should step in, as long as it is described in the notes ?

Question 17

Paragraph 3.55 proposes that an entity should allocate and present ***income taxes*** *within the statement of comprehensive income in accordance with existing requirements (see paragraphs 3.56–3.62). To which sections and categories, if any, should an entity allocate income taxes in order to provide information that is decision-useful to users? Please explain.*

The CNC agrees with the DP's proposal that income taxes should be presented within the statement of comprehensive income in accordance with existing requirements. Both preparers and users also consider this proposal reasonable as an allocation would not necessarily be relevant and there would be a risk, if having to perform an allocation, that that allocation would be arbitrary.

However, under the management approach, wouldn't it be reasonable to propose to authorise a more detailed allocation for entities which would like to perform one ? Such allocation could be provided in the notes only.

To this effect, the CNC notes that the soon-to-be proposed ED on income taxes will propose a method for allocating income taxes as per the existing requirements. The outcome of the comments related to this issue will be particularly interesting for the Board in relation to this question.

Question 18

Paragraph 3.63 proposes that an entity should present ***foreign currency transaction gains and losses****, including the components of any net gain or loss arising on remeasurement into its functional currency, in the same section and category as the assets and liabilities that gave rise to the gains or losses.*

(a) Would this provide decision-useful information to users in their capacity as capital providers? Please explain why or why not and discuss any alternative methods of presenting this information.

(b) What costs should the boards consider related to presenting the components of net foreign currency transaction gains or losses for presentation in different sections and categories?

The CNC is in favour of allocating foreign currency transaction gains and losses to the same sections and categories as the related assets / liabilities / transactions, including the components of the net gain or loss on remeasuring the financial statements of an entity into its functional currency.

The CNC points out that there may be an issue as regards to the classification of cash flow hedge remeasurements within the other comprehensive income, even if it seems logical to classify them according to the classification of the fair value of the hedging instrument itself within the statement of financial position, according to the cohesiveness principle. A specific waiver would be needed on the point, in the same sense than for translation gains and losses within the other comprehensive income.

Question 19

*Paragraph 3.75 proposes that an entity should use a **direct method of presenting cash flows** in the statement of cash flows.*

(a) Would a direct method of presenting operating cash flows provide information that is decision-useful?

As mentioned in our cover letter, the CNC is opposed to imposing the use of the direct method of presenting cash flows. It is not convinced that this is a better method than the indirect method, especially since the users we have consulted have stated that the indirect method of presenting cash flows provides the information they require.

Users have told us that the indirect method of presenting cash flows better shows the timing difference between expenses/income and cash movements, thus better serving the predictability of cash flows objective. The DP even recognises this preference in § 3.79.

(b) Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method? Why or why not?

The CNC is not convinced by the arguments in § 3.78 that the direct method of cash flows is more consistent with the cohesiveness and disaggregation objectives than the indirect method. The CNC considers that those objectives could be achieved as well through the use of the indirect method, maybe through some 'reshuffling' of the presentation (notably, with a greater disaggregation) of the current statement along the different sections and categories proposed in the DP. We would therefore strongly encourage the Board to explore that avenue with operating income as a starting point.

Moreover, users consulted have stated that they actually prefer the indirect method of presenting cash flows, which is also the basis for calculation of other values such as value in use under IAS 36 or Enterprise Value (DCF – Discounted Cash Flows) and is, in itself, a means to tie the two other financial statements (balance sheet and income statement) together. In addition, the direct method ignores that the forecasted cash flows (DCF), heavily used by financial analysts, start from the net or operating income which is subsequently adjusted. Also, the CNC considers that the use of the direct method is not consistent with the requirement of a presentation of the statement of comprehensive income using the disaggregation by function as proposed by the DP.

Looking at the examples provided at the end of the DP, once again, the disaggregation seems to be particularly extensive and the CNC would have liked to see guidance with respect to minimum presentation levels.

Moreover, as mentioned in our answer to question 9, one of the disadvantages of the proposed format is to mix the cash generated from cash invested within the same section, thus requiring users to have to identify the different streams and isolate them in order to be able to calculate free cash flow (a key point for users), when the current presentation provides the figures directly. The CNC would prefer, if the proposed presentation model was maintained, to have a separate section with respect to capital expenditures or at least to have these items presented in a manner where they are easily identifiable and grouped together as we understand, looking at the examples at the end of the DP, that capital expenditures could also be found in the selling, general and administrative caption for example as well as under cost of goods sold, etc. .

In considering an enhanced format of a presentation using the indirect method, users have **also** indicated that a reconciliation to net debt would be more useful to them than a reconciliation to cash.

(c) Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?

Since the CNC is opposed to imposing the direct method of presenting cash flows, we do not consider the proposed reconciliation schedule necessary (see further detail in question 23). In fact, we actually consider, and the question above seems to imply it also, that the reconciliation schedule is proposed to provide some information that the indirect method provides and not the direct method. We therefore wonder why the direct method should be imposed when the users we have consulted asserted that the indirect method provides the information they require ? Moreover, one of the disadvantages of the whole direct method + reconciliation note does not serve the purpose of tying the three financial statements together as does the cash flow statement using the indirect method (see our answer to (b) above).

Question 20

*What **costs** should the boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81–3.83)? Please distinguish between one-off or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?*

Preparers the CNC have consulted have stated that the information required in order to present cash flows under the direct method is not currently available, and that would therefore require significant implementation costs in order to reorganise the flows of relevant data within their EDP systems. Beyond one-off implementation costs, systems maintenance costs would also be necessary.

Moreover, this type of information not being used internally, neither by users, what would be the benefit to produce it?

The use of an indirect/direct method of deriving cash flows might alleviate the burden but not resolve the relevance of producing such information.

Question 21

On the basis of the discussion in paragraphs 3.88–3.95, should the effects ***of basket transactions*** *be allocated to the related sections and categories in the statement of comprehensive income and the statement of cash flows to achieve cohesiveness? If not, in which section or category should those effects be presented?*

The CNC is in favour of maintaining the current practices on the allocation of the effects of basket transactions, ie basically no allocation . In particular, the presentation of the effect of a business combination on a single line of the statement of cash flows is seen a more meaningful information to users on the investment strategy of the entity. It should be added that:

- this presentation should be cohesive with the above proposal of presenting a statement of change in net debt: in contrary to the current practice, the effect of the business combination should be presented net of (i) cash acquired and (ii) liabilities assumed;

- the preferred presentation on a net basis does not prevent from a requirement in the future standard to present the effect of the basket transaction on each section and category in the notes.

Within the frame of a no allocation requirement, the CNC favors Alternative B of § 3.94.

Question 22

Should an entity that presents assets and liabilities in order of liquidity in its statement of financial position disclose information about the maturities ***of its short-term contractual assets and liabilities*** *in the notes to financial statements as proposed in paragraph 4.7? Should all entities present this information? Why or why not?*

The CNC suggests that the Board should define "contractual assets and liabilities" in the light of existing standards. It should be noted that the proposed requirement of the DP may overlap existing requirements of IFRS 7 with respect to financial instruments.

Question 23

Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components: (a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments.

(a) Would the proposed ***reconciliation schedule*** *increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.*

The CNC considers the proposed reconciliation schedule an interesting conceptual proposal, which tries to respond to actual issues which, however, could be addressed in a simpler and more relevant manner.

However, the CNC has the following concerns :

- The schedule is too complex and detailed to be easily or actually of use
- All the restatements proposed do not appear to be necessary
- Most of the information provided can or could be obtained with better results on certain points (change in working capital requirements, pensions, income taxes, provisions, ...) with an enhancement of the dedicated disclosure notes provided. Users have told us that with this schedule :
    - The change in working capital requirements, which is essential to their analysis, cannot be easily captured and used in their projections;
    - The disaggregation of certain line items (such as pensions) may be subjective and therefore would not be helpful for users.

Also, as already mentioned in our answer to question 19(b), the approach proposed by the Board is contrary to the one of the users in constructing projections of future cash flows, which actually starts from the income statement to lead to cash flows.

For the above reasons, the CNC considers that the indirect method of presenting cash flows should be preserved together with enhanced disclosures with respect to items that are significant to users.

(b) Should changes in assets and liabilities be disaggregated into the components described in paragraph 4.19? Please explain your rationale for any component you would either add or omit.

See answer to (a) above.

(c) Is the guidance provided in paragraphs 4.31, 4.41 and 4.44–4.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.

See answer to (a) above.

Question 24

Should the boards address further disaggregation of ***changes in fair value*** *in a future project (see paragraphs 4.42 and 4.43)? Why or why not?*

The CNC is opposed to addressing further disaggregation of changes in fair value in a future project.

It seems to the CNC that there are two different issues to be dealt with :

1. Should any item that is considered as impeding analysis be isolated ?

- This could be an answer to criticisms with respect to an entity's performance and to fair value (for example : isolate the effects of inefficient hedges)
- Some groups already disaggregate some elements of such changes because a choice already exits or better said nowhere is it prohibited to do so. The CNC would like that such possibility be carried forward.

2. Should unrealised be separated from realised ?
   - The income statement should remain synthetic
   - The CNC is yet undecided as to whether such information should be on the face of the income statement or in the notes.

The CNC is opposed to such a project being undertaken :

- If fair value is the right measure, why should it be disaggregated ?
- If fair value is not the right measure, then fair value itself needs to be debated.

The CNC considers that the board should carry on its current project on fair value measurement.

In this respect, we would also like to reiterate our preference for simplification and for a more thoroughly defined method for measuring fair value, as well as our opposition to all financial instruments being measured at fair value, as already stated in our answer to the DP on reducing complexity.

Question 25

*Should the boards consider other **alternative reconciliation formats** for disaggregating information in the financial statements, such as the statement of financial position reconciliation and the statement of comprehensive income matrix described in Appendix B, paragraphs B10–B22? For example, should entities that primarily manage assets and liabilities rather than cash flows (for example, entities in the financial services industries) be required to use the statement of financial position reconciliation format rather than the proposed format that reconciles cash flows to comprehensive income? Why or why not?*

As mentioned in our answer to question 23 and in our cover letter, the CNC thinks that the Board should consider some type of reconciliation format such as that of changes in certain assets and liabilities within dedicated notes to the financial statements, with income statement and cash effects rather than a matrix type of reconciliation.

Question 26

*The FASB's preliminary view is that a memo column in the reconciliation schedule could provide a way for management to draw users' attention to **unusual or infrequent events or transactions** that are often presented as special items in earnings reports (see paragraphs 4.48–4.52). As noted in paragraph 4.53, the IASB is not supportive of including information in the reconciliation schedule about unusual or infrequent events or transactions.*

(a) Would this information be decision-useful to users in their capacity as capital providers? Why or why not?

The CNC considers such information to be decision useful as it appears that most preparers try to present it in some way or another.

(b) APB Opinion No. 30 Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, contains definitions of unusual and infrequent (repeated in paragraph 4.51). Are those definitions too restrictive? If so, what type of restrictions, if any, should be placed on information presented in this column?

The CNC agrees with the definitions provided in APB 30.

(c) Should an entity have the option of presenting the information in narrative format only?

IAS 1.85 and IAS 1.97 require that separate disclosures be provided either in the income statement or in the notes regarding significant items necessary to the understanding of an entity's performance.

On one hand, it would be useful to be able to provide more information in the income statement, which could avoid presenting pro-formas and have the data audited.

On the other hand, in practice, there often is a caption which is a « basket » line item of other operating income and expenses. However, if the information is only disclosed in the notes, is that not a risk when considering only the financial statements ?

Based on the above, the CNC considers that this major issue should be looked at in further detail and thoroughly debated.