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JH

n°56

Paris, the 14 September 2010

IASB
30 Cannon Street
LONDON EC4M 6HX

UNITED KINGDOM

Dear Sir David,

I am writing on behalf of the ANC to comment on the proposals made in the ED "Presentation of Items of Other Comprehensive Income" (hereafter referred to as the "OCI project").

The ANC considers that this project does not, by any means and because of the approach taken, rank as a top priority, given the rather more urgent issues that the IASB should be resolving following the financial crisis.

Although we are supportive of some of the proposals made by the Board in this ED regarding the presentation within OCI, we remain strongly opposed to the main proposal consisting in the elimination of the option to present the statement of profit or loss and items of other comprehensive income in two statements.

Indeed, the IASB's arguments fail to convince us of the added benefits provided by bringing the two statements together, thus presenting and adding together items of different informational values, when the two statements are already required to be presented one after another. Quite to the contrary, this further convinces us that the IASB should rather address the most pressing issue of how performance should be defined, including the role of OCI and of recycling and of the measurement models applied to such items.

Also, in our view, nothing significant has changed since the previous attempt made by the IASB which led to the presentation option and, although the IASB is not proposing to eliminate the profit or loss line, the ANC considers that the Board's proposals will result in diluting the concept of profit or loss.

Moreover, no post-implementation review of the previous amendment, only mandatorily effective since 2009, ie for only one year, has been made by the Board. The ANC has undertaken such a review on the basis described in Appendix 2. The results, which are no demonstration by themselves but give good indications, show that :

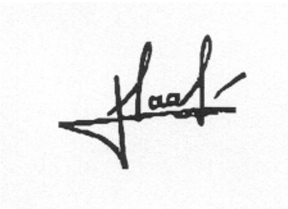
- an overwhelming majority of the major listed entities (91%) required to apply IFRS for their consolidated accounts use the presentation option of two statements ;
- much discipline was generated by the requirement to present the two statements consecutively since 94% of the entities which chose to present two statements actually do comply with this requirement, mostly on two pages ;

- it can be noted that there is a wide diversity in how the different items within OCI are presented, thus impairing the ability of users in comparing one entity to another - yet this is a separate issue.

The ANC therefore concurs with Mr Engström's alternative view, in that the debate regarding performance has to take place prior to any further move by the IASB on this subject. In the meantime, the ANC's presentation preference remains for one in two statements so as to maintain a clear distinction between profit or loss and OCI thus recognising that each statement has its own informational value : performance for the first, exposure to risks or future performance for the latter.

If you have any questions concerning our comments, do not hesitate to contact us.

Yours sincerely,



Jérôme Haas

Statement of profit or loss and other comprehensive income

Question 1

The Board proposes to change the title of the statement of comprehensive income to 'Statement of profit or loss and other comprehensive income' when referred to in IFRSs and its other publications.

Do you agree ? Why or why not ? What alternative do you propose ?

The ANC agrees with the Board's decision to change the denomination of the statement in acknowledgment of the IFRS community being troubled by the "comprehensive income" denomination. Such confusion evidences the necessity of a fundamental debate to be carried out regarding the notion of performance.

However, as the ANC is opposed to the proposal made in Question 2, we would like to suggest different denominations for consideration of the Board, based on our position in question 2 of retaining the current presentational option :

- "income statement" or "statement of profit or loss", and "statement of other non-owner changes in equity" for the presentation in two statements ;
- "statement of profit or loss and other non-owner changes in equity" for the presentation in one statement.

In our view, pending a fundamental review of the notion of performance, such a denomination more accurately reflects the initial nature of the items which are now labelled "Other comprehensive income (OCI) items" (see our answer to Question 2).

Consequential amendments of such a denomination change

However, if the Board wishes to make such a change of denomination, the ANC wonders why it proposes in § 10 an example of another title entities may use. Indeed, we note that no alternative title is included regarding the statement of financial position in IAS 1.

Also, additional consequential amendments should be made to the text as well as to the examples provided in the application guidance as follows :

- § 83 (b) should read "total of profit or loss and other comprehensive income" instead of comprehensive income;
- in order to remain consistent, the first example in the application guidance which aims at presenting a "statement of profit or loss and other comprehensive income" should have a "total of profit or loss and other comprehensive income" as the bottom line as well as for the split between owners of the parents and non-controlling interest and in the footnote as opposed to "total comprehensive income".

Question 2

The proposals would require entities to present a statement of profit or loss and other comprehensive income with two sections – profit or loss and items of other comprehensive income. The Board believes this will provide more consistency in presentation and make financial statements more comparable.

Do you agree ? Why or why not ? What alternative do you propose ?

As its predecessor body the CNC, the ANC is strongly opposed to the proposal of eliminating the current presentation option in IAS 1. In this respect we concur with Mr Engström's alternative view (AV1 to AV6).

Indeed, in its answer dated 13 July 2006 to the IAS 1 proposed amendments ED, regarding the replacement of the income statement by a "statement of recognised income and expense" which could be presented in one or two statements, the CNC had already expressed surprise that "no question in the Exposure Draft addresses the specific issue of the relevance and timing for the introduction of such a major change. Indeed most questions relate only to the document names and not to their content." That comment letter also recalled that "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 in the Framework (§ 83), nor were they considered as part of the entity performance in accordance with Framework § 69, and, 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."

The CNC had very clearly stated that the income statement should remain a separate statement. Following this ED, the IASB decided to impose a single statement with two sections, with an option to present the two sections in two statements. The revised IAS 1 was mandatorily effective as of 1 January 2009.

In October 2008, the IASB and FASB published a Discussion Paper relating to Financial Statement Presentation in which the single statement of comprehensive income was proposed with no option to present the income statement separately. Again, the CNC indicated its strong opposition to the proposal, based on the following grounds which were mentioned in its comment letter to the discussion paper.

> <u>**CNC's answer to FSP DP dated 10 April 2009 : Cover letter**</u>
>
> **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, will result

in diluting profit or loss, thus, as stated in our previous letter dated 10 April 2009, leading to unnecessary major confusion on the 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.

Regarding the current status of the proposals, the IASB's arguments regarding clarity and comparability (BC35 (a) to (c)) fail to convince us of the added benefits provided by bringing the two statements together thus presenting and adding together items of different informational values, especially when the two statements are already required to be presented one after another, when the current two statement option is applied, unlike the situation in US GAAP. Quite to the contrary, this further convinces us that the IASB should rather address the most pressing issue of how performance should be defined, including the role of OCI and of recycling and of the measurement models applied to such items. Indeed, the Board recognises that there is no conceptual basis for how the Board determines whether an item should be presented in OCI (BC15).

Also, in our view, nothing significant has changed since the previous attempt made by the IASB which led to the presentation option and, although the IASB is not proposing to eliminate the profit or loss line and is not mandating a change of the EPS calculation which remains tied to profit or loss, the ANC considers that the Board's proposals will result in diluting the concept of profit or loss.

Moreover, no post-implementation review of the previous amendment, only mandatorily effective since 2009, ie for only one year, has been made by the Board.

The ANC has undertaken such a review on the basis described in Appendix 2. The results show that :

- an overwhelming majority of the major listed entities (91%) required to apply IFRS for their consolidated accounts use the presentation option of two statements ;
- much discipline was generated by the requirement to present the two statements consecutively since 94% of the entities which chose to present two statements actually do comply with this requirement, of which 22% on one page ;
- however, there is a wide diversity in how the different items within OCI are presented thus impairing the ability of users in comparing one entity to another.

The examples provided in the application guidance fail to convince us with the Board's argument that the presentation would be clearer. Indeed, the examples leave us with a "clutter" impression, which the current status of the proposals on the Financial statement presentation project will not alleviate. To the contrary, the additional disaggregation that would be required under those proposals would most likely mean that the proposed single statement will have to be broken down over two pages, the logical line split being at the net profit or loss line.

To conclude, the ANC considers that until the debate on performance, including the role of OCI and of recycling and of the measurement models applied to such items, has taken place, the IASB should not attempt to go any further with these proposals but should retain the current presentation option. Within this presentation option, the ANC's preference is for a presentation in two statements so as to maintain a clear distinction between profit or loss and OCI and reflect the fact that the income statement and the statement of other non-owner changes in equity have different informational values in their own right with :

- the income statement being representative of an entity's performance;
- the statement of other non-owner changes in equity which is important in financial reporting because of the potential significant amounts that may flow through this statement and help understand some aspects of an entity's financial position and its exposure to certain risks. As such, it is indeed important that they be detailed in a statement and not simply within the notes to the financial statements.

Presentation of items of other comprehensive income

Question 3

The exposure draft proposes to require entities to present items of other comprehensive income (OCI) that will be reclassified to profit or loss (recycled) in subsequent periods upon derecognition separately from items of OCI that will not be reclassified to profit or loss.

Do you support this approach ? Why or why not ? What alternative do you propose, and why ?

The ANC agrees that distinguishing items of other comprehensive income that will be reclassified to profit or loss from those that will not be reclassified will be helpful in terms of analysis of future impacts on financial performance. The argumentation provided in the CNC's (the ANC's predecessor body) comment letter to the DP regarding the different natures of OCI items supports such a distinction (although it was not part of the proposals at the time).

However, the ANC notes the usefulness such a split would have under current IFRS and thus sees no reason why the Board feels compelled to invoke current developments it is proposing to justify this proposal (BC25). In this regard, the ANC proposes that this proposal be finalised along with the annual improvement process, as such a proposal could be put in place before any current developments on other projects are made effective (BC22 to BC24).

Question 4

The exposure draft also proposes to require that income tax on items presented in OCI should be allocated between items that might be subsequently reclassified to profit or loss and those that will not be reclassified subsequently to profit or loss, if the items in OCI are presented before tax.

Do you support this proposal ? Why or why not ? What alternative do you propose and why ?

As mentioned in Question 3, the ANC agrees with the proposal of distinguishing between items that will be reclassified to profit or loss from those that will not be reclassified. The ANC moreover notes that the amount of income tax relating to each component of other comprehensive income has to be disclosed either in the statement of comprehensive income or in the notes as per IAS 1.90. In its response to the DP, the CNC (the ANC's predecessor body) supported the retention of the presentation options regarding income tax allocations.

Therefore the ANC agrees that the income tax allocation proposals made in the ED consist in a consequential amendment of the proposals of distinguishing other comprehensive income items that will be reclassified to profit or loss from those that will not be reclassified (proposal made in question 3), whilst preserving the income tax disclosure presentation options.

Benefits and costs

Question 5
In the Board's assessment : (a) the main benefits of the proposals are : (i) presenting all non-owner changes in equity in the same statement. (ii) improving comparability by eliminating options currently in IAS 1. (iii) maintaining a clear distinction between profit or loss and items of other comprehensive income. (iv) Improving clarity of items presented in OCI by requiring them to be classified into items that might be reclassified subsequently to profit or loss and items that will not be reclassified subsequently to profit or loss. (b) the costs of the proposals should be minimal because in applying the existing version of IAS 1, entities must have all the information required to apply the proposed amendments. Do you agree with the Board's assessment ? Why or why not ?

Referring to question 3, the ANC agrees with the benefit (iv) listed in question 5, as well as with the cost assessment made by the Board.

However, for the reasons explained in question 2, the ANC completely disagrees with the benefits (i) to (iii) listed in question 5.

Other comments

Question 6
Do you have any other comments on the proposals ?

In the first example of the implementation guidance, some words such as "to components" seem to be missing in the line item "income tax relating of other comprehensive income" for those OCI items that may be reclassified subsequently to profit or loss.

Appendix 2

ANC survey results regarding the presentation options of the comprehensive income statement following the implementation of IAS 1 amendments for reporting periods beginning as of 1 January 2009

Objectives of the survey

- Identify the proportion of preparers presenting one or two statements of comprehensive income in the first year of mandatory implementation of the IAS 1 amendments regarding the presentation of comprehensive income ;
- When two statements are presented, assess the compliance with the requirement that both statements are to be presented consecutively and when so whether the presentation is on one or two pages.

Sample surveyed

509 listed entities of the major indexes (eg CAC 40 in France), on markets where IFRS are required for their consolidated financial statements, were surveyed resulting in the following split :

- Europe : 449 entities in 17 countries (UK, France, Germany, Belgium, Netherlands, Spain, Portugal, Italy, Austria, Ireland, Denmark, Finland, Greece, Sweden, Czech Republic, Poland, Norway) ;
- South Africa : 19 entities ;
- Turkey : 8 entities ;
- Australia and New Zealand, respectively 18 and 15 entities.

When full year financial reports were not available, notably due to non-31 December year ends, half year results have been used whenever possible.

Main findings

Presentation split :

- One statement : 44 entities (9%)
- Two statements on one page : 97 entities (19%)
- Two statements on two consecutive pages : 337 entities (66%)
- Two statements on two non-consecutive pages : 32 entities (6%).

<u>Summary of main findings</u>

- an overwhelming majority of the major listed entities (91%) required to apply IFRS for their consolidated accounts use the presentation option of two statements ;
- much discipline was generated by the requirement to present the two statements consecutively since 94% of the entities which chose to present two statements actually do comply with this requirement, of which 22% on one page.

Presentation within the Other comprehensive income items

There is a wide diversity in how the different items within OCI are presented thus impairing the ability of users in comparing one entity to the other, ranging from a table with 5 or 6 line items to tables which cover a whole page and every movement within OCI is detailed.

The first source of variety stems from the presentation option regarding the tax effect. Other (non exhaustive) sources of variety encountered are :

- presentation, per main OCI item of all associated movements e.g. change in fair value, transfer to income statement, tax effect ;
- presentation of movements in OCI items at the top of the table and transfers to income statement in a separate section ;
- presentation of OCI items broken down, per item, between Group's share and non-controlling interests' share, and sometimes no total ;
- wide variety in the denominations used.