

14 April 2009

Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Sir,

The French Society of Financial Analysts, SFAF (Société Française des Analystes Financiers), is pleased to submit its contribution as part of the consultation undertaken by the International Accounting Standards Board (IASB) on its Discussion Paper – Preliminary Views on Financial Statements Presentation.

SFAF represents more than 1,600 members in France and is itself a member of the European Federation of Financial Analysts Societies (EFFAS) which comprises 25 member organisations representing more than 14,000 investment professionals. Its Accounting and Financial Analysis Commission intends to represent analysts and fund managers in the debate on accounting standards. Financial analysts are among the principal users of corporate financial statements and therefore wish to express their opinion on the implementation of new or revised accounting standards.

For this reason, our Society, through its Accounting and Financial Analysis Commission, is keen to respond to your consultation on this subject.

**General comments:**

For users of Financial Statements, Financial Statements Presentation represents the first accounting elements they look for in order to understand and appreciate the past and projected performance of a company. Therefore, Financial Statements Presentation is a key if not a vital project, and users strongly hope that their views will be taken into consideration.

SFAF highly appreciates the efforts pursued by IASB in renovating the Financial Statements Presentation. Users of financial statements clearly consider that the present situation is not satisfactory, very particularly, in most cases, with insufficient disaggregation, either from a pure presentation aspect or for a lack of guidance as regards operating and financing items. In this respect, we consider as highly valuable to have developed the Discussion Paper around the following principles :

- Cohesiveness of financial presentation,
- Disaggregation of information in a consistent and comparable manner,
- Liquidity and financial flexibility.

From a general point of view, there are some key issues for financial analysts and users of financial statements:

#### 1) Management Approach

We consider that the use of the Management Approach is a key concern for users of financial statements, and that the Board definitively needs to develop a strong guidance. By using the Management Approach, users fear that the comparability will be significantly reduced, whereas it is one of the main characteristics of financial statements (cf. Framework) :

- “Users must be able to compare the financial statements of an entity through time in order to identify trends in its financial position and performance. Users must also be able to compare the financial statements of different entities in order to evaluate their relative financial position, performance and changes in financial position”.

It is clear that the Management Approach would not satisfy this requirement. What would be the effect of a change in the organization of a company, or even the change in the management of a company that consider that such or such item which was presented to the board is not any more useful ? More generally, comparability would not be allowed between companies, but also over time for a given company, thus reducing the efficiency of asset allocation. We believe that the Management Approach would seriously reduce transparency.

In addition, the Framework stresses that Financial Statements must be understandable for users of financial statements. Users strongly fear should the Management Approach be allowed to companies, then financial statements would be less understandable to users as they will, first, have to understand, for each company, what is incorporated inside each section of the financial statements.

We have heard on many occasions the argument that at least in each industry, companies would progressively adopt a self regulated approach that would satisfy the users of financial statements. Note, that this scenario would imply an unpleasant and dangerous transition period. But, overall we consider that this argument is unacceptable, as history has demonstrated that should companies be free of adopting a tailored-made presentation, at the end, some will not resist to use this capability so as to present themselves under the most favorable aspect, if not in a misleading way, thus greatly reducing the comparability between companies and undermining the confidence of the user community in financial statements.

We consider also that the Management Approach would endanger the calculation of financial ratios, either for valuation purposes or for measuring the performance of a company. In particular, the calculation of the Return On Capital Employed (ROCE), one of the preferred ratio of users of financial statements, requires a strict discipline on the items to be incorporated. How to compare the ROCE between companies if financial parameters are not produced by using same guidelines?

The ROCE being calculated by users at the operating level, we consider that both the Share of profit of associates (Income level) and the Investments in associates (Statement of Financial Position) should be excluded from the operating level within the Business category. By incorporating them within the operating category, the ROCE would be a mix of operating and net results, thus reducing the meaning of this ratio, unless to perform systematic restatements.

Finally, we would like to underline that the user community unanimously rejected the Management Approach on IFRS 8 (Segment Reporting). The extension of such an approach to primary financial statements is therefore quite a key concern for us.

## 2) Presentation by nature or by function:

We strongly consider that a presentation by nature offer a greater disaggregation than a presentation by function.

In many occasions, the line “cost of sales” would represent a vast majority of total operating costs. On the opposite, a presentation by nature regularly provides a more disaggregated level of information than by function, as, in most cases, the function presentation provides a very insufficient disaggregation level. We see the wide use of EBITDA pro-forma measurement as an evidence of the strong preference of analysts for disaggregation by nature rather than by function.

The presentation by nature allows also for a better predictability than a presentation by function. This is due to the fact that some items appearing in a per nature income statement (cost of personnel, depreciation, etc) can be reconciled with other usually available indicators (total personnel, plan property and equipment, etc.).

We also believe that the presentation by function provides far more subjectivity when each company defines its different components, for instance, in defining what a marketing cost is. Another example of this subjectivity is the category R&D spending, where the current standard actually gives very different figures for very similar companies. Therefore, the allocation by function reduces the confidence the users have in the allocation of costs, and significantly reduces the comparability between companies of a same sector which is a major drawback. On the contrary, a presentation by nature offers a better comparability, a key feature of financial information from a user perspective.

The presentation by nature, when the level of disaggregation is good, provides also very useful information that can be compared to other items of the balance sheet and the cash flow statement (sometimes very well detailed in the Notes). This provides a very useful way to assess the drivers and the quality of the performance.

## 3) Disaggregation

User need the Financial Statements to be self explanatory. In other words, there is a strong need that the financial information presented within the Statements of Income, the Statement of Financial Position and the Cash Flow Statements can be used by financial analysts and users without having systematically to look for additional information within the notes so as to understand the meaning of the numbers presented. Therefore we very much appreciate the efforts undertaken by IASB to improve the financial information as compared to what is required today by IAS 1.

We fear however that the information presented in Appendix A of the Discussion Paper (“Illustration”) are for illustrative purpose only and may provide some comfort about what financial analysts may expect from the new standard. We would therefore suggest that the new standard provide enough guidance about the level of disclosure the financial statements should incorporate.

To be more precise, we would expect from the new standard clear guidance about what is to be incorporated within the Statements of Income (eg. at the operating income and at the financing income level) and within the cash flow statements (cf. hereafter).

In particular, a rapid calculation of such items as the ROCE should be calculated easily from the financial statements without having to look for detailed information within the notes.

We believe that a better disaggregation (see our previous comment on per function presentation) in the income statement and the cash flow statement would be a highly important improvement of the financial statements.

#### 4) Net Income

It is a central element in the analysis of the performance of a company. Therefore, we strongly ask for its mandatory inclusion in the Financial Statements Presentation at the P&L level. Moreover, there has been no demonstration of the superiority of the Comprehensive Income over the Net Income Level from a practical perspective. Therefore, there is among users of financial statements a strong opposition for considering the Comprehensive Income as the main performance indicator.

Other Comprehensive Income (OCI) are very useful for users of financial statements, including financial analysts, but items included within OCI do have a very different nature / meaning that those included in the calculation of the Net Income.

We would therefore strongly suggest that OCI and Comprehensive Income are presented on a different page of the Financial Statements Presentation, so as to reduce the confusion that would arise if both Net Income and Comprehensive Income are presented within the same statement. It would also allow to display the EPS figure, which is necessary from our perspective, on the bottom of the first page, just after the net earning figure.

#### 5) Cash & Cash Equivalents

We consider that Cash Equivalents are a part of the calculation of the Net Financial Debt, which is a key parameter for Financial Analysts. Net Financial Debt is a masterpiece of the appreciation of the Financial Situation of a company, with Net Financial Debt being computed by incorporating both Cash and Cash Equivalents. Therefore, we consider that the Financial Statements should produce a calculation of the Net Debt. Within the balance sheet, Cash Equivalents should be presented next to the cash, with however a distinction between Cash and Cash Equivalents. In our view, Cash Equivalents should be distinguished from other short term financial assets, even if we acknowledge that sometimes distinction between Cash Equivalents and some short term financial assets may be “formal”. Therefore, we would suggest a dedicated information in the Notes to the Financial Statements.

We also believe that the reasons for not associating Cash and Cash Equivalents might be linked to recent situation seen on the market where Cash Equivalents turned out to be illiquid or with a value very different from what was expected. We believe that similar surprises could happen with cash: just imagine cash in a foreign subsidiary that cannot be transferred in the group.

#### 6) Cash Flow Statement

As a starting point, we would like to underline how analysts utilize cash flow information and why it is used in such a way. Analysts mainly use information to assess the non-cash items included in the income statement either fair value changes through the income statement or other non-cash revenues and expenses, particularly depreciation. This is a key step of the quality assessment of the performance for the period and building expectations for the coming periods

##### a) Direct Method / Indirect Method

Most of the users of financial statements prefer the indirect method rather than the direct method. The Discussion Paper proposes the direct method while we believe that by and large analysts favour the indirect method. The indirect method along with a proper income statement disaggregation, we think, is the right set of information needed from a user's perspective.

First of all, with the direct method presenting profit and loss information on a cash basis rather than on an accrual basis, it may wrongly suggest that the net cash flow from operation is as good as or even better than the income statement information. Moreover, we think that the use of the direct method as presented implies a reconciliation table that could be avoided.

The key reason for preferring the indirect method is that most analysts, if not all, are calculating cash flow estimates starting from the income statement and then introducing adjustments being the main difference between expenses-revenues and cash flows. Usually analysts do not start working directly with cash flows as these are inherently volatile and making directly an accurate forecast of cash flows is rather difficult. In addition, the indirect method is the basis calculation for the Discounted Cash Flows (DCF), one of most widely used tool for valuating companies.

The main purpose of requiring cash information is to assess the quality and timing differences of earnings-profits that contribute to forecasting cash inflows and outflows. In fact, the Board quotes in the Discussion Paper that some users prefer the indirect method as it offers links with the income statement and balance sheet as important information like depreciation is reported. We believe that the indirect method represents the views of a vast majority of financial analysts while responding to the cohesiveness objective of the financial statement presentation.

Moreover an additional element from a European perspective should be considered. Cash received from customers would include VAT whereas the amount of corresponding revenues is VAT-free. If there is a big change in the composition of revenues, i.e. revenues from Europe which include VAT and non-European revenues which exclude taxes, the amount of cash received would change significantly with no change in revenues. The difference between the cash amount and the revenues figures could be very misleading.

Initiating the cash-flow reconciliation on the indirect method should be based on net profit and not comprehensive income, as all other comprehensive income items are non-cash items. We also support including sub-totals such as Cash flow from operating activities, before interest and taxes. This sub-total would reach the goal of cohesiveness between financial statements.

#### b) Information Required in a Cash Flow Statement

As noted, analysts largely favour the indirect method although we believe that this method needs to display a minimum set of information on cash flows from operations far more detailed than under the current practice.

In particular, we consider that the Statements of Cash Flows should include among other the following items :

- Cash-flow from operating activities before interest and taxes and changes in working capital. This subtotal we believe would contribute to reach the objective of cohesiveness between financial statements. It should include a detailed breakdown of most non-cash items: share-based payments, depreciation, provisions (use, additions, reversals), foreign currency financial debt adjustments (change in perimeter, exchange rate variation...), hedge and derivatives adjustments, non cash financial items (e.g. compound financial instruments)...
- Interest paid
- Interest received
- Taxes paid
- Changes in working capital, with enough details, at least in the notes to financial statements, or even in the Statements of Cash Flows (if significant). Change in working capital should be presented before impact of provisions or depreciation (i.e. gross). Provisions related to operating assets should also be presented on a specific line
- Cash hedge settlements

A dedicated information in the notes to the financial statements should encompass such items as changes in working capital, pensions and other benefits (contributions, direct disbursements, use of provisions), taxes, provisions etc.

Capital expenditure is a key element for users of financial statements: therefore it should be presented on a specific line of the Statements of Cash Flows and not spread on several lines as suggested by the example given in the Discussion Paper. Moreover, we need a differentiation, at least in the notes to the financial statements, between tangible assets and intangible assets acquired.

The bottom of the Cash Flow statement should end with the Cash & Cash Equivalents with a distinction between these two items, as it is the relevant parameter for users of financial statements, as stated above.

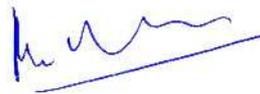
We need also that the Financial Statements provide a clear presentation of the evolution of the Net Financial Debt. In this respect, we suggest that a detailed presentation of the change in Net Financial Debt is presented next to the Cash Flow Statement, with a specific disaggregation including increase in financial debt, reimbursements, foreign exchange impact, variation in perimeter, cash settlements hedge, impact of compound financial instruments ...

We thank you for the opportunity given to us to provide our view on such important aspects and remain available for any further information.

Yours faithfully,

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

Jacques de Greling  
Co-Chairman of Accounting  
and Financial Analysis Commission

A handwritten signature in blue ink, appearing to read 'Bertrand Allard', written over a horizontal line.

Bertrand Allard  
Co-Chairman of Accounting  
and Financial Analysis Commission