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Mr Stig Enevoldsen
Chairman
EFRAG TEG
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Commentletter@efrag.org

Dear ~~Sir~~, Stig

RE: AMENDMENTS TO IAS 1: PRESENTATION OF FINANCIAL STATEMENTS

UNICE welcomes the opportunity to comment on the EFRAG letter on the IASB Exposure Draft proposing amendments to IAS 1: Presentation of financial statements.

We believe most changes proposed in this Exposure Draft are, neither supported by any conceptual analysis, nor driven by any convergence need.

We believe there is no supporting argument at this stage for the introduction of a single statement of non-owner changes in equity. In particular, we believe that it is much too early to conclude that the presentation of one single statement of so called "recognised income and expenses" is the conceptually correct solution. The population of recognised income and expenses has been growing over the years as more fair value measurements have been introduced. The conceptual superiority of those fair value measurements, i.e. their contribution to a more relevant and more useful financial reporting to users, has not yet been established via appropriate analysis and debate. As the answers the IASB has received from users in response to its questionnaire on fair value measurements indicate, "a significant number of …users…stated that they attempt to strip out the effect of financial fair value changes from income to arrive at cost based numbers" which they use "to derive earnings based valuations (Observer note, AP 2B, #31, June 2006). We therefore believe that the income statement as required by the existing IAS 1 must remain a defined component of a set of primary financial statements and that the option for presentation of one single statement aggregating the income statement with other non-owner changes in equity should not be introduced.

We also observe that the ED proposals are likely to bring confusion in practice, because of the changes in titles, names and wording and because of the increasing presentation options. We therefore recommend that these proposals be dropped.

We approve of the requirement to present non-owner and owner changes in equity clearly and distinctly from each other. We observe that this is the only proposal which is truly promoting convergence.

UNICE recommends EFRAG not to request any change being made to IAS 8. Restatements are meant to adjust the opening retained earnings of the earliest period presented. They do not result from a transaction or a change in value of an asset or liability arising in the current period, and the income statement's objective is to reflect the impact of transactions and events occurring in the current period. We believe IAS 8 as is provides more comparable and meaningful information than would be provided, if the impact of changes in accounting policies and corrections of errors were reflected in the income of the current period. We also observe that this is an area where IASB and FASB have recently achieved convergence.

Our detailed comments and answers are provided in an appendix to this letter. Should you wish to comment on the above further, please do not hesitate to contact us (jpc@unice.be).

Yours sincerely,

Jérôme P. Chauvin
Director, Legal Affairs Department

**Appendix to UNICE comment letter on ED Amendments of IAS 1 "Presentation of financial statements".**

**Questions 1 and 2 – A complete set of financial statements**

*Question 1 –*

*The Exposure Draft proposes that the titles of the financial statements should be as follows:*

*(a) statement of financial position (previously 'balance sheet');*

*(b) statement of recognised income and expense;*

*(c) statement of changes in equity; and*

*(d) statement of cash flows (previously 'cash flow statement').*

*The Board does not propose to make the changes of nomenclature mandatory (see paragraph 31 of the draft Standard and paragraphs BC4 and BC5 of the Basis for Conclusions).*

*Do you agree with the proposed titles of the financial statements (bearing in mind that an entity is not required to use those titles in its financial statements)? If not, why?*

We disagree with this proposal. Existing titles of the balance sheet, the income statement and the cash flow statement are well established and their use does not raise the least concern. With the introduction of IFRS, they have been translated in numerous different languages. Translation has been based on the titles that have been in use in different countries for very long. Board's arguments based on English are therefore most probably irrelevant in most countries where IFRS have been adopted. "Balance sheet" and "income statement" should therefore be retained. We are no more convinced by the argument that the changes in title would be driven by the framework, since §19 in the framework indicates that "information about financial position is primarily provided in a balance sheet" and "information about performance is primarily provided in an income statement".

If Segment B were to induce fundamental changes in the presentation of financial statements, it might be valuable to change the titles in order to emphasize the change. And if so, new titles ought to be mandatory in order to avoid confusion and diversity in practice.

For all the reasons expressed above, we recommend to keep the existing titles for the balance sheet, the income and the cash flow statements mandatory.

Furthermore we reject the decision that the income statement need not be included as a defined component of a set of primary financial statements, or that its content would be changed. In our view, the only valuable change proposed in the ED is to present in a homogeneous and consistent fashion all non-owner changes in equity. We therefore support the addition of a statement of “other non-owner changes in equity” (please refer to our answer to questions 3-5), in order to clearly separate non-owner and owner changes in equity. There is no analysis whatsoever in the basis for conclusions to the ED to convince us that items recognised in net income share the same characteristics as items recognised directly in equity. This analysis would be required in order to justify that all these items be aggregated in one single statement. Such an analysis belongs to segment B.

*Question 2 –*

*The Exposure Draft introduces a requirement to present a statement of financial position as at the beginning of the earliest period presented in the financial statements. Therefore, in addition to notes, an entity would be required to present three statements of financial position, and two of each of the other statements that form part of a complete set of financial statements (see paragraphs 31 and 39 of the draft Standard and paragraphs BC6–BC9 of the Basis for Conclusions).*

*Do you agree that a statement of financial position as at the beginning of the period should be part of a complete set of financial statements, and that an entity presenting comparative information should therefore be required to present three statements of financial position in its financial statements? If not, why?*

Many accounts prepared in compliance with IFRS today are submitted to financial market regulations requiring the presentation of two years of comparatives, not only one as required in IAS 1. Therefore IASB’s proposal to make the reporting of the opening balance sheet of the earliest period presented mandatory implies the publication of four balance sheets. We do not believe that there is enough benefit for users (the Board rightly refers to “convenience”, not to “need”) to warrant the cost implied for preparers. Four balance sheets would moreover most probably impair the clarity of the information presented.

We also observe that this new requirement is not driven for convergence purposes. In fact it is quite different from the existing practice required by the SEC, ie presentation of three income and cash flow statements and only two balance sheets. It reflects a change of focus from the income and cash flow statements (the statements which have the most predictive value to users) to the balance sheet. We do not support this change of focus and note that there is no basis for conclusions supporting it.

**Questions 3–5 – Reporting owner changes in equity and recognised income and expenses**

*The Exposure Draft proposes to require entities to present all changes in equity arising from transactions with owners in their capacity as owners (ie 'owner changes in equity') separately from other changes in equity (ie 'non-owner changes in equity' or 'recognised income and expense'). Non-owner changes in equity would be presented in either (a) a single statement of recognised income and expense, or (b) two statements: a statement displaying components of profit or loss and a second statement beginning with profit or loss and displaying components of other recognised income and expense (see paragraphs 81 and 82 of the draft Standard and paragraphs BC11–BC20 of the Basis for Conclusions).*

*Question 3 – Do you agree that non-owner changes in equity should be referred to as 'recognised income and expense' (bearing in mind that an entity is not required to use the term in its financial statements)? If not, why?*

*Is the terminology used in the Standard important if entities are permitted to use other terms in their financial statements? If so, what term would you propose instead of 'recognised income and expense'?*

*Question 4 – Do you agree that all non-owner changes in equity (ie components of recognised income and expense) should be presented separately from owner changes in equity? If not, why?*

*Question 5 – Do you agree that entities should be permitted to present components of recognised income and expense either in a single statement or in two statements?*

*If so, why is it important to present two statements rather than a single statement?*

*If you do not agree, why? What presentation would you propose for components of recognised income and expense that are not included in profit or loss?*

We believe other non-owner changes in equity should bear their name, ie. "other non-owner changes in equity". We do not support referring to non-owner changes in equity which are recognised first or directly in equity as "recognised income and expense". We believe "recognised income and expense" should – for the time being - encompass only items which will be recorded in retained earnings through net income.

We acknowledge that a change in the carrying amount of an asset or a liability meets – formally – the definition of income and expenses in the framework. We believe however that no conceptual debate has ever taken place on measurement. Fair value and other forms of current value have been nonetheless progressively introduced in IFRS measurement requirements without any conceptual debate (the framework is void of any guidance for selecting relevant measurement attributes) as to whether they were useful to users in forecasting future cash-flows, and how, if so. Paragraphs dealing with recognition of income in the framework (§93) refer to the earnings concept and the need for a sufficient degree of certainty in the recognition of income. This would suggest that increases in assets should be recognised only when that sufficient degree of certainty is met. Clearly, adoption of fair value measurements has not satisfied the framework requirement. This is probably for this reason that IASC has decided to introduce requirements for recognising changes in value in equity and recycling them through income later on, as it is suggested in framework §108. This paragraph indeed states that holding gains are not to be recognised as income "until the assets are disposed of in an exchange transaction". For all these reasons, we believe that:

- The IASB cannot refer to the existing framework to justify the aggregation of all non-owner changes in equity into one single statement,
- An in-depth analysis needs to be made to assess what elements indeed share enough common characteristics to be aggregated into a single statement,
- No fundamental change should be made in practice, and more particularly in wording, at this stage.

We expect that segment B of the IASB project is the opportunity to discuss these issues and identify whether all movements recognised directly in equity are – or are not – of the same nature as the items currently recognised through net income.

In the meanwhile, we believe that showing them in a separate statement, presented immediately after the income statement, represents an improvement in clarity from the current requirements. Furthermore the existing IAS 1 provides options of presentation which, for sake of consistency between entities, are best dropped. We believe this supplementary mandatory statement should be called "Statement of other non-owner changes in equity". We believe such a presentation requirement moreover would bring IAS 1 requirements in convergence with SFAS 130 requirements and subsequent practice.

**Questions 6 and 7 – Other recognised income and expense—reclassification adjustments and related tax effects**

*Question 6 –*

*The Exposure Draft requires the disclosure of reclassification adjustments relating to each component of other recognised income and expense (see paragraphs 92–96 of the draft Standard and paragraphs BC21–BC23 of the Basis for Conclusions).*

*Do you agree with this proposal? If not, why?*

Yes, we agree that the disclosure required will be useful to users in understanding the movements in outstanding reserves.

*Question 7 –*

*The Exposure Draft requires the disclosure of income tax relating to each component of other recognised income and expense (see paragraph 90 of the draft Standard and paragraphs BC24 and BC25 of the Basis for Conclusions).*

*Do you agree with this proposal? If not, why?*

We do not agree with that proposal:

- allocation of income tax is either a costly and lengthy process, or the result of an arbitrary allocation,
- we do not think that the information obtained is meaningful, and there is no justification in the bases for conclusions to that effect,
- there is no reason why the income tax impact on theses items would be required when the equivalent information is not required for items presented in the income statement.

**Question 8 – Presentation of per-share measures**

*The Exposure Draft does not propose changes to IAS 33 Earnings per Share. Therefore, earnings per share will be the only per-share measure presented on the face of the statement of recognised income and expense. If an entity presents any other per-share measure, that information is required to be calculated in accordance with IAS 33 and presented in the notes (see paragraph BC26 of the Basis for Conclusions).*

*Do you agree that earnings per share should be the only per-share measure that is required or permitted to be presented on the face of the statement of recognised income and expense? If not, which other per-share measures should be required or permitted to be presented on the face of a statement and why?*

Since we believe that the income statement should remain both mandatory and unchanged at this stage of the project, we agree with the proposal not to change earnings per share definition and presentation.
We however believe the issue should be raised in segment B of the IASB project and be dealt with at the stage of the Discussion Paper. Earnings per share are – as the IASB knows – a widely used indicator. If the IASB believes that this indicator should not be regarded as important and meaningful, the issue is best argued and dealt with at the stage of a Discussion Paper.