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Chairman

AB

n°

International Accounting Standards Board
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CL 39

IAS 1 Amendments

Dear Sirs,

On behalf of the French Conseil National de la Comptabilité (CNC), we are pleased to submit our comments on the Exposure Draft of Proposed Amendments to IAS 1 Presentation of Financial Statements.

We have noted that the FASB has decided not to publish an exposure draft related to segment A of the joint project on performance reporting.

We understand that this Exposure Draft is therefore primarily intended to bring IAS 1 into line with US standard SFAS n° 130, as mentioned in paragraph 4 of the Exposure Draft introduction.

Preliminary remark on the proposed amendments

The proposed amendments to IAS 1 introduce a major change by proposing to replace the statement called “income statement” by a new statement called “statement of recognised income and expense”.

Surprisingly 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.

In our view this significant change is highly questionable in phase A of the project and should be postponed to phase B, as it raises many fundamental questions:

- Conceptually it has not yet been established nor demonstrated that the new statement would constitute a more relevant presentation of performance than the present “income statement”,
- The promotion of the “statement of realised income and expense” is all the more questionable as it is unclear whether components of this new statement should be considered as components of income relating to the performance of the entity.

For example:

- o cash flow hedge gains and losses,
- o gains and losses from translating foreign operation financial statements,

- Except for some specific cases, no demand appears to come from users regarding the need for this new document. We observe on the contrary that the survey conducted by the FASB in 2001 and 2002 among users with broad and extensive experience using financial statements lead to following conclusion: “there seems to be little interest among most analysts in comprehensive income as a key performance metric...”,
- Income statement is widely used and referred to by financial markets and in existing standards, like IAS 33 for example: its suppression should not be achieved in a stealthy manner, but on the contrary should be largely debated in the due process of standard setting. Again lets us refer to the conclusions of the FASB survey: “Net income is often used as a starting point for analysis...”,
- The proposal of the IASB to replace the income statement by the “statement of recognised income and expense” does not achieve the convergence objective with SFAS 130: SFAS 130 authorises three different presentations, and does not suppress the income statement. In addition “the statement of realised income and expense” is called statement of comprehensive income in SFAS 130.

Presentation of performance is a major point for financial markets, and no major presentation change should be implemented in the absence of strong conceptual basis.

QUESTION 1- 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?

The CNC does not agree with the proposed titles of the financial statements and the implicit suppression of the income statement. These amendments do not respect the existing Framework and would introduce much confusion in financial communication.

“Balance sheet” is a name used 27 times in the Framework. “Income statement” is used 26 times in the Framework.

“Financial position” is used in different ways but not defined. “Statement of recognised income and expense” is not used at all.

The proposed amendments would introduce a conflictual change in contradiction with paragraph 3 of the Framework: “...the Board of IASC will be guided by the Framework in the development of future Standards and in its review of existing Standards...”.

Major changes of names should reflect major changes of concepts and therefore require extensive debates and communication before being implemented.

A. “Statement of financial position” should not replace “balance sheet”: the expression “financial position” is not defined in the Framework and could be misleading for financial markets.

- Paragraph 7 of the Framework states that “A complete set of financial statements normally includes a balance sheet, an income statement, a statement of changes in financial position (which may be presented in a variety of ways, for example as a statement of cash flows or a statement of funds flow)...”.
- Paragraph 16 of the Framework states that “The financial position of an entity is affected by the economic resources it controls, its financial structure, its liquidity and solvency, and its capacity to adapt to changes in the environment in which it operates”.
- Paragraph 18 of the Framework gives some precision on the variation of the financial position: “Information concerning changes in the financial position of an entity is useful in order to assess its investing, financing and operating activities during the reporting period”.

- Paragraph 19 goes on to say that “information about the financial position is **primarily** provided in a balance sheet”.
- Paragraph 20 also indicates that “the component parts of the financial statements interrelate because they reflect different aspects of the same transaction or other events. Although each statement provides information that is different from the others, none is likely to serve only a single purpose or provide all the information necessary for particular needs of users”.
- The definition of assets and liabilities is currently being reviewed by the Board within the Framework project,
- We deduce from the preceding that :
 - o Information about the financial position of an entity is partially but not totally nor exclusively provided in the balance sheet,
 - o The balance sheet is not per se the complete reflection of the financial position of a company,
 - o There is no definition of what the financial position of a company is and this definition remains to be drafted,
 - o The term financial position may as well refer to the financial structure of an entity, its solvency (debt repayment schedule) or its cash position, or anything else,
 - o Therefore, renaming the balance sheet “statement of financial position” would not, at this stage, help clarify the understanding of users of financial statements but on the contrary could be misleading for financial markets.

B. “Statement of recognised income and expense” should not replace “Income statement” as we are dealing with two different statements.

We are opposed to the replacement of the income statement by this new statement, even if it can be optionally split into two parts:

- Income statement is the only performance reporting statement explicitly referred to in the Framework:
 - Paragraph 19 “Information about performance is primarily provided in an income statement”,
 - Paragraph 72 “Income and expenses may be presented in the income statement in different ways so as to provide information that is relevant for economic decision-making”.
- Income statement is widely used and markets could be confused by a new performance statement which does not reflect actual performance (see remark on cash flow hedge) nor ensure any comparability because of optional choices in the recognition of “other recognised income and expense”(cf. IAS 16 and IAS 38),
- The sub-total profit or loss does not refer to the Framework nor to SFAS 130 and introduces new terminology,
- SFAS 130 does not suppress the income statement but allows three different presentations of comprehensive income.

We propose that IAS1 be consistent with SFAS 130 regarding the possible presentations and the name of this new statement.

Regarding the name of the statement of recognised income and expense, please also see question 3.

C. Statement of cash flows and statement of changes in equity for the period: these are minor changes of no particular interest and do not justify amending IAS 1.

QUESTION 2- 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?

We do not agree with this proposal.

- EU Commission Regulation (CE) 809/2004 of 29 April 2004 already requires the presentation of three comparative periods. The implementation of the proposed amendments of IAS 1 would therefore result in the presentation of four balance sheets,
- In comparison the US SEC only requires comparative information for two consecutive years resulting in the presentation of only two balance sheets (Regulation SX Article 3 – Reg. 210.3-01)
- Users have already complete information regarding balance sheet variations either in the statement of change in equity or, as mentioned in BC 7, because IAS 8 requires disclosing all changes in standards application with their consequences on the balance sheet at the beginning of the period.
- We also suggest the Board to consider the cost versus benefit of this proposal.

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”?

We do not agree with this proposal.

The CNC considers that the wording “statement of recognised income and expense” is misleading and unclear. By definition a financial statement only displays components which are recognised. If this proposal of name is retained, then the balance sheet should also be named “statement of recognised assets and liabilities” and the statement of cash flows “statement of recognised cash-flows”.

Lastly the convergence objective with US standards would not be achieved since the name retained in SFAS 130 is “statement of comprehensive income”.

Consequently, we propose to use the term “statement of comprehensive income” for this new statement. This name ensures convergence with SFAS 130 and will not be confusing for users.

QUESTION 4- DO YOU AGREE THAT ALL NON-OWNER CHANGES IN EQUITY (I.E. COMPONENTS OF RECOGNISED INCOME AND EXPENSE) SHOULD BE PRESENTED SEPARATELY FROM OWNER CHANGES IN EQUITY? IF NOT, WHY?

We agree with this proposal.

We consider that separating changes in net assets that arise from transactions with owners from other changes in equity would effectively improve information of users.

However the definition of total recognised income and expense should be clarified so that adjustments to the opening balance sheet -for example changes in accounting policies- cannot be encompassed by the definition.

Moreover the term “non-owner” has no definition in the IFRS’s and should not be used at this stage of the project.

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 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”, 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.

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?

We agree with this proposal.

The disclosure of reclassification adjustments would certainly result in a real improvement for users of financial statements.

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 this proposal.

We do not believe that the income tax relating to each component of other recognised income and expense is a meaningful indicator.

For technical reasons, the proposed amendment would increase the difficulty of allocation of tax.

Moreover we do not understand why the income tax related to other recognised income and expense would be treated differently than for the components of net income. IAS 12 already requires detailed disclosure on deferred tax sources and the amount of tax recognised respectively in income and equity.

Users may just as well use an average tax-rate to calculate the income tax expense. It is generally what they do in calculating for example the Net Operating Result After Tax (NOPAT) when they use the Discounted Cash Flow (DCF) method.

QUESTION 8- 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?

We agree with this proposal provided that the income statement remains a separate statement. In this case the presentation of earnings per share is meaningful and consistent with the presentation of other financial information.

Only this presentation would be in line with IAS 33 §66: “An entity shall present on the face of the income statement basic and diluted earnings per share...”

In the case of the implementation of a new single statement called “statement of recognised income and expense” the earnings-per-share ratio appears to be confusing.

We hope that the above comments will be considered and will prove useful for the revision of this major standard IAS 1.

Sincerely Yours

A handwritten signature in black ink, appearing to read 'A. Bracchi', written over a horizontal line.

Antoine BRACCHI
President

