

Project plan for the Reporting Financial Performance project (as of 22 May 2006)

Background and summary

- 1 The IASB issued on 16 March- an exposure draft on reporting financial performance. The main proposals in the exposure draft, which has a four month comment period, are that:
 - (a) a set of financial statements shall comprise two balance sheets, a cash flow statement and the 'other primary statement(s)' referred to in (b) below, plus notes. Therefore, the requirement to prepare a set of financial statements for both the current period and the prior period means preparing three balance sheets, two cash flow statements and two each of the statements referred to in (b), plus notes.
 - (b) the 'other primary financial statements' referred to in paragraph (a) shall comprise either:
 - (i) an income statement and an other comprehensive income statement (ie two performance statements),
 - (ii) a combined statement showing all non-owner changes in income (ie a single performance statement).

(The Basis for Conclusions to the ED states that the IASB believes that the conceptually right approach is for entities to provide a single performance statement. That is also the IASB's preference. Furthermore, the Invitation to Comment asks respondents whether they agree that entities should be permitted to choose whether to present one or two performance statements.)

 - (c) all primary financial statements shall be displayed with equal prominence; and
 - (d) recycling of items that are currently recycled will continue to be permitted.
- 2 The ED that has just been issued covers the first phase of the IASB's Performance Reporting. The IASB is expected to issue a discussion paper on the second phase sometime between November 2006 and February 2007. It is expected that this discussion paper will discuss how the items that make up the difference between the opening and closing balance sheets that do not arise from transactions with owners as owners (such as dividends and capital contributions) should be presented in the financial statements. This will include discussion of, inter alia, the following issues:
 - (a) the level of disaggregation (or analysis) to be provided;
 - (b) how the items should be grouped together and in which order and format should the grouped items be presented;
 - (c) what if any sub-totals should be required and which if any should be prohibited; and
 - (d) whether recycling should continue to be required in certain circumstances (or maybe permitted).

This discussion should result in, inter alia,

- (e) a decision as to whether the option of one or two performance statements should be retained and, if it should not, whether one or two statements should be provided; and;

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- (f) the development of consistent principles for analysing and sub-totalling items within the primary financial statements

The discussion paper will also consider possible cash flow statement reporting models.

3 The approach adopted in this PAAinE project is heavily influenced by the IASB's own timetable. In particular:

- (a) it is extremely unlikely that there will be any significant output from the PAAinE project available in final form before the end of the comment period for the IASB exposure draft in July 2006 (although draft output from the PAAinE project could be available in that timeframe); and
- (b) if the IASB Discussion Paper is issued at the beginning of Quarter 4 2006, it is unlikely that there will be any significant output from the PAAinE project available in final form by that time on *some* of the issues that are likely to be dealt with in the IASB Discussion Paper.

4 The intention is that the PAAinE project will focus primarily on the following two issues:

Issue 1	<p>What are the arguments for and against a change to the existing performance reporting approach and which of those arguments appear to have merit?</p> <p>Some commentators believe that the existing approach to performance reporting is in need of fundamental change; some do not. The objective of this part of the project would be to identify the perceived weaknesses and problems with the existing approach and evaluate them.</p> <p>This piece of work is unlikely to provide much input to the IASB project, but should help Europe to have a much better understanding than at present of why the IASB seems to believe that extensive change is needed.</p>
Issue 2	<p>How should items be disaggregated, grouped together and subtotalled within the performance statement or statements?</p> <p>The debate about whether there should be one performance statement or two is really just a subset of the debate about how the items that make up the difference between the opening and closing balance sheets should be disaggregated, grouped together and subtotalled. The objective of this second part of the project is therefore to focus on the broader issue—disaggregating, grouping and subtotalling.</p> <p>This piece of work is likely therefore to cover similar ground to large parts of the IASB's Segment B Discussion Paper, which current estimates suggest will be published somewhere between November 2006 and February 2007. We will need to keep the progress of our own work and of the IASB's work under constant review to ensure that the output of our work is not produced too late to be of any use.</p>

The project would not deal with possible changes to the cash flow statement.

- 5 The intention is that Issue 1 will be addressed first, and a paper based on that work issued. Issue 2 will then be addressed.
- 6 The output of the project will be two papers, one covering Issue 1 and the other covering Issue 2. It is hoped that both those papers will be issued by at least EFRAG and the Spanish standard-setter, although the Project Leaders intend to do their best to ensure that as many other European standard-setters as possible will also put their names to the paper. The papers will be primarily discursive in nature; their focus will be primarily on identifying, discussing and evaluating the issues and arguments for and against particular points of view, rather than on proposing a particular way forward.) As the papers are being finalised, a decision will be taken as to whether to include a public consultation stage.
- 7 The objective of this work will be to start the debate in Europe on these issues and to help Europe develop its thinking so that it will be able to participate fully in the debate about the IASB's proposals.

How the work will be resourced and organised

- 8 The project will be led jointly by staff from the Spanish standard-setter and staff from EFRAG ('the Project Leaders'). EFRAG will provide the equivalent of at least three man days a week of resource, and the Spanish standard-setter will provide one man day a week of staff time, plus the advice and assistance of a Spanish academic for one man day a week. There have also been offers of additional resource which the team intends to explore in due course.
- 9 That staff will be assisted by a pan-European Advisory Group. The European national standard-setters have been asked for nominations and a public call for nominations for Group membership has been made on EFRAG's website. The Project Leaders will make a recommendation to the PAAinE Co-ordinating Group based on the nominations received. User participation will be very important, and if this proves not possible to achieve because of the nominations received it will be achieved by seeking out meetings with users. The role of the Advisory Group will be to give advice, assistance and feedback to the project staff. The Group will meet from time-to-time, although some work is also likely to be done via conference calls, one-to-one discussions and email. The intention is that the Advisory Group will be chaired by EFRAG's nominee, Françoise Flores.
- 10 The Project Leaders will prepare papers and drafts which they will discuss with the Advisory Group, the Spanish standard-setter and EFRAG. The staff will endeavour to ensure that, when discussing an issue with EFRAG or the Spanish standard-setter, any relevant advice received from the Advisory Group is reported to EFRAG or the Spanish standard-setter at the time of the discussion.

[Note: The key point here is that the published papers will not necessarily represent the views of the Advisory Group(s). The process will be an open and honest one, but the Advisory Group is a resource not a leader or director of the project.]

- 11 The Project Leaders will also make themselves available to discuss aspects of the project with any other European standard-setters that wish to discuss the work. Cost may dictate that some of these discussions have to be by conference call, but whatever the detailed arrangements the objective will be to make this an inclusive process. As part of that process all papers and drafts (other than, for administrative convenience, minor incidental papers) will be made available to all the European standard-setters and emailed comments on all those papers will be welcomed. Periodically progress reports will also be circulated and made available on websites.
- 12 The work will be carried out in English.

Timetable and milestones

13 The current timetable is as follows:

May 2006	<p>1 Approve project plan</p> <p>2 Appoint Advisory Group</p> <p>3 Staff work commences.</p>
June 2006	<p>4 First Advisory Group meeting. It will discuss :</p> <ul style="list-style-type: none"> • An outline of the two proposed papers (the Issue 1 paper and the Issue 2 paper). • A description of the existing approach and the perceived strengths and weaknesses of that approach. • Some initial comments on the serious of the perceived weaknesses identified and on possible ways of addressing them. • An initial analysis of issue 2.
July 2006	<p>5 The staff will work on papers for the next meeting and on writing draft sections of the Issue 1 paper based on the discussion in June.</p> <p>6 Initial reactions from the Advisory Group and others to the draft text may be sought via email.</p> <p>7 A brief progress report will be provided to EFRAG's quarterly meeting with European national standard-setters. Discussions will also take place individually with the national standard-setters to determine what additional presentations they may want in order (hopefully) to be in a position to join the ICAC and EFRAG in issuing the paper.</p> <p>8 Second Advisory Group meeting. It will discuss:</p> <ul style="list-style-type: none"> • An initial draft of the Issue 1 paper, together with an Issues paper relating to so far unresolved Issue 1 issues. • An extensive issues paper on Issue 2.
August 2006	<p>9 The staff will revise the Issue 1 paper and will start preparing sections of the Issue 2 paper based on July's discussion. They will also start work on a further Issue 2 issues paper.</p>
September 2006	<p>10 Third Advisory Group meeting. It will discuss:</p> <ul style="list-style-type: none"> • A redraft (and hopefully fairly late draft) of the Issue 1 paper. • Sections of the Issue 2 paper. • A further extensive issues paper on Issue 2. <p>11 A full presentation on the Issues 1 paper will also be given at EFRAG's quarterly meeting</p>

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	<p>with European national standard-setters, and detailed discussions will take place with each standard-setter individually about issuing the paper.</p> <p>12 Decisions will be taken at this time as to the scope of the Issue 2 paper, bearing in mind the progress to date and the IASB/FASB timetable.</p>
October 2006	<p>13 The Project Leaders will work with EFRAG, the Standard-setter and other standard-setters to publish the Issue 1 material electronically at first (and maybe in hardcopy later).</p> <p>14 Staff work on Issue 2 continues.</p>
November 2006 and so on	<p>It is expected that it could take until February 2007 to publish a paper on Issue 2.</p>



**Proactive Accounting Activities in Europe
PERFORMANCE REPORTING ADVISORY PANEL**

Advisory Group members

Francoise Flores (Chairwoman)	France	Preparer
Janina Bogajewskaja *	Germany	Academic
Michele Caso	Italy	Auditor
Nadia Chebotareva *	UK	Auditor
Alan Dangerfield	Switzerland	Preparer
Helena Isidro	Portugal	Academic
Karolien Melody	The Netherlands	Preparer
Walter Schuster	Sweden	Academic
Milos Tumpach	Slovak Republic	Academic
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Wolfgang Weber	Germany	Banker
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Staff team

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Paul Ebling	EFRAG

* Nadia Chebotareva and Janina Bogajewskaya will also provide some of their time as additional staff resource.