ISSN 2280-949X

Associazione Italiana degli Analisti e Consulenti Finanziari

i quaderni aiaf online

Dicembre 2017



Atti User outreach event
Milano, 18 settembre 2017

176

I Quaderni AIAF online n. 176

Informativa di Bilancio
Better Communication Investor Outreach Event

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i quaderni aiaf online

Chiuso in redazione
Milano, 31 dicembre 2017

Il contenuto del presente Quaderno esprime l'opinione degli autori

Editore
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Organismi internazionali

EFFAS
European Federation of Financial Analysts Societies

ACIIA®
Association of Certified International Investment Analysts

www.effas.net — www.aciia.org

Soci Sostenitori: Intesa Sanpaolo – Mazars Italia – Tender Capital – UBI Banca – UniCredit Group
Soci Corporate: Finanziaria Internazionale Investments SGR

Indice

1 La governance del processo di produzione dei principi contabili internazionali
di *Marianna Sorrente*

2. Summary of observations on IASB DP Disclosure Initiative – Principles of Disclosure - User Outreach Summary Report Milano 18 September EFRAG
di *Filipe Alves, Arjuna Dangalla*

3. Key elements of the IASB DP
di *Fred Nieto, Arjuna Dangalla*

4. EFRAG's preliminary views on the IASB DP
di *Saskia Slomp*

5. Better communication: What do Analysts and Investor need?
di Marianna Sorrente

6. European Telcos Samples: reporting operating performance & IFRS15 disclosures
di *Jacques de Greling*

7. Performance Measures in the Financial Statements: Ebit, Ebitda
Survey dated the 12th July 2017
di *Marianna Sorrente, Bruno Ricci*

8 Goodwill impairment: can it be improved ?
di *Filipe Alves*

9. European Telcos illustration: goodwill impairment
di *Jacques de Greling*

10. How IFRS 17 works and what this means for investors
di *Fred Nieto*

11 What you need to know about IFRS 17
di *Patricia McBride*

Appendix 1 – Event Programme Milan

Appendix 2 – Speakers' Biographies

Informativa di Bilancio
Better Communication
Investor Outreach
Event

La governance del processo di produzione dei principi contabili internazionali

di *Marianna Sorrente*

Il Regolamento CE n.1606/2002 prevede per l'adozione degli IAS/IFRS un meccanismo di omologazione suddiviso in due livelli: uno politico e uno tecnico.

Per quanto riguarda la componente "politica" dell'*endorsement mechanism* la Commissione Europea è assistita dal Comitato di Regolamentazione Contabile (Accounting Regulatory Committee – ARC) composto dai rappresentanti degli Stati membri e dal rappresentante della Commissione.

Il livello "tecnico" è sviluppato dall'EFRAG[1] (European Financial Reporting Advisory Group) costituito nel giugno 2001 sotto forma di Fondazione, la cui struttura organizzativa è stata proposta dalla FEE (*fédération des Expertes comptables Europeéns*), su invito della Commissione Europea, al fine di assicurare una partecipazione attiva dell'Europa ai lavori dello IASB[2], intervenendo nel processo di definizione dei principi contabili internazionali IAS/IFRS[3] e delle relative interpretazioni attraverso lo svolgimento dei seguenti compiti:

- commentare i documenti di lavoro predisposti dallo IASB;
- identificare preliminarmente le potenziali incompatibilità dei principi IAS/IFRS e delle relative interpretazioni con le direttive comunitarie;
- consultare gli *standard setters* europei, raggruppando i diversi punti di vista;
- orientare l'operato degli *standard setters* europei sulla base del programma di lavoro predisposto dallo IASB;
- fornire alle istituzioni europee il supporto e la consulenza tecnica necessari per valutare la conformità dei principi IAS/IFRS (e delle relative interpretazioni) al quadro normative europeo;
- Svolgere presso le istituzioni europee un'attività propositiva per la "modernizzazione" delle Direttive contabili comunitarie.

Il compito dell'EFRAG è quindi quello di consigliare la Commissione sulle future modifiche delle direttive, fintanto che queste rimangano in vigore, segnalando gli argomenti in materia di redazione di bilancio che non siano affrontati in modo completo o con sufficiente chiarezza dai Principi Contabili Internazionali, affinchè tali questioni possano essere risolte dallo IASB in tempi utili e nel rispetto delle posizioni comuni nel frattempo assunte al livello europeo.

In quanto organismo privato, il supporto e la consulenza tecnica che fornisce attraverso l'elaborazione di

NOTE

1 European Financial Reporting Advisory Group (EFRAG) costituito da un gruppo di esperti contabili nominati dalla Commissione europea e incaricati di: valutare il merito degli standards IAS/IFRS, commentare I documenti di lavoro predisposti dallo IASB, identificare preliminarmente le potenziali incompatibilità dei principi IAS/IFRS e delle relative interpretazioni con le direttive comunitarie, individuare gli argomenti in materia di redazione del bilancio che non sono affrontati in modo completo o con sufficiente chiarezza dai Principi Contabili Internazionali, affinchè tali questioni possano essere risolte dallo IASB nel rispetto delle posizioni assunte a livello europeo.

2 International Accounting Standard Board (IASB) organismo preposto all'emanazione dei principi contabili internazionali IAS/IFRS e delle relative interpretazioni I cui pareri siano rimessi alla Commissione Europea previo confronto con I gruppi di lavoro dell'Efrag

3 IAS/IFRS: International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS). I due principi, nati in epoche diverse, coesistono e rappresentano un corpo unico. Gli IAS costituiscono il primo tentativo dell'International Accounting Standards Committee (IASC) – 1973- di standardizzare a livello internazionale i principi e le regole della contabilità. Più tardi con la nascita dello IASB (2001), gli IAS sono stati oggetto di parziale revisione. Con l'introduzione degli IFRS, il taglio prettamente contabile degli IAS è stato implementato con la descrizione degli standards indispensabili a uniformare la redazione qualitativa di documenti di bilancio a livello internazionale.

studi, proposte, pareri e commenti ai progetti, non hanno in nessun caso valore vincolante per la Commissione Europea. In aggiunta opera in modo indipendente dalle organizzazioni europee che nei diversi paesi dell'Unione si sono occupate e si occuperanno di valutare l'impatto di tali principi sui differenti ordinamenti giuridici e sui principi contabili nazionali. In Italia tale ruolo spetta all'OIC.

Evento sui "Principle of Disclosure"

Il 18 Settembre 2017 si è tenuto a Milano lo User Outreach Event "*Better Communication: what do Analysts and Investors need*" promosso da EFRAG di concerto con l'International Accounting Standards Board (IASB), the European Federation of Financial Analysts Societies (EFFAS), l'Associazione Italiana degli Analisti e Consulenti Finanziari (AIAF) e l'Organismo Italiano di Contabilità (OIC).

Lo scopo dell'evento era quello di raccogliere indicazioni e pareri sul Discussion Paper "*Disclosure Initiative – Principles of Disclosure*", rilasciato dallo IASB nel mese di Marzo 2017, recante i seguenti sette principi per ottenere una "informativa di bilancio" più efficace in quanto:

a. dovrebbe essere specifica dell'azienda (*Entity- specific*);
b. descritta nel modo più semplice e diretto possibile senza perdita di informazioni e senza aumentare inutilmente la lunghezza del bilancio d'esercizio;
c. organizzata in modo tale da evidenziare gli aspetti importanti – ovvero fornire le informazioni in un ordine appropriato e sottolineando i temi rilevanti;
d. predisposta al collegamento fra le informazioni di bilancio e quelle dei documenti collegati;
e. non duplicata inutilmente rispetto alle diverse parti del bilancio;
f. fornita in modo tale da ottimizzare la comparabilità sia tra aziende dello stesso settore sia per distinti periodi di rendicontazione della medesima azienda senza compromettere l'utilità dell'informazione;
g. fornita in un formato appropriato per quel tipo di informazioni, ad esempio, gli elenchi possono essere utilizzati per suddividere il testo in paragrafi e le tabelle possono essere preferibili per le informazioni ad alta intensità di dati.

USER OUTREACH EVENT

SUMMARY REPORT

MILAN 18 SEPTEMBER 2017



EFRAG
European Financial Reporting Advisory Group

IFRS

aiaf
Associazione Italiana degli Analisti e Consulenti Finanziari

Organismo Italiano di Contabilità

EFFAS THE EUROPEAN FEDERATION OF FINANCIAL ANALYSTS SOCIETIES

Introduction

EFRAG together with the International Accounting Standards Board (IASB), the European Federation of Financial Analysts Societies (EFFAS), the Associazione Italiana degli Analisti e Consulenti Finanziari (AIAF) and the Organismo Italiano di Contabilità (OIC) organised an investor outreach event in Milan, Italy on 18 September 2017.

This report has been prepared for the convenience of European constituents. The purpose of the outreach event was to:

- stimulate the debate in Europe;
- understand users' needs, in particular from those that did not intend to submit a comment letter to EFRAG or the IASB, and their main concerns;
- learn to what extent the preliminary comments as set out in EFRAG's draft comment letter on the Principles of Disclosure are shared by Italian users;
- receive input from users of financial statements for EFRAG and OIC comments to the IASB on its Goodwill and Impairment project; and
- identify issues relevant to EFRAG's forthcoming draft endorsement advice on IFRS 17 *Insurance Contracts.*

Alberto Borgia (AIAF Chairman) opened the outreach event and welcomed the speakers and participants. The outreach event covered:

Better Communication: what do Analysts and Investors need?

Fred Nieto (Head of Investor Engagement IASB) and Arjuna Dangalla (Assistant Technical Manager IASB) provided an overview of the IASB Discussion Paper *Disclosure Initiative - Principles of Disclosure* (DP) and Saskia Slomp (EFRAG Director Governance &Admin) summarised EFRAG's tentative views on the IASB's DP. This was followed by an open debate with participants led by Tommaso Fabi (Technical Director OIC).

Can Goodwill be improved?

Filipe Alves (EFRAG Advanced Technical Manager) introduced EFRAG Discussion Paper *Goodwill Impairment Test: Can it be improved?* and Fred Nieto provided a summary of the IASB's current thinking on goodwill and the impairment test. This was followed by an open debate with participants led by Alberto Giussani (member of the OIC Executive Board).

What you need to know about the new IFRS 17

Fred Nieto provided an overview of the IASB's new standard IFRS 17 *Insurance Contracts* and Patricia McBride (EFRAG Technical Director) introduced the endorsement process. This was followed by an open debate with participants led by Sabrina Pucci (Chairman of the OIC Insurance Working Group and member of the EFRAG Insurance Accounting Working Group).

The presentation slides and key elements mentioned in the presentation can be found on EFRAG's Website (here).

Summary of observations on IASB DP *Disclosure Initiative - Principles of Disclosure*

Panel members and participants expressed the following views:

- the content of the statement of financial performance varies in practice and entities often provide generic disclosures. Thus, the IASB's initiative on *Better Communication* is key to improve relevance and comparability of financial statements.
- the IASB could develop non-authoritative guidance in the form of implementation guidance with illustrative examples that reflect the principles of effective communication.
- changes in the accounting policies or standards are key for users and this information is often obscured by boilerplate disclosures.
- cross-referencing, if not carefully considered, may lead to fragmented information.
- there is room to improve IFRS requirements on the use of APMs within the financial statements. For example, the IASB could require more disaggregation on the face of the financial statements, include guidelines on the use of well-known APMs such as EBIT or EBITDA and extend the principles in the ESMA Guidelines on APMs to financial statements.
- information about non-recurring and one-off events is important to forecast sustainable future cash flows but there is currently lack of transparency and definition of such items.
- materiality is an entity-specific concept that changes over time and guidance is needed to help entities to make materiality judgements.

Summary of observations on *Goodwill*

Panel members and participants expressed the following views:

- goodwill is useful, particularly for stewardship purposes so that management can be formally held to account for the investments made.
- goodwill impairment is key for investors however it typically comes "too little and too late".
- instead of focusing on simplification of the impairment test, the IASB could consider providing "anchors" to preparers to reduce the subjectivity of the impairment test (e.g. more use of market inputs).
- welcomed EFRAG's effort to promote debate around the goodwill impairment test but questioned the goodwill accretion approach from a conceptual and cost-benefit perspective.
- users need entity-specific information about a CGU and a clearer link between the CGUs and the lines of business in the segment report.
- IASB should have a broader discussion on the subsequent accounting for goodwill, including the relative merits of an amortisation and impairment approach. Most panel

members believed that goodwill arising on acquisition should be recognised as an asset and amortised over its useful life.

Summary of observations on IFRS 17 *Insurance Contracts*

Panel members and participants expressed the following views:

- IFRS 17 is a new comprehensive approach to account for insurance contracts that is expected to improve comparability. However, investors are concerned about the potential loss of historical information resulting from changes in the requirements. Thus, the transition process from IFRS 4 to IFRS 17 is key.
- investors need a high level of disaggregation and granularity of the information provided on the different lines of businesses.
- some of the key indicators that analysts use are Combined Ratio, Loss Ratio and Duration. This information is not only important for the company as a whole but also for the different lines of businesses.

Discussion on the IASB DP *Disclosure Initiative - Principles of Disclosure*

Key elements of the IASB DP



Fred Nieto and Arjuna Dangalla introduced the key elements of the IASB's DP issued in March 2017.

Fred Nieto explained that the IASB was looking for public feedback on disclosure issues that arise in practice and on the IASB's preliminary proposals to address those issues. Arjuna Dangalla provided an overview of the IASB's *Disclosure Initiative* and related projects. He also explained that the ultimate goal was to improve the disclosures requirements either through amendments to IAS 1 *Presentation of Financial Statements* or development of a new general disclosure Standard.

EFRAG's preliminary views on the IASB DP



Saskia Slomp summarised the history of the disclosure problem, explained some of the European past initiatives and provided EFRAG's preliminary views on the IASB DP.

She explained that, in its draft comment letter, EFRAG had supported the objectives of the IASB DP and *Disclosure Initiative* project but considered that the primary focus for the next phases should be a comprehensive review aimed at developing a coherent package of disclosure requirements and removing requirements that are considered redundant.

Can principles make communication more effective?

Tommaso Fabi welcomed the panel members and opened the round table panel for discussion. The panel members welcomed the IASB's efforts for developing principles of effective communication to help entities to communicate, in their financial statements, financial information more effectively. In particular, panel members welcomed the IASB's effort to provide additional guidelines on presentation and disclosures aimed at improving transparency and comparability.

The IASB could develop non-authoritative guidance in the form of implementation guidance with illustrative examples that reflect the principles of effective communication.

One panel member considered that the IASB could develop non-authoritative guidance in the form of implementation guidance with illustrative examples that reflect the principles of effective communication. This panel member also suggested that the principles of effective communication should be extended to all forms of financial communication made outside the financial statements (e.g. management report).

Panellists also highlighted that entities often had to make a trade-off between relevance and comparability as entity-specific information was relevant for users but at the same time it reduced comparability. In such cases, professional judgement was key.

Finally, one panel member was of the view that the principles of effective communication should be mandatory and based on a "golden rule". The Golden Rule to make a clear, true and fair financial statements is: *"management should provide all the information about its assets, liabilities, equity, income, expenses and cash flows that it would like to receive had their position reversed"* (to users of financial statements).

What do investors think are useful examples of disclosures in the financial statements?

The content of the statement of financial performance varies in practice and entities often provide generic disclosures. Thus, the IASB initiative on *Better Communication* is key to improve relevance and comparability of financial statements.

The panel members discussed a number of presentation and disclosure examples of entities reporting their performance. One panel member emphasised that the structure and content of the financial statements varied in practice, even within the same industry. There were also cases where entities only included a few line items in the income statement. Thus, IASB's research project on primary financial statements was key to improve relevance and comparability.

Panel members also expressed concerns about the fact that entities often provide boiler-plate disclosures that simply summarise the IFRS requirements without any entity-specific

considerations. These panel members explained that this was related to the fact that management was often concerned about compliance when preparing financial statements. Thus, the IASB's project on principles of disclosure was key to improve the relevance of the information provided in the financial statements.

One panel member added that Alternative Performance Measures (APMs) were often inconsistent or in conflict with IFRS numbers. Finally, this panel member considered that performance indicators such as EBIT, EBITDA, EBIT Adjusted and EBITDA Adjusted used in operating segments could also be presented in primary financial statements to improve consistency of financial statements.

Does it make a difference presenting information separately in the primary financial statements rather than presenting it aggregated with other information in the primary financial statements and disclosing it solely in the notes?

Changes in the accounting policies or standards are key for users and this information is often obscured by boiler plate disclosures.

The panel members highlighted the importance of considering the primary financial statements and the notes together. In their view, the primary financial statements should provide relevant information to users to make economic decisions that is further explained in the notes. They also noted a decline on the usefulness of financial statements as most investors' decisions were primarily based on earnings release and management presentations. One panel member suggested that a complete set of financial statements and notes should be made available to users at the time of the results announcement (and not at a later stage), to better ensure that the information is effectively used.

When referring to accounting policy disclosures, panel members pointed out that changes in the accounting policies or standards were key for users and that this information was often obscured by boiler plate disclosures on accounting policy.

Finally, one panel member asked the IASB to better explain the role of disclosures in the conceptual framework and to further explore the notion of "integrated reporting".

What is the impact of cross-referencing IFRS information outside the financial statements for investors?

Cross-referencing, if not carefully considered, may lead to fragmented

The panel members cautioned about having information necessary to comply with IFRS Standards being placed outside the financial statements or annual report. They were concerned about not having all the relevant information in a single place and

information.

ending up having fragmented information. In addition, this could raise difficulties in understanding what has been audited. Nonetheless, one panel member considered that information necessary to comply with IFRS Standards could be provided outside the financial statements but within the Annual Report. She also agreed with the proposed amendments to IFRS 8 *Operating Segments* which proposed including a description of an entity's annual reporting package.

Should 'non-IFRS information' be permitted within the financial statements? Alternative (non-IFRS) performance measures in the financial statements: misleading or useful?

There is room to improve IFRS requirements on the use of APMs within the financial statements. For example, the principles in the ESMA Guidelines on APMs could be extended to financial statements prepared under IFRS to increase transparency.

Although panel members acknowledged that APMs were widely used by preparers, they provided different views on their usefulness; APMs were either useful, sometimes useful or not useful at all.

One panel member considered that APMs were useful even when included in the financial statements as they provided entity-specific information about its business (e.g. EBIT and EBITDA). Other panel members explained that APMs were sometimes useful but tended to provide a more optimistic picture of the business than IFRS numbers.

All panel members considered that there was room to improve IFRS Standards. Suggestions included:

- requiring additional disaggregation and subtotals on the face of the financial statements;
- including some guidelines on the use of well-known APMs such as EBIT or EBITDA to improve comparability; and
- extending the ESMA Guidelines on APMs to those presented within the financial statements to increase transparency on their use.

These panel members also expressed preference for having expenses recognised in profit or loss presented by nature.

Finally, one panel member considered that all non-GAAP information should be presented outside the financial statements, in the management report. He would also welcome more standardisation of the financial statements to ensure comparability.

Should unusual and infrequent items be separately presented and if so how?

Information about non-recurring and one-off events is important for users to forecast sustainable future cash flows but there is currently lack of transparency and definition of such items.

Panel members explained that users of financial statements are often interested in having information about non-recurring and one-off events to forecast sustainable future cash flows. However, they also considered that there was lack of transparency and definition of such items in the financial statements (e.g. abusive use of restructuring costs).

These panel members provided different suggestions on how to improve IFRS Standards such as:

- improving disclosures on why certain items are considered non-recurring;
- developing guidelines on their use and illustrative examples by industry; and
- reviewing the requirements in IAS 1 on “extraordinary items”.

One panel member added that the role of auditors was crucial in confirming this information.

How important is the application of materiality when deciding what and how to disclose information?

Materiality is an entity-specific concept that changes over time and guidance is needed to help entities to make materiality judgements.

Panel members highlighted that immaterial information could obscure relevant information provided in the financial statements and considered that materiality played a key role. One panel member added that current IFRS Standards were not focused on avoiding immaterial information being provided in the financial statements.

These panel members also emphasised that materiality is an entity-specific concept that changes over time and that guidance is needed to help entities to make materiality judgements when preparing financial statements.

Finally, one panel member considered that there is material information when the information is legal and that the information is legal when it complies with the “Golden Rule”, the laws, the accounting principles and the accounting standards.

Do you think the principles in the DP will address the concerns raised on IFRS 13 *Fair Value Measurement disclosures*?

Users want details on the methodologies and assumptions used to measure fair value, particularly when level 3 inputs are used.

One panel member explained that users of financial statements need disclosures that help them to understand how fair values have been determined, particularly when level 3 inputs are used to measure fair value. This would include details on the methodologies and assumptions used. This panel member noted that the inputs and assumptions used had a significant impact on the outcome of fair value measurement and this could be a source of earnings management. Therefore, clear information on this area was key in understanding the financial position and performance of the entity.

Discussion on *Goodwill and Goodwill Impairment*

Key elements of EFRAG DP on Goodwill



Filipe Alves explained EFRAG's research activities on Goodwill and Goodwill impairment, including the EFRAG Discussion Paper *Goodwill Impairment Test: Can it be improved?* and the EFRAG quantitative study *What do we really know about Goodwill and Impairment?.*

EFRAG is seeking the views of European constituents on the EFRAG DP on goodwill impairment test. The deadline for comments is 31 December 2017.

Current thinking of the IASB on goodwill and impairment test

Fred Nieto summarised the IASB's discussion on its research project *Goodwill and Impairment*. He explained that the IASB is exploring whether the existing impairment test for goodwill can be improved or simplified, whether goodwill should be amortised and which intangible assets should be separated from goodwill. The IASB will continue its discussions through the second half of 2017 before deciding the next steps on the project.

Do you use goodwill in your analysis or do you eliminate it?

Goodwill is useful, particularly for stewardship purposes so that management can be formally held to account

Panel members considered that information about acquired goodwill was useful, particularly for stewardship purposes so that management could be formally held to account for the investments they had made.

for the investments made.

However, one panel member explained that it was often difficult to understand the factors that make up the acquired goodwill and would welcome more information about the composition of goodwill and its separate components.

Another panel added that information about goodwill was crucial in the first years. However, after a number of years it would be difficult to follow up the acquired goodwill due to organisational changes and constant goodwill reallocation. He would prefer having information about the expected payback period for the business acquired.

Is impairment in goodwill 'too little and too late'? If so, how do you assess impairment?

Goodwill impairment is important for investors however it typically comes "too little and too late".

The panel members considered that information about goodwill impairment is important for investors however it typically comes "too little and too late".

One panel member further explained that impairments in the financial statements did not provide new information to the markets as investors had already incorporated this information into the share price when the impairment was announced. A panel member provided a real-life example where a major European company delayed the impairment recognition by about 10 years.

Another panel member would welcome more detailed information of what was being impaired. For example, whether the impairment was related to M&A overpayment, issues with non-recognised intangibles or other.

Is the complexity of the impairment test only an issue for preparers?

The IASB could consider providing "anchors" to preparers to reduce the subjectivity of the impairment test.

Panel members acknowledged that the goodwill impairment test is complex and involves significant judgement, which increases the likelihood of earnings management.

Nonetheless, one panel member explained that it would be difficult to simplify the impairment test, given the current structure. Instead, the IASB could consider providing anchors to preparers to reduce the subjectivity of the impairment test. For example, use of more realistic assumptions based on the market in which the entity operates.

Which of the suggestions in the EFRAG Discussion Paper would you agree with?

Panel members welcomed EFRAG's effort to promote debate around goodwill impairment test but questioned the goodwill accretion approach from a cost-benefit perspective.

In general, panel members welcomed EFRAG's effort to promote debate around goodwill impairment test. When referring to specific parts of the EFRAG Discussion Paper, panel members saw some merits on idea of having entities making an adjustment to eliminate the effect of the internally generated goodwill in the impairment test. They agreed that any increases in the value generated long after the acquisition are more likely to be related to the actions taken and investments made by the acquirer rather than to the acquisition itself.

However, panel members considered that it would be difficult to distinguish acquired goodwill from internally generated goodwill and questioned the goodwill accretion approach from a cost-benefit perspective. As an alternative, one panel member questioned whether the IASB should improve the accounting for intangible assets in general and reduce information asymmetry that typically arises with intangibles.

One participant in the event considered that it would be useful to have more disclosures about the reasons for the payment of goodwill and a comparison of actual versus target performance for a specified number of years following a business combination.

Should Goodwill arising on the acquisition be amortised over its useful life?

Finally, most of the panel members were in favour of the amortisation of goodwill. Therefore, panel members considered that the IASB should have a broader discussion on the subsequent accounting for goodwill, including the relative merits of an amortisation and impairment approach. One panel member noted that the current approach has cut the link between the income statement (no amortisation) and the cash-flow statement (out cash flow), a key feature for investors.

How important is the allocation of goodwill to cash generating units for users? What information do you need?

Users need entity-specific information about the CGU and a clearer link between the existing CGUs and the lines of business reported in the segment report.

In general, panel members considered that information about the allocation of goodwill to cash generating units (CGUs) was very important for investors. However, panel members considered that entities should be required to provide more detailed information about their CGUs, including entity-specific information about the CGUs and a closer link to the lines of business reported in the segment report. One panel member would also welcome more detailed information about the purchase price allocation.

Discussion on IFRS 17 *Insurance Contracts*

Background on IFRS 17 *Insurance Contracts* and the reason for the change

Fred Nieto provided background information on how IFRS 17 had been developed and provided an overview of how IFRS 17 would work in practice. More specifically, he explained what investors and analysts could expect to see in the primary financial statements and disclosures once IFRS 17 was implemented.

Introduction to the endorsement process in Europe

Patricia McBride explained the endorsement process of IFRS Standards in Europe and EFRAG's role in that process. She also provided details on the endorsement process of IFRS 17, including the current status, topics that might be analysed by EFRAG in the endorsement process and expected timeline of endorsement.

Presentation of AIAF working group on insurance indicators used in IFRS insurance reports

Luca D'Onofrio explained the work developed by the AIAF working group on insurance indicators used in IFRS insurance reports. In particular, this working group was currently analysing the interaction between the new solvency and accounting requirements for insurance entities and their impact on the key performance indicators.

Does IFRS 17 help financial analysts and investors in comparing financial statements of insurance companies in different countries?

IFRS 17 is a new comprehensive approach to account for insurance contracts that is expected to improve comparability.

Panel members acknowledged that, under IFRS 4 *Insurance Contracts,* insurance contracts were accounted for differently in different countries and considered that IFRS 17 represented a new comprehensive approach to account for insurance contracts that is expected to improve comparability.

In particular, panel members considered that IFRS 17 introduced more discipline to the accounting for insurance contracts and was a significant improvement to the measurement of the insurance liabilities and related disclosures (e.g. level of risk and economic mismatches).

Nonetheless, one participant detailed that comparability issues were not only related to the accounting but also to the complexity of the insurance market.

Are insurance analysts analysing financial information by line of business? How do you split the accounting data below segments in the financial statements?

Investors need a high level of disaggregation and granularity of the information provided on the different lines of businesses.

The panel members explained that investors use different indicators for different segments of business (e.g. life and non-life) and provided some real life examples of key elements of financial statements and ratios used by investors (e.g. premiums, combined ratio).

The panel members explained that they would start by splitting the insurance business by life and non-life. Subsequently, investors would split further these segments into different components and regions. For each, users would look at the key performance ratios and key figures that would be found in the financial statements, management presentations and public entities (e.g. regulators). Thus, users needed a high level of disaggregation and granularity of financial information about insurance contracts.

Are historical data such as claims ratios useful for analysing life and non-life business?

Investors are concerned about the potential loss of historical information resulting from changes in the requirements. Thus, the transition process from IFRS 4 to IFRS 17 is key.

Some panel members noted that IFRS 17 introduced significant changes to the accounting for insurance contracts and highlighted the importance of the transition process from IFRS 4 to IFRS 17. In particular, they were concerned about the potential loss of historical information resulting from changes in the requirements, particularly the key elements of the financial statements and ratios. Therefore, these panel members called for some form of reconciliation between the previous and the new accounting framework.

One other panel member referred to the challenges related to the level of aggregation of contracts for the accounting for insurance contracts and the level of risk of the different lines of business that investors need to analyse. He called for clear information in the disclosures about the risk components of the different lines of businesses (e.g. the link between the level of aggregation of contracts and mutualisation).

Some of the key indicators that analysts use are *Combined Ratio*, *Loss Ratio* and *Duration*. This information is not only important for the company as a whole but also for the different lines of businesses.

Are the main indicators used by analysts to evaluate a non-life and life business company provided by the IFRS 17 disclosures?

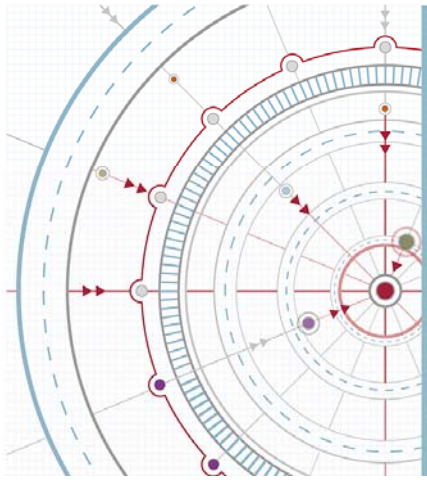
One Panel Member explained that for non-life business one of the most important ratios is the *Combined Ratio*. This panel member believed that with IFRS 17 entities would provide a combined ratio for the business as a total. However, he noted that investors needed to have the different components of the combined ratio. The same would apply to the *Loss Ratio*.

One Panel Member explained that the life business had also different subsets of businesses which included products such as participating contracts, unit-linked contracts and pure-life products. In addition, there were also geographical considerations to take into account.

This panel member also stated that information about how management calculated *Asset and Liability Duration* was key for investors and he was not certain whether entities would be required to provide this information under IFRS 17.



IFRS® Foundation



Disclosure Initiative

Principles of Disclosure project

Better Communication: Disclosures, what do analysts and investors need?

18 September 2017

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board (the Board) or IFRS Foundation.

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IFRS

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Background to the Disclosure Initiative

IFRS

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Central theme of the Board's work

3

Better Communication in Financial Reporting

Primary Financial Statements	Disclosure Initiative	IFRS Taxonomy™
Content and its organisation		Content delivery

IFRS

The disclosure problem

4

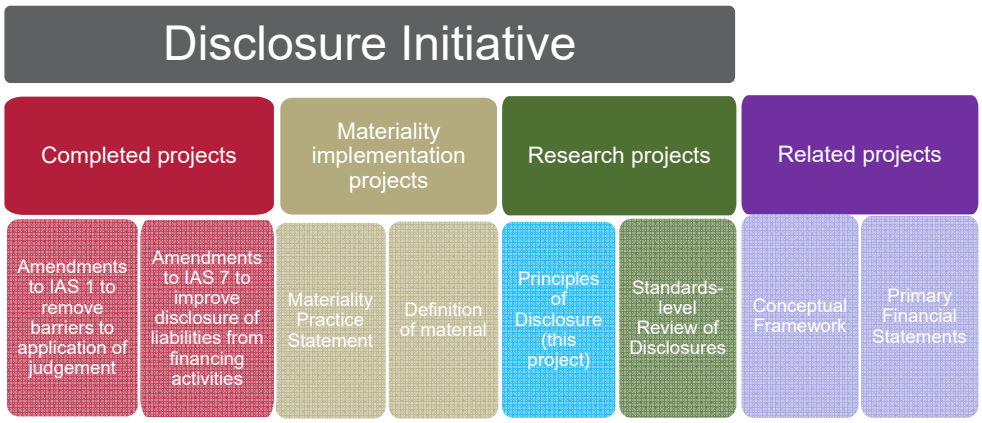
- The Board has identified three main concerns about disclosures in the financial statements:

Not enough relevant information	Irrelevant information	Ineffective communication
⬇	⬇	⬇
Can lead to inappropriate investing or lending decisions	Can obscure relevant information and reduce understandability of financial statements	Can reduce understandability of financial statements

IFRS

Disclosure Initiative and related projects

5



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IFRS Foundation

Objective of the Principles of Disclosure project

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Objective of the project

8

- Request to develop disclosure principles that apply across IFRS Standards

Help entities apply judgement and communicate effectively

Help users by improving disclosures

Help the Board improve disclosure requirements

Ultimate goal:

- New general disclosure standard or amendments to IAS 1 *Presentation of Financial Statements*
- Possibly with supporting guidance/education material

IFRS

Objective of the Discussion Paper

9

- Seek feedback on

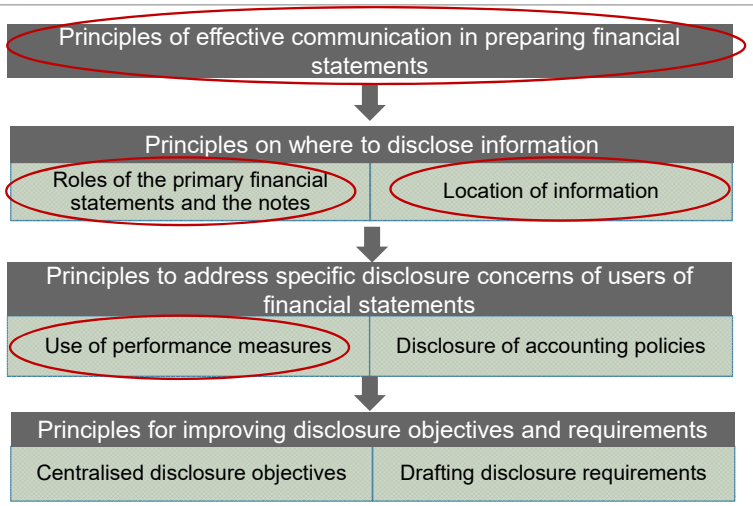
Approaches to address identified disclosure issues

Whether there are other disclosure issues to consider

IFRS

Outline of Discussion Paper

9



IFRS

IFRS Foundation

Disclosure issues and possible approaches to address them

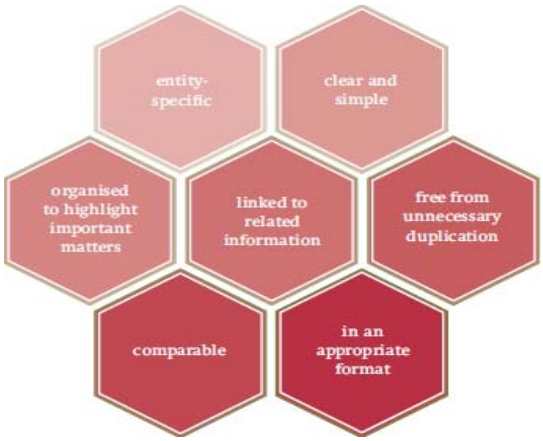
IFRS

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Principles of effective communication

12

- Ineffective communication can make financial statements difficult to understand and analyse
- Information in financial statements should be:



IFRS

Roles of primary financial statements and notes

13

- Entities have difficulty judging whether information should be provided in the primary financial statements or the notes

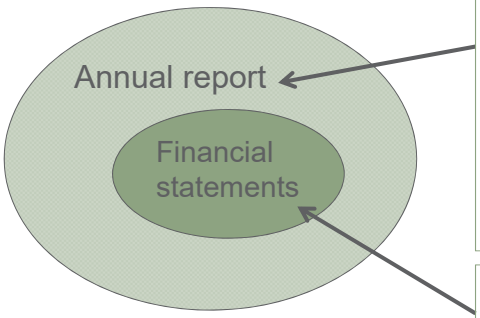
Component of financial statements	Role
Primary financial statements are statements of: • financial position • financial performance • changes in equity • cash flows	To provide a structured and comparable summary of an entity's recognised assets, liabilities, equity, income and expenses
Notes	To explain and supplement the primary financial statements

IFRS

Location of information

14

- Information duplication and fragmentation can make financial statements less understandable and difficult to analyse



Information necessary to comply with IFRS Standards may be placed outside financial statements, but within annual report if

- annual report more understandable
- financial statements understandable
- information is faithfully represented, cross-referenced and clearly identified

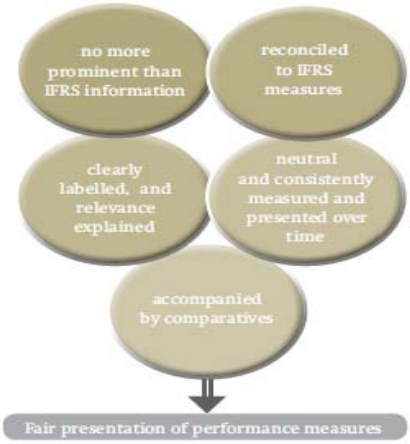
Information labelled as 'non-IFRS' may be placed within the financial statements if listed, clearly identified and explained

IFRS

Use of performance measures

15

- Can provide useful information if used correctly
- Can be misleading if used incorrectly
- Use of performance measures should be:



IFRS

IFRS Foundation

Timetable of project and further information

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Expected project timetable



Feedback on Discussion Paper will also inform

- Primary Financial Statements project
- Standards-level Review of Disclosures project

Disclosure Initiative – Principles of Disclosure

JOINT INVESTOR OUTREACH EVENT IN MILAN

18 September 2017

EFRAG
European Financial Reporting Advisory Group

BACKGROUND

BRIEF HISTORY OF THE 'DISCLOSURE PROBLEM'

2005
- Europe moves to IFRS Standard.
- Significant increase in disclosures and length of F/S for most European entities.

2005+
- Newer standards bring increased disclosures, e.g. IFRS 7, IFRS 13.
- Other trends also add to length of overall annual report.

2011+
- Several studies/initiatives target the 'disclosure problem'.
- EFRAG/ANC/FRC DP 'Towards a Disclosure Framework for the Notes' 2012.

2013
- IASB's Discussion Forum 'Disclosures in Financial Reporting'.
- IASB adds 'Disclosure Initiative' to its agenda.

3

SOME OF THE EUROPEAN INITIATIVES



ESMA - 2011



ICAS & NZICA - 2011



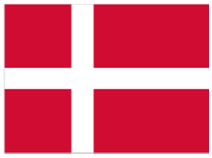
EFRAG - 2012



FRC - 2012



ICAEW - 2013



'Christmas letter' from the DBA - 2013



AFM - 2014



AMF - 2015

4

KEY RECOMMENDATIONS FROM EFRAG'S 2012 DISCUSSION PAPER



EFRAG/ANC/FRC 2012 RECOMMENDATIONS

- Define the purpose of the notes and their boundary.
- Disclosures should be **principle-based**, set consistently across standards, proportionate and achieve reasonable cost-benefit trade-off.
- Consider **how disclosure requirements are drafted** as this may influence behaviour.
- Strengthen the application of **materiality**
- Articulate key features of **effective communication** (communication not just compliance exercise).
- Preparers, auditors and regulators, each in their specific role, have a **shared interest** in fostering the improvement of disclosures.

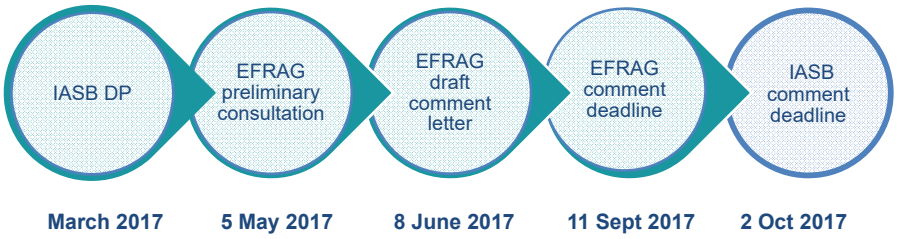
5

WHAT HAS THE IASB DONE TO DATE?

Completed standard-setting projects		Materiality guidance	Research projects
Amendments to IAS 1 (2014) To remove barriers to the exercise of judgement	**Amendments to IAS 7 (2016)** To improve disclosure of liabilities from financing activities	**Practice Statement on application of materiality (September 2017)**	**Principles of Disclosure Discussion Paper (March 2017)**

6

EFRAG'S COMMENT LETTER PROCESS

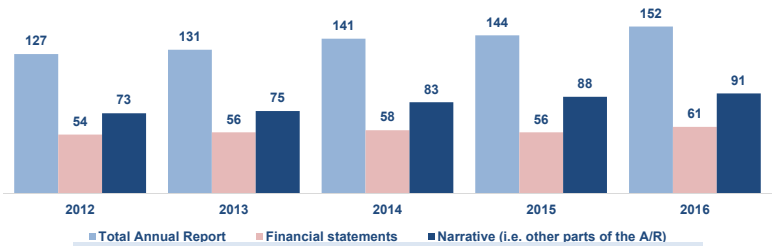


EFRAG's objective at the comment letter stage is the best possible outcome from a European perspective.

TRENDS IN LENGTH OF ANNUAL REPORT (1)

… INCREASING ON AVERAGE

Changes in length of Annual Report and Financial Statements of UK listed entities 2012 - 2016



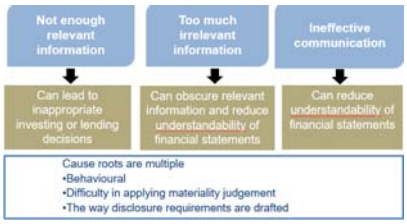
Source: Deloitte UK Annual Reporting Insights – Surveys 2014 to 2016
Based on the Annual Reports of 100 listed UK companies surveyed for current practices

On average length of financial statements have increased by 13% (+7 pages) over the last 4 year.

8

EFRAG'S TENTATIVE VIEWS

DESCRIPTION OF THE 'DISCLOSURE PROBLEM'



Source: IASB

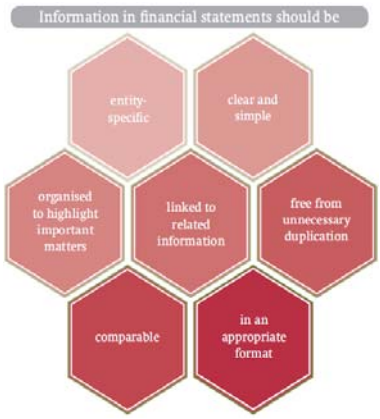
EFRAG wants more focus on tackling 'overload

EFRAG'S TENTATIVE VIEWS

- Acknowledge that the problem is complex and multifaceted.
- But stakeholders have already made extensive efforts on better application of materiality and improved communication.
- In this context IASB's description lacks sufficient emphasis or focus. The main priority should now be a comprehensive review of disclosure requirements aimed at:
  - Developing a coherent and comprehensive but concise package of disclosure requirements; and
  - Removing requirements that are disproportionate/redundant.

10

PRINCIPLES OF EFFECTIVE COMMUNICATION



Source: IASB

EFRAG'S TENTATIVE VIEWS

- EFRAG takes no issue with the particular principles proposed in the IASB DP.
- But EFRAG is not convinced that additional non-mandatory guidance of this type brings substantial new insights.
- Further work needed to determine whether some of these principles could be developed into requirements to be included in a general disclosure standard.
- Similar concerns on the effectiveness development of non-mandatory guidance on formatting.

11

ROLES OF THE PRIMARY FINANCIAL STATEMENTS AND OF THE NOTES

Component of financial statements	Role
Primary financial statements are statements of: • financial position • financial performance • changes in equity • cash flows	To provide a structured and comparable summary of an entity's recognised assets, liabilities, equity, income and expenses
Notes	To explain and supplement the primary financial statements

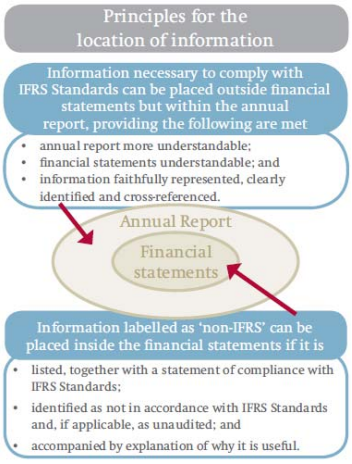
Source: IASB

EFRAG'S TENTATIVE VIEWS

- EFRAG would have preferred a broader discussion about the relevance of the distinction between the primary financial statements and the notes.
- The proposed role of the primary financial statements focuses too much on assets, liabilities etc and too little on the objective of providing summarised financial information.
- The proposed role of the Primary Financial Statements and of the Notes does not clarify their respective boundaries.

12

LOCATION OF INFORMATION



Source: IASB

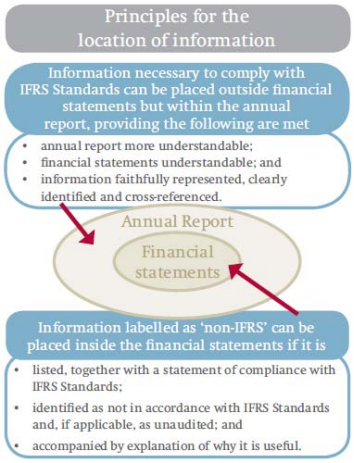
EFRAG'S TENTATIVE VIEWS

Cross referencing

- EFRAG welcomes guidance on cross-referencing, but:
  - The IASB should first identify the issues associated with the use of cross-references; and
  - Further work needed with audit authorities and regulators to assess the audit, legal and regulatory implications of the proposed guidance across a range of jurisdictions
- Guidance should remain principles-based rather than referring to specific documents:
  - source documents should be available on the same terms, at the same time and for the same duration as the financial statements
- Question the practicality of the proposed test that cross-referencing is allowed only if 'it makes the annual report as a whole more understandable'.

13

LOCATION OF INFORMATION (continued)



Source: IASB

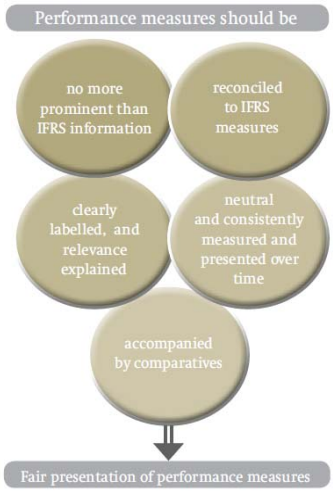
EFRAG'S TENTATIVE VIEWS (CONTINUED)

Non-IFRS information:

- EFRAG is concerned that the proposed guidance on identifying non-IFRS information will lead to clutter unless targeted better.
- The primary focus should be on financial information that supplements IFRS information or provides an alternative depiction of some type. For this type of information EFRAG supports the approach proposed in the IASB DP.
- Non-IFRS information should be prohibited if it is so inconsistent or in conflict with IFRS Standards that it misleads or detracts from understandability.

14

USE OF PERFORMANCE MEASURES



Source: IASB

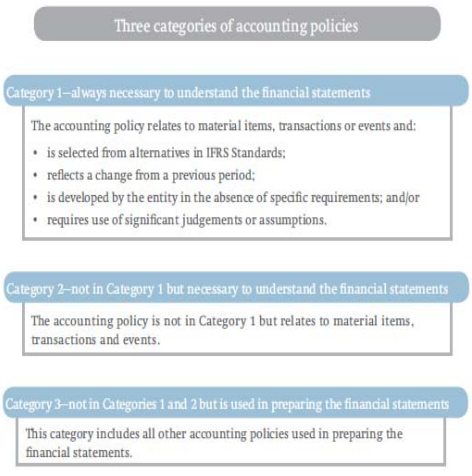
EFRAG'S TENTATIVE VIEWS

- EFRAG is concerned about the significant overlap between the Disclosure Initiative and the Materiality and Primary Financial Statements projects.
- EFRAG would have preferred a more holistic and comprehensive discussion:
  - on the use of metrics such as EBIT/EBITDA, and
  - on unusual or infrequently occurring items in the context of the Primary Financial Statements project, which would look at all aspects of the issue, potentially including other adjustments made to performance figures

which would be better addressed in the Primary Financial Statements project.

15

DISCLOSURE OF ACCOUNTING POLICIES



Source: IASB

EFRAG'S TENTATIVE VIEWS

- EFRAG does not support prescriptive requirements as entities should have some flexibility on how best to meet users' needs.
- Focus should be on disclosure of those accounting policies that relate to items, transactions or events that are material to the financial statements without always being necessary (Category 2), where judgement is most needed.
- The IASB should not provide guidance on information that is not required by IFRS Standards (Category 3).

16

DRAFTING DISCLOSURE REQUIREMENTS

	Method A	Method B
Basis for developing	Type of information focus	Entity's activity focus
Standards-level objectives	Developing disclosure objectives for individual standards	Not developing disclosure objectives in individual standards
Disclosure requirements in Standards	Developed on the basis of the disclosure objectives of an individual standard	Developed on the basis of centralised disclosure objectives

EFRAG'S TENTATIVE VIEWS

- Support exploring how to achieve a more holistic and unified approach in developing disclosure objectives/requirements.
- Support further analysis of how disclosure requirements could be focused on the entity's activities and business model (Method B in the IASB DP) as this has the potential to provide improved information for users but we are not yet to assess its practicality and outcomes.
- Location of the disclosure requirements is not the primary issue.

17



QUESTIONS FOR DEBATE

QUESTIONS

Can principles make communication more effective?

What do investors think are useful examples of disclosures in the financial statements?

Does it make a difference presenting information separately in the primary financial statements rather than presenting it aggregated with other information in the primary financial statements and disclosing it solely in the notes?

What is the impact of cross-referencing IFRS information outside the financial statements for investors?

QUESTIONS (continued)

Should ‘non-IFRS information’ be permitted within the financial statements? Alternative (non-IFRS) performance measures in the financial statements: misleading or useful?

Should EBITDA be permitted or required in the financial statements?

Should unusual and infrequent items be separately presented and if so how?

HOW IMPORTANT ARE JUDGEMENTS ON MATERIALITY?

- **Materiality is critical to effective communication**: acts as a filter when deciding what and how to disclose information.
- **Proposed changes to the Definition of Materiality**
  - Now a separate project form the Principles of Disclosure Project (ED in September 2017).
  - New definition: *information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of a specific reporting entity's general purpose financial statements make on the basis of those financial statements.*
- **Proposed Practice Statement on Materiality**
- Provides non-mandatory guidance on the application of Materiality to Financial Statements (Publication in September 2017).

Questions

How important is the application of materiality when deciding what and how to disclose information?

21

DISCLOSURES ON FAIR VALUE MEASUREMENT

- IFRS 13 provides the guidance on assessing fair value measurements within three levels of the fair value hierarchy:
  - Level 1: Unadjusted quoted prices in active markets;
  - Level 2: Other observable inputs not included within Level 1; and
  - Level 3: Unobservable inputs for the asset or liability
- Concerns have been raised **about disclosures on Level 3 measurements**:
  - generic information rather than entity-specific information failing to reflect entities' business management; and
  - aggregation of disclosures for dissimilar underlying assets or liabilities so that the disclosures are not sufficiently granular.

Question

Do you think the principles in the Discussion Paper will help address concerns raised about disclosures on Fair Value Measurement?

22

BETTER COMMUNICATION: What do Analysts and Investors need?

BETTER COMMUNICATION: What do Analysts and Investors need?

di Marianna Sorrente

Espongo di seguito il mio punto di vista in merito ad alcuni dei punti discussi in tale evento, sui quali sono intervenuta.

Alternativa tra un nuovo standard contabile e specifiche linee guida

Spesso le note al bilancio sono preparate in base ad un modello fondato sui requisiti degli "standards contabili" internazionali, per cui a volte non si rivelano propriamente specifiche per l'azienda donde la missione dell'informativa di bilancio di fornire informazioni che siano rilevanti e specifiche per l'azienda.

Piuttosto che l'introduzione di un apposito standard contabile internazionale di riferimento che disciplini la redazione di bilancio sulla base dei "principi per una comunicazione più efficace" sembra più realistico introdurre delle "linee guida" nella materia di cui trattasi per il rafforzamento della comparabilità, della trasparenza e della coerenza delle informazioni tra le aziende del medesimo settore e fra i relativi periodi contabili di ciascuna azienda. Infatti, il contenuto e la struttura dei bilanci di aziende all'interno dello stesso settore possono variare in modo significativo, inclusa la dicitura delle categorie degli elementi sui prospetti principali di bilancio.

L'azienda nell'applicare un eventuale "*principio IFRS per una comunicazione efficace*" dovrebbe affrontare una scelta di compromesso tra alcuni dei citati proponenti principi nella preparazione di bilancio. Infatti, l'adeguamento delle informazioni alle circostanze proprie di una azienda può contribuire, da una parte, a garantire che l'informativa di bilancio sia pertinente e di facile comprensione per i relativi utenti, ma al contempo potrebbe ridurre la comparabilità e la coerenza tra i bilanci di aziende appartenenti al medesimo settore e periodi. In questo caso l'utilizzo di "giudizio professionale" per l'applicazione di tali "principi" massimizzerebbe l'utilità delle informazioni per gli utenti dei bilanci.

I "principi" di cui trattasi per essere efficaci dovrebbero essere sviluppati e articolati a cura dello IASB nella forma delle "Linee guida all'attuazione" con esempi illustrativi che accompagnino, per ciascun standard contabile di riferimento, i relativi contenuti per conseguire la comparabilità e la trasparenza dei bilanci.

Informativa di bilancio rilevante, leggibile, coerente

L' "informativa di bilancio" rilevante dovrebbe illustrare l'applicazione pratica soltanto dei principi contabili IAS/IFRS applicabili, escludendo ad esempio i principi contabili IFRS 9 IAS 39 relativi alle attività non correnti destinate alla vendita e, a maggior ragione, le ipotetiche applicazioni di nuovi principi IFRS non ancora adottati.

Sarebbe molto più utile presentare i principi contabili mostrando come questi siano stati applicati ad esempio al livello delle CGU (*cash generating units*)[1] fornendo indicazioni se questi si riferiscano ad un ramo d'azienda con descrizione dei relativi impatti nell'ambito dell'azienda nella sua interezza in correlazione con il calendario di attuazione del piano industriale.

In merito alla leggibilità, posto che la maggior parte delle imprese segue un ordine predefinito di esposizione nella "Nota integrativa" (principi contabili, note relative allo stato patrimoniale, conto economico ecc.), la presentazione potrebbe essere organizzata descrivendo i punti salienti dell'applicazione dei pertinenti principi contabili applicabili in modo che detta Nota comprenda i relativi dati dettagliati nonché le spiegazioni sulle principali correlate variazioni e degli elementi più significativi.

Infine si riscontra una insufficiente coerenza nella presentazione dei bilanci di esercizio delle aziende, in particolare per quanto riguarda la presentazione delle relative voci e degli indicatori di performance quali l'Ebit e l'Ebitda o Ebit Adjusted e

Ebitda Adjusted[2] e di quelli alternativi APM "*Alternative Performance Measures*" utilizzati nell'Informativa di settore (Segment Reporting).

I riferimenti incrociati al fine di ridurre la duplicazione d'informativa

Il *Discussion Paper* proposto dallo IASB suggerisce l'uso dei "*riferimenti incrociati*" (*cross – referencing*) con altri documenti pubblicati dall'azienda per redigere la Nota Integrativa del bilancio d'esercizio. Ciò è condivisibile in quanto l'uso dei "riferimenti incrociati" migliora la comprensione dell'informativa di bilancio perché evidenzia la relazione tra informazioni riducendone la duplicazione.

Gli attuali standards IAS/IFRS consentono, in un numero limitato di circostanze, che alcune informazioni siano incorporate mediante riferimento incrociato fra i Bilanci e qualche altra dichiarazione. Ad esempio, l'IFRS 7 "*Strumenti finanziari: informazioni integrative*" consente di incorporare nella Nota Integrativa le informazioni sulla natura dei rischi derivanti dagli strumenti finanziari mediante riferimenti incrociati alla Relazione sui rischi o ad un commento gestionale disponibili alla data del bilancio di esercizio.

Tuttavia, le aziende dovrebbero contenere l'uso di riferimenti incrociati in quanto un uso eccessivo o inappropriato può rendere i Bilanci frammentati e di difficile comprensione in particolare per quanto concerne quali informazioni siano state oggetto di certificazione dalle società di audit e quindi difficilmente consultabili a meno che le informazioni oggetto di riferimento incrociato siano, ad esempio, pubblicate nel sito Web dell'azienda.

In effetti sarebbe utile inserire nelle predette linee guida l'indicazione dei riferimenti incrociati di cui trattasi nella Nota Integrativa specificando che questi possano essere forniti anche fuori dei Bilanci ma all'interno del "Reporting Annuale" (*Annual Report*) peraltro non definito negli standards IAS/IFRS.

E' condivisibile la proposta di includere nell'IFRS 8 "Settori operativi" il paragrafo 19B che descrive il pacchetto di Reporting annuale di un'azienda come segue: "Il pacchetto di Reporting annuale di un'azienda è un insieme di più documenti che comunica agli utenti i risultati annuali dell'azienda e dei suoi rendiconti finanziari e che è pubblicato all'incirca nello stesso momento del Bilancio annuale dell'azienda ed è disponibile, ad esempio, sul sito Web dell'azienda".

Oltre all'integrazione con riferimento incrociato alle informazioni IFRS collocate al di fuori delle Note di bilancio, vi sono altri aspetti dei riferimenti incrociati da considerare quali il collegamento delle informazioni periodiche (relazioni trimestrali e semestrali con reporting annuale) per garantire una forma di reporting continuo.

Gli indicatori alternativi di performance quali riferimenti della gestione aziendale

Le informazioni "Alternative non-IFRS" possono essere utili per gli investitori in quanto forniscono la visione della performance da parte del management aziendale, pertanto dovrebbe essere consentito il loro utilizzo sia nei prospetti principali di bilancio che nella Nota integrativa.

La maggior parte delle aziende oggi comunica i risultati aziendali principalmente attraverso indicatori di performance alternativi sia nell'*Annual Report* che al di fuori di esso (comunicato stampa, presentazione per gli investitori).

Rilevasi per altro che la maggior parte degli indicatori di rendimento comunemente presentati come subtotali nei bilanci, quali Utile lordo, Utile operativo, Ebit, Ebitda, non sono specificati nei Principi contabili IFRS, inoltre alcune aziende utilizzano anche forme modificate di indicatori comunemente utilizzati quali: Utile operativo Adjusted, Adjusted Ebit, Adjusted Ebitda (rettificati degli elementi non

NOTE

1 CGU (*cash generating units*) sono definiti come i più piccoli gruppi identificabili di beni che generano che generano flussi finanziari in gran parte indipendenti.

2 Ebit: Earnings Before Intests and Taxes, Ebitda:Earnings Before Interests, Taxes, Depreciation and Amortization

ricorrenti).

Di conseguenza risulta difficile:

- capire come vengano calcolati alcuni indicatori di performance perché i razionali di calcolo non sono spiegati dall'azienda;
- confrontare alcuni indicatori di performance nei periodi di rendicontazione, poiché l'azienda non applica i razionali di calcolo in modo coerente da un periodo all'altro;
- confrontare alcuni indicatori di performance presentati da aziende appartenenti al medesimo settore merceologico perché tali indicatori non riflettono un razionale di calcolo standardizzato – (Es: Ebitda)

Lo standard IAS 1 al paragrafo 82 specifica solo alcune categorie di subtotali che sono utilizzate come misure di performance aziendali nei Bilanci d'esercizio, quali Reddito, Profitti o Perdite, Utile per azione e consente anche di aggiungere intestazioni e subtotali quando tale presentazione sia rilevante per la comprensione della performance economica finanziaria dell'azienda (paragrafo 85).

Tuttavia tale flessibilità non contribuisce a migliorare la confrontabilità degli indicatori di performance aziendali tra aziende appartenenti al medesimo settore merceologico poichè i razionali di calcolo di tali indicatori possono differire a seconda delle scelte dei rispettivi management aziendali.

Risulta pertanto evidente l'opportunità di aggiornare l'attuale IAS1 con la definizione di ulteriori indicatori di performance, più comunemente diffusi ovvero il "*Risultato Operativo", "Ebit", "Ebitda*" come subtotali nel prospetto di Conto Economico del Bilancio d'Esercizio.

Si osserva che la presentazione corretta di tali indicatori di performance dipende dalla rappresentazione delle voci di spesa ovvero se sono classificati per natura o per funzione. Infatti nel caso in cui le voci di spesa fossero rappresentate secondo il metodo "funzione di spesa" l'Ebitda escluderebbe alcune voci di spesa quali gli ammortamenti creando confusione.

La presentazione equa potrebbe essere ottenuta se l'azienda presentasse un'analisi delle spese sulla base della loro natura. D'altra parte oggi, IAS 1, paragrafi 99 e 103, consente di classificare il conto economico utilizzando il metodo del "costo del venduto".

Lo IASB potrebbe modificare questa opzione indicando solo un tipo di classificazione del conto economico, quella per natura, al fine di standardizzare la comparabilità degli indicatori nelle aziende almeno nel medesimo settore merceologico e consentendo la classificazione per "funzione" nella "Relazione sulla gestione ".

Ebitda, Ebit, *Operating Result*, gli Indicatori di riferimento

L'Ebitda dal punto di vista economico è il margine disponibile per il reintegro del capitale fisso impiegato nella produzione (che si realizza contabilmente attraverso l'imputazione degli ammortamenti) e quindi rappresenta un indicatore di redditività che fornisce all'investitore l'importante informazione se il "*core business aziendale*" generi un margine operativo sufficiente a coprire l'utilizzo annuale di "immobilizzazioni" e conseguentemente se il principio di continuità aziendale sia rispettato.

Rappresenta inoltre un indicatore di riferimento particolarmente utile quando si confrontano aziende simili nell'ambito del medesimo settore merceologico di riferimento.

Tuttavia una rappresentazione corretta dipende dall'analisi delle spese di bilancio se presentata per "natura" piuttosto che per "funzione"[3], in quest'ultimo caso infatti l'Ebitda escluderebbe alcune tipologie di spese quali le quote di "ammortamento", per cui l'indicatore risulterebbe una miscela di spese rappresentate per "natura" e per "funzione" e ciò potrebbe creare confusione. D'altra parte lo IAS 1, paragrafi 99 e 103, consente la classificazione del conto economico sia per "natura" che per "destinazione".

Lo IASB potrebbe modificare tale opzione indicando una sola

classificazione del conto economico, quella per natura per quanto riguarda il bilancio presentato nella Nota Integrativa in modo da standardizzare la confrontabilità tra indicatori nelle aziende dello stesso settore di riferimento e rimandare la rappresentazione per “destinazione” alla Relazione sulla Gestione (*Report on Operations*).

L'EBIT e il "Risultato operativo" sono misure di performance comunemente presentate come subtotali nel prospetto di Conto Economico del Bilancio d’Esercizio ma non sono disciplinati (definiti) negli IFRS Standards. Inoltre, alcune aziende utilizzano forme modificate di esse, ad esempio, “l'utile operativo rettificato” o “l'Ebit rettificato”.

Tali indicatori possono fornire ulteriori informazioni e una migliore comprensione dei

risultati finanziari dell’azienda, dal punto di vista del management su ciò che è importante per l'azienda, nonché delle informazioni su come viene gestita l'azienda.

Tuttavia risulta spesso difficile comprendere: a) come tali indicatori vengano calcolati perché i calcoli non sono spiegati dall'azienda; b) in che modo si riferiscono ad altri importi nei bilanci; c) come confrontarli tra periodi di riferimento poiché l'azienda non calcola coerentemente tali misure; d) come comparare aziende diverse in quanto tali misure non riflettono definizioni standardizzate.

Nei Bilanci i subtotali denominati “Ebit rettificato” e “Ebitda rettificato”, spesso escludono le voci di spesa "*non ricorrenti*", "inusuali *o poco frequenti*". L'isolamento di tali elementi può essere utile per prevedere i flussi di cassa futuri, tuttavia potrebbe verificarsi che le transazioni comunemente identificate come "poco frequenti" in realtà spesso non lo siano.

Lo IASB potrebbe richiedere che tali indicatori siano presentati come subtotali nel prospetto del Conto Economico e che siano fornite indicazioni sulla definizione delle voci di spesa definite "non ricorrenti" e "inusuali o poco frequenti".

Applicazione del principio di materialità e giudizio professionale

La materialità è un aspetto specifico di pertinenza dell'azienda in base alla natura o alla grandezza, o entrambi, delle voci a cui le informazioni si riferiscono nel contesto della relazione finanziaria dell’azienda. Dette informazioni potrebbero essere importanti perché consentono agli utenti di comprendere in che modo l'azienda ha generato le proprie prestazioni per il periodo considerato.

Tradizionalmente l’attenzione alla materialità si manifesta nella garanzia che le aziende non omettano le informazioni rilevanti e quindi che vengano escluse le informazioni immateriali perché possono oscurare le informazioni rilevanti e quindi ostacolarne la comprensione.

Il Quadro di riferimento normativo non specifica come applicare la materialità alle note di bilancio, fatta eccezione del paragrafo 31 dello IAS 1 recante l’indicazione che "un' azienda non è tenuta a fornire un'informativa specifica richiesta da un principio IFRS se l'informazione non è rilevante". Pertanto, un'azienda è autorizzata a divulgare informazioni non rilevanti.

Pertanto vi dovrebbe essere un’apposita scheda delle Linee guida (cfr. precedente paragrafo 3) predisposta in funzione dei redattori dei bilanci e delle diverse categorie degli users, nel cui ambito dovrebbe essere consigliato l’esercizio del giudizio professionale del redattore del bilancio e dei documenti connessi. A tale riguardo è opportuno un dialogo, per altro raccomandabile di norma, con i revisori dei conti e le autorità di regolamentazione in quanto preposti, rispettivamente, a sollevare eventuali rilievi e proporre nuove norme.

Nota: Il socio Bruno Ricci ha convenuto sulla trattazione di alcune delle questioni sopra esposte in ordine del tema “Better communication: what do analysts and investors needs”

NOTA

3 Classificazione per funzione: evidenzia le voci di ricavo e di costo in relazione alla funzione aziendale

Jacques de Greling
EFFAS Financial Accounting Commission Vice-Chairman

European Telcos sample: reporting operating performance & IFRS 15 disclosures

EFFAS - AIAF

EFRAG – IASB - OIC

Milan - September 2017

Reporting operating performance

- A sample of 9 European Telcos (FY 2016)
- Strong dominance (88%) of **per nature** presentation
- On average, there are **8 items** from revenues to Operating profit. (Min 5, Max 13)
- **Largest item** disclosed is, on average **38%** of revenues (Min 25%, Max 60%)
- **Smallest item** disclosed is, on average **1%** of revenues (Min 0.02%, Max 4%)
- Only **22% of Telcos** include **associate & JVs** in operating profit
- **66%** use subtotals. Number of **subtotals** on average is **1** (Min 0, Max 3). **The most common subtotal, in the P/L, is EBITDA**
- On average, each telcos uses **1.4 additional subtotals *in the slides*** **(**Min 0, Max 3). **88%** use **Adjusted EBITDA in the slides**

Ahead of IFRS 15

- Most analysts are not really aware of the possible impact...
- What information we received from major Telcos:

Analysis of the information available on IFRS 15 for a sample of Telcos in 2016 annual reports
(number of words)

	IFRS standard	Implementation process	Possible impact	Real information
A	33%	20%	37%	9%
B	10%	44%	45%	0%
C	68%	8%	24%	0%
D	4%	38%	57%	0%
E	24%	22%	54%	0%
F	42%	37%	22%	0%
G	73%	3%	24%	0%
H	49%	24%	27%	0%
I	42%	0%	54%	4%
Average	**38%**	**22%**	**38%**	**1%**

Performance Measures in the Financial Statements: Ebit, Ebitda

Survey dated the 12th July 2017

Performance Measures in the Financial Statements: Ebit, Ebitda

Survey dated the 12th July 2017

di *Marianna Sorrente, Bruno Ricci*

Preface

The purpose of the AIAF Research Group "*the development of IFRS standards and related impacts arising from their application*" is to test the current situation of the consolidated financial statements of three holding groups with respect to Section 5 "Use of performance measures in the financial statements" in particular by referring to the subsection "*Presentation of EBIT and EBITDA*" in paragraphs 5.20, 5.21 and 5.22 dedicated to the possible composition of EBIT and EBITDA within the Discussion Paper – March 2017.

The analysed consolidated financial statements as at 31/12/2016 refers to the following holding groups:

- Poste Italiane
- Exor
- Bollorè

Disclosure Initiative – Principles of Disclosure

The Disclosure Initiative – Principles of Disclosure Discussion Paper (DP) was issued by the IASB on 30 March 2017 and the consultation is open for comments until 2 October 2017.

The main objective of the Principles of Disclosure project is to identify disclosure issues and develop new, or clarify existing, disclosure principles in IFRS Standards to address those issues and to:

- help entities to apply better judgement and communicate information more effectively;
- improve the effectiveness of disclosures for the primary users of financial statements; and
- assist the IASB to improve disclosure requirements in IFRS Standards

The DP is likely to result either in amendments to IAS 1 "*Presentation of Financial Statements*" or in the creation of a new general disclosure standard to replace parts of IAS 1 that cover disclosures in the financial statements. The project might also result in the development of some non-mandatory guidance (such as educational material).

The term "*performance measure*" refers to any summary financial measure of an entity's financial performance, financial position or cash flows. IFRS Standards specify some performance measures such as *revenue, finance cost, net profit or loss, inventories, financial liabilities*.

However, many other performance measures commonly presented as subtotals in the statement of profit or loss, such as gross profit, operating profit, EBIT (earnings before interest and tax) and EBITDA (earnings before interest, taxation, depreciation and amortisation) are not specified in IFRS.

Current IFRS Standards already allow entities to present additional line items, headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position. The DP proposes to further clarify that the circumstances in which the presentation of the following subtotals in the statement of profit or loss can provide a fair presentation in accordance with IFRS Standards.

Presentation of EBIT and EBITDA

The "Presentation of EBIT and EBITDA" within Section 5 "*Use of performance measures in the financial statements*" observes that whether such subtotals in the statements of financial performance can provide a fair presentation depends on whether the subtotals would disrupt the analysis of expenses.

"(a) Presenting EBITDA as a subtotal in the statement(s) of financial performance can provide a fair presentation if an entity presents an analysis of expenses on the basis of their nature (referred to as the 'nature of expense' method—paragraph 102 of IAS 1) and if the subtotals are presented in accordance with the requirements in paragraphs 85-85B of IAS1 for using subtotals. However, presenting EBITDA as a subtotal in the statement(s) of financial performance is unlikely to achieve a fair presentation if an entity presents an analysis of expenses on the basis of their function (referred to as the "function of expense" method – paragraph 103 of IAS1). EBITDA

Discussion Paper March 2017 Section 5 "Use of performance measures in the financial statements

Diagram 5.1—Statement of profit or loss (by nature) showing presentation of EBITDA and EBIT

Statement of profit or loss (by nature)	
Revenue	X
Changes in inventories of finished goods and work in progress	(X)
Raw materials and consumables used	(X)
Employee benefits expense	(X)
Other expenses	(X)
EBITDA	**X**
Depreciation and amortisation expense	(X)
EBIT	**X**
Interest	(X)
Profit before tax	**X**

Table 1

excludes expenses of specified natures (for example, amortization). So presenting EBITDA with an analysis of expenses on the basis of their function would result in a mixture of the nature of expense and function of expense methods that would disrupt the analysis of expenses, this might cause confusion. Nevertheless, an entity using a function of expense method might still disclose EBITDA, for example, in the notes.

(b) EBIT is usually a subtotal that fits within both the nature of expense and the function of expense method" paragraph 5.21

The diagram below illustrates how to present EBITDA and EBIT in the statement of profit or loss using the nature of expense method (Table 1)

Poste Italiane

Poste Italiane's shares are listed on the Mercato Telematico Azionario (the MTA, an electronic stock exchange) organized and managed by Borsa Italiana SpA. The Company is controlled by the Ministry of the Economy and Finance ("MEF"),

which holds a direct 29.3% interest and an indirect 35% interest through Cassa Depositi e Prestiti SpA (CDP), itself controlled by the MEF.

The Group's operations are divided into four operating segments:

- Postal and Business Services
- Financial Services
- Insurance Services and Asset Management
- Other Services

EBIT

The aforementioned Performance indicator is not showed in Poste Italiane Annual Report, as a matter of fact in the paragraph "*Performance indicators*" within the "*Directors report on operations for the year ended 31 December 2016*" there is no definition for it.

Alternatively it is showed the "Operating Income" indicator that is presented as a margin of the "**Profit and Loss**" both in the "Group financial and operational highlights" section in the table "*Results of operations*" than in the "Group operating results" in particular in the table "*Operating results by operating segment"* where there is the segment contribution to the Consolidated "*Operating Income*"

EBITDA

EBITDA is defined in the "Performance indicators" section as follows

"this is an indicator of a company's operating profit before non-operating financial expenses and taxation, and depreciation, amortisation and impairments of non-current assets and investment property"

- Group financial and operational highlights
- Group operating results
- Financial review for Poste Italiane SpA

The use of EBIT and EBITDA might be influenced by profit non recurrent

Poste Italiane –Results of operations fort the year ended 31 december 2016

RESULTS OF OPERATIONS

for the year ended 31 December (€m)	2016	2015
Total revenue	**33,112**	**30,739**
of which:		
from Postal and Business Services	3,822	3,882
from Financial Services	5,294	5,155
from Insurance Services	23,772	21,459
from Other Services	224	243
EBITDA	1,622	1,461
Operating profit/(loss)	1,041	880
Profit for the year	622	552
Gross ROE	11.9%	10.3%

OPERATING RESULTS BY OPERATING SEGMENT

for the year ended 31 December 2016 *(€m)*	Postal and Business Services	Financial Services	Insurance Services and Asset Management	Other Services	Adjustments and eliminations	Total
External revenue	3,822	5,294	23,772	224	–	33,112
Intersegment revenue	4,540	543	1	44	(5,128)	–
Total revenue	**8,362**	**5,837**	**23,773**	**268**	**(5,128)**	**33,112**
Costs	8,713	518	22,620	220	–	32,071
Intersegment costs	85	4,506	517	20	(5,128)	–
Total costs	**8,798**	**5,024**	**23,137**	**240**	**(5,128)**	**32,071**
Operating profit/(loss)	**(436)**	**813**	**636**	**28**	**–**	**1,041**

Table 2

that could appear not only from Industrial accounting due to changing in profit loss without cash flow movements, but also in financial figures like Insurance business where we can find misleading information related to amount of current profit based on possible changing in future profit. This changing might be connected to a business impact related to annual choice that can have impact on as-is profit with an opposite impact on future profit. It is difficult for a financial analyst to understand if actual profit have not impact on future profit.

One of the indicators that we may use to check the risk on future profit is the changing in mismatch duration between Asset and Liabilities. If Asset and Liabilities on Life portfolio haven't any mismatch we don't expect impact on future profit, but if we have a mismatch or an increase in mismatch we will have changing in future profit.

In the Poste Italiane report we noted that maybe a risk of not sustainability of the same profitability. These risk is showed in detail related to Risk Mangement chapter where at pag. 231 there is a comparison between asset and liability duration change in the last year:

"…., with respect to Class I and Class V policies sold by Poste Vita SpA, the duration of the matching assets went from 6.19 at 31 December 2015 at 6.08 at 31 December 2016. On the other hand, with respect to Class I and Class V policies sold by Poste Vita SpA, the duration of the liabilities went from 7.05 to 7.26. The financial instruments intended to cover the technical provisions for Class III have maturities that match those of the liabilities."

As the risk management section show, the duration mismatch is increasing form 0,86 y. (7.05 - 6.19) to 1.18 y (7.26 – 6.08). The calculation of EBIT and EBITDA don't reflect the changing in future profitability due to different mismatching duration. In addition the reduction of Asset duration maybe connected to profit realization on asset that is an extraordinary operation.

Exor

The EXOR Group's investments are indicated in the table 2.

PartnerRe (100% of common stock) is a leading global reinsurer with headquarters in Pembroke (Bermuda). PartnerRe commenced operations in 1993 and provides reinsurance and certain specialty insurance lines on a worldwide basis through its subsidiaries and branches serving more than 2000 customers in its Non-life and Life and Health

EXOR Group's investments

INVESTMENT NAME	OWNERSHIP%	BUSINESS
PartnerRe	100% of common stock	Global reinsurer
Fiat Chrysler Automobiles (FCA)	29.41% stake	Automaker-automotive sector
CNH Industrial	26.92% stake	Capital goods segment (truks, commercial vehicles, buses….)
Ferrari N.V.	22.91% stake	automotive sector example of "made in Italy"
The Economist Group	43.40%	magazine
Juventus Football Club	63.77%	Football team

Table 3

segments. PartnerRe has a global platform of 20 offices in more than 150 countries. The company's 11 principal offices are located in Hamilton (Bermuda), Dublin, Greenwich (Connecticut, USA), Paris, Singapore and Zurich. Risks reinsured include, but are not limited to, property, casualty, motor, agriculture, aviation/space, catastrophe, credit/surety, engineering, energy, marine, mortality, longevity and accident and health, and alternative risk products.

Fiat Chrysler Automobiles (FCA) (29.41% stake) is listed on the New York Stock Exchange (NYSE) and the Mercato Telematico Azionario managed by Borsa Italiana (MTA) and is included in the FTSE MIB Index. FCA, the seventh-largest automaker in the world, designs, engineers, manufactures, distributes and sells passenger cars, light commercial vehicles, components and production systems worldwide. The Group's automotive brands are: Abarth, Alfa Romeo, Chrysler, Dodge, Fiat, Fiat Professional, Jeep, Lancia, Ram and Maserati in addition to the SRT performance vehicle designation. FCA's businesses also include Comau (production systems), Magneti Marelli (components), Teksid (iron and castings) and Mopar, the after-sales services and parts brand. FCA is engaged in industrial activities in the automotive sector through companies located in 40 countries and has commercial relationships with customers in more than 140 countries. At December 31, 2016 FCA had 162 manufacturing facilities and 234,499 employees throughout the world. FCA's operations relating to mass market brands (passenger cars, light commercial vehicles and related parts and services) are run on a regional basis and attributed to four regions representing four geographical areas: NAFTA (U.S., Canada and Mexico), LATAM (South and Central America, excluding Mexico), APAC (Asia and Pacific countries) and EMEA (Europe, Russia, Middle East and Africa).

CNH Industrial (26.92% stake) is listed on the New York Stock Exchange (NYSE) and the Mercato Telematico Azionario managed by Borsa Italiana (MTA) and is included in the FTSE MIB Index. CNH Industrial's goal is the strategic development of its business. The large industrial base, a wide range of products and its worldwide geographical presence make CNH Industrial a global leader in the capital goods segment. Through its brands, the company designs, produces and sells trucks, commercial vehicles, buses and specialty vehicles (Iveco), agricultural and construction equipment (the families of Case and New Holland brands), as well as engines and transmissions for those vehicles and engines for marine applications (FPT Industrial). Each of the Group's brands is a prominent international player in the respective industrial segment. At December 31, 2016 CNH Industrial was present in approximately 180 countries giving it a unique competitive position across its 64 manufacturing plants, 49 research and development centers and more than 62,000 employees.

Ferrari N.V. (22.91% stake) began operations on January 3, 2016 following the completion of a series of transactions to separate Ferrari from the FCA Group. Ferrari is listed

on the New York Stock Exchange (NYSE) and the Mercato Telematico Azionario managed by Borsa Italiana (MTA) and is included in the FTSE MIB Index. The Ferrari brand is a symbol of excellence and exclusivity and the cars that carry this brand name are unique for performance, innovation, technologies, driving pleasure and design, a car that is the most authoritative example of "made in Italy" the world over. Ferrari is present in more than 62 markets worldwide through a network of 180 authorized dealers with 8,014 cars sold at December 31, 2016.

The Economist Group (43.40% after completion of the buyback) is a company headquartered in London and head of the editorial group that publishes The Economist, a weekly magazine that with a global circulation of more than one million annual copies represents one of the most important sources of analysis in the international business world.

Juventus Football Club (63.77% of share capital) is listed on the Mercato Telematico Azionario managed by Borsa Italiana (MTA). Founded in 1897, it is one of the most prominent professional football teams in the world.

EBIT

The EBIT is showed in section "*Review of Performance of the Operating Subsidiaries and Asset held*" part of the indicators used to industrial stakes: Fiat Chrysler Automobiles (FCA) e Ferrari N.V.

If we put attention to ***Fiat Chrysler Automobiles (FCA)*** we find the "*Adjusted EBIT*" that is defined as:

"Adjusted EBIT is a non-GAAP financial measure used to measure performance. Adjusted EBIT excludes certain adjustments from Net profit from continuing operations including: gains/(losses) on the disposal of investments, restructuring, impairments, asset write-offs and unusual income/(expenses) that are considered rare or discrete events that are infrequent in nature, and also excludes Net financial expenses and Tax expenses/(benefit)"

Fiat Chrysler Automobiles (FCA) Adjusted EBIT

	Year		Change
€ million	2016	2015	
Net revenues	**111,018**	110,595	423
Adjusted EBIT (1)	**6,056**	4,794	1,262
Net profit/(loss)	**1,814**	93	1,721
Net industrial debt	**4,585** (2)	5,049 (2)	(464)

(1) Adjusted EBIT is a non-GAAP financial measure used to measure performance. Adjusted EBIT excludes certain adjustments from Net profit from continuing operations including: gains/(losses) on the disposal of investments, restructuring, impairments, asset write-offs and unusual income/(expenses) that are considered rare or discrete events that are infrequent in nature, and also excludes Net financial expenses and Tax expenses/(benefit);

(2) At December 31, 2016 and 2015. Net industrial debt is computed as: Debt plus derivative financial liabilities related to industrial activities less (i) cash and cash equivalents, (ii) current available-for-sale and held-for-trading securities, (iii) current financial receivables from Group or jointly controlled financial services entities and (iv) derivative financial assets and collateral deposit; therefore, debt, cash and other financial assets/liabilities pertaining to financial services entities are excluded from the computation of Net industrial debt.

Table 4

With reference to FCA line of businesses, the report shows a detailed contribution to the indicator by segment and comparison with previous year:

Fiat Chrysler Automobiles (FCA) Adjusted EBIT by segment

The analysis of Adjusted EBIT by segment is as follows:

	Year		Change
€ million	2016	2015	
NAFTA	**5,133**	4,450	683
LATAM	**5**	(87)	92
APAC	**105**	52	53
EMEA	**540**	213	327
Maserati	**339**	105	234
Components (Magneti Marelli, Teksid, Comau)	**445**	395	50
Other activities, unallocated items and adjustments	**(511)**	(334)	(177)
Adjusted EBIT	**6,056**	4,794	1,262

Table 5

Referring Ferrari N.V., we find between "Key consolidated figures" both EBIT and"Adjusted EBIT", that is defined as:

"Adjusted EBIT is a non-GAAP financial measure used to measure performance. Adjusted EBIT is defined as EBIT less income and costs which are significant in nature but expected to occur infrequently."

Ferrari Key consolidated figures 2016

Key consolidated figures of Ferrari reported in the year 2016 (drawn up in accordance with IFRS) are as follows:

	Year		
€ million	2016	2015	Change
Shipments (in units)	**8,014**	7,664	350
Net revenues	**3,105**	2,854	251
EBIT	**595**	444	151
Adjusted EBIT (1)	**632**	473	159
EBITDA	**843**	719	124
Adjusted EBITDA (2)	**880**	748	132
Net profit for the period (3)	**400**	290	110
Equity (3)	**330**	(19)	349
Net Industrial debt	**653**	797	(144)

(1) Adjusted EBIT is a non-GAAP financial measure used to measure performance. Adjusted EBIT is defined as EBIT less income and costs which are significant in nature but expected to occur infrequently.
(2) Adjusted EBITDA is a non-GAAP financial measure used to measure performance. Adjusted EBITDA is defined as EBITDA (net profit before income tax expenses, net financial expenses/(income) and depreciation and amortization) less income and costs which are significant in nature but expected to occur infrequently.
(3) Attributable to owners of the parent + non-controlling interests.

Table 6

The line of business of ***CNH Industrial*** *shows a new type of profitability indicator the "**Operating profit and (loss)**" that is defined as:*

"Operating profit is a non-GAAP financial measure used to measure performance. Operating profit of Industrial Activities is defined as revenues from net sales less cost of goods sold, selling general and administrative expenses and research and development expenses. Operating profit of Financial Services is defined as revenues less selling, general and administrative expenses, interest expenses and certain other operating expenses."

CNH Industrial Operating Profit and (Loss) 2016

	Year		Change
$ million	2016	2015	
Revenues	24,872	25,912	(1,040)
Operating profit (loss) (1)	1,439	1,635	(196)
Adjusted net income (2)	482	474	8
Net (loss) income	(249)	248	(497)
Net industrial debt (3)	1,561	1,578	(17)

(1) Operating profit is a non-GAAP financial measure used to measure performance. Operating profit of Industrial Activities is defined as revenues from net sales less cost of goods sold, selling general and administrative expenses and research and development expenses. Operating profit of Financial Services is defined as revenues less selling, general and administrative expenses, interest expenses and certain other operating expenses.
(2) Adjusted net income is defined as net income (loss) less restructuring costs and other unusual income/(expenses), after tax.
(3) Net industrial debt is a non-GAAP measure used to measure financial performance of Industries Activities separately respect to the activities of Financial Services, due to different sources of cash flow used for the repayment of the debt, from operations for Industrial Activities and by collection of financing receivables for Financial Services. ¶

Table 7

Also referring to these indicators there is a split by "segment" and comparison with previous year.

CNH Industrial Operating Profit and (Loss) 2016 split by segment

	Year		Change
$ million	2016	2015	
Agricultural Equipment	818	952	(134)
Construction Equipment	2	90	(88)
Commercial Vehicles	333	283	50
Powertrain	232	186	46
Elimination and other	(94)	(79)	(15)
Total Industrial Activities	1,291	1,432	(141)
Financial Services	478	515	(37)
Elimination and Other	(330)	(312)	(18)
Operating profit	1,439	1,635	(196)

Table 8

EBITDA

This indicator is used in section "*Review of Performance of the Operating Subsidiaries and Asset held*" part of the line of business of the stake ***Ferrari N.V***.

Inside section ***Ferrari N.V***. we find between the "*Key consolidated figures"* both EBITDA and "*Adjusted EBITDA*", that is defined as:

"*Adjusted EBITDA is a non-GAAP financial measure used to measure performance. Adjusted EBITDA is defined as EBITDA (net profit before income tax expenses, net financial expenses/(income) and depreciation and amortization) less income and costs which are significant in nature but expected to occur infrequently."*

The company shows also the 2017 budget data on these indicators.

Other details are also in "*Nota Integrativa del Bilancio Consolidato*" at section "*Borrowings from banks*".

Bolloré

The Group currently holds strong positions in its three lines of business:

- transportation and logistics,
- communications
- electricity storage solutions

"OPERATING INCOME" as synonym of EBIT?

The Performance indicator "*Operating Income*" is presented as a margin of the "**Profit and Loss**" both in the "Key Figures" section than in the "Selected Financial information" within the Annual Financial Report

Bolloré Profit and Loss 2015

PROFIT AND LOSS

(in millions of euros)	2015	2014 restated(1)	2013 published
Turnover	**10,824**	10,604	10,848
Share in net income of operating companies accounted for using the equity method	**22**	19	19
Operating income	**701**	650	606
Financial income	**187**	(85)	30
Share in net income of non-operating companies accounted for using the equity method	**104**	65	21
Taxes	**(265)**	(236)	(211)
Net income from discontinued operations	–	7	5
NET INCOME	**727**	**401**	**450**
of which Group share	**564**	217	270

(1) The presentation of the financial statements reflects the adoption in 2015 of the amendments to IAS 16 and IAS 41 dealing with bearer plants.

Table 9

It follows its breakdown by segment

Bollorè Profit and Loss 2015

NET OPERATING INCOME BY SEGMENT

(by business, in millions of euros)	2015	2014 restated	2013 published
Transportation and logistics(1)	**569**	567	541
Oil logistics	**37**	26	39
Communications (Havas, media, telecoms)	**255**	210	188
Electricity storage and solutions	**(126)**	(120)	(119)
Other (agricultural assets, holdings)	**(34)**	(33)	(43)
OPERATING INCOME	**701**	650	606

(1) Before trademark fees.

Table 10

and the trend of "Change in operating income"

Definition of "Operating income" is given in the Annual Financial Report in the Notes to the Consolidated Financial Statements related to

- Information on operating segments (5.2)
- Operating Income (5.4)

Accounting policies refer to the provisions of IFRS 8 "*Operating segments":*

"the operating segments used for segment disclosures are those used in internal Group reporting, as reviewed by Executive management (the Group's main operational decision maker), and reflect the Group's organization which is based on business lines. The operating segments used are as follows:

Bolloré trend of "Change in operating income" 2015

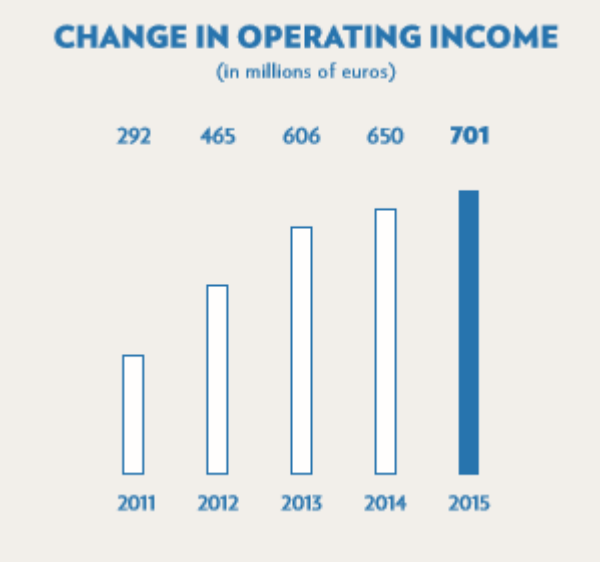


Table 11

- *Transportation and logistics: includes services relating to the organization of sea and air transport networks, and logistics;*
- *Oil logistics: refers to the distribution and warehousing of oil products in Europe;*
- *Communications: includes*

consulting, studies, communications strategies connected with advertising, media, digital content and telecoms, as well as purchase of advertising space;

- *Electricity storage and solutions: includes activities related to the production and sale of electric batteries and their applications: electric vehicles, supercapacitors, dedicated terminals and systems and plastic fi lms. Other activities mainly concern holding companies.*

"The operating results for each segment are the main data used by Executive management to assess the performance of the various segments and allocate resources to them. The accounting and valuation methods used in internal reporting are identical to those used to draw up the consolidated financial statements, with the exception of the allocation of trademark fees.

Information on allocations to amortization and provisions is provided to show the reader the main non-cash items of the segment's operating income but is not included in internal reporting."

Operating Income is determined as the algebraic sum of the following addendums

Bollorè operating 2015

(in millions of euros)	2015
Turnover	10,824.0
Goods and services bought in:	(7,155.6)
– goods and services bought in	*(6,819.8)*
– lease payments and rental expenses	*(335.8)*
Staff costs	(2,645.7)
Amortization and provisions	(413.1)
Other operating income(*)	265.3
Other operating expenses(*)	(195.6)
Share in net income of operating companies accounted for using the equity method	21.7
OPERATING INCOME	**701.0**

Table 12

Other operating income and expenses are defined as follows:

"*Other operating income and expenses mainly include gains and losses on the acquisition and disposal of non-current assets, net foreign exchange gains or losses on operating transactions, the research tax credit and the competitiveness and jobs tax credit"*

"Foreign currency transactions are translated into the entity's functional currency at the exchange rate prevailing on the transaction date. At the close of the financial period, monetary items denominated in foreign currency are translated into euros at the year-end exchange rate. The resulting foreign exchange gains and losses are recognized under "Foreign exchange gains and losses" and presented under operating income in respect of commercial transactions. Gains and losses on foreign exchange derivatives used for hedging are entered under operating income in respect of commercial transactions."

It follows (*) Details of other operating income and expenses

Bolloré details of other operating income and expenses 2015

(*) Details of other operating income and expenses

(in millions of euros)	2015 Total	Operating income	Operating expenses
Capital gains (losses) on the disposal of non-current assets	(3.0)	10.2	(13.2)
Foreign exchange gains and losses	14.0	80.3	(66.3)
Research and competitiveness and jobs tax credits	76.1	76.1	0.0
Other	(17.4)	98.7	(116.1)
OTHER OPERATING INCOME AND EXPENSES	**69.7**	**265.3**	**(195.6)**

Table 13

EBITDA

EBITDA is showed in the "Annual Financial Report" in the sections

- Business Overview
- Financial and Operating income review

The section "*Business Overview*" shows EBITDA in correspondence of the "*Transportation and Logistics*" business and in the other assets for the *"American firms"* and *"Vineyards"*

No comments are present related to the EBITDA performance.

EBITDA at consolidation level is presented in "Financial and Operating income review"

Bolloré "Business Overview" 2015

TRANSPORTATION AND LOGISTICS

(in millions of euros)	2015	2014
Turnover	6,051	5,629
EBITDA	767	730
Operating income	569	567
Capital expenditure	426	350

American farms

In the United States, Redlands Farm Holding owns three farms (IronCity, Gretna and Babcock Farms) totaling 3,000 hectares. Since 2013, the agricultural land has been farmed directly by the Group (mainly soy and cotton). EBITDA totaled 0.1 million euros in 2015 versus –0.7 million euros in 2014. The Group has decided to convert the farms into olive groves whose planting will be spread over two years.

Table 14

Bolloré "Consolidated key figures" 2015

CONSOLIDATED KEY FIGURES FOR BOLLORÉ

(in millions of euros)	2015	2014[1]	Change (in %)
Turnover	**10,824**	10,604	+2
EBITDA[2]	**1,114**	1,022	+9
Amortization and provisions	**(413)**	(372)	+11
Operating income	**701**	650	+8
Including share in income from operating companies accounted for using the equity method	**22**	19	
Financial income	**187**	(85)	
Share in net income of non-operating companies accounted for using the equity method	**104**	65	
Taxes	**(265)**	(236)	
Net income from discontinued operations	**–**	7	
NET INCOME	**727**	401	+81
of which Group share	**564**	217	+161
Earnings per share (in euros)	**0.20**	0.09	+128
Net cash from operating activities	**1,133**	783	
Net industrial investments	**(771)**	(617)	
Net financial investments	**(2,539)**	18	
Shareholders' equity	**11,285**	9,707	
of which Group share	**9,947**	8,051	
Net debt	**4,281**	1,771	
Net debt/shareholders' equity ratio	**38%**	18%	
Market value of portfolio of listed securities[3]	**4,977**	2,177	

(1) Restated to reflect the amendment to IAS 16 and IAS 41.
(2) Including income from operating companies accounted for using the equity method.
(3) Taking into account the impact from financing on Vivendi securities.

Table 15

Comparative analysis

The comparative analysis of the three above mentioned holding Groups, based on the 2016 Annual Report highlights the following characteristics organized in relation to the **Consolidated Income Statement** and the **Report on Operations.**

Consolidated Income Statement

Main characteristics may be listed as follows:

- Dominance of per **nature presentation** of Consolidated Statement of Profit and Loss
- **EBITDA** not shown
- **EBIT** not shown
- **Operating performance** is shown in two of them "Poste Italiane" and "Bollorè"
- From Revenues to Operating Profit there are 10 items in Poste Italiane and 6 in Bollorè
- Number of Subtotals from (Revenues to Operating profit) is 1 in Poste Italiane and 0 in Bollorè

Comparative Analysis– Presentation of Statement of profit or loss

	Presentation by Nature		Presentation by Function		Presentation by Nature
	Poste Italiane		**EXOR**		**BOLLORE'**
	Revenue from sales and services		Net Revenues		Turnover
1	Insurance premium revenue	1	Cost of sales	1	Goods and services bought in
2	Other income from financial and insurance activities	2	Selling, general and administrative costs	2	Staff costs
3	of which, non -recurring income	3	Research and development costs	3	Amortization and provisions
4	Other operating income	4	Other income (expenses)	4	Other operating income
	Total Revenue	5	Result from investments	5	Other operating expenses
5	Costs of goods and services	6	Gain (losses) on disposal of investments	6	Share in net income of operating companies accounted for using the equity
6	Expenses from financial and insurance activities	7	Restructuring costs		**Operating Income**
7	Personnell expenses	8	Financial income (expenses)	7	Net financing expenses
8	Depreciation, amortisation and impairments		**Profit before taxes**	8	Other financial income
9	capitalised costs and expenses	9	Tax expense	9	Other financial expenses
10	Other operating expenses		**Profit from continuing operations**		**Financial income**
	Operating profit/(loss)		**Profit from discontinued operations, net of tax**	10	Share in net income of non-operating companies accounted for using the equity
11	Finance costs		**Profit of the year**	11	Corporate income tax
12	Finance income				**Net income from ongoing activities**
13	Profit/(Loss) on investments accounted for using the equity method			12	Net income from discontinued operations
	Profit/(Loss) before tax				**Consolidated net income**
14	Income tax expense				
	Profit for the year				

Table 16

Report on Operations

Main characteristics may be listed as follows:

- Dominance of **Operating income** and **EBITDA** present in all the Group Companies
- **Operating income** in two of them matches with consolidated Income Statement
- **Operating income** definition is present in one of them
- **Ebit and Ebit Adj** present only in Exor referring to the Industrial businesses
- **Net Asset Value** present only in Exor

Comparative Analysis - Performance Indicator

Performance Indicator	Poste Italiane	EXOR	BOLLORE'
EBIT	Not showed	Yes	Not showed
EBIT ADJ	Not showed	*"EBIT less income and costs which are significant in nature but expected to occur infrequently"* ***Ferrari N.V.***	*Not showed*
EBITDA	Yes	Yes	Yes
EBITDA ADJ	Not showed	*Yes "..is defined as EBITDA less income and costs which are significant in nature but expected to occur infrequently."* ***Ferrari N.V.***	Not showed
OPERATING INCOME	Yes	*Yes " is defined as revenues from net sales less cost of goods sold, selling general and administrative expenses and research and development expenses. Operating profit of Financial Services is defined as revenues less selling, general and administrative expenses, interest expenses and certain other operating expenses."* ***CNH Industrial***	Yes
NET ASSET VALUE	Not showed	Yes	Not showed

Table 17

Performance Measures – possible approaches

The IASB should develop rules to allow preparers to present more performance measures in financial statements. In absence of IASB guidelines we observe an increase of the APMs (Alternative Performance Measures) indicates and consequently the financial statements are losing their relevance for user purpose.

Current IAS1 requires the presentation of only the following items to be presented in the profit or loss section or the statement of profit or loss (IAS1 paragraph 82):

"(a) revenue, presenting separately interest revenue calculated using the effective interest method;

(aa) gains and losses arising from the derecognition of financial assets measured at amortised cost;

(b) finance costs;

(ba) impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with Section 5.5 of IFRS 9;

(c) share of the profit or loss of associates and joint ventures accounted for using the equity method;

(ca) if a financial asset is reclassified out of the amortised cost measurement category so that it is measured at fair value through profit or loss, any gain or loss arising from a difference between the previous amortised cost of the financial asset and its fair value at the reclassification date (as defined in IFRS 9);

(cb) if a financial asset is reclassified out of the fair value through other comprehensive income measurement category so that it is measured at fair value through profit or loss, any cumulative gain or loss previously recognised in other comprehensive income that is reclassified to profit or loss;

(d) tax expense;

(e) [deleted]

(ea) a single amount for the total of discontinued operations (see IFRS 5)"

Giving the possibility to present additional line items, headings and subtotals when such presentation is relevant to an understanding of the entity's financial performance (IAS 1 paragraph 85)

"An entity shall present additional

line items (including by disaggregating the line items listed in paragraph 82), headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income when such presentation is relevant to an understanding of the entity's financial performance"

We observe this flexibility doesn't help to improve the comparability between entities.

EBITDA or "Net Cash from operating activities"?

The EBITDA indicator provides to the Financial Statements user/reader a rough and quick idea of the ability of a company to generate operating cash flow. Ease of calculation has made it popular in particular within external analysts anyway it can't be considered a reliable measure of financial performance of a company as the positive and negative components that determine it are not necessarily monetary (tfr quotas, final inventories of goods and commodities, work in progress, current assets, financial income and expenses and currency, unpaid costs and unpaid revenues, etc). and depend on management's judgement and estimates.

Cash-flow from operating activities reported on the "Cash flow statement" in a company's quarterly and annual reports represents the cash that is generated from the normal operating processes of a business it is objective in fact tells you exactly how much cash a company generated from operating activities during a period. Starting with net income, it adds back non cash items like Depretiation&Amortisation and captures changes from working capital.

EBITDA compared to Cash-flow from operating activities is less reliable as it is subjected to management's judgement and estimates so it is not useful to represent the company finance performance particularly.

On the other hand Ebitda, represents a profitability indicator which provides to the user and investor with important information whether the core company business generates sufficient operational margin to cover the annual use of "immobilized assets" and consequently if the going concern principles are met.

We have an Ebitda of quality only if this profitability has turned into a cash flow. Behind the divergence between EBITDA and the operating cash flow, accounting policies could hidden. These policies could overestimate the company's assets and affect the rights of shareholders and lenders. For this reason, the cash flow statement is getting more and more important.

If Ebitda is negative, the preparer of financial statements must immediately identify the origin and nature of the causes that have determined and enforce all the measures to safeguard the integrity of the Company's equity. If the Ebitda is negative, the preparer of financial statements must perform the impairment test on his immobilized assets.

At this time Ebitda as Ebit are not performance measures provided by the Ifrs. For this reason, I am of the opinion that Iasb revised its position and required the insertion of these subtotals into the documents that make up the financial statements while at the same time determining and presenting the respective calculation methods. It would be of utmost importance that these performance measures be directly represented in an income statement showing the production obtained in a given financial year and expenses by nature.

EBIT, EBIT adj and Operating Result

EBIT, and "Operating Result" are performance measures commonly presented as subtotals in the statement(s) of financial performance but not specified in IFRS Standards. Furthermore some entities use modified forms of them—for example, adjusted operating profit or adjusted EBIT.

Such performance measures can provide additional information about, and a better understanding of:

(a) the financial performance and position of an entity.

(b) the management's view of what is important to the entity, as well as insight into how the business is

managed.

Nevertheless it is difficult:

(a) to understand how are calculated because the calculations are not explained by the entity, or the performance measures are labelled unclearly;

(b) it is not clear how do they relate to other amounts in the financial statements;

(c) to compare them across reporting periods because the entity does not calculate these measures consistently;

(d) the comparability by different entities because such measures do not reflect standardized definitions;

In the statement(s) of financial performance the subtotals called 'normalized earnings', 'underlying earnings' or 'adjusted profit', exclude items as "*non recurring", "unusual* or *infrequently occurring*". The isolation of such items can be helpful to forecast future cash flows. However, it may occur that

(a) transactions commonly identified as 'infrequent' are too frequently for that label to be justified;

(b) such classification is used inconsistently by entities over time and in comparison with other entities;

Possible solutions could be

- require Performance measures as subtotals in Primary financial statements;
- provide guidance on the presentation of "unusual" and "infrequently occurring" items.

GOODWILL IMPAIRMENT: CAN IT BE IMPROVED?

JOINT INVESTOR OUTREACH EVENT IN MILAN

18 September 2017



EFRAG

European Financial Reporting Advisory Group

DISCLAIMER

The views expressed in this presentation are those of the presenter, except where indicated otherwise. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

OVERVIEW

- WHY A DISCUSSION PAPER (DP) ON GOODWILL IMPAIRMENT?
- WHAT IS THE STRUCTURE OF THE DP?
- WHAT IS THE SCOPE OF THE DP?
- WHAT HAS EFRAG CONSIDERED IN THE DP?



WHY A DP ON GOODWILL IMPAIRMENT?

- When responding to the Discussion Paper *Should Goodwill still not be amortised?* (2014) many noted that the impairment test was a challenge and that there was room to improve it.
- EFRAG has not taken any final position on the treatment of goodwill. It agreed to focus its Research activities on potential improvements to the impairment test.
- The objective of the DP is to gather European constituents' views on what aspects of the impairment test need to be improved and how this could be achieved.

WHAT IS THE STRUCTURE OF THE DP?

- **Chapter 1** focuses on the objective of the DP, different goodwill accounting approaches and scope of the DP.
- **Chapter 2** describes the issues that arise in practice and discusses possible ways to address them.
- **Appendix 2** provides some additional quantitative analysis on market-to-book ratio and goodwill.



WHAT IS THE SCOPE OF THE DP?

- The DP illustrates some possible amendments to the impairment test. These are exposed for discussion and do not necessarily represent an EFRAG recommendation.
- EFRAG considered that the objectives of the amendments should be to:
  - enhance the application and effectiveness of the impairment test; and
  - reduce complexity and achieve a better balance between costs and benefits.

WHAT IS THE SCOPE OF THE DP?

- This DP does not address:
  - the identification and measurement of intangible assets in a business combination;
  - advantages and disadvantages of reintroducing annual amortisation; and
  - improvements to the disclosure requirements (already considered in a previous EFRAG Discussion Paper *Should Goodwill still not be amortised?*).



WHAT HAS EFRAG CONSIDERED IN THE DP?

HOW TO ALLOCATE GOODWILL TO CGUS?

WHAT ARE THE ISSUES?

- Allocation process is highly subjective and there is only limited guidance in IAS 36 on how to perform it.
- Entities have an incentive to allocate goodwill to CGUs with pre-acquisition headroom in order to 'shield' goodwill from impairment.
- When goodwill has been repeatedly re-allocated, the information is difficult to explain and understand.

HOW COULD THEY BE ADDRESSED?

- Additional guidance on the allocation of goodwill to CGUs. For example, fall-back methods and allocation ceiling.
- Disclosure of information on composition of goodwill. More specifically, reconciliation of total goodwill allocated to each CGU.
- Illustrative examples included in the DP and in the appendix to the presentation.

WHEN TO DETERMINE THE RECOVERABLE AMOUNT?

WHAT ARE THE ISSUES?

- An entity is required to determine the recoverable amount of a CGU even when the likelihood of an impairment is remote. This is perceived as a time-consuming and costly exercise with no real practical benefit.
- Some pointed out that US GAAP includes the option to perform first a qualitative assessment of the likelihood of an impairment.

HOW COULD THEY BE ADDRESSED?

- Introduce a 'Step Zero' in the impairment test: allow an entity to perform a qualitative assessment of the likelihood of an impairment loss.
- An entity would not be required to determine the recoverable amount when, and only when, the likelihood of an impairment is assessed to be remote.

SINGLE CALCULATION APPROACH TO DETERMINE THE RECOVERABLE AMOUNT?

WHAT ARE THE ISSUES?

- There is some confusion around the interaction between Value in Use (VIU) and Fair Value Less Cost of Disposal (FVLCD).
- Some claim that users may not understand the different assumptions used under the two methods. Others noted that it was more difficult to challenge management assertions in relation to VIU.

HOW COULD THEY BE ADDRESSED?

- Requiring or allowing only one method (VIU or FVLCD) could simplify the impairment test as both preparers and users will not have to consider whether there is a difference in terms of assumptions and inputs used in the DCF model when calculating the VIU and FVLCD.

VALUE IN USE AND FUTURE RESTRUCTURINGS

WHAT ARE THE ISSUES?

- Some claim that the exclusion of the effect of future restructurings does not reflect how acquirers price the business.
- Typically, a buyer would incorporate future restructurings and changes in the processes when determining the maximum purchase price to be paid.

HOW COULD THEY BE ADDRESSED?

- Allow the effect of planned future restructurings (inflows and outflows) to be incorporated in the cash flow projection, even when the threshold to recognise a provision for restructuring costs has not yet been met.

VALUE IN USE AND DISCOUNT RATES

WHAT ARE THE ISSUES?

- In many cases, entities can only observe post-tax rates and it is difficult to calculate an appropriate pre-tax rate.
- Academic books often estimate future cash flows on a post-tax basis using a corresponding post-tax discount rate.
- Not clear why a pre-tax calculation provides superior information to users.

HOW COULD THEY BE ADDRESSED?

- Allow entities to use a pre-tax or a post-tax calculation.
- Entities would need to disclose the basis chosen.

TARGETING INTERNALLY GENERATED GOODWILL

WHAT ARE THE ISSUES?

- Many argue that goodwill acquired in a business combination is being consumed and replaced by internally generated goodwill provided that the entity is able to maintain the overall level of goodwill (by, for instance, expending resources on advertising and customer service).
- This creates a perceived conflict with IAS 38 *Intangible Assets that* does not allow capitalisation of internally generated goodwill.

HOW COULD THEY BE ADDRESSED?

- Entities should be required to eliminate the effect of internally generated goodwill by deducting an accretion amount from the recoverable amount.
- An entity would determine the accretion amount by applying a rate to the opening balance of goodwill.
- Illustrative examples included in the DP.

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THANK YOU FOR YOUR ATTENTION

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APPENDIX – ILLUSTRATIVE EXAMPLES

ILLUSTRATIVE EXAMPLES

ALLOCATION BASED ON THE PRE- AND POST-ACQUISITION FAIR VALUE OF EACH CGU

Company A acquires company B for CU 2.100.
The net identifiable assets recognised by Company A amount to CU 1.800.
Company A recognises CU 300 of goodwill.

COMPANY A	PRE-ACQUISITION FAIR VALUE	NET ASSETS ALLOCATED	POST-ACQUISITION FAIR VALUE	DIFFERENCE
CGU A	2.000	1.700	3.985	285
CGU B	3.100	100	3.215	15

The difference can be used as a basis for allocation of goodwill.

ILLUSTRATIVE EXAMPLES

ALLOCATION BASED ON THE FAIR VALUE OF THE BUSINESSES ACQUIRED AND THEIR NET ASSETS

Company A acquires company B for CU 2.100.
The net identifiable assets recognised by Company A amount to CU 1.800.
Company A recognises CU 300 of goodwill.

COMPANY B	FAIR VALUE	NET IDENTIFIABLE ASSETS AT FAIR VALUE	DIFFERENCE
Position A	1.500	1.300	200
Position B	600	500	100

The difference is allocated to the CGUs to which the net idenfiable assets have been allocated.

Regardless of the basis of allocation, in principle the method should not result in a decrease of the pre-acquisition headroom (an allocation ceiling).

Jacques de Greling
EFFAS Financial Accounting Commission Vice-Chairman

European Telcos illustration: Goodwill impairment

EFFAS - AIAF

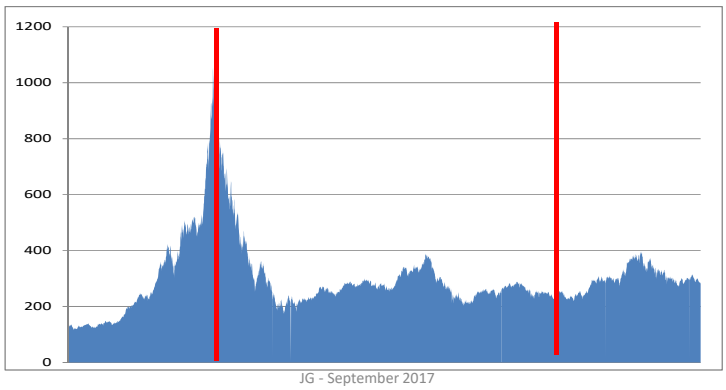
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Milan - September 2017

Goodwill for telcos

- Telcos concentrates a significant part of European goodwill
- A very significant part of this goodwill was created during a famous "bubble"

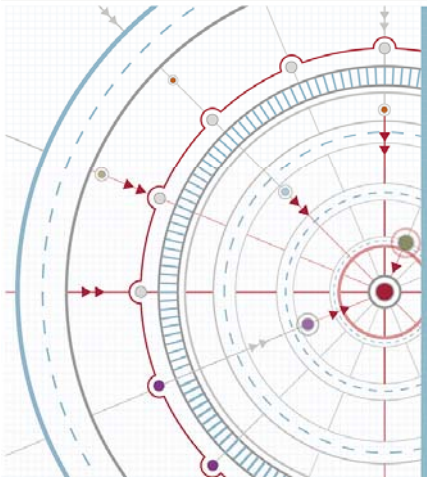
Stoxx 600 Telecom index, 1994-2017



Too little, too late

- Real life example: Telco XYZ
  - Acquired a mobile operator in 2000 for €100, recording a goodwill of €101
  - No impairment for this investment for more than 11 years
    over the period the Stoxx Telecom was down 72%
    (of which -73% 18 months after the acquisition) and
    the share price of Telco XYZ was down 50%
  - In FY 2012, Telco XYZ made a €24 impairment on the goodwill subsidiary
  - The year before the impairment, the DCF used a discount rate of 5% and growth rate of 2%
    It implies an exit multiple of 16x, whereas average PE for Telcos in Europe, at this time, was 11x

IFRS® Foundation



How IFRS 17 works & What this means for investors

Milan, 18 September 2017

Fred Nieto, IASB, Head of Investor Engagement

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board (Board) or IFRS Foundation.

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IFRS

IFRS 17 *Insurance Contracts*



- IFRS 17 issued on 18 May 2017
  - replaces an interim Standard—IFRS 4
  - requires consistent accounting for all insurance contracts, based on a current measurement model
  - will provide useful information about profitability of insurance contracts
- Effective on 2021
  - early application permitted
  - one year comparative information

IFRS

Today's agenda

- Why has IFRS 17 been developed
- Overview of how IFRS 17 works, including
  - Sources of earnings approach in P&L
  - New disclosures that enhance transparency
  - Supporting investors analysis (eg Embedded Value)
  - Understanding the line item for Revenue
  - How the change could affect Life versus Non Life insurance

IFRS

Why has IFRS 17 been developed?

IFRS

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Economics of business poorly depicted

5

- Lacking relevant and transparent information from some accounting today

Issues today	How this undermines analysis
Lack of useful information • Use of old or outdated assumptions • Options and guarantees not fully reflected in measurement of insurance contracts • Use of 'expected return on assets held' as discount rate	• Fundamental economics are not necessarily reflected in the reported IFRS numbers
Lack of transparency about profitability • Profits recognised at different points • Use of many non-GAAP measures	• Comparing companies by source of profitability is a needlessly difficult task

IFRS

Little comparability

6

- Lack of comparability today is a multi-level problem

Issues today	Solution / Benefits
Lack of comparability among insurers • IFRS companies report insurance contracts using different practices **Non-uniform reporting within groups** • Insurance contracts of subsidiaries are consolidated using different practices	• New framework will replace huge variety of accounting treatments
Inconsistency with other industries • Revenue include deposits • Revenue reported on a cash basis	• Revenue will reflect the services provided, and exclude deposits, like any other industry

IFRS

Overview of how IFRS 17 Works

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IFRS 17 Income Statement

P&L	20X1	20X0
Insurance revenue	9,856	8,567
Insurance service expenses	(9,069)	(8,489)
Incurred claims and insurance contract expenses	*(7,362)*	*(7,012)*
Insurance contract acquisition costs	*(1,259)*	*(1,150)*
Insurance service result before reinsurance^	1,235	405
Gain or (loss) from reinsurance	*(448)*	*(327)*
Insurance service result	787	78
Investment income	9,902	9,030
Insurance finance expenses	(9,308)	(8,377)
Net financial result	594	653
Profit before tax	1,381	731

^ Sub-total not required – presented here to reconcile with numbers presented in next slides

Richer information content
With amounts that will be more relevant and more comparable

IFRS 17 Balance Sheet

9

Balance sheet	20X1	20X0
Financial assets#	226,297	196,700
Reinsurance contract assets*	20,572	17,882
Other assets	36,002	31,293
Total assets	**282,871**	**245,875**
Insurance contract liabilities**	205,724	178,818
Other liabilities	51,431	44,705
Equity	25,716	22,352
Total liabilities and equity	**282,871**	**245,875**

IFRS 17 does not affect the measurement of financial assets as they are measured applying IFRS 9

* Groups of insurance and reinsurance contracts in an asset position presented separately from those in a liability position

** Acquisition cost cash flows, premiums receivable and unearned premiums are included in the measurement of insurance contracts

IFRS

Measuring insurance liabilities

10



Balance sheet	20X1	20X0
Financial assets	226,297	196,700
Reinsurance contract assets	20,572	17,882
Other assets	36,002	31,293
Total assets	**282,871**	**245,875**
Insurance contract liabilities	205,724	178,818
Other liabilities	51,431	44,705
Equity	25,716	22,352
Total liabilities and equity	**282,871**	**245,875**

IFRS

Insurance contract liability roll forward

11

	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Liability
BEGINNING OF PERIOD	163,962	5,998	8,858	178,818
Changes related to:				
❶ *- Future service yet to be provided*	*(784)*	*1,117*	*(116)*	*217*
❷ *- Current service provided in the period*	*35*	*(604)*	*(923)*	*(1,492)*
❸ *- Past service adjustment to past claims*	*47*	*(7)*	*-*	*40*
Insurance service result^	(702)	506	(1,039)	(1,235)
❹ Insurance finance expenses[1]	9,087	-	221	9,308
TOTAL CHANGES IN P&L[1]	8,385	506	(818)	8,073
❺ CASH FLOWS	18,833	-	-	18,833
END OF PERIOD	191,180	6,504	8,040	205,724

^ Excl. the effects of reinsurance

[1] Some insurance finance expenses may be presented in Other Comprehensive Income—see later

IFRS

❹ Insurance finance expenses

12

- Discount unwind plus effect of changes in discount rates and other financial assumptions
- Recognise as gain or loss in period; option to present part in OCI

Etc ...	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Liability
Insurance finance expenses	9,087	-	221	9,308
Accretion at historical rate – P&L*	*7,170*	*-*	*221*	*7,391*
Assumption changes (P&L or OCI)	*1,917*	*-*	*- *****	*1,917*
Etc ...				

* Systematic allocation of finance cost using 'locked-rate' accretion applies to non-par, for par contracts the allocation allows for participation effects

** CSM adjusted for 'variable fee' effect for certain par contracts

IFRS

❺ Cash flows

13

- Gross premiums received still reported as part of the liability roll-forward
  - But not in profit and loss as ‘revenue’

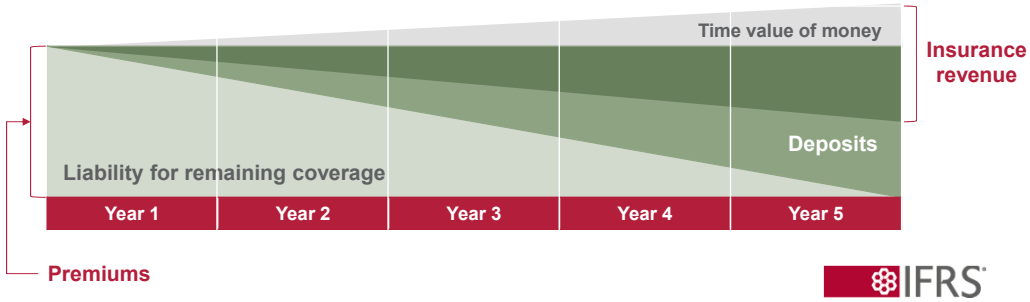
Etc …	Estimates of the present value of future cash flows	Risk adjustment	Contractual service margin	Liability
Cash flows	18,833			18,833
Premiums received	*33,570*			*33,570*
Claims, benefits and other expenses paid	*(14,336)*			*(14,336)*
Insurance acquisition cash flows	*(401)*			*(401)*
END OF PERIOD	191,180	6,504	8,040	205,724

IFRS

Insurance revenue

14

- Revenue recognised reduces liability for remaining coverage
- Equals premiums received (adjusted for time value of money) attributable to services provided in the period
- Payments to policyholders unrelated to insured event (return of ‘deposits’) are not revenue



IFRS

Revenue and expenses reconciliation

15

	Liabilities for remaining coverage		Liabilities for incurred claims	Total
	Excluding onerous contracts component	Onerous contracts component		
Insurance contract liabilities 20X0	161,938	15,859	1,021	178,818
Insurance revenue*	(9,856)			(9,856)
Insurance service expenses				
Claims incurred in the period			7,985	7,985
Onerous contracts losses and (reversals)		(623)		(623)
Insurance acquisition costs expensed*	1,259			1,259
Investment components	(6,465)		6,465	0
Insurance service result^	(15,062)	(623)	14,450	(1,235)
Insurance finance expenses	8,393	860	55	9,308
Total changes in the statement of comprehensive income	(6,669)	237	14,505	8,073
Cash flows				
Premiums received	33,570			33,570
Claims, benefits and other expenses paid			(14,336)	(14,336)
Insurance acquisition cash flows	(401)			(401)
Total cash flows	33,169	-	(14,336)	18,833
Insurance contract liabilities 20X1	188,438	16,096	1,190	205,724

^ Excl. the effects of reinsurance

* Insurance revenue includes recovery of insurance acquisition costs

IFRS

Life versus Non-Life

16

Companies issuing long-term / life insurance contracts	→	• Changes in insurance contract liabilities for companies that today do not use current assumptions or do not fully consider options and guarantees • Reduction in revenue and expenses for companies that report premiums as revenue and cash surrenders as expenses
Non-life companies with short-term contacts	→	• Liabilities for claims discounted • Explicit risk adjustment • No significant change in revenue

IFRS

Supporting Embedded Value style analysis

17

Commonly used existing term	Existing common interpretation	The impact of IFRS 17	Equivalent measure post IFRS 17
Present value of new business premiums	Potential non-GAAP metric generally associated with embedded value reporting. Equals the present value of all premiums expected to be received as a result of new contracts written in the period.	Required disclosure as part of the insurance contract liability roll forward.	Present value of new business premiums
Present value of new business profit	The additional shareholder value created through writing new business. Generally not included in the IFRS results, but may be separately given as an alternative performance measure as part of embedded value disclosures.	Included as a disclosure and measured consistently with the other IFRS data. Two versions available; the PV of expected profit from new business (CSM plus risk adjustment for new business) and the risk adjusted PV of new business profit (CSM of new business only). This measure is not available where the entity adopts the simplified approach (PAA).	New business CSM and risk adjustment disclosures

IFRS

Supporting Embedded Value style analysis (cont'd)

18

Commonly used existing term	Existing common interpretation	The impact of IFRS 17	Equivalent measure post IFRS 17
Value in force (VIF)	The value (NPV) of future profits from existing contracts. Equals the difference between the balance sheet liability and the risk adjusted PV of future cash flows	Equivalent to the CSM under IFRS 17, although the measurement principles differ.	Contractual service margin
Embedded value (EV)	May be provided as a non-GAAP measure although measurement varies. Equals NPV of all cash flows related to insurance liabilities and assets backing those contracts. Also equals shareholders equity (adjusted to report all assets at fair value) plus the value in force. VIF is the excess of the insurance liability reported over the (market consistent) best estimate liability. Embedded value also subject to frictional costs adjustment for required capital.	The equivalent of embedded value is provided by IFRS 17 (although precise measurement may differ, for example there is no adjustment for 'frictional costs'). Equals shareholder's equity (although may also need to adjust if any assets are measured at cost) plus accumulated but not yet recognised CSM. Could also include the risk adjustment if measured before allowing for non-financial risks.	Not a separate metric, but the equivalent can easily be derived using IFRS 17 information
Other capital and solvency related metrics	Various depending on the regulatory capital approach in the jurisdiction	Not affected by IFRS 17	Not an accounting metric

IFRS

Summary of benefits of IFRS 17

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Summary: the benefits of IFRS 17

- Global comparability for the first time
- Relevant and updated measurement of liabilities
- Financial risks and economic mismatches revealed
- Source of earnings approach to performance
- Value of new business integrated with the accounting
- Enhanced disclosure and greater transparency
- Existing KPIs remain, but more relevant and comparable
- New KPIs available
- Intuitive accounting that will be more understandable

IFRS 17: a game changer for the global insurance industry?

Disclosure Requirements

Thinking about segment information and lines of business

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IFRS 17 Disclosures—Disaggregation

Excerpt from IFRS 17 – disclosure requirements:

- 95—An entity shall aggregate or disaggregate information so that useful information is not obscured either by the inclusion of a large amount of insignificant detail or by the aggregation of items that have different characteristics.
- 96—Paragraphs 29–31 of IAS 1 set out requirements relating to materiality and aggregation of information. Examples of aggregation bases that might be appropriate for information disclosed about insurance contracts are:
  (a) type of contract (for example, major product lines);
  (b) geographical area (for example, country or region); or
  (c) reportable segment, as defined in IFRS 8 *Operating Segments*.

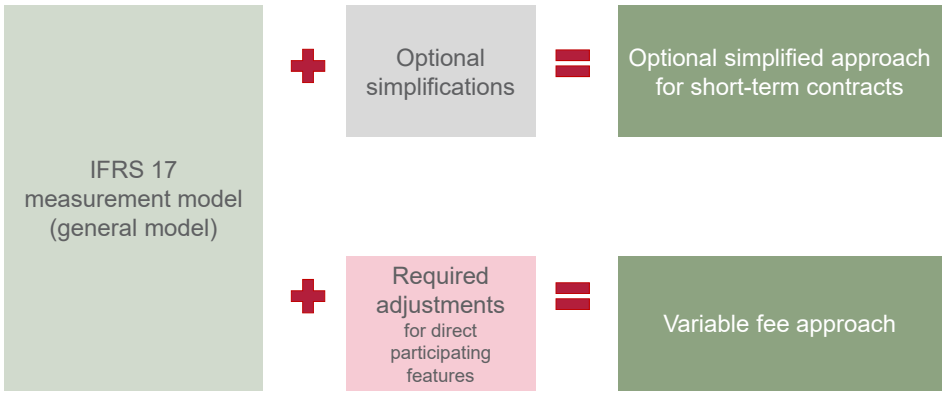
Modifications to the general model

Simplified approach and approach for contracts with a variable fee

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IFRS

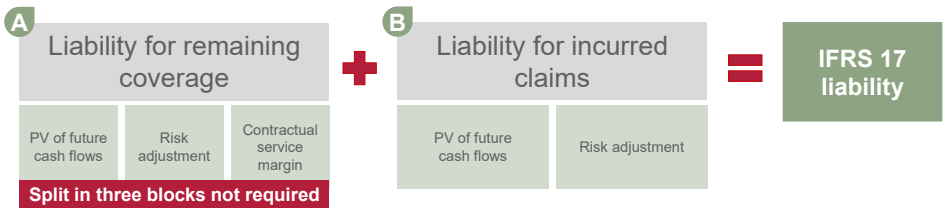
Modifications to the general model



IFRS

Simplifications for short-term contracts

25



A Simplified measurement

B Measurement under the general model, but discounting of claims to be settled within 1 year not required

IFRS

Variable fee approach compared with general model

26

	1 PV of future cash flows	2 Risk adjustment	3 Unearned profit
Initial recognition	✓ No difference	✓ No difference	✓ No difference
Subsequently	✓ No difference	✓ No difference	× Difference in how CSM is adjusted for changes in financial variables

IFRS

Additional CSM adj. for some contracts

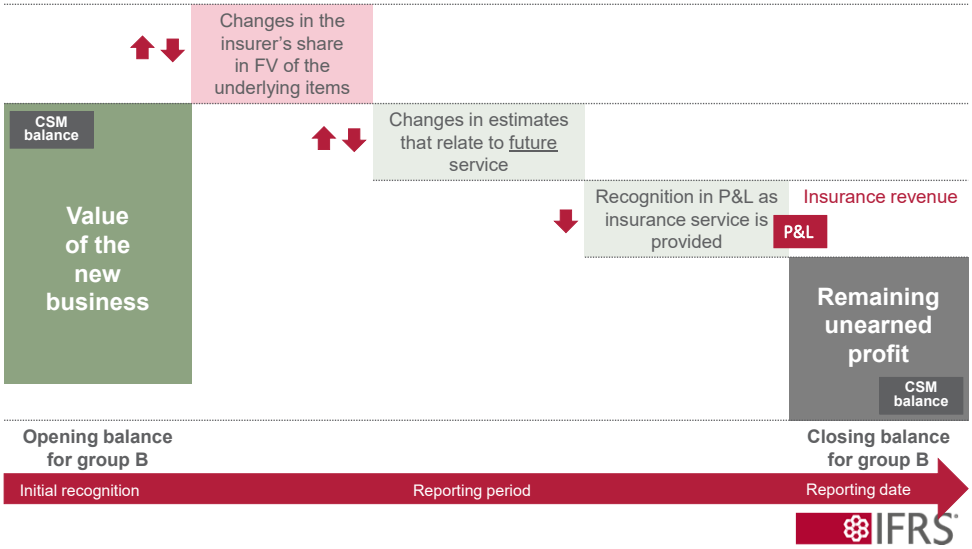
27

- ‘Variable fee’ approach applicable to contracts with ‘direct participation features’
- CSM balance adjusted for the shareholders’ share of the change in underlying items
  - In effect a remeasurement of CSM for changes in financial variables (in addition to the non-financial variables applicable to all contracts)
  - Change in value of options and guarantees adjusts CSM and hence future release of CSM
- Does not affect the structure of P&L or roll forwards, just the numbers

IFRS

CSM for direct participating features

28



IFRS

Transition and implementation support

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IFRS

Applying IFRS 17 for the first time

	1 PV of future cash flows	2 Risk adjustment	3 Unearned profit
Existing contracts (eg contracts written before 2020)	✓ Usual IFRS 17 measurement	✓ Usual IFRS 17 measurement	× Transitional measures
New business (eg contracts written after 2020)	✓ Usual IFRS 17 measurement	✓ Usual IFRS 17 measurement	✓ Usual IFRS 17 measurement

- Transitional measures (by group of contracts)
  - Full retrospective approach
  - Modified retrospective approach—proxy of full retrospective approach
  - Fair value approach
- Separate disclosures for each transition method

IFRS

IASB implementation support—overview

31

May 2017	3.5 years			January 2021
	Support implementation			
	2018 – Early 2019	Late 2019	2020	
Issue of IFRS 17	Some entities begin implementation process General questions Contentious / specific implementation questions	Entities are finalising implementation		Mandatory effective date of IFRS 17
	Objective: **monitor and proactively support implementation**	Objective: **provide period of calm for implementation**		
	Supporting materials: **- articles** **- webcasts** **- webinar** **TRG, IFRS IC and/or Board discussions**	Mostly monitor Light touch on implementation / educational activities		

IFRS

IFRS 9 and insurance

32

	2017	2018	2019	2020	2021
Financial instruments	IAS 39	**IFRS 9**			
Insurance contracts	IFRS 4	IFRS 4 as amended in September 2016			**IFRS 17**

Overlay approach	Temporary exemption from IFRS 9
• Available to all issuers of insurance contracts	• Available to companies whose activities are predominantly connected with insurance (assessment at reporting entity level)
• Available until IFRS 17 is applied	• Available until 2021 (or until IFRS 17 is applied if that is earlier)
• Recognises in OCI, rather than P&L, the volatility that could arise when IFRS 9 is applied before IFRS 17 (for assets moved to FVPL)	• IAS 39 is applied rather than IFRS 9 • Additional disclosures are provided to enable some comparisons with companies applying IFRS 9

IFRS

WHAT YOU NEED TO KNOW ABOUT IFRS 17

JOINT INVESTOR OUTREACH EVENT IN MILAN

18 September 2017



EFRAG

European Financial Reporting Advisory Group



THE ENDORSEMENT PROCESS

EFRAG'S MISSION STATEMENT

Develop and promote European views in a thought leadership role and to ensure that they are properly taken into account in the IASB standard setting process

Advise the European Commission as to whether IFRS Standards meet the IAS Regulation endorsement criteria for use in the preparation of financial statements in the EU (including whether the IFRS would be conducive to the European public good)

EFRAG's mission is carried out with the sole objective of serving European public interest.

EFRAG'S MAIN OBJECTIVES

Ensuring full participation of European stakeholders in the debate supporting the development of IFRS and expressing the technical European views throughout the IASB standard-setting process

Engaging European stakeholders in the analysis of and debate on emerging financial reporting issues by stimulating, coordinating and carrying out proactive accounting activities

Advising the EC on the endorsement of IFRS for use in Europe

IAS REGULATION (2002)

Regulation 1606/2002 of 19 July 2002 on the application of international accounting standards

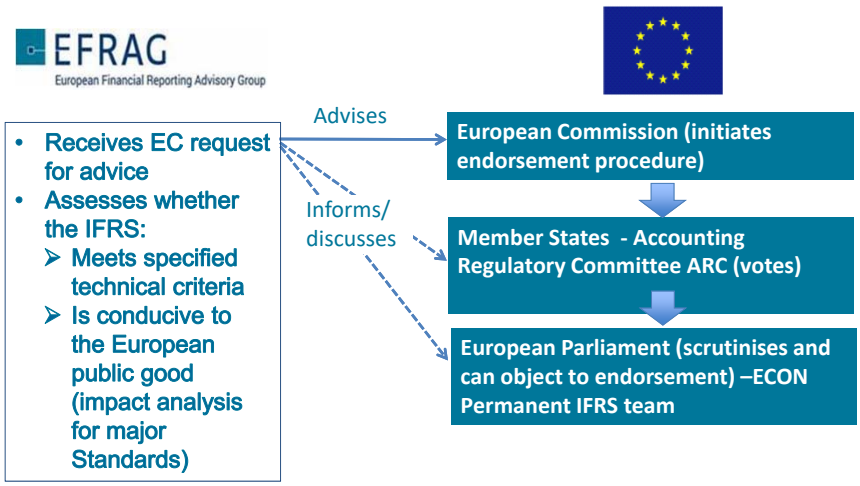
Scope: consolidated accounts of publicly traded companies
Member State options to use IFRS:
Annual accounts of publicly traded companies
Consolidated and/or annual accounts of other companies
Italy:
Consolidated and annual accounts of publicly traded companies but listed insurance companies use Italian GAAP in annual accounts
All other entities are allowed to apply IFRS

IAS REGULATION (2002)

To adopt an international accounting standard for application in the Community, it is necessary that:

- its application results in a true and fair view of the financial position and performance of an enterprise
- it is conducive to the European public good
- it meets basic criteria as to the quality of information required for financial statements to be useful to users:
  - Understandability
  - Relevance
  - Reliability
  - Comparability

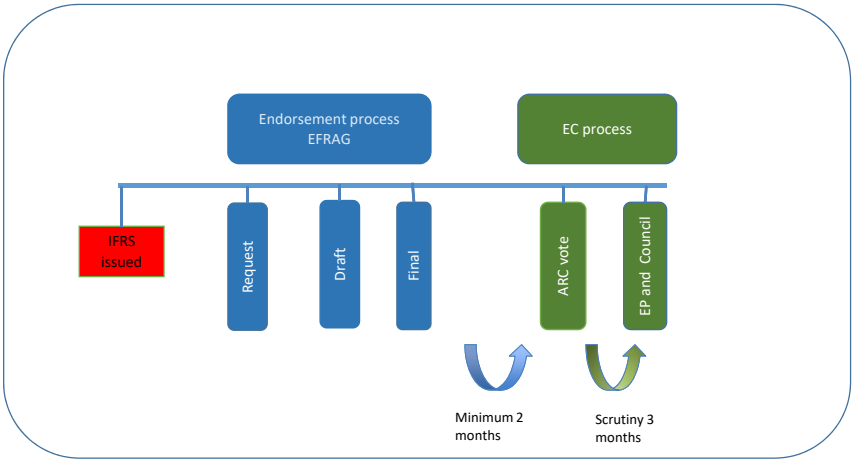
EFRAG'S ROLE IN ENDORSEMENT



IN THE ENDORSEMENT PROCESS

- EFRAG assesses a Standard against the criteria in the IAS Regulation
  - Meets the true and fair view principle
  - Is conducive to the European public good
  - Meets the criteria of understandability, relevance, reliability and comparability
- EFRAG will be delivering enhanced impact assessments (IFRS 16 pilot) as part of the European public good assessment

ENDORSEMENT TIMELINE



THE ENDORSEMENT PROCESS

- EFRAG assesses a Standard against the criteria in the IAS Regulation
  - Meets the true and fair view principle
  - Is conducive to the European public good
  - Meets the criteria of understandability, relevance, reliability and comparability

- EFRAG will be delivering enhanced impact assessments (IFRS 16 pilot) as part of the European public good assessment

THE ENDORSEMENT PROCESS

In developing its advice to the European Commission, EFRAG prepares a draft for public consultation. This draft:

- Is discussed with relevant EFRAG Working Groups (User Panel, Academic Panel, FIWG, IAWG …)
- Is developed in public meetings by EFRAG TEG and EFRAG Board
- May be issued in two parts – preliminary views and tentative final views
- Will often be accompanies by outreaches, case studies, field tests

IFRS 17 ENDORSEMENT PROCESS

THE ENDORSEMENT ADVICE

- Appendix 1
  - Summary of the Standard
- Appendix II
  - Assessment against endorsement criteria: relevance, reliability, comparability, understandability, prudence
  - Concluding on “true and fair view”
- Appendix III
  - Improvement in financial reporting?
  - Costs and benefits?
  - Other issues – depending on European Commission request for advice
  - Impact analysis
  - Concluding on European public good

ENDORSING IFRS 17

IFRS 17 ENDORSEMENT PROCESS

WHERE WE ARE TODAY

While waiting for the request from the European Commission, we are

- Collecting information on existing accounting practices of insurers
- Collecting preliminary views, especially from our User Panel and IAWG
- The EFRAG Board is meeting with CFOs, users and auditors to understand strategic issues
- .....

IFRS 17 ENDORSEMENT PROCESS

CONSIDERATIONS

- Comparison with IFRS 4
  - Comparability between insurers can only be achieved by removing/reducing flexibility permitted by IFRS 4
- Potential assessment methodologies
  - Case studies (driven by differences in existing accounting practices)
  - Field test
  - Stress tests ….

IFRS 17 ENDORSEMENT PROCESS

POTENTIAL TOPICS

- Long-term liability-driven business model
- Impact on the insurance market
- Level of aggregation
- Economic mismatches, if any
- Accounting mismatches, if any
- Scope of Variable Fee Approach
- Transition

IFRS 17 ENDORSEMENT PROCESS

USERS VIEWS

- What information are users looking for?
- How are users informed today?
- How will IFRS 17 change their practices?
- What are the benefits and costs for them?

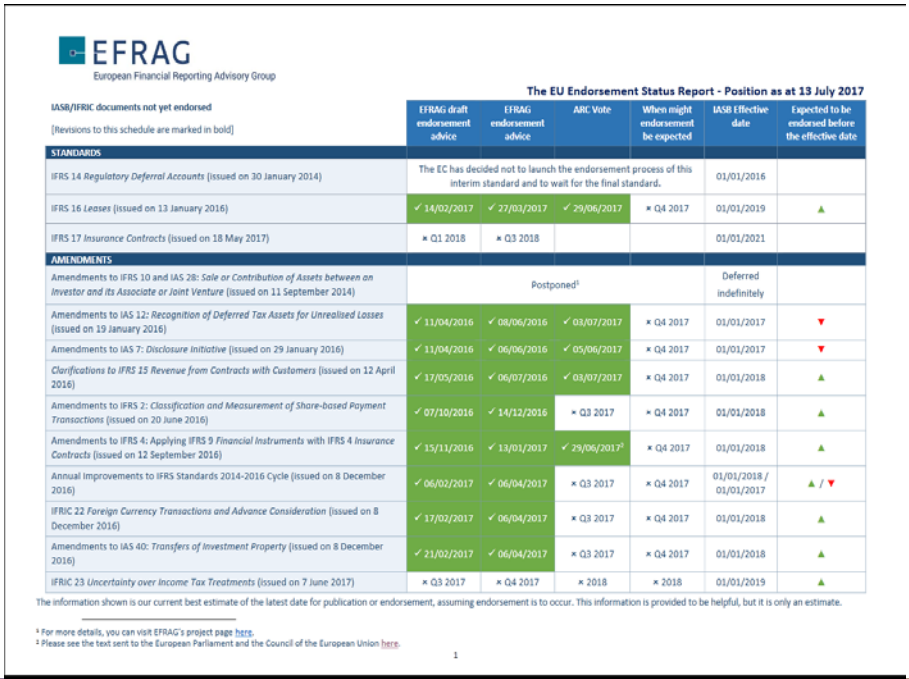


IFRS 17 ENDORSEMENT PROCESS

EXPECTED TIMELINE

- May 2017 – IFRS 17 issued
- Q4 2017 – endorsement request from the EC
- Depending on the request:
  - Draft endorsement advice issued for comment
  - Final endorsement advice





EFRAG
European Financial Reporting Advisory Group

The EU Endorsement Status Report - Position as at 13 July 2017

IASB/IFRIC documents not yet endorsed [Revisions to this schedule are marked in bold]	EFRAG draft endorsement advice	EFRAG endorsement advice	ARC Vote	When might endorsement be expected	IASB Effective date	Expected to be endorsed before the effective date
STANDARDS						
IFRS 14 *Regulatory Deferral Accounts* (issued on 30 January 2014)	The EC has decided not to launch the endorsement process of this interim standard and to wait for the final standard.				01/01/2016	
IFRS 16 *Leases* (issued on 13 January 2016)	✓ 14/02/2017	✓ 27/03/2017	✓ 29/06/2017	× Q4 2017	01/01/2019	▲
IFRS 17 *Insurance Contracts* (issued on 18 May 2017)	× Q1 2018	× Q3 2018			01/01/2021	
AMENDMENTS						
Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued on 11 September 2014)	Postponed[1]				Deferred indefinitely	
Amendments to IAS 12: *Recognition of Deferred Tax Assets for Unrealised Losses* (issued on 19 January 2016)	✓ 11/04/2016	✓ 08/06/2016	✓ 03/07/2017	× Q4 2017	01/01/2017	▼
Amendments to IAS 7: *Disclosure Initiative* (issued on 29 January 2016)	✓ 11/04/2016	✓ 06/06/2016	✓ 05/06/2017	× Q4 2017	01/01/2017	▼
Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016)	✓ 17/05/2016	✓ 06/07/2016	✓ 03/07/2017	× Q4 2017	01/01/2018	▲
Amendments to IFRS 2: *Classification and Measurement of Share-based Payment Transactions* (issued on 20 June 2016)	✓ 07/10/2016	✓ 14/12/2016	× Q3 2017	× Q4 2017	01/01/2018	▲
Amendments to IFRS 4: Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* (issued on 12 September 2016)	✓ 15/11/2016	✓ 13/01/2017	✓ 29/06/2017[2]	× Q4 2017	01/01/2018	▲
Annual Improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016)	✓ 06/02/2017	✓ 06/04/2017	× Q3 2017	× Q4 2017	01/01/2018 / 01/01/2017	▲ / ▼
IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (issued on 8 December 2016)	✓ 17/02/2017	✓ 06/04/2017	× Q3 2017	× Q4 2017	01/01/2018	▲
Amendments to IAS 40: *Transfers of Investment Property* (issued on 8 December 2016)	✓ 21/02/2017	✓ 06/04/2017	× Q3 2017	× Q4 2017	01/01/2018	▲
IFRIC 23 *Uncertainty over Income Tax Treatments* (issued on 7 June 2017)	× Q3 2017	× Q4 2017	× 2018	× 2018	01/01/2019	▲

The information shown is our current best estimate of the latest date for publication or endorsement, assuming endorsement is to occur. This information is provided to be helpful, but it is only an estimate.

[1] For more details, you can visit EFRAG's project page here.
[2] Please see the text sent to the European Parliament and the Council of the European Union here.

1

EFRAG receives financial support of the European Union - DG Financial Stability, Financial Services and Capital Markets Union. The contents of this presentation is the sole responsibility of EFRAG and can under no circumstances be regarded as reflecting the position of the European Union.

THANK YOU

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EFRAG
European Financial Reporting Advisory Group

EFFAS THE EUROPEAN FEDERATION OF FINANCIAL ANALYSTS SOCIETIES

IFRS

aiaf
Associazione Italiana degli Analisti e Consulenti Finanziari

Organismo Italiano di Contabilità

2017

- Better Communication: what do Analysts and Investors need?
- Can Goodwill be improved?
- What you need to know about the new IFRS 17

User outreach event: Monday 18 September 11.00 – 18.00 hrs

Sala Convegni Intesa Sanpaolo • Piazza Belgioioso,1 • Milan • Italy

Programme

10.30 – 11.00 Registration and coffee

11.00 – 11.10 Opening and Welcome

- ***Alberto Borgia*** *(AIAF Chairman)*

11.10 – 13.15 **Better Communication: what do Analysts and Investors need?**

- **Introduction to IASB's Discussion Paper *Disclosure Initiative - Principles of Disclosure***
  - ***Fred Nieto*** *(Head of Investor Engagement IASB)*
  - ***Arjuna Dangalla*** *(Assistant Technical Manager IASB)*

- **EFRAG seeking views on its draft comment letter on IASB Discussion Paper Disclosure Initiative - Principles of Disclosure**
  - ***Saskia Slomp*** *(EFRAG Governance & Admin Director)*

- **Round table panel discussion**
  - *Facilitator:* ***Tommaso Fabi*** *(Technical Director OIC)*
  - *User Panel:* ***Jacques de Greling*** *(Co-Chairman Accounting Committee SFAS, Vice-Chairman EFFAS Financial Accounting Commission (EFFAS FAC) and Member EFRAG User Panel),* ***Marianna Sorrente*** *(AIAF),* ***Bruno Ricci*** *(AIAF),* ***Stefano Zambon*** *(AIAF, NIBR & WICI Global Chair)*

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Issues suggested to be addressed:

- Can principles make communication more effective?
- What do investors think are useful examples of disclosures in the financial statements?
- Does it make a difference presenting information separately in the primary financial statements rather than presenting it aggregated in the primary financial statements and disclosing it solely in the notes?
- What is the impact of cross-referencing IFRS information outside the financial statements for investors?
- Should 'non-IFRS information' be permitted within the financial statements?
- Alternative (non-IFRS) performance measures in the financial statements: misleading or useful?
- Should EBITDA be permitted or required in the primary financial statements?
- Should unusual and infrequently occurring items be separately presented and if so how?
- How important is the application of materiality when deciding what and how to disclose information?
- Concerns have been raised about the disclosures in IFRS 13 *Fair Value Measurement*. Do you think the principles in the DP will address those concerns?

13.15 – 14.15 Lunch

14.15 – 15.45 Can Goodwill be improved?

- **Introduction of EFRAG Short Discussion Series Paper *Goodwill Impairment Test: Can it be improved?* and EFRAG Quantitative Study *What do we really know about Goodwill and Impairment?***
  - ***Filipe Alves*** *(EFRAG Advanced Technical Manager)*
- **Current thinking of the IASB on goodwill and the impairment test**
  - ***Fred Nieto*** *(Head of Investor Engagement IASB)*
- **Round table panel sharing views on goodwill and the impairment test**
  - *Facilitator:* ***Alberto Giussani*** *(member of the OIC Executive Board)*
  - *User Panel:* ***Jacques de Greling*** *(Co-Chairman Accounting Committee SFAS, Vice-Chairman EFFAS FAC and Member EFRAG User Panel),* ***Stefano Zambon*** *(AIAF, NIBR & WICI Global Chair),* ***Antonio Tognoli*** *(AIAF Board Member)*

Issues suggested to be addressed:

- Do you use goodwill in your analysis or do you eliminate it?
- Is impairment in goodwill 'too little and too late'? If so, how do you assess impairment?
- Is the complexity of the impairment test only an issue for preparers?
- How relevant is the quality of the impairment test for you?
- Which of the suggestions in the EFRAG Short Discussion Series Paper would you agree with? Should recoverable amount be based on value in use, fair value, or the higher of the two (as is presently required)?
- What is your view on the suggested goodwill accretion method?
- How relevant is the quality of the impairment test for you?
- How important is the allocation of goodwill to cash generating units for users? What information do you need?

15.45 – 16.15 Coffee and tea break

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16.15 – 17.50 What you need to know about the new IFRS 17

- **Back ground IFRS 17 *Insurance Contracts and the reason* for the change, addressing:**
  - What investors and analysts can expect to see in financial statements (P&L, Balance Sheet) once the IFRS 17 is implemented.
  - How this change could affect Life versus Non-Life insurance
  - Relating information from applying IFRS 17 to other information used by analysts, including Embedded Value and Solvency II data.
  - Improved transparency offered to investors by the new "roll-forward" disclosure requirements for the IFRS 17 liability.
  - Understanding how the line item for Revenue under IFRS 17 relates to existing information about gross premiums and deposits.

  o ***Fred Nieto*** *(Head of Investor Engagement IASB)*
- **Introduction endorsement process**
  o ***Patricia McBride*** *(EFRAG Technical Director)*
- **Round table panel sharing of preliminary views on IFRS 17**
  o *Facilitator:* ***Sabrina Pucci*** *(Chairman of the OIC Insurance Working Group and member of the EFRAG Insurance Accounting Working Group)*
- **Presentation of AIAF working group on insurance indicators used in IFRS insurance reports**
  o *User Panel:* ***Luca D'Onofrio*** *(AIAF Board Member, EFFAS FAC, OIC IWG and EFRAG IAWG Member),* ***Elena Perini*** *(AIAF - Intesa Sanpaolo),* ***Andrea Bellucci*** *(AIAF)*

Issues suggested to be addressed:

- Does IFRS 17 help financial analysts and investors in comparing financial statements of insurance companies in different countries?
- Are insurance analysts analysing financial information by line of business? How do you split the accounting data below segments in the financial statements?
- Are historical data such as claims ratios useful for analysing life and non-life business?
- Will IFRS 17 provide sufficient information or will users need additional information? If so what additional information?
- Are the main indicators used by analysts to evaluate a non-life business company provided by the IFRS 17 disclosures?
- Do analysts use Embedded Value or MCEV information to evaluate life business? Will analysts continue to use these indicators once IFRS 17 is implemented?

17.50 – 18.00 Wrapping up and closing of conference

o ***Alberto Borgia*** *(AIAF Chairman)*

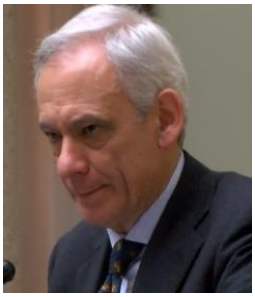
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Better Communication: what do Analysts and Investors need?
Can Goodwill be improved?
What you need to know about the new IFRS 17

User outreach event

Monday 18 September 11.00 – 18.00 hrs • Sala Convegni Intesa Sanpaolo • Piazza Belgioioso, 1 • Milan • Italy

SPEAKERS' BIOGRAPHIES



Alberto Borgia

Mr. Borgia since 2017 is a Chairman of AIAF Associazione Italiana Analisti e Consulenti Finanziari.

He is also a Member of OIV (Organismo Italiano di Valutazione) and member of NedCommunity.

Mr. Borgia is responsible for Governance, Financial, HR, background, broad experience in Corporate Advisory, M&A and Restructuring, Business Development and Investor Relations.

He was a member of Pirelli's Management Committees, Olivetti, Telecom Italia, taking responsibility in dealing with financial markets and corporate finance.

Mr. Borgia has a degree in Political Science by the Cesare Alfieri Political Science Faculty in Florence, Italy with a thesis on the European Investment Bank. He is also post Graduate in Bank Management S.D.A.by the L.Bocconi University in Italy and author of numerous publications.



Fred Nieto

Fred joined the IASB in June 2013, and as of June 2016 is the Head of Investor Engagement. This role involves leading investor engagement activities, both maximizing the possibilities afforded by investor participation in the development of IFRS standards and acting as an advocate for investors' views internally. His previous role at the IASB was as the Investor Education Manager.

Prior to joining the IASB, Fred worked as an equity research analyst in London on the sell-side and on the buy-side. His experience includes having covered the European Insurance sector at UBS Investment Bank and Execution Limited, and having covered the global financial sector at a long/short equity hedge fund. Fred earned an MSc in International Accounting & Finance from the London School of Economics and is a holder of the CFA designation.



Arjuna Dangalla

Arjuna joined the IFRS Foundation as a technical associate in April 2014. Since April 2016, he has been an assistant technical manager. He participated in the Disclosure Initiative, which led to the publication of narrow-scope amendments to IAS 1 & IAS 7, and in the IFRIC 22 project.

Prior to joining the Foundation, Arjuna worked in Sri Lanka as an Audit Manager at A.I. Macan Markar & Co., Chartered Accountants, a member firm of The International Accounting Group. His experience includes planning and overseeing statutory financial audits, as well as managing the firm-wide application of international accounting and auditing standards. Arjuna has a bachelor's degree in financial management and holds the ACA qualification.



Saskia Slomp

Saskia Slomp has been Governance and Admin Director at EFRAG since 1 January 2010.

She supports the various governance bodies of EFRAG and is responsible for the user activities and outreach events, in addition to her responsibilities for human resources.

Until the end of 2009, she was Technical Director at FEE (now Accountancy Europe), one of the founding member organisations of EFRAG. She has been involved in EFRAG since its establishment. Within Accountancy Europe, she was responsible for financial reporting, company law, corporate governance, capital markets, SMEs, sustainability issues and the public sector. In the beginning of her career, she worked with KPMG in The Netherlands.

Saskia is a member of the Dutch NBA.



Tommaso Fabi

Tommaso Fabi is Technical Director at Organismo Italiano di Contabilità (OIC – Italian Standard Setter). In this role, he coordinates all activities in which the OIC is engaged at international level, including the contribution to the IASB due process, the participation in research groups related to the development of IFRS and the study on the impacts arising from the application of an accounting standard. Tommaso is a member of the EFRAG Technical Expert Group and has also been member of the IASB Consultative Group on the Methodology for Fieldwork and Effects Analyses.

Tommaso has an auditing background, having worked for several years for Deloitte, prior to joining the OIC. At Deloitte he was a senior manager and gained broad experience in the auditing of listed and non-listed companies, especially in the utilities, energy and resources, and telecommunications sectors.

Tommaso is a certified "Dottore Commercialista" and "Revisore Contabile". Furthermore, he currently teaches at the course on IFRS at Luiss Guido Carli University of Rome.



Jacques de Greling

Mr Jacques de Greling has been an Equity Analyst for more than 25 years. Recently, he was covering European Telecom Operators at Natixis Securities (formerly CDC).

He is vice-Chairman of EFFAS Financial Accounting Commission and co-Chairman of the Financial Accounting Commission of the French Society of Financial Analysts (SFAF). He is a member of EFRAG User Panel and a founding member the CMAC for the IASB. He is also an expert advising the European Commission.

Mr de Greling holds an MBA from the Institut Supérieur de Gestion in Paris, graduated from SFAF's professional training centre (now CIIA) and later passed its accounting exams. He also studied post-graduate classes in Telecoms at Paris-Dauphine University and the CNAM.



Marianna Sorrente

Marianna Sorrente is graduated in "Economics and Business Administrations" from the University of Florence in 1999 and earned a master's degree in Finance from IFAF Business school of Milan in 2007.
She is a Financial analyst at an Italian multinational pharmaceutical group, her professional experience covers auditing, consolidated financial statements, business valuation in pharmaceutical sector after previously experiences in Finance Department of medium size and multinational companies.
She is a member of research group promoted by AIAF related to the development of IFRS and the study of the impacts arising from the application of accounting standards on IASIFRS matters.
Marianna collaborated in writing the book "Private Equity firm in crisis" published by AIAF and is also author of publications on financial reporting, local and international GAAP and Integrated Reporting.



Bruno Ricci

Ricci Bruno was born in Massa on 04.08.1969. In conjunction with the sport activity (football), also practiced at a professional level, he graduated in Economics and Business at the University of Pisa (2001). Since 2002 he has been enrolled as "ACCA Student no. 0851067 "(The Association of Chartered Certified Accountants - Glasgow). In 2005 he started working as a freelancer and in 2007 he opened the Studio Tributario Societario Dr. Bruno Ricci. In 2011 he becomes a Journalist Publicist and became a Professional Mediator (Legislative Decree n. 28/2010 and Ministry Decree n. 180/2010) at "Società Italiana Conciliazione Mediazione e Arbitrato S.r.l." (SIC&A - Pisa). Since 2012 he has been teaching accountancy at the School L. Visconti (Massa). In 2014 he graduated at the Italian Association of Financial Analysts and Financial Advisors (AIAF) as a "Consulente d'impresa" becoming AIAF Member. He is a main lecturer of two courses for lawyers accredited by the Bar Council: (i) XII Edition "Il Bilancio Legale 2017"; (ii) II Edition "Le operazioni straordinarie ". Ricci Bruno is a member of the Professional Association of Accountants (Commercialista) according to the Italian Law.



Stefano Zambon

Prof. Stefano Zambon BSc, University of Venice; MSc & PhD, LSE) is the Chair of Accounting and Business Economics at the University of Ferrara, Italy. He has visiting appointments in universities of four continents and more than 100 publications in books and international journals in the areas of management and reporting of intangibles, international financial reporting, and accounting theory and history.

He was Member of the Board of the European Accounting Association from 1997 to 2003. He is Associate Editor of the academic journal Financial Reporting. He is collaborating with the IASB on connecting more closely accounting research, practice and standard setting. Since 2005 he has been the coordinator of the series of European scientific Workshops on Intangibles and Intellectual Capital. Stefano is a Financial Analyst, Chartered Accountant and State-registered Auditor

Since 2015 is the Chair of the Global Network "World Intellectual Capital Initiative". Stefano has been invited as a key-note speaker at OECD, United Nations, European Parliament, European Commission, and French, Chinese and Japanese Governments' events on intangibles.



Filipe Alves

Filipe joined EFRAG in May 2011. Before joining EFRAG Filipe worked for 3 years in the PwC's Transactions-Advisory department where he provided services for financial due diligence, mergers, acquisitions, crisis management, restructuring and valuation consulting to a wide range of industry clients.

Filipe has also developed extensive experience in auditing and assurance services by working for firms like Ernst & Young where he worked with multinational and Portuguese leading companies applying IFRS.

Filipe graduated in Economics from ISEG - School of Economics and Management, received and provided continual professional education in PwC and Ernst & Young (e.g. IFRS, Deal Cycle and others) and he is continuing his professional education through Executive Master in Finance (EMF) at Solvay Brussels School.



Alberto Giussani

Alberto Giussani is Professor of International Accounting at the Catholic University of Milano as well as Vice Chairman of the OIC Board (Italian Accounting Standard Setter) after having been Member of the equivalent body (Commissione Principi Contabili) since 1981.

He was a Member of the Standard Advisory Council of the IASC Foundation from 2001 to 2008 and the Chairman of Assirevi (Italian Association af Audit Firms) between 2004 and 2006.

Alberto is a former Member of the Task Force for the drafting of the Code of Self Regulation of companies listed at the Italia Stock Exchange and has held internal senior positions at PricewaterhouseCoopers, where he was partner from 1981 to 2007.



Patricia McBride

Patricia McBride joined EFRAG in April 2014 as Technical Director.

Although she is a UK citizen, she has spent most of her career working in Asia-Oceania. She is well known in the international IFRS arena for her technical roles supporting the standard setters in Australia, New Zealand and Hong Kong. Part of her career was spent in academia and in her earlier days she was Chief Accountant of a subsidiary of a large German corporate for eight years. She has written for textbooks, academic journals and newspapers and has extensive experience explaining technical accounting issues to non-accountants.



Sabrina Pucci

Since 1998 Professor of Financial Accounting at Roma Tre University with publications in the insurance and accounting fields. The most recent papers analyze the role of intangibles in company pricing, the disclosure of risk in financial reporting and the impact of fair value for financial and insurance instruments on the market price.

Member of Insurance Accounting Working Group at EFRAG (European Financial Reporting Accounting Group, Brussels) for seven years, Chairman of the Insurance Accounting Committee of the Italian National Standard Setter (OIC) for eight years. Independent board member at Assicurazioni Generali since 2012 and member of the Audit and Risk Committee.



Elena Perini

Elena Perini graduated in Economics from the Catholic University of Milan in 1998. She is an AIAF member and a holder of the CFA designation.

With previous experience as an auditor, Elena has worked as a financial equity analyst since 2001.

She joined Intesa Sanpaolo Research Department in 2012 as equity analyst specialised in the Italian Insurance and Asset Gathering sectors. She previously worked as Banking and Asset Gathering equity analyst at Centrobanca, Dresdner Kleinwort, RasBank and EptaSim.



Luca D'Onofrio

Luca D'Onofrio is a Financial Analyst member of the AIAF Board (Italian Association of Financial Analysts). He works mainly in the areas like Accounting, Planning & Control and Risk Management on topics like IFRS, Financial Planning and Controlling, Accounting and fiscal rules, Solvency II, financial Insurance evaluation models.

As an AIAF Board Member, he explains the financial analysts point of view as "user" in Local and International working groups related to the development of IFRS and the financial disclosure impacts arising from the application of accounting standards: EFFAS Financial Accounting Commission, EFRAG User Panel, EFRAG Insurance Accounting Working Group, OIC (Italian Accounting Organisation) Insurance Contracts and OIC Financial Instruments Working group.

He is an Insurance Advisory Partner at Mazars.



Andrea Bellucci

Andrea Bellucci is Associate Professor of Accounting at University of Perugia. He teaches Accounting and Financial Reporting, Strategies and Valuation of Insurance Companies, Cost Management at undergraduate and graduate level. He's Adjunct Professor of Insurance at University of Milano Bicocca.
Andrea is author of several publications on financial reporting, local and international GAAP, value creation, governance of Insurance, Healthcare Companies and Utilities. He has been coordinator and member of research groups promoted by AIAF on IAS-IFRS and Solvency II and he is member of Insurance OIC Commission and of EFRAG User Panel. He is Director and Statutory Auditor of Insurance, Financial and Utilities Companies.
Before joining University of Perugia we was head of Organization Department at Fondiaria Group Companies and consultant of primary Insurance and Financial Companies

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