



19 December 2008

RE: Discussion Paper – preliminary view on financial statement presentation October 2008

As per the request in the discussion paper we respond to the questions for respondents as follows. Please also note our specific observations in a separate memo dated 19 December 2008:

Question 1:

We believe that having consistent classifications across the three statements will improve the usefulness of the information provided and assists in the cohesive financial picture of its activities.

We believe the disaggregation objective needs to be balanced against having too much information on the face of the primary statements. Currently, we feel the statements are too long, with too many subheadings and disaggregations.

We don't see any real difference in the liquidity and financial flexibility objective as all the information that has been presented in the proposed models was also available in our previously presented primary financial statements.

We believe the Board should consider the cost/benefit objective of financial statement presentation, as there are potentially significant costs in presenting the information as required in the proposed models.

Question 2:

The separation of business activities from financing activities was only a matter of reformatting our previously presented primary financial statements for our company. However, we do feel that it does clearly illustrate the profits received from the business activities as opposed to the costs of financing the business.

Question 3:

Our view is that equity should be presented separately as the financial statements primary users are the shareholders.

Question 4:

For discontinued operations our preference would be to disclose the discontinued operations in one section as we believe this will provide the information in the clearest manner.

Question 5:

We agree that a management approach does provide the most useful view of the entity, so long as there is appropriate disclosure in the accounting policies of the decisions made.

This would result in reduced comparability between companies financial statements, however we believe the benefits of each entity being able to appropriately present their financial statements does outweigh this disadvantage.

However, another factor to consider is that the management approach may be used by some entities to derive a result through classification that may not appropriate or could be misleading.

Question 6:

We don't believe it would be more difficult for users to calculate key ratios under the proposed financial statement models.

Question 7:

We do not think that it would be useful to classify assets and liabilities at the reportable segment instead of the entity level. This would make the proposed financial statement models extremely long and complicated.

Question 8:

We would not anticipate any significant changes need to be made to the segmental note.

Question 9:

We feel that there is some cross over in the distinction of operating and investing activities. We also think that guidance should be provided on the classification of capital expenditure and acquisitions of businesses.

Question 10:

A clear decision needs to be made over equity and where the transactions in respect of it are classified. For example in the proposed financial statement models, dividends paid are in financing but equity is in its own section. We would suggest that the financing section is restricted to financial assets and liabilities as defined in the standards.

Question 11:

No comments.

Question 12:

We concur on the basis that that if the cash is not available on demand then it is a form of short term investment.

Question 13:

We do not believe that presenting assets/liabilities that are measured on a different basis in the primary statements will provide information that is more useful for decision making. This could be dealt with in a note if deemed necessary.

Question 14:

We understand the rationale for including comprehensive income in one statement when an entity is entering into transactions that are recorded in equity i.e. cash flow hedges. We do believe that further consideration should be given to the appropriateness of the movement in the foreign currency translation reserve being included in total comprehensive income. The nature of the currency translation reserve is that it can fluctuate significantly; in our case it is \$(133) million in 2007 and \$174 million in 2008. This balance arises merely due changes in conversion of our foreign operations at a point in time. It does not represent a true profit that has been earned by the Group. If it is included in total comprehensive income we believe this provides a misleading picture of our Group's result, improving it from \$342 million in 2007 to \$660 million in 2008.

Question 15:

We do not believe that the items in the other comprehensive income need to be defined by category. Generally, items of this nature will be split across operating and financing, and will not be useful for decision making.

Question 16:

Please note our comments above in question 1 and in our other memo re disaggregation.

Question 17:

We concur with the proposed classification requirements of income taxes.

Question 18:

Our foreign exchange gains/losses that go through the income statement are immaterial so we would prefer these to be in one category rather than in different categories.

Refer to our response in question 14 regarding the foreign currency translation reserve.

Question 19:

We do a direct cash flow as part of our primary statements already and believe this does provide information that is useful to a decision maker.

Question 20:

As we do a direct cash flow already we would not anticipate additional costs in completing this.

Question 21:

We agree with the concept of basket transactions and that they should be classified in a single section or category, which would not require allocation of the total effect.

Question 22:

If the assets have been classified as current we do not see any value in further classifying them further.

Question 23:

We are supportive of the direct method used in the statement of cash flows and also reconciliation to comprehensive income.

However, we believe that under the proposed reconciliation format, a typical manufacturer will record the majority of movements to reconcile the cash flows to total comprehensive income in "accruals, allocations and other". The reconciliation currently does not highlight transactions which do not impact the Statement of comprehensive income i.e. capital expenditure or purchase of subsidiaries; or true non-cash movements. We believe it would be more meaningful to split the categories into working capital movements, capital expenditure, and non-cash movements to assist the reader in understanding the reconciliation more fully.

We also believe that the Statement of comprehensive income is the primary statement used and that the reconciliation should start with this statement and flow to the cash flow.

We have also given consideration to how we would go about splitting our working capital movements in the level of detail required by the proposed model. We believe that the cost of this would be excessive as a significant amount of this information is recorded in the accounts payable control account. There can also be changes in suppliers year on year which would need to be tracked and monitored to ensure comparability. It would require identification of each supplier for both years and a determination of which category in the reconciliation the supplier should be assigned to. Some form of allocation would also need to be made where suppliers are used for multiple categories. Given that an account payable ledger can have over 4,000 suppliers and we have 260 divisions which make up the group the task would be extremely onerous, and we do not believe that it provides the reader with particularly useful information. In addition, each of these numbers which are disclosed would need to be audited. This would need to be performed on a division by division basis which could significantly increase our external audit fees.

In practice, as the cost would significantly outweigh the benefit we believe that companies would perform an allocation of their working capital, which would not be particularly useful to a reader. Our recommendation would be that working capital movements are recorded as a separate line item in the reconciliation.

We have performed an alternative reconciliation of cash flows to comprehensive income which incorporates our proposed recommendations. This is attached for your reference.

Question 24:

No comments.

Question 25:

We believe that the current reconciliation taking into account the recommendations above would be appropriate.

Question 26:

Yes, we believe that the line for unusual or infrequent events or transactions would be useful in the reconciliation column to allow for separate disclosure. We also believe that this would be useful in the statement of comprehensive income to isolate events that occur i.e in our Group in 2007 a significant plant was destroyed and insurance proceeds were received.

Question 27:

No comment.

Yours sincerely

Kate Jorgensen
Corporate Accountant
Fletcher Building Limited