

LETTER OF COMMENT NO. 22

UNION OF LISTED COMPANIES, ATHENS GREECE

Financial Accounting Series Discussion Paper ("dp") no 1630-100 October 16, 2008

February 11, 2009

Executive Summary

The changes proposed by the International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) can be considered an improvement to the contents of financial statements (f.s.) As such they provide new information to professionals using such statements. They do not seem to have addressed the question of whether these changes would be just as useful to the companies concerned and their non-professional investors. We would like, however, to concentrate on certain principles mentioned (and some not mentioned) and to present our comments so as to lead to our conclusions. Obviously our detailed answers were arrived at before our conclusions, even if they follow these in our presentation.

The objectives of financial statement presentation are defined in paragraphs 2.1 through 2.4. Paragraph 2.4.c adds the "stewardship" objective to the definition and also specifies that while it is not included in the financial presentation objectives, it can be met by the proposed presentation model. Emphasis is thus placed on defined (and undefined) objectives which will guide the presentation model through the changes deemed necessary to existing practices.

Question 1 accepts the definition as granted in § 2.1 through 2.4 which defines the objectives of financial statement presentation. It adds "stewardship" (§ 2.4.c) to the cohesiveness and the disaggregation objectives. A reply to this question therefore supposes an agreement on the content of the word "users", which, however, is very broadly proposed in §2.1 – 2.4. The general term "capital providers" may concern providers of millions as well as buyers of 100 shares (assuming they acquired these at some increase of capital). Keeping such disparate groups informed according to their needs is not easy and cannot be based on a blurred distinction between categories of business activities. Furthermore while the ("dp") claims to exclude analysts, the questions posed later on are more for an analyst than for an investor. As a result a reply to the principle of disaggregation would have to be based on the details of information (i.e. how much additional information) such disaggregation required.

Cohesion

One must not ignore the fact that the I.F.R. Standards were first used in 2005 and many companies are still in the process of adaptation. It is felt that cohesiveness is obtained by existing I. F. R. Standards as well. It is not immediately obvious to non-specialists where the proposed changes increase cohesiveness. It is generally thought that U.S. F.A.S.B. standards are more business oriented than those of I.F.R.B. and as such will be more useful as management tools. Unfortunately the ("dp") proposed leads to the suspicion that the combination of I.F.R.B. and U.S. F.A.S.B. standards was effected by a simple addition of the two pre-existing individual standards.

Disaggregation

Realizing the proposed changes to the financial statements will be more difficult than the preparation of the f.s. in use today. Besides the cost of these changes will be significantly higher requiring longer hours of training and work for the accounting departments. Mainly due to the greater analysis and the multi faceted disaggregation of the data involved. Initiating the proposals requires comprehension of the changes in every entity, preparation and proper planning of the software and hardware that will be needed in order to achieve these purposes. It is felt that changes should be graduated in both time and company size. The changes should be introduced gradually and larger companies should be required to present more details in the new requirements for the disaggregation of data.

Stewardship

In paragraph 2.4 we read:

"The financial reporting objective of providing information to help users assess how well management has discharged its stewardship responsibilities is addressed in the Boards' joint conceptual framework project. Although a similar objective is not included in the financial statement presentation objectives, the proposed presentation model should help to achieve the stewardship objective of financial reporting."

In some sectors and in some countries corporate governance has been deficient and the various internal and external financial risks have not been covered by any audits, financial statements and statutory supervision. As a result we feel that if any "stewardship" has been lacking anywhere in the regulatory world, which obviously includes accounting standards, such "stewardship" has not been lacking in the IFRS accounting rules listed companies have been observing to date (bold lettering supplied by our response).

Materiality

Since financing provisions are very often part of the selling function and every single transaction can be deemed to have both a business activity (b.a) and a financing activity (f.a.) aspect, the separate presentation of b.a. and f.a. should be clearly defined so as to avoid a situation where every revenue item has to be split into two constituent parts. One way would be to distinguish the materially important separate sector operations. Another would be to establish a threshold to be defined beforehand as an important percentage of a company's total activities (20 %, 30 %, 40 %?). Such definitions would avoid needlessly burdening companies with excessive bookkeeping.

Allocation

The separation of business activities from financial activities, the disaggregation of operating & investing categories and the financing section, the reconciliation of cash flows to comprehensive income rely on extensive accruals and allocations that may eventually entail arbitrary or subjective allocation rules that might distort the financial situation. In at least one instance the discussion paper recognizes this issue (art. 2.35) in the context of the classification of an asset or liability as, operating or financing activity. The proposed solution however (presume that the asset or liability relates to operating activities) will distort the reporting of both the operating and the financial activities.

Question 8 is very explicit that: "The proposed presentation model introduces sections and categories in the statements of financial position, comprehensive income, and cash flows. As discussed in paragraph 1.21(c), the Boards will need to consider making consequential amendments to existing segment disclosure requirements (bold lettering supplied by the discussion paper) as a result of the proposed classification scheme. For example, the Boards may need to clarify which assets should be disclosed by segment: only total assets as required today or assets for each section or category within a section. What, if any, changes in segment disclosures should the Boards consider to make segment information more useful in light of the proposed presentation model? Please explain."

If the proposal is adopted then obviously very detailed disclosure requirements by segment would be required. And we feel that such a requirement would be an exaggeration!

Applying the changes

Listed companies preparing their f.s.'s will find one-off costs will rise significantly affected by:

- The adjustment of existing accounting methods.
- The creation, retroactively, of comparative figures.
- The investment in expanded or even new hardware and software.
- The configuration of these new accounts as suitable management tools.

Annual costs will also rise significantly affected by:

- The extra hours of work of accountants and all managers.
- The extensive and continuing training of accountants.
- The probable extra cost of internal and external auditing.

Conclusions

Quite a number of organizations (the IASB itself, IOSCO, CESR and others) have spoken of alternative performance measures in the past. This seems, however, to have been abandoned as a communication tool and we are asked to adopt increasingly detailed financial statements. If one were to compare the four pages of Illustrations 1A and 2A to the two pages of Illustrations 2A and 2B concerning consolidated cash flow statements for "Toolco" and "Bank Corp", one could readily agree that we seem to have reached a new level of exaggeration.

Obviously, the disaggregation provides better information which serves, however, mostly for accounting calculation and audit purposes. It is doubtful if it adds something significant in providing additional crucial information to users. As such the changes provide new information to professionals using such statements. It is highly uncertain, however, whether the proposed changes will benefit non-professional investors and the companies themselves. We find, therefore, that the discussion paper:

- ignores the burden placed on companies;
- pays no attention to the cost of the proposed changes and
- does not allow for a gradual adaptation coming in less than ten years from the original implementation of I.F.R. Standards.

Changing the financial statement presentation is an idea whose time might have come in the past but, given the state of the world economy and the lack of proper regulation for enormous portions of it, one cannot help but feel that the proposed "discussion paper" deals with a previous situation, no longer as relevant as when it was conceived. It must be underlined once again that if the world is currently facing a major crisis, this was due to faulty regulation and not to a lack of appropriate tools.

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Answers to the 27 questions of the discussion paper

1. Would the **objectives of financial statement presentation** proposed in paragraphs 2.5-2.13 improve the usefulness of the information provided in an entity's financial statements and help users make better decisions in their capacity as capital providers? Why of why not? Should the Boards consider any other objectives of financial statement presentation in addition to or instead of the objectives proposed in this Discussion Paper? If so, please describe and explain.

The proposed objectives of financial statement presentation shall positively contribute to the upgrading of the information value of the financial statement due to the following reasons:

- Matching the business planning processes with the financial planning processes providing a more concrete basis for effective business performance management and financial reporting.
- Improvement of the transparency of the operational and financial reporting processes.
- Effective presentation of the results of the individual on going value added activities clearly distinct from the financing activities of the entities.
- Effective determination of the amount and timing of the cash flow streams

However, aiming at ensuring of the cost effectiveness of the financial reporting function specific guidance should be secured for the determination of the required level of granularity of the elements of the financial statements providing specific materiality criteria. In a similar vein, the nature of the business activities and the size of an entity could be addressed as important driving factors in determining the scope of businesses that are called for the application of the provisions of the new standard.

Moreover, the comparability of the elements of the financial statement shall be affected in cases of changes in the organizational structure and in the business activities of the entities. As a result, the provisions of the new standard could be specific as to the accounting procedures that are required to ensure the cohesiveness of both the current elements of the financial statements and the respective comparative figures, in cases of changes in the structure of the business.

To conclude, the cost factor for generating the proposed additional information should appropriately be addressed in the provisions of the new standard in order to ensure the satisfaction of all the qualitative characteristics of the financial statements as provided by the conceptual framework of the IFRSs and still keeping balance between benefits and cost.

2. Would the **separation of business activities from financing activities** provide information that is more decision useful than that provided in the financial statement formats used today (see paragraph 2.19)? Why or why not?

The separation of the business activities from the financing activities definitively communicate key information about the way and the risk conditions under which the entities operate. Among the main reasons are the following:

- The separation of the external financing conveys information about the way the entity has financed the business operations and about the undertaken financing risk that shall affect the future cash flows.
- The provision of information about the individual sources and conditions of financing determining the risk class.
- The identification of the cash cycle of the each business segment and the entity as a whole.
- The provision of the basis for the estimation of the risk profile of the entity and the opportunity cost of capital employed.

The achievement of the said objectives is subject to a clear definition of the financing activities and the respective financing elements of the financial statements, as well as the determination of an appropriate materiality threshold. For instance, the financing element of the derivative products, leasing products and of the employee benefit plans could be defined concisely in order to classify them accordingly.

3. Should **equity** be presented as a section separate from the financing section or should it be included as a category in the financing section (see paragraphs 2.19(b), 2.36, and 2.52-2.55)? Why or why not?

Equity could be reported separately from the Financing Section, as the respective generated financing risk, the cash flow profiles and the opportunity cost of capital of each individual source of finance is differentiated, upgrading the usefulness of the financial statements in terms of the ability to predict the future cash flows and to estimate the economic value added of an entity.

4. In the proposed presentation model, an entity would present its **discontinued operations** in a separate section (see paragraphs 2.20, 2.37, and 2.71–2.73). Does this presentation provide decision-useful information? Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets, and financing liabilities)? Why or why not?

The separate presentation of the discontinued operations in the financial statements is useful as it provides the basis for more accurate estimation of the maintainable future cash flows of the entity and ensure the consistency of the reported financial position and results from the operations through years.

Moreover, the supplementary information about the discontinued operations in the notes could contribute in understanding of the conditions and the results that led to the

discontinuation of the operations and estimate any potential influence on the business strategy of the entity in the future.

The reporting of the individual elements of the discontinued operations under the various captions of the financial statements may be considered as unnecessary as they concern the past and not continuing business operations and their analysis do not increase the predictive value of the information conveyed by the financial statements as far as the future cash flows are concerned.

Again, the standard could provide for materiality criteria applied on the separation of financial elements of the discontinued operations in order to avoid unnecessary costs incurred in the preparation of the financial statements.

- 5. The proposed presentation model relies on a **management approach** to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment (see paragraphs 2.27, 2.34, and 2.39–2.41).
 - **a.** Would a management approach provide the most useful view of an entity to users of its financial statements?
 - **b.** Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach? Why or why not?
 - a. The Management Approach can definitively provide a living picture of the financial performance of an entity as it reflects the way the management plans, operates and controls the operations of an entity. For instance, the adoption of the Management Approach in cases of vertically integrated businesses may give a sound indication of the added value each business segment contributes in the total financial performance and financial position of the Group and may provide the basis of assessing the business and financial risk of each business segment. Taking into account that one of the fundamental objectives of the Management Reporting is to plan and control the financial performance of each business segment, the elimination of the inter-company and intra-company financial results can impair the achievement of the relevant objective.

As a result, since the purpose of the management financial reports may by different from those of the statutory financial reporting (e.g. management of individual business segments of one entity, designing marketing and pricing policies etc), imposing the application of different accounting principles from those used in the preparation of the statutory financial statements, it is asserted that such additional key financial information generated based on the Management Approach, can be reported in the Notes to the financial statements subject to the application of specific materiality criteria and of specific rules aiming at ensuring the necessary degree of comparability and of consistency with the statutory financial reporting preserving the maximum degree of simplicity in financial reporting.

b. The Benefits

- The presentation of the allocation of the available resources to the individual business segments and of the respective financial results.
- The provision of the information basis for assessing the potential changes in the resources that the business is likely to control in the future.
- The conveyance of information about the way the Management runs the business and about the results on the financial position due to changing market conditions.
- The ability to analyze the business risk of a Group and to assess the ability to generate net cash flows that out-weight the opportunity cost of capital.
- The provision of the information about the changes in the business operations.

Drawbacks

Although a balance between relevance and reliability is inevitable in order to ensure the necessary degree of usefulness of the financial statements to the users, the comparability is one of the fundamental qualitative elements of the financial statements to be ensured. The potential reduction of comparability may be considered as a significant draw back of the adoption of the Management Approach in the preparation of the financial statements as it may impair the objectivity of the conveyed information on the entity level and between entities.

The information that is conveyed by the financial statements could be understandable by all user groups provided that is comparable through time not only on an entity level but also between entities, leading their investment decision making.

Due to the reasons presented in (a) above, it can be asserted that reduced comparability in the financial statement may mislead the users of the financial statements in their assessment of the performance of an entity and in their investment decision making.

As a result, the Management Approach can be a significant alternative basis of financial reporting provided that the comparability characteristic can be secured by an appropriate financial reporting framework.

6. Paragraph 2.27 proposes that both assets and liabilities should be presented in the business section and in the financing section of the **statement of financial position**. Would this change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities? Why or why not?

The calculation of key financial ratios can be easier and consistent with the business operations planning since the elements of the financial statements shall be matched consistently according to their cash flow basis and according the reportable segments. Moreover, the entities may link the critical success factors with the key performance indicators, including the said key financial ratios, with the elements of the financial statements within an integrated business performance management system.

However, heavy investment in information systems infrastructure and in human resources shall be imposed on the entities in order to produce the necessary

information required for the preparation of the financial statements, raising the objective of balance between benefits and costs that can be achieved not only by a sound professional judgment but also by enacting an efficient and effective financial reporting framework that could provide for practicable allocation rules for allocating the repayment of the financing in the sections and categories concerned.

7. Paragraphs 2.27, 2.76, and 2.77 discuss classification of assets and liabilities by entities that have **more than one reportable segment** for segment reporting purposes. Should those entities classify assets and liabilities (and related changes) at the reportable segment level as proposed instead of at the entity level? Please explain.

Please refer above in Q.6.

Additionally, as in most business cases, each major reportable segment concerns business activity of individual business units, under one or more business entity, that is ruled by different economic conditions, the management of the respective assets and liabilities on a reporting segment level may be considered as rational and inevitable in order to plan and to address the business risk effectively.

As result, the classification of assets and liabilities by reportable segment could be advisable for sizable operations, provided that significant resources are available to ensure the required systems infrastructure and the respective accounting policies and procedures that are necessary for the maintenance of the accounting records. Specifically, the classification of assets and liabilities by reportable segment could be made only on the operating activities level (Business section – Operating Category) in order to avoid arbitrary allocations of the elements of the other sections (Income Taxes and Financing). In a similar vein, easy to apply allocation rules could be provided in order to ensure the allocation (if any) of assets and liabilities of the corporate segment into the individual business reportable segments or between the CGUs.

Furthermore, specific guidance should be provided to the business not only in setting the materiality level (in terms of size of operations and extent of analysis of financial information) to avoid unnecessary costs, but also to assist the entities in the transformation process as the comparable financial figures may not be available by the current information systems. It is pointed out that the aforementioned preconditions may not be satisfied by small and medium sized companies.

8. The proposed presentation model introduces sections and categories in the statements of financial position, comprehensive income, and cash flows. As discussed in paragraph 1.21(c), the Boards will need to consider making consequential amendments to existing segment disclosure requirements as a result of the proposed classification scheme. For example, the Boards may need to clarify which assets should be disclosed by segment: only total assets as required today or assets for each section or category within a section. What, if any, changes in segment disclosures should the Boards consider to make segment information more useful in light of the proposed presentation model? Please explain.

Taking into account that the fundamental objective is to improve the ability of the users of the financial statements to assess the cash generation capacity of an entity and

of its operating segments, the analysis of the individual classes of assets and liabilities could be made on an aggregation level, to avoid excessive costs, that is sufficient for identifying the cash settlement basis of major classes of assets and liabilities and the results of the operations of the identifiable reportable segments.

9. Are the **business section** and the **operating and investing categories** within that section defined appropriately (see paragraphs 2.31–2.33 and 2.63–2.67)? Why or why not?

The section of Investment Activities could be renamed to Non Operating as confusion may be generated about the nature of assets and liabilities that are to be classified therein.

In particular, the Operating Activities require investments in tangible and non tangible long term assets and as such shall be classified appropriately under Business – Operating Section. Moreover, the non operating activities of an entity may generate short term assets and liabilities that should be reported by nature within Non Operating section.

10. Are the financing section and the financing assets and financing liabilities eategories within that section defined appropriately (see paragraphs 2.34 and 2.56 2.62)? Should the financing section be restricted to *financial assets* and *financial liabilities* as defined in IFRSs and U.S. GAAP as proposed? Why or why not?

The financing section and the financing assets and financing liabilities categories are defined appropriately within that section but definitely they need further clarification.

Although the restriction to include only financial assets and financial liabilities in the Financing Section narrows the definition of the classifiable assets and liabilities, the following issues may draw further attention and appropriate consideration:

As financial assets and financial liabilities may concern both operating activities and financing activities, adequate criteria could be provide in order to clarify the method of the classification of the financial assets and liabilities into the operating and financing sections.

The separation of the portion of a financial asset that has been financed by external sources of financing, from the portion financed by equity financing could be based on specific guidance. As a result, the respective application of the matching concept can be achieved by securing the appropriate definitions of the financial assets and financial liabilities that are classifiable under the Financing Section.

- 11. Paragraph 3.2 proposes that an entity should present a **classified statement of financial position** (short-term and long-term subcategories for assets and liabilities) except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant.
 - **a.** What types of entities would you expect **not** to present a classified statement of financial position? Why?

b. Should there be more guidance for distinguishing which entities should present a **statement of financial position in order of liquidity**? If so, what additional guidance is needed?

- a. Aiming at assessing the liquidity and the financial flexibility of an entity the classified statement of financial position can be proved as inadequate source of relevant information in the following cases:
 - Entities that have diverse financial activities with many operating / investment cycles shorter than a financial year. Such entity groups may include financial institutions and insurance companies.
 - Entities that are in a distress position and the individual liquidity profiles of each asset and liability classes may have a significant bearing on their short term viability.
 - Entities with critical liquidity and credit profiles.

In such cases, the presentation of the assets and liabilities in order of liquidity may provide crucial information to the users of the financial statements.

b. Definitely, a more detailed presentation of the preconditions and circumstances that dictate the presentation of the assets and liabilities in order of liquidity in the Statement of Financial Position can educate and guide the entities in a more transparent preparation and presentation of the financial statements. The suggested additional guidance could focus on the following areas of concern:

- which business industries are likely to have operating characteristics that lead to the presentation of the assets and liabilities in order of liquidity,
- which are the conditions of operations of an entity that require liquidity status information,
- which are the situations that an entity faces and should provide a thorough analysis of the liquidity profiles of its assets and liabilities on both entity level and consolidation level,
- what is the required supplementary information that should be additionally presented to the liquidity profiles of assets and liabilities, in order to assess the liquidity position and the financial flexibility of an entity.
- 12. Paragraph 3.14 proposes that **cash equivalents** should be presented and classified in a manner similar to other short-term investments, not as part of eash. Do you agree? Why or why not?

In general terms, the separation of the cash equivalents from the cash on hand can give a better indication of the liquidity position of an entity. However, a detailed guidance as to the definition of the cash equivalents can provide the basis for a more concrete reporting of the available cash resources, including in cash all items that can be readily converted into cash by discounting their nominal value (e.g. short term time deposits).

Moreover, a more focused definition of the individual elements of cash equivalents can provide the basis for a more accurate classification in the various sections of the financial statements. For instance, the minimum cash that is required as part of the

current assets needed to run the everyday business could not be included in the Financing Section or in short term investments but in Operating Section of the financial statements. The same rule can be applied for classifying receivable bank checks signed by customers in Accounts Receivable under Operating Section rather than under short term investments.

13. Paragraph 3.19 proposes that an entity should present its similar assets and liabilities that are measured on different bases on separate lines in the statement of financial position. Would this disaggregation provide information that is more decision useful than a presentation that permits line items to include similar assets and liabilities measured on different bases? Why or why not?

The valuation bases of the assets and liabilities influence the ability to estimate the expected future cash flows based on the reported financial information. As a result, the separate reporting of major classes of assets and liabilities according to their valuation bases can significantly upgrade the relevance of the reported financial information.

As far as the cost of disaggregation is concerned no additional cost is expected as all entities account the assets and liabilities discretely in the accounting records applying the appropriate valuation bases,

14. Should an entity present comprehensive income and its components in a **single statement of comprehensive income** as proposed (see paragraphs 3.24–3.33)? Why or why not? If not, how should they be presented?

The preparation of a single statement of comprehensive income could be considered to have the following positive arguments:

- Accurate and complete presentation of the results generated by the transaction of an entity with all non owner parties.
- Analysis of all income and expense elements that affect the equity position of an entity in the face of a single income statement and not partly in the Income Statement and partly in the Statement of changes in equity.
- Allowance of the tax effect on the elements of other comprehensive income.
- Higher comparability between the financial statements of all entities through uniform format of financial statements.
- Easier calculation of key financial ratios assessing financial performance efficiently and effectively.
- Enhanced simplicity in the presentation of the financial results.
- 15. Paragraph 3.25 proposes that an entity should indicate the category to which items of other comprehensive income relate (except some foreign currency translation adjustments) (see paragraphs 3.37–3.41). Would that information be decision useful? Why or why not?

The reporting of the relationship of the individual elements of other comprehensive income with the respective categories of assets and liabilities can integrate the

financial reporting and ensure cohesiveness in the reported elements of the financial statements.

However, the materiality of the amounts of other comprehensive income should determine the presentation requirements.

16. Paragraphs 3.42 3.48 propose that an entity should further **disaggregate** within each section and category in the statement of comprehensive income its revenues, expenses, gains, and losses by their function, by their nature, or both if doing so will enhance the usefulness of the information in predicting the entity's future cash flows. Would this level of disaggregation provide information that is decision useful to users in their capacity as capital providers? Why or why not?

Although the analysis of the elements of the financial statements by function and by nature corresponds to the way an entity plans and accounts for its operations, resulting in a more concrete basis for predicting the future cash flows, such analysis is expected to increase the complexity of the systems and procedures making the preparation of the financial statements a costly process. It is noted that any contemplated disaggregation process should be applied not only on entity level but also on reportable segment level ending with a demand of a highly complex accounting system infrastructure fully integrated with a business performance management system. Moreover, the consolidation process is expected to be unnecessarily a highly complex exercise and the overall costs could not be justified by the added value of the incremental financial information.

Instead and based on predefined materiality criteria, the main expected benefits from the contemplated disaggregation process can be achieved by providing the flexibility to the management in presenting key revenue and expense elements information only in the Notes to the financial statements, at least for small and medium sized entities. The aforementioned elements of the statement of comprehensive income can be grouped only on the aggregation level that corresponds to the aggregation level of the respective elements of the statement of financial position. Such treatment could simplify the process of the preparation of the financial statements and still generating the required financial information for predicting the future cash flows of an entity.

In conclusion, it is asserted that the suggested level of disaggregation can be marginally useful to the capital providers of the entities.

17. Paragraph 3.55 proposes that an entity should allocate and present **income taxes** within the statement of comprehensive income in accordance with existing requirements (see paragraphs 3.56–3.62). To which sections and categories, if any, should an entity allocate income taxes in order to provide information that is decision useful to users? Please explain.

An entity should allocate and present income taxes within the statement of comprehensive income in accordance with existing requirements. An entity should not allocate income taxes to the various sections and categories proposed since this is almost impossible to be done. If entities try to allocate income tax, it is certain that arbitrary models will be used that will result in misleading information and will add no value to the information needed for decision making by the users. The calculation

of income tax (both current and deferred) is mainly based on local tax laws and regulations and not on accounting principles (such as IFRSs or US GAAPs). Allocation of tax, even to the discontinued operations is also sometimes not reliable since if it is not clear by the corresponding tax computation it may include arbitrary calculation. Allocation of tax may also disrupt the calculation of certain pre-tax or after tax key figures and ratios.

Income tax expense or benefit should continue to be allocated among income from continuing operations, discontinued operations, other comprehensive income items, and items charged or credited directly to equity, since such allocation preserves simplicity to the extent possible and still provide the necessary information to the users for the prediction of the future cash flows from continuing operations of the business.

However, additional guidance io required for the allocation of the income taxes between the reportable segments and entities as the income taxes are accrued on an entity level and in certain cases on a group level.

- 18. Paragraph 3.63 proposes that an entity should present foreign currency transaction gains and losses, including the components of any net gain or loss arising on remeasurement into its functional currency, in the same section and category as the assets and fiabilities that gave rise to the gains or losses.
 - **a.** Would this provide decisions-useful information to users in their capacity as capital providers? Please explain why or why not and discuss any alternative methods of presenting this information.
 - **b.** What costs should the Boards consider related to presenting the components of net foreign currency transaction gains or losses for presentation in different sections and categories?
 - a. The presentation of the foreign currency transaction gains and losses with the same classification as that of the underlying assets and liabilities improves the cohesiveness of the elements of the financial statements and provides a faithful representation of the actual results from the net investments in currencies other than that of the reporting currency and their return thereon. After all, the foreign currency transaction gains and losses are the result of the valuation process of the individual assets and liabilities and influence both the respective elements of the statement of comprehensive income and the respective cash flow streams in terms of amount and timing. Moreover, the aforementioned accounting treatment improves the accounting processes regarding the estimation of the tax position of the entities and corollary their net cash position, which is highly depended on the tax regime of each country in which the entities operate. However, adequate materiality criteria could be provided in order to avoid unnecessary costs.
 - b. Taking into account that the foreign currency transaction gains and losses are the result of the valuation process of the individual assets and liabilities, as provided by the IFRS, the costs that are associated with their classification in the various sections and categories concern the development of the necessary system infrastructure to

automate the classification process, the human resources required for the application of the necessary accounting procedures and the incremental audit costs.

- 19. Paragraph 3.75 proposes that an entity should use a **direct method of presenting cash flows** in the statement of cash flows.
 - **a.** Would a direct method of presenting operating each flows provide information that is decision useful?
 - **b.** Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method? Why or why not?
 - c. Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?
 - a. Indisputably, the application of the direct method of presenting the operating cash flow provides specific and more accurate information about the sources and uses of cash and as a result improves the ability of the users to predict the cash generation capacity of the business. However, the required system infrastructure and the time consuming accounting policies and procedures are expected to impose a significant financial burden on the entities which could impair the overall financial performance of the entities, while at the same time will bring significant change management issues.
 - b. The operating cash receipts and payments that an entity presents using a direct method can be effectively matched with the respective operating assets and liabilities and with the operating income and expenses. This is due to the following reasons:
 - The sections and categories of the elements of the financial statements are uniform to all individual financial statements.
 - The detailed level of analysis of the elements of the financial statements can be determined consistently with the individual categories of sources and uses of cash.

As a result, such a presentation process is more transparent and more consistent with the proposed cohesiveness and disaggregation objectives.

- c) Due to detailed information provided in the statement of cash flows by applying the direct method, the proposed reconciliation schedule could not add value to decision making.
- 20. What **costs** should the Boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81–3.83)? Please distinguish between one-off or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?

The costs that are associated with the application of the direct method could include the following elements:

One time implementation costs

- Development costs of the necessary accounting policies and procedures for the identification of the cash flow elements of each major transaction on a reportable segment and on an entity level.
- Amendments of the management reporting policies and procedures.
- Amendment of the consolidation policies and procedures.
- Amendment and or acquisition / implementation of the ERP systems.
- Change management costs.
- Generation of comparable information on the applicable reporting levels.

On going application costs

- Increased effort of the accounting personnel to check and reconcile the reportable cash flow elements to the movement of Cash on Hand.
- Audit costs
- · Reporting costs.
- Documentation costs
- Amendment of the information system infrastructure and respective accounting procedures in cases of change in the organizational structure of the entity or the Group.

The expected costs can be reduced by:

- Providing flexibility to the entity's management to adopt the direct method.
- Giving revenue and cash flow variability criteria for the adoption of the direct method and for the determination of the degree of analysis of the elements of the financial statements.
- Narrowing the reportable elements of the statement of cash flows and providing
 their presentation in the Notes subject to specific materiality criteria applied for
 the determination of the presentable cash flow elements, taking into account the
 entity size and the entity operations.
- Differentiating the presentation method of the statement of cash flows according to industry and credit risk classification of the entities.
- 21. On the basis of the discussion in paragraphs 3.88–3.95, should the **effects of basket transactions** be allocated to the related sections and categories in the statement of comprehensive income and the statement of cash flows to achieve cohesiveness? If not, in which section or category should those effects be presented?

Aiming at keeping consistency in the application of the proposed presentation method, the effects of the basket transactions could be classified under the respective sections and categories. After all, adopting the direct method in the presentation of the cash flows the liquidation or cash settlement of operating assets and liabilities, **subsequently** to an acquisition or disposal, can be consistently presented under the sections and categories that are related with the individual functions and categories of the financial elements.

Alternatively, for major reorganization basket transactions the corresponding effects could be presented under operating category, where investments in subsidiaries are classified.

Still, to preserve simplicity the allocation of the relevant basket transaction effects could be ruled by predefined materiality criteria and by specific allocation guidance.

22. Should an entity that presents assets and liabilities in order of liquidity in its statement of financial position disclose information about the **maturities of its short-term contractual assets and liabilities** in the notes to financial statements as proposed in paragraph 4.7? Should all entities present this information? Why or why not?

In cases of entities with operating characteristics as that presented above (please refer to Q11 (a)), the maturities of their **short-term contractual assets and liabilities** can be presented in the Notes to financial statements in groups as appropriate. For all other entities the analysis of the short term assets and liabilities in order of liquidity is not expected to provide information of significant value, unless in cases of entities with crucial liquidity problems or with significant amounts of overdue assets and liabilities. In the later cases all overdue assets and liabilities should be presented in notes in order of contractual maturities and indicating the overdue period of time. Supplementary, if the expected realization (cash conversion) or settlement date for any material asset and / or liability, that is not currently overdue, is expected to be significantly different from its contractual maturity date, the expected realization or settlement date with adequate explanations should be presented in the notes.

- 23. Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components: (a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments.
 - a. Would the proposed reconciliation schedule increase users' understanding of the amount, timing, and uncertainty of an entity's future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.
 - **b.** Should changes in assets and liabilities be disaggregated into the components described in paragraph 4.19? Please explain your rationale for any component you would either add or omit.
 - c. Is the guidance provided in paragraphs 4.31, 4.41, and 4.44 4.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.
 - a. The reconciliation schedule in the notes to the financial statements will definitely increase the transparency of the figures analyzed and provide information about the ability of an entity to generate cash. However, such detailed reconciliation of cash flow elements to the elements of the statement of comprehensive income, although it provides information about the persistence and measurement subjectivity of the components of the comprehensive income, no significant added value over and above the information provided by the main financial statements is expected to be provided

to the users of financial statements for upgrading their ability to predict the cash flows.

The major costs and benefits for generating the information that is necessary to prepare the proposed reconciliation schedule are summarized as follows:

Costs

- Design of the accounting procedures for separation of cash elements from the accrual elements.
- Design of the system functionality and system procedures to record and reconcile the cash elements, the accrual elements and changes of assets and liabilities to the elements of the statement of cash flows and of the statement of comprehensive income.
- Development of the measurement and allocation procedures for the determination and classification of the reconciling elements under the captions of the statement of cash flows and of the statement of comprehensive income.
- Application of clearing procedures in the maintenance of assets and liability records not only a caption level but also on a reportable level.
- Costs for the application of the necessary accounting procedures to prepare the reconciliation schedule
- Allocation of the open accounting entries of the opening assets and liabilities
 into the captions of the statement of cash flows and of the statement of
 comprehensive income, in order to prepare the reconciliation schedule in the
 first year of implementation.
- Development consolidation accounting procedures and systems in order to prepare the proposed reconciliation schedule on a group level. Consolidation and foreign currency translation accounting procedures are expected to be more complicate to apply.
- Maintaining the aforementioned systems and procedures in cases of organizational restructurings.

Benefits

- Supportive documentation of the cash generation capacity of the entity by element of the financial statements.
- Assessment of the degree of subjectivity in accrual accounting.
- Assessment of the persistence in cash generation capacity through time.
- Easier identification of the value drivers and risk classes of the assets and liabilities of a business.
- Increased transparency in the valuation processes of the assets and liabilities.
- Separation of the effects of remeasurements of assets and liabilities from the effects of the actual movement of customer and vendor accounts.
- Easier auditing of the financial statement ending to lower costs.

However, it is questionable if benefits due to the incremental information provided could exceed the associated costs.

- b. In case that the proposed reconciliation schedule is deemed as a useful tool, the proposed components could be considered as appropriate for the disaggregating of changes in assets and liabilities, as they present a better basis to assess the timing and the amounts of future cash flows.
- c. The guidance is generally sufficient. The only missing element is guidance in relation with materiality thresholds in the determination of both the captions of the statement of cash flows and of the statement of comprehensive income and the amounts that are to be categorized under those captions. It is suggested that the objective of minimizing the costs below the expected benefits derived from the preparation of the reconciliation schedule should be pervasive in providing the detailed guidance.
- 24. Should the Boards address further desegregation of **changes in fair value** in a future project (see paragraphs 4.42 and 4.43)? Why or why not?

Definitively, there is a clear need for addressing the recognition and measurement issues due to the disaggregation of the resulted changes in the fair values of assets and liabilities in further detail. Specifically, the following factors could be taken into account in defining the disaggregation level and categories of the changes in fair values:

- Basis of measurement of assets and liabilities
- Origin of risk (interest rate risk, currency risk, credit risk etc)
- Accruals
- Allocation bases
- · Remeasurements bases
- Recurring and non recurring nature of changes in the carrying value of the assets and liabilities.
- Analysis of elements of derivative instruments and explanations thereon.
- Changes in classification of assets and liabilities and analysis of concequencial effects in their fair values on the equity position of the entity.
- Required materiality level
- 25. Should the Boards consider other alternative reconciliation formats for disaggregating information in the financial statements, such as the statement of financial position reconciliation and the statement of comprehensive income matrix described in Appendix B, paragraphs B.10-B.22? For example, should entities that primarily manage assets and liabilities rather than cash flows (for example, entities in the financial services industries) be required to use the statement of financial position reconciliation format rather than the proposed format that reconciles cash flows to comprehensive income? Why or why not?

At least in cases of entities with operating characteristics as that presented above (please refer to Q11 (a)), an alternative reconciliation format, probably the statement of the financial position reconciliation schedule, may be more appropriate as those entities manage assets and liabilities that generate financial results and cash flow streams. Usually, in the financial industry the users of the financial statements refer to the elements of the statement of the financial position and to their projected levels in order to predict the future financial results and the future cash flow, assessing their

liquidity position. In these cases, the reconciliation of the elements of the statement of financial position to the elements of the statement of cash flow and of the statement of comprehensive income may provide more relevant information to the users for assessing the future cash flows, the liquidity position and the financial flexibility of a financial institution.

However, appropriate materiality criteria could be provided in order to simplify the required infrastructure in systems and procedures deemed necessary for the preparation of the reconciliation of the statement of financial position. Furthermore, specific guidance can be considered necessary for developing all the necessary accounting procedures to prepare of the aforementioned reconciliation schedule easing the asset and liabilities valuation and translation processes as well as the consolidation process.

- 26. The FASB's preliminary view is that a memo column in the reconciliation schedule could provide a way for management to draw users' attention to unusual or infrequent events or transactions that are often presented as special items in carnings reports (see paragraphs 4.48-4.52). As noted in paragraph 4.53, the IASB is not supportive of including information in the reconciliation schedule about unusual or infrequent events or transactions.
 - **a.** Would this information be decision useful to users in their capacity as capital providers? Why or why not?
 - **b.** APB Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, contains definitions of unusual and infrequent (repeated in paragraph 4.51). Are those definitions too restrictive? If so, what type of restrictions, if any, should be placed on information presented in this column?
 - **c.** Should an entity have the option of presenting the information in narrative format only?
 - a. The presentation of memo information about unusual or infrequent events and transactions that have materially influenced one or more elements presented in the reconciliation schedule is considered as useful information in the assessment of the future recurring cash generation capacity of an entity.

However, such additional information may be considered as of substantial value if it is generated based on predefined materiality criteria and if it is supported by appropriate risk assessment.

- b. The definition of the notions of "Unusual Nature" and of "Infrequency of occurrence" are consider appropriate and provides the required degree of flexibility to the management to disclose any event or transaction that according to its opinion should be taking into account in the business performance evaluation and in assessing the prospects of an entity.
- c. It is important to match the presented information of any unusual or infrequent transaction with the captions of the statement of cash flows and of the statement of comprehensive income. Satisfying the aforementioned requirement, the presentation

format could be left to the discretionary choice of the management, as in certain cases explanatory comments could further support the main information.

27. As noted in paragraph 1.18(c), the FASB has not yet considered the **application of the proposed presentation model to nonpublic entities**. What issues should the FASB consider about the application of the proposed presentation model to nonpublic entities? If you are a user of financial statements for a nonpublic entity, please explain which aspects of the proposed presentation model would and would not be beneficial to you in making decisions in your capacity as a capital provider and why.

Subject to the satisfaction of specific predefined entity size criteria, the proposed presentation model could be applicable to all non public entities that have chosen to prepare their financial statements adopting the IFRSs, as a user of the financial statements of a nonpublic entity expects the same financial and market information as for in case of a public entity. Such a provision could ensure equal treatment of the entities within the same industry as far as their obligation for compliance with the uniform statutory reporting requirements is concerned.

However, specific guidance for applying the accounting framework of IFRSs should be provided for small and medium sized companies in order to both generate relevant and reliable financial statements and to avoid unnecessary operating administration costs



Union of Listed Companies

UNION OF LISTED COMPANIES (ULC)

The need for an association of listed companies due to European and national regulations is manifested throughout the members of the European Union (EU). The organization that represents listed companies in Greece is the ULC, also known by its Greek acronym ENEISET.

The ULC is a non-profit association that comprises most listed companies on the Athens Exchange. The capitalization of our members exceeds 80% of the total market. Our Directors, a list of which is attached, represent some of the biggest quoted companies in Greece. Our Chairman of the Board is Mrs. Irene Athanassiadou also Chairman of Naftemboriki, Greece's leading business daily. Our President of the Executive Committee is Mr. Panayotis Dracos.

To fulfill our role we deal with European Directives; the Committee of European Securities Regulators; national legislation of the Hellenic Capital Markets Committee (the equivalent of the SEC¹); International Accounting Standards; the convergence of US GAAP² and the IASB³ standards; etc. We are working on the adoption of the new Directive on shareholder rights in Greek law. We have dealt with the repercussions on the Greek companies of legislation such as the Sarbanes Oxley Act; we have advocated our members' position on delisting to the Securities & Exchange Commission. We naturally work closely with all Greek Ministries and all associations representing the other parts of the Greek Financial Community in an effort to control the increase of regulations that might eventually spoil all our markets to the benefit of trading outside of our markets or of private equity groups.

We are a member of the growing family of European quoted companies' associations united in "EuropeanIssuers", an organization officially set in motion in March 2008, where we are represented on the Board. In addition to this, we participate in a variety of committees formed by EuropeanIssuers such as "legal", "small issuers", "accounting, auditing & financial" and "internal control & risk management". Other members are associations and listed companies from Austria, Belgium, Bulgaria, Cyprus, Finland, France, Germany, Italy, the Netherlands, Poland, Portugal, Spain, Switzerland and the UK.

"EuropeanIssuers", the sole European issuers' representative organization, is determined to give a new boost to the representation of Europe's public companies. Priority will be given to the companies' pressing need to know their shareholders and to rely on efficient cross-border voting systems. "EuropeanIssuers" will

¹ Securities and Exchange Commission (U.S.A.)

² Generally Accepted Accounting Principles
³ International Accounting Standards Board



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defend the need for more shareholder transparency. Knowing their shareholder base will enable issuers to have a sound and permanent dialogue with the person who has a genuine, economic interest in the affairs of the company, the end investor. "EuropeanIssuers" will also actively contribute, together with the institutions and other relevant stakeholders, to the set up of efficient EU⁴ wide voting processes. Harmonised communication procedures should increase the participation to general meetings in a cross-border environment, benefit the transparency of the voting process and help to ensure its integrity.

March 2009

⁴ European Union