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09 April 2009

LETTER OF COMMENT NO. 101

Dear Sir

Preliminary Views on Financial Statement Presentation

Attached is the response of the Co-operative Performance Committee (CPC) of Co-operatives^{UK} in relation to the Discussion Paper.

CPC is a standing committee of Co-operatives^{UK}, which brings together professionals from within the co-operative movement to take responsibility for the movement's performance indicators and for promoting best practice on accounting standards.

Co-operatives^{UK} is a co-operative owned and democratically controlled by its members. It was launched in January 2003 following the merger of the Co-operative Union (established in 1869) and the Industrial and Common Ownership Movement (ICOM). Co-operatives^{UK} can therefore claim to have been in the business of promoting and representing co-operative enterprise for over 139 years. Co-operatives^{UK} membership comprises individual co-operative enterprises ranging in size and diversity from large consumer owned co-operatives to small worker owned co-operatives. The number of co-operative organisations in membership exceeds 540 and has a combined turnover in excess of £13 billion. They employ over 98,000 staff trading through 4,500 retail outlets.

While we believe that Co-operatives may not be among the entities that are affected by this discussion paper, we believe that any presentation standard that is applicable to the listed sector will initially become "best practice" for other entities and ultimately the standard for all entities. This is particularly the case for any standard based on this discussion paper, as the proposals would fundamentally alter the presentation of financial statements compared to the current presentation.

In this response we have sought to make some general comments on the proposals rather than to deal with each question individually, primarily because we have concerns as to whether the proposals in the discussion paper will improve presentation enough to justify the costs of change, we do this first by setting out our overall view then highlighting the particular areas of concern that we have.

Overall

We believe that there is value in the current financial statement presentation, everyone is familiar with it and it is understood by a variety of user groups.

We set out in detail below in our detailed comments section a number of practical issues that we have with the discussion paper proposals.

In general we do not believe the benefits of change are fully identified within the paper, indeed we have significant doubts as to whether the changes will provide additional decision making or useful information to the users of accounts. This is particularly so when considering the additional costs of obtaining the information, for example in moving to a direct cash flow model.

We are concerned that much of the additional disaggregated information that the discussion paper proposes is provided through reformatting the primary statements. We believe that this brings added clutter and complexity to the financial statements rather than clarity and simplicity. It seems to us that if it is felt that this information is useful then it might be better conveyed through note disclosure. This would allow the primary statements to present information at a highly aggregated level without looking too cluttered and hard to understand. It may be that narrative disclosure may be better able to convey that not all elements of the financial statements fit neatly into the operating, financing and investing categories.

We are concerned that much of the additional information presented under the proposals of the discussions paper is driven by the requirement to provide information to assist users in predicting the future cash flows of the entity. As far as the users of financial statements of Co-operatives are concerned, such information is not a priority. The main priority of the major users of Co-operative financial statements (the members) is to be provided with information that deals with the stewardship of the Co-operative by its Board. As noted above we believe that the additional detail in the primary statements will make them less clear and therefore financial statements will be less useful to the major user category.

Detailed comments

Cohesiveness

In the discussion paper cohesiveness is explained as making sure the 'relationship between items across financial statements is clear and that an entity's financial statements complement each other as much as possible'. This is a worthy objective. However it seems to us that there are many practical issues of allocation to the various categories proposed by the discussion paper. For example in the areas of: gain or loss on sale of a business; pension plans; leases; taxation and translation of foreign currency financial statements. These seem to be resolved by rules as to which category to allocate some items or with theoretical allocations.

There is, therefore, a risk that in striving for cohesiveness accounts will provide less useful information. We are particularly concerned about the statement of the financial position, as entities do not view their balance sheets at present in the manner outlined in the discussion paper.

For example, short-term liquid assets may no longer be grouped together in the same section of the balance sheet. This means that assessing the liquidity of a business is more cumbersome. We question whether it is more important to have easily assessable information on liquidity or to distinguish business assets from financing assets.

Similarly the discussion paper proposes the application of the management approach at the segment level. This could mean that the same asset, for example cash, being used differently in different segments and being classed differently on the primary statement. Again we question whether it is useful to have cash or other assets and liabilities split between sections of the balance sheet.

The alternative to allocations is to present some items, for example, discontinued operations and 'basket transactions' in separate sections rather than within the business and financing categories. We believe that this could result in a large number of categories and sub-totals increasing clutter in the primary statements and reducing clarity.

Management approach

We agree that under the discussion papers approach classification of transactions and balances must rely on managements approach. Creating rules applicable to every business is not feasible. There is therefore a risk that the discussion papers proposals will result in an increase in the diversity in the primary statements. We believe that this would be a backward step.

Cash flow statement

The proposal to move to a direct cash flow statement is dependent on the view in the discussion paper that it better fits the principles of cohesiveness, disaggregation and liquidity than the indirect method. The discussion paper does not make an argument around user needs or the cost of providing direct method information.

As the direct method contains actual cash flows in the operating section it is often thought to be theoretically better. However, as far as we are aware, there is no evidence to suggest that users find the indirect cash flow statement less useful than the direct cash flow statement and certainly this would be the case for the users of the financial statements of the Co-operatives. In addition, our members believe that the direct cash flow method would cost substantially more to produce than the indirect method, particularly in the year of change.

Given that we can see little or no benefit to users of the direct method, and that our members believe that this will be much more costly to produce, we can see no benefit on insisting on a move to the direct method.

Reconciliation schedule

The proposed reconciliation of each line of the cash flow statement to the statement of comprehensive income will result in a lengthy note disclosure. We believe that much of the disclosure within this will be of limited use because the categories are quite generic and the disclosure does not propose any specific information on each reconciling item. For example, in the reconciliation statement in the appendix to the discussion paper most of the reconciling items are in the "accruals, allocations and other" category, which is, by the discussion papers definition, a balancing figure. As such it is unclear why users would find the majority of the line items useful. Perhaps it might be better to concentrate on the specific instances where reconciliation of a line item is useful and provide a much more abbreviated disclosure.

The alternative balance sheet reconciliation format may be more useful, particularly in meeting users' needs of financial statements in the reconciliation of net debt. Again, however, it is unclear why a reconciliation of each line item is needed to meet users' requests for reconciliation of specific items.

Conclusion

As noted above we have some significant concerns about the approach set out in the discussion paper and do not believe that the case for the benefits of change has been fully articulated within the discussion paper.

Yours sincerely

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Secretary – Co-operatives Performance Committee

