



Accounting Standards Board



LETTER OF COMMENT NO. 29

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International Accounting Standards Board  
30 Cannon Street  
LONDON EC4M 6XH  
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30 March 2009

Dear Sir/Madam,

**DISCUSSION PAPER ON *PRELIMINARY VIEWS ON FINANCIAL STATEMENT PRESENTATION***

In response to your request for comment on the Discussion Paper on *Preliminary Views on Financial Statement Presentation*, issued by the International Accounting Standards Board (IASB), we enclose our comment letter.

We would like to thank you for the opportunity to provide comment on this document. In addition to our response to the specific questions and proposals raised in the consultation paper, we have also included general comment and comment on other aspects not specifically dealt with in the specific questions and proposals.

Please do not hesitate to contact me should you wish to discuss or require any clarification on our comment provided.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Erna Swart'.

**Erna Swart**  
**Chief Executive Officer**

Board Members: Mr R Cottrell (Chairperson), Mr V Jack, Dr L Konar, Mr T Makwetu,  
Mr I Mamoojee, Mr F Nomvalo, Mr I Sehoole, Mr V Smith  
Chief Executive Officer: Ms E Swart



## GENERAL MATTERS

The *Preliminary Views on Financial Statement Presentation* discussion paper outlines the view that a **management approach** should be used to classify assets and liabilities, but then assumes that management would want to classify their activities between business (operating and investing) and financing categories. At the same time it defines these activities using different definitions than what is used in existing standards to provide flexibility in a way that management manages and operates its business. It is our view that this approach would lead to misinterpretation of financial statements and less comparability, even between entities within the same industry. The usefulness of this information may be impaired if management's approach does not take into account the needs of other users of financial statements, including future investors.

In addition, the management approach may contradict the qualitative characteristic of faithful presentation that incorporated neutrality.

## SPECIFIC MATTERS FOR COMMENT

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 or 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.

We agree with the principles outlined in paragraphs 2.5 to 2.13.

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?

We agree that a separation between business and financing activities would provide decision-usefulness. However, we believe the same decisions could be made when the current presentation is made, as outlined in IAS1.

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?

We believe that this is a framework issue. We believe that some components of equity are actually financing and separate classification of these may be useful in linking the cash flow information to the amounts in the statement of financial position. However, the conceptual definition of equity as the residual interest in the assets of an entity after deducting the liabilities should be considered.

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?

We agree that discontinued operations should be presented as a separate section. The division between continued and discontinued operations provides decision-useful information.

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?*

We agree that a management approach may provide users of financial statements with useful information about the way the entity approached their activities although this may seriously impact comparability and complicate consolidation issues. We do not agree with the assumption that the current classification necessarily portrays the way that management would want to present their financial statements.

We believe that reduced comparability outweighs the benefits of such an approach

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?

We agree that both assets and liabilities should be disclosed in the business section. However, the classification of assets in the financing section is vague and should be clarified. It is not clear what is meant by a "financing asset". Could it be interpreted as an asset that is held as a security for financing activities? What if that asset is used in operating activities? In our opinion, the investing section should only consist of assets and the financing section only of liabilities.

The impact of the disclosure requirements in other Standards should be considered, especially the link between the disclosure requirements in IFRS 7 and the proposals in the discussion papers.

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.

This will create issues in terms of consolidation and preparation of segment reports. The reporting entity's management should be able to classify assets/liabilities from an entity's perspective in order to reflect the activities of the group. If the IASB wants to be consistent with the principles established in paragraphs 2.5 – 2.13, then management should be able to decide how they want to do this and disclosed that fact.

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.

We agree that if the proposed presentation model is adopted consequential amendments may need to be made to existing segmental reporting. We believe that the cost of disaggregation required should not exceed the value received from this and that such a level of disaggregation may not add much value.

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 classification between operating and investment activities should be clarified. When an entity invests in new equipment, this is, in our view, an investing activity. The use of this equipment (reflected in the depreciation), is an operating activity. The same ambiguities exist when cash and cash equivalents are to be classified between operating and investing activities. A case could be made that cash equivalents should be argued to be classified as other investments. However, many economists would argue that cash held in a bank to cover future operations, is not investing activities.

10. Are the financing section and the financing assets and financing liabilities categories 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 US GAAP as proposed? Why or why not?

No. We do not agree that the financing section is defined appropriately in the discussion paper. The definition of what financing activities represents should be clarified. We do not believe that financing activities should include financing assets, unless it is clear what is meant by financing assets. For example, it may be argued that investing monies into some financial instrument that are held as a security for some financial liability may present financing assets. At the same time, it may also be argued that using financing to buy some type of asset, and where that asset is held as security for the amount owed (financing liability), that asset is to be classified as a financing asset. However, this may lead to inconsistent use of the same principle.

As outlined in paragraph 2.59, we agree that certain liabilities may be the result of business activities (working capital), rather than the result of financing activities.

*Non-financial liabilities, e.g. government grants and other similar sources of funds, may be a source of funding and should form part of "financing activities", irrespective of the use of this funding. If a loan is utilised for operating activities e.g. buying equipment, the current proposal is that the loan should be classified as financing activities; however, the equipment is classified as part of the business activities. The same principle should apply when an entity receives funding from other external sources as a source of financing e.g. through a donation, grant or other transfer.*

Usually an entity does not receive grants as part of its core business, unless the grants or transfers are the *operating* income for that entity as a result of its relationship with the government and relates to the purpose for which the entity was established.

We agree with the board that flexibility is needed in determining which liabilities should be classified in the financing section (as outlined in paragraph 2.59). We recommend that the board defines financing liabilities to incorporate "external funding" sources, to include a wider spectrum of funding sources.

The definition appears to be applied inconsistently between the cash flow statement and the statement of financial position. In the example of ToolCo, equity is presented in a separate section. However, in the cash flow statement, dividends paid form part of the financing activities. It is recommended that the same activities are defined and applied consistently.

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?*

We have not identified specific types of entities. If entities are provided a choice, many entities would not present a strict classified set of financial statements. Items may be presented without considering the current/non-current classification thereof as it may be cumbersome to identify the asset's term. We believe that the current proposal for presentation would complicate the current/non-current classification. Standards that require classification of assets in terms of their intention has proven to provide more useful information, e.g. investment property, non-current assets held for sale, financial instruments, etc.

*(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?*

No, we do not propose that more guidance should be provided.

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 cash. Do you agree? Why or why not?

We agree that cash equivalents are similar to other short-term investments. But it is also similar to cash. The definition of what comprises cash should be clarified. Cash should always be immediately available on demand and mainly held for trading purposes. The classification of cash when certain restrictions exist should also be clarified, e.g. when the controlling entity has the ability to clear bank accounts of a controlled entity. The issue of distinguishing cash when restrictions are placed on the availability of cash, such as restricted cash held by banks as part of their capital structure, should in our view also be clarified.

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?

We believe that this proposal will not enhance decision-usefulness and should not be included as a requirement. Users of financial statement should be able to obtain the information from the notes and the IFRS 7- *Financial Instruments: Disclosure* analysis.

However, we want to propose that current disclose that is presented by most of the major banks and insurance companies in South Africa be considered as an optional alternative. These entities present a

separate schedule of the asset and liability side of the statement of financial position in which they divide each line item in the following columns: Non-financial, fair value through profit or loss, fair value through equity, held-to-maturity and amortised cost. This proposed schedule provides an overall picture of the measurement bases used by an entity.

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?

We agree with the proposal that comprehensive income and its components be presented in a single statement of comprehensive income.

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?

Yes, we agree. If an activity-based presentation model is accepted, the disaggregation of activities in other comprehensive income would be a natural consequence.

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?

We believe that the disaggregation would be useful when revenues, expenses, gains and losses are classified in accordance with their nature. However, when doing so by function, the original classification would become useless and the entity would need to reclassify as many activities may occur in a function. The disaggregation should be limited to ensure decision-useful information.

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.

Income taxes, like cash and equity, would be one of those items that would be difficult to categorise based on the proposed classification model. It could be argued, similar to the classification of cash, that a disaggregation of income taxes, would provide useful information. The practicality of this may create more problems and would again decrease the usefulness. We propose that Income Taxes be included in business activities (operating activities for purposes of the statement of comprehensive income, the balance sheet and the cash flow statement). Other taxes, like secondary tax on companies (STC), may have to be classified differently, as the activity it relates to will have an influence on its classification. If the Board continues with this project, we propose that the classification of taxes be done on the main activity it relates to, e.g. capital gains tax may relate to investing activities.

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 liabilities that gave rise to the gains or losses.

- (a) *Would this provide decision-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.*

In principle we agree with this proposal. However, the cost of this may outweigh the benefit.

- (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?*

The cost of setting up systems  
Training and preparation of financial statements costs  
Auditing 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 cash flows provide information that is decision-useful?*

Yes.

- (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?*

Yes. However, the current reconciliation schedule is too cumbersome and should be simplified.

- (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?*

Yes.

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 cost of setting up systems – once off  
Training – once off  
Preparation of financial statements - ongoing  
Auditing costs - ongoing

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?

Yes, if the Board wants to ensure cohesiveness. However, the practicality of doing this needs to be considered as well as the benefits versus costs. Also refer to our responses in question 17 and 18.

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?

We believe that IFRS 7 – *Financial Instruments: Disclosures* are already requiring this for contractual assets and liabilities.

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.*

We believe that the amount of information that is currently required is too onerous.

*(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.*

These disclosures may be useful, but should not be required when cash flows are reconciled. Similar disclosure requirements exist in other standards, e.g. IFRS 7, IAS 16 and IAS 19 require extensive reconciliation between opening and closing carrying amounts. These could rather be revised than to duplicate disclosures.

*(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.*

We believe that the guidance is clear, but is too onerous to be applied in practice. We believe that the current guidance in IAS 7 already provides useful information.

24. Should the boards address further disaggregation of changes in fair value in a future project (see paragraphs 4.42 and 4.43)? Why or why not?

Yes and no. The Board may need to consider whether the current disclosure requirements in other Standards dealing with this are sufficient, e.g. investment properties.

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 B10–B22? 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?



No. We believe that a reconciliation between comprehensive income and cash flows should be sufficient.

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 earnings 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?*

Entities are required to disclose material items separately, including any information that may be needed to understand these transactions in terms of the current IAS 1 requirements. Any further disclosure is therefore not needed. Excluding transactions that occurred, and only including narrative information about those transactions would lead to manipulation and would compromise fair presentation.