



International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

9 April 2009

Submitted electronically through the IASB Internet site (www.iasb.org)

Grant Thornton International Ltd
Regent's Place
7th Floor
338 Euston Road
London NW1 3BG

Grant Thornton LLP
175 W Jackson
20th Floor
Chicago, IL 60604

Discussion Paper: Preliminary Views on Financial Statement Presentation

Grant Thornton International Ltd and its US member firm, Grant Thornton LLP, are pleased to comment on the International Accounting Standards Board's (the IASB) and the Financial Accounting Standards Board's (the FASB) joint *Discussion Paper: Preliminary Views on Financial Statement Presentation* (the DP). We have considered the DP, as well as the accompanying illustrations and examples.

The current presentation requirements for financial statements under both US GAAP and IFRS have developed piecemeal over time. As a result, it can be difficult to fully understand the relationships among an entity's financial position, financial results and cash flows. We therefore support the project and commend the Boards for developing joint proposals.

We are encouraged by the general direction of the proposals in the DP. We believe this broad approach has the potential to enhance the decision-usefulness of information in financial statements. In particular, we support improving the alignment of items within and across primary statements. We also support the introduction of a reconciliation schedule to provide better information on the linkage between primary statements.

However, we have a number of significant concerns on some aspects of the proposals that we consider will need significant reworking in order to achieve improvements in practice.

We summarise below our main concerns. Further comments on these and other issues not specifically addressed in the DP's Invitation to Comment are contained in Appendix 1 to this letter. Our detailed responses to the specific questions in the DP are set out in Appendix 2.

Objectives of financial statement presentation

As noted in the DP, the focus of the project should be consistent with the overall objective of financial reporting. Accordingly the primary objective of the proposals should be to provide more decision-useful information to users regarding the entity's ability to generate cash flows and management's ability to protect and enhance capital providers' investment (consistent with the IASB's and FASB's joint project Exposure Draft: *Conceptual Framework - Phase A: Objectives and Qualitative Characteristics*).

In this context, we are concerned that the DP proposes three new and separate objectives for financial statement presentation (cohesiveness, disaggregation, and liquidity and financial flexibility) that do not appear sufficiently linked to the overall objective of financial reporting. While we do not object to using these three items as 'building blocks' for the overall model, we believe they should be described as principles rather than as objectives. This should help ensure that these three items are applied to the extent that they do result in more decision-useful information. By describing these building blocks as objectives in themselves, we believe that the Boards have tended towards excessive detail at the application level that we do not see as decision-useful.

Classification of items and the management approach

We believe that greater alignment (cohesiveness) of items across primary statements can enhance the understandability of information presented in those statements. The DP proposes to achieve this mainly by organising each primary statement into consistent sections and categories. The DP then proposes a management approach to the classification of items within those sections and categories.

The management approach as expressed in DP 2.27 is intended to result in classification that reflects the way in which assets and liabilities are used within the entity. We believe that this approach will enhance decision-usefulness only if the different ways in which assets and liabilities are used are adequately defined and differentiated. As drafted, we find the terminology used in the DP confusing, with the effect that the criteria to be used by management to classify items into the sections and categories are unclear.

In particular, the distinction between operating and investing categories in the 'business' section is very confusing (the DP itself uses three different descriptions). If a suitable distinction between these categories cannot be determined, then we suggest that the business section should not be divided into categories.

This lack of clarity not only creates uncertainty but increases the risk that comparability between substantially similar entities will be reduced and may mask valuable information regarding genuine economic differences.

We are not seeking rigid, inflexible definitions that prohibit management judgement. We do however want clearer, more consistent definitions of the categories (especially operating versus investing) to provide a suitable framework for that judgement.

Direct method of cash flow information

Although we agree that the direct method of cash flow presentation may provide some decision-useful information to users of the financial statements, we believe the views of users as to the need for this additional information are mixed. However, the costs of such a change are likely to be considerable for many entities and will require substantial changes to information systems. We are not convinced that the benefit of this change will outweigh these costs. Therefore we would require much more specific evidence from users as to how the additional information will enhance decision-making to be persuaded that the change is appropriate.

Reconciliation schedule

We believe a reconciliation schedule can provide a valuable link between primary financial statements. We therefore encourage the Boards to develop this proposal further and also to consider whether to promote it to a primary statement instead of a note. However the schedule currently proposed is, in our view, excessively detailed. We are also concerned that the reconciling items are poorly defined. This will increase the cost of preparation but will result in inconsistencies of application and reduce the potential benefit.

If you have any questions on our response, or wish us to amplify our comments, please contact our Executive Director of International Financial Reporting, Andrew Watchman (andrew.watchman@gtuk.com or + 44 207 391 9510) on behalf of Grant Thornton International Ltd or Gary Illiano, National Partner-in-Charge of International and Domestic Accounting (Gary.Illiano@gt.com or +1 (212) 542-9830) on behalf of Grant Thornton LLP.

Yours sincerely,



Kenneth C. Sharp
Global Leader - Assurance Services

On behalf of Grant Thornton International Ltd

John L. Archambault
National Managing Partner of Professional Standards

On behalf of Grant Thornton LLP

Appendix 1: General comments

Scope of the project

We agree that the focus of this stage in the project should be on the presentation of items in the primary financial statements as set out in DP 1.20. However, the scope of the project is constrained by current requirements of other standards, in particular the need to recognise certain gains and losses in other comprehensive income rather than in profit or loss. We believe these issues have an impact on the understandability and decision-usefulness of financial statements that is just as important as the matters considered in the DP. However, for practical reasons, we agree that the presentation of some gains and losses in other comprehensive income should be addressed as part of other projects and should not delay the outcome of the general project on financial statement presentation.

Difficulties with the stated objectives

Cohesiveness

As noted in the main body of our letter, we believe greater alignment of items across primary statements can add to the understandability and usefulness of information in the financial statements. However, the DP indicates a number of areas where the cohesiveness principle causes difficulties that are broader than line-by-line mismatches. These are not fundamental issues but they need to be addressed in order to best achieve the objective of these proposals. These problems include:

- The cohesiveness between the statement of financial position and the statement of cash flows is lost with regard to equity items. We believe that this can be easily fixed by replacing the 'equity section' with a 'transactions with owners' section (see our response to question 3).
- DP 2.29 suggests that the cohesiveness approach is driven from the classification of assets and liabilities in the statement of financial position, which does not address the classification of items that do not result in the recognition of an asset or liability, such as research and development expenditure. However, more clearly defined categories (see comments below) linked to the type of activities and transactions entered into by an entity would allow such items to be more easily classified, without relying on asset/liability identification.
- Preparers and users of financial statements tend to view activities from a results/cash generating perspective (as already reflected in IAS 7 and IFRS 8) rather than the asset/liability-driven classification proposed. Consequently, users tend to find information that focuses on a performance/cash flow approach more useful, as is demonstrated in the proposed reconciliation schedule. We therefore support the relegation of cohesiveness in favour of the more decision-useful focus of this reconciliation schedule proposal.
- The relationship between the section 'discontinued operations' and 'basket transactions' is confusing (see our response to question 21).

Disaggregation

As noted in DP 2.10, there is a delicate balance between disclosing too much and too little information. Some of the proposals could lead to a significant increase in the extent of disaggregation in the primary statements, for example assets and liabilities with different measurement bases (DP 3.19); and income and expenditure by both function and nature in both operating and investing categories of the statement of comprehensive income (DP 3.42).

In our more detailed responses to the specific questions in the DP, we suggest some areas where such disaggregation may be less useful to the majority of users and so should be omitted or relegated to notes (see our responses to questions 13, 16 and 23). If a minority of users wish for a more detailed analysis, then we suggest the Boards investigate alternative ways of providing this such as XBRL.

Management approach to classification - clearer guidance needed

As we note in our responses to a number of questions, we are concerned that the boundaries between categories are too vague. Although we believe that any final standard will inevitably (and appropriately) require the use of reasonable judgement, we believe the proposals as drafted are both unclear and excessively dependent on management interpretation. This will, in our view, decrease consistency and reduce usefulness to users. For example:

- The DP proposes that business activities should be disaggregated into operating and investing categories. The DP uses three different notions to indicate how the two categories are distinguished: activities related to the central purpose of the business (DP 2.32); primary revenue- and expense-generating activities (DP 2.33) and core activities of the business (DP 2.64) (see our response to question 9).
- It is clear that an entity may need to present a change in an asset or liability in more than one line in different sections or categories in the statement of comprehensive income and the statement of cash flows, as described in DP 2.18. It is less clear whether the asset or liability itself can be similarly split within the statement of financial position as there are a number of seemingly conflicting messages regarding this issue. In particular, there is a lack of clarity about what to do if financial assets or liabilities are 'interchangeable' or could be used for dual or multiple purposes (see also our response to question 10).
- DP 2.31 suggests that transactions with customers, suppliers and employees should 'normally' be included in the operating section - suggesting that there may be situations when they could be presented elsewhere. Similarly, DP 2.45 notes that the net post-employment asset or liability would 'most likely' be classified as operating. To demonstrate more clearly the definitions of the categories and how they should be applied, it would be more helpful to explain the circumstances when alternative categories might be used, eg would the net post-employment plan asset or liability be presented in the investing category rather than operating when the post-employment plan relates to a closed segment that is no longer part of the operating activities of the entity?
- The example reconciliation schedule and related guidance are unclear and contain a number of inconsistencies. This substantially reduces the understandability and decision-usefulness of the information (see also our response to question 23).

Arbitrary rules

Generally we do not support the introduction of arbitrary rules that contradict the principles or the management approach. However, we can see that in some limited situations such a rule can be a pragmatic solution to reduce uncertainty and inconsistency in practice.

For example, a change from a current/non-current assets and liabilities distinction to a more objective distinction between short-term and long-term items based on a one-year cut-off point is clearer and easier to understand, so we support this proposal for the reasons given in DP 3.8.

We do not support the proposed rule in DP 2.62 to restrict the recognition of items in the financing section of the statement of financial position only to financial assets and financial liabilities (see our response to question 10).

Also, we do not support the proposal in DP 2.35 that items that cannot be clearly distinguished as operating, investing or financing be allocated to the operating section. Distorting the operating section by the inclusion of hard to classify items will not result in faithful presentation. The inclusion of an 'unallocated' section, supported by narrative disclosure, may provide users with better and more transparent decision-useful information as it would enable them to decide how to treat the item in their own analysis of the financial statements.

Appendix 2: Responses to Invitation to Comment questions

Chapter 2: Objectives and principles of financial statement presentation

- 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.

As noted in the body of this letter, we believe that the DP confuses these objectives with principles. The main objective is to provide users with more decision-useful information. We agree that the three principles underlying the proposed model (cohesiveness; disaggregation; and liquidity and financial flexibility) have the potential to contribute to this objective by providing more relevant and understandable information.

However, although the DP supports some of its proposals by reference to user requests for additional information, it is not clear how some of the information will enhance decision making. In particular, it is not clear that the proposed level of detailed disclosure resulting from the desire to achieve the disaggregation 'objective' will significantly improve the decision-usefulness of that information for users. The substantial increase in disclosure may indeed have the effect that the primary statements will become cluttered with immaterial information to the detriment of understandability and decision-usefulness. Moreover, we believe that this will lead to a disproportionate increase in costs for preparers.

We also note that the disaggregation objective expressed in DP 2.7 requires disaggregation based on an assessment of decision-usefulness. We do not object to this objective (or principle) at a general level. However, it is not clear whether the Boards intend that management will be primarily responsible for determining the extent to which disaggregation is useful, or whether the Boards will use DP 2.7 as a guiding principle to specify their model in more detail. Our preference is for the latter. In developing the model further we suggest the Boards should place particular emphasis on the characteristics of **persistence** and **subjectivity** (these are mentioned in DP 4.23 in the context of the reconciliation schedule). We believe these characteristics also contribute to the financial flexibility principle by focusing disclosure on its usefulness to users of the financial statements in predicting future cash flows.

- 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?**

Yes. Such information should help users to assess persistence of income and cash flows. It could also provide users with information that has predictive value and so help them to assess the quality of management decisions and focus of the business.

However, as noted in Appendix 1, we are concerned that the boundaries between categories are too vague and that this will lead to uncertainty and inconsistent interpretation in practice. We believe that the current proposals need to be clarified to ensure that the potential benefits are realised.

- 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 prefer the inclusion of equity as a category in the financing section rather than a separate section for the reasons given in DP 2.53. However, we believe that cohesiveness can be enhanced by refining what is currently defined as the 'equity section'.

DP 2.48 proposes that classification of dividends payable and related cash flows should be based on the existing classification of dividends as a liability, which is in turn based on the definitions of liabilities and equity in IAS 32. In our view this proposal reduces cohesiveness and creates confusion by including dividends paid in the column for 'changes in assets and liabilities, **excluding** transactions with owners' in the reconciliation schedules shown in DP Appendix A.

We believe that clarity and cohesiveness would be enhanced by renaming the 'equity section' as the 'owner section'. In the statement of financial position, dividends payable will be included in a separate line in the owner section and can be included in the same category in the statement of cash flows. This is consistent with the view that dividend payments on ordinary or common shares are equity cash flows, acknowledged by the Boards in DP 2.48. If any users wish to include dividends payable or paid in any financial ratios, the disclosure as a separate line item within the owner section will enable them to do so.

- 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 separately and highlighted in a separate section in the primary statements. This has the advantage of highlighting the net impact of discontinued operations in the primary statements in a quick and simple way.

However, we believe the current disclosure requirements of IFRS 5/SFAS 144 would be enhanced by a requirement to disaggregate the information into the relevant sections or categories, either in the notes or within the discontinued operations section itself. We believe this would better demonstrate management's accountability for all operations under their control during the period. See also our reply to question 21 relating to the effects of basket transactions.

- 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?

As noted earlier, we agree that an approach that requires management to classify items according to their use within the business can provide decision-useful information. It is inherent within this approach that the same type of asset or liability may not be classified in the same section/category if they are used in different ways. We acknowledge and support the fact that such an approach will inevitably require the use of reasonable judgement, based on each entity's specific facts and circumstances.

We are not necessarily concerned about the effect this approach might have on comparability because we believe classification based on how assets and liabilities are used within a business should provide useful information regarding accountability and financial flexibility.

However, to achieve these benefits the definitions of the classification categories and sections must provide a sufficiently clear basis for management to allocate items appropriately, according to the way they are used in the business. This would allow the same type of item to be included in different sections or categories depending on specific facts and circumstances (as described in DP 2.67). Such a difference in classification does not reduce comparability between entities that use the asset or liability in a similar way but provides valuable information on how the item is used by different entities.

Clearer definitions would also increase the usefulness of the accounting policy disclosure relating to classification decisions, as users can judge the policy against a clear and understandable framework (see also our responses to questions 9 and 10).

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?

Analysts and users are best placed to answer this question.

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.**

As noted in the main body of our letter, we understand that the management approach as expressed in DP 2.27 is intended to result in classification that reflects the way in which assets and liabilities are used within the entity. We support this approach and believe that classification at segment level is consistent with it. In expressing this support, we take the Boards' intention to be that classification should reflect the different ways that similar assets and liabilities may be used within a reporting entity (rather than suggesting that classification decisions should be taken by segment-level management). For many discrete items, the outcome should be the same whether reviewed at entity or reportable segment level as the identification of amounts to be allocated to different sections or categories can be done on a reasonably objective basis.

However, we also recognise that in some situations, assets and liabilities may be used in different ways in different segments but that allocation among the sections and categories may be arbitrary. In such situations, we agree with the approach proposed in DP 2.69 with respect to cash, which requires cash to be allocated to a single category unless it is clearly used and managed differently in two or more reportable segments. We believe this approach is suitable not just for cash but for all assets and liabilities (see also our response to question 10).

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 envisage greater costs and practical application problems if disclosure of assets for each section or category is required at the segment level. For example, IFRS 8/SFAS 131 currently require most disclosable items to be measured using internal management accounting policies rather than IFRSs, with any differences reconciled at entity-level only. If segment asset disclosure is required at each section and category level, the reconciliation to IFRS recognition and measurement policies may also need to be at this more detailed level.

IFRS 8 only becomes mandatory for periods commencing on or after 1 January 2009 so there is little practical experience of dealing with its requirements to determine whether this is a suitable foundation for adding these proposed disclosures or whether IFRS 8 should be reviewed as a separate project. Consequently, at this stage we would prefer to retain the existing requirement that total assets are disclosed for each reportable segment, rather than introducing a categorised disclosure requirement.

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?

No. Although the DP uses the same terminology as currently used in IAS 7 *Statement of Cash Flows*, it does not use the same definitions or criteria for classification. The existing definitions of operating, investing and financing within IAS 7 are not sufficiently clear to ensure consistency of classification and cause interpretational difficulties in practice. The DP does not improve the clarity of these definitions but instead confuses them further.

In particular, we are concerned with the distinction between the operating and investing categories in the business section. We believe that the underlying basis for this distinction needs to be clarified with a clear principle, and that the guidance and examples supporting that principle must be consistent. As drafted, the DP introduces three similar but not identical notions to describe the distinction.

- DP 2.32 separates operating from investing activities based on what management views as activities related to the 'central purpose(s) for which the entity is in business'. Some entities argue that the central purpose of the business is to generate returns for investors - so there will be no investing items as all business activities, even incidental ones, will be classed as operating.
- DP 2.33 indicates that the distinction is based on primary and secondary (peripheral or incidental) revenue- and expense-generating activities. This seems to introduce a similar notion to 'core' and 'non-core', which DP 2.64 states is the basis for the operating and investing categories.
 - Some consider core to be related to all transactions with customers, suppliers and employees (in their capacity as such) and so would include sales, cost of sales and related expenses.
 - Others would see core as relating to the entity's core competences. Under this view non-core activities might include processes that are or can be outsourced, such as warehousing, IT, distribution, credit control and accounting.
 - Other preparers consider that operating activities are those that generate underlying or sustainable earnings, which implies a distinction based on usual or recurring, or unusual or non-recurring, items. This is similar to the approach suggested in the Jenkins Committee Report¹.

It is not clear whether the characteristic underlying the distinction is intended to be persistence or some other characteristic. The lack of an underlying principle or objective will lead to inconsistencies. If the main principle behind these proposals is to provide more decision-useful information to users the Boards should seek detailed input from users to identify an acceptable distinction between the two categories. If a suitable distinction cannot be identified, then the business section should not be arbitrarily split into operating and investing categories.

¹ This is the 1994 American Institute of Certified Public Accountants Comprehensive Report of the Special Committee on Financial Reporting (Chaired by E. L. Jenkins) 'Improving Business Reporting - A Customer Focus (Meeting the Information Needs of Investors and Creditors)'.

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)?

No. In deciding whether an item should be included in the financing section, DP 2.34 suggests management should consider whether the item is 'interchangeable with other sources used to fund its business activities'. However, it is then unclear as to what the outcome of this consideration should be. In the example situation presented in DP 2.34, the entity could purchase equipment using cash, a bank loan, or a lease, suggesting these are all interchangeable financing items. However, the Toolco example (Appendix 1A) shows the lease as an operating item. How does this relate to the notion of 'interchangeable' when deciding on the classification?

If the entity uses cash or increased trade payables, the situation is even less clear. DP 2.61 suggests that cash in excess of an entity's working capital needs could be considered a financing asset because it could be used immediately to retire the entity's existing debt. This seems to be a similar approach to the 'interchangeable with other sources of finance' notion above.

It is unclear whether a similar argument could be applied to other working capital items such as trade payables in excess of working capital needs that are funding other activities as part of a wider financing strategy. We can see a practical difficulty with this approach in determining a reliable measure of what amount is considered in excess of working capital requirements. DP 2.44 considers this in the context of cash and proposes a pragmatic approach to reduce subjectivity. Perhaps a similar approach should be used for other 'working capital' assets and liabilities such as trade payables.

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 with the proposal to introduce an arbitrary rule to restrict the financing section (excluding the equity or owner category) to only financial assets and financial liabilities. This is contradictory to the management approach proposed. For example, users (and preparers) have different views as to how some or all elements of post-employment benefits, including pensions, should be classified (as noted in DP 2.45). The IASB's current project DP *Preliminary Views on Amendments to IAS 19 Employee Benefits* may identify a suitable basis for disaggregation of pension related assets/liabilities in due course. Until that time we agree that the net amount should be included in a single category. However, management should be able to choose the category and explain their decision in the proposed accounting policy note (DP 4.2).

Chapter 3: Implications of the objectives and principles for each financial statement

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?

For the majority of entities, we agree that a classified statement of financial position will provide more decision-useful information (for the reasons explained in DP 3.5). We accept that there may be some circumstances where presentation by order of liquidity may be more useful. However, we are not persuaded by the argument used in DP 3.4 against the classified statement of financial position for a deposit-taking financial services type business. The same argument could be used for a manufacturing entity that had a wide range of product lines with varying operating cycles that may nevertheless all fall within one year.

We do not believe that additional guidance should be given on this issue as the onus should be on the preparers to demonstrate why they believe a liquidity presentation is more useful to users. Consequently, any entity choosing to present a liquidity-based statement should be required to disclose its reasons as an accounting policy choice.

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. Cash is easier to understand and provides a more objective basis for assessing cash flows than cash plus cash equivalents. Even with short-term maturities, there can still be a variation between the reported amount and the actual maturity or settlement amount, particularly in volatile markets. Also, the distinction between short maturity periods when acquired as opposed to the same short period for an existing investment that has just become close to maturity is an arbitrary distinction that creates inconsistency.

We also believe that, to improve consistency of application, cash should be defined in a manner that clarifies whether it includes only deposits that are available on demand or not (ie whether any notice period is permissible). Also, the definition should establish whether non-functional currency deposits are considered cash. For example, in the UK, cash is defined as 'Cash in hand and deposits repayable on demand with any qualifying financial institution, less overdrafts from any qualifying financial institution repayable on demand. Deposits are repayable on demand if they can be withdrawn at any time without notice and without penalty or if a maturity or period of notice of not more than 24 hours or one working day has been agreed. Cash includes cash in hand and deposits denominated in foreign currencies.' (FRS 1.2)²

- 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 agree that disaggregation of items measured on different measurement bases would be useful and contributes to the persistence and subjectivity characteristics. However, it is not clear what measurement bases need to be separately analysed. It is not as simple as 'historic cost' and 'fair value', as many items in the statement of financial position use a 'mixed attribute' model and there are a number of variations as to what is meant by fair value.

Even if a suitable taxonomy of measurement bases can be defined, we are not convinced that this level of detail should be provided in the primary statements. Too much disaggregation reduces clarity and understandability. The example statement of financial position for Toolco in Appendix 1A is already lengthy, even though the entity seems to be reasonably straight-forward and the example does not demonstrate this proposal for disaggregation. On a minor point relating to this example, a revaluation surplus is reported in the statement of comprehensive income, indicating that a class of property, plant and equipment has been revalued using a different measurement basis.

- 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 proposals would maintain the current distinction between gains and losses recognised in profit or loss and those recognised in other comprehensive income. Accordingly the decision as to whether or not to split the statement of comprehensive income into two statements amounts to where to put the page-break. We do not consider this to be a substantive issue and so can see no objection to eliminating this choice and requiring a single statement in this proposal. Consequently, our response to the next question is focused purely on the format of this single statement.

² UK Financial Reporting Standard No. 1 Cash Flow Statements, paragraph 2.

- 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?**

We appreciate that a review of the distinction between items recognised in income and those recognised as other comprehensive income (OCI) and the subsequent reclassification of such items is outside the scope of this project. Consequently, this response focuses on their presentation in the context of existing requirements.

In this context, we agree that an indication of how items of OCI relate to the sections and categories will be useful. This provides users with a more complete picture of the interaction between changes in assets and liabilities and performance and provides information relevant to subjectivity and persistence.

- 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?**

No. We believe that the disaggregation proposed will lead to excessive disclosure in the statement of comprehensive income and so reduce clarity. For example, if Toolco (DP Appendix A1), had a non-core subsidiary (as envisaged in DP 2.66), this non-core subsidiary's revenue and expenses would be disaggregated in the investing category. For a non-core subsidiary, its net results would seem more relevant than this detail.

Another problem is that the usefulness of the disaggregation diminishes as complexity increases. For example, a multinational group may have numerous diverse core operating segments, such as manufacturing; retailing; construction; property development; distribution and IT outsourcing services. It may be possible to usefully disaggregate sales by nature (ie by market-related revenue stream, as in Toolco, Appendix A1). However, the expense-by-nature (materials, labour, overhead-type) will aggregate items subject to very different risks and persistency (eg transport costs will be incidental to IT outsourcing but core to the distribution segment). Consequently, we are not convinced that the benefits of such detailed disaggregation as set forth in DP3.51 will be achieved. Instead, the more detailed information is more relevant in the segmental information disclosures.

- 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.**

We agree with the proposal to allocate and present income taxes within a separate section in the primary statements.

We are not in favour of the proposal to retain the present requirement to allocate tax to the separate components of OCI or to discontinued operations in the statement of comprehensive income (DP 3.55). Such allocations are often arbitrary and so not only fail to provide reliable decision-useful information but may also mislead users into believing that the information has a greater level of accuracy than it actually has. This will be so particularly where tax is assessed on an entity-wide or even group basis rather than clearly relating to specific transactions. Consequently, the cost of producing such allocations may often outweigh the limited benefits.

We understand that changes to the current requirements are outside the scope of this project. However, we would prefer the allocation of tax between continuing operations, discontinued operations and OCI to be disclosed within the tax section. Discontinued operations and items of OCI would then be shown gross (ie before tax), which would be more consistent with other items in the statement of comprehensive income. The allocation of tax to individual items of OCI should be disclosed in the notes, as currently permitted in IAS 1, rather than on the face of the primary statement.

- 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.**
- (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?**

We agree that foreign currency exchange differences relating to retranslation into functional currency should be included in the same category and section as the assets or liabilities that gave rise to them. The translation into functional currency reflects a commercial risk of transacting with other parties that can be managed and so the results of management performance should be reflected in the appropriate sections and categories.

Preparers are best placed to provide the Boards with information as to the costs of providing this analysis.

- 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?**

- (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?**

We are not convinced by the arguments for mandating the direct method for presenting operating cash flows. The current requirements of IAS 7 and SFAS 95 already encourage this approach but few entities choose to adopt it. The DP provides, at best, mixed evidence that users want it. DP 3.79 acknowledges that some users prefer the indirect method. The Boards should therefore seek detailed input from users to identify the specific additional benefits to be derived from the direct method. This should be done in the context of the additional information being proposed in the DP, particularly the reconciliation schedule, rather than existing requirements.

We believe that the indirect method for presenting operating cash flows provides a more cohesive link between the statement of financial position, statement of comprehensive income and net operating cash flows. This is likely to be enhanced by the proposed reconciliation schedule, which will allow users to better assess the financial flexibility and potential future cash flows of the entity.

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?**

Preparers will have already considered the cost-benefit implication of this proposal when applying IAS 7/SFAS 95. They will be better placed to provide a cost/benefit analysis.

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?**

We assume that the term 'basket transaction' incorporates discontinued operations.

The allocation of different elements of a discontinued operation or other basket transaction may be somewhat arbitrary. As noted in Appendix 1, inclusion of a mixed or hard-to-classify item in the operating or other single category (DP 3.94) will not result in faithful presentation. We therefore support the inclusion of the effects of basket transactions in a separate section, including discontinued operations as a separate line item within that section (see also our response to question 4).

We believe that some analysis of basket transactions would add to the usefulness of information presented in the notes to the financial statements. Where parts of the effect cannot be allocated on a reasonable basis, then (consistent with our suggestion in Appendix 1) this should be disclosed as an 'unallocated' amount, supported by narrative disclosure. Where an allocation can be made on a reasonable basis, then we agree that clear guidance is needed to ensure consistency of approach.

Any such guidance should be consistent with relevant requirements of other standards. For example, the analysis in DP 3.93 suggests that the allocation of amounts to the components of a basket transaction is likely to be based on relative fair values of the assets and liabilities involved in the basket transaction. This would be consistent with the requirement in IAS 36 *Impairment of Assets* regarding part-disposals of a cash generating unit (CGU) or group of CGUs to which goodwill is attached.

However, if the basket transaction is the acquisition of a subsidiary, then it would seem far more cohesive to base the allocation and measurement on acquisition on the requirements of the revised IFRS 3 *Business Combinations* and SFAS 141 *Business Combinations* rather than on a relative fair value basis.

Chapter 4: Notes to financial statements

- 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?**

Yes. This information is as relevant to a classified statement of financial position where there are short-term liquidity 'mismatches' as it is to one where items are presented in order of liquidity.

However, we question the benefit of the narrative disclosures regarding the length of the operating cycle proposed in DP 4.6. We believe that the combination of the proposed contractual maturity disclosures, together with IFRS 7's existing requirements for disclosure of maturities, due dates and risks relating to financial assets and liabilities will be sufficient.

- 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 close alignment between earnings and cash flow is a useful indicator of 'earnings quality' and may also indicate the predictability of future cash flows. We therefore believe that the proposed reconciliation schedule has great potential to assist users of financial statements and could significantly increase their understanding of the entity's cash flows and earnings potential.

However, we outline below a number of concerns about the current proposals and examples and believe that these need substantial reworking. That said, if a suitable solution can be found, we believe that the schedule's relative value in providing decision-useful information to users could be such that the Boards should consider promoting this schedule to a primary statement instead of disclosing it as a note.

Line-by-line disaggregation

Consistent with our response to question 16, we are not convinced that the level of detailed disaggregation illustrated in the examples in the DP is justified, particularly on the line-by-line basis within the operating category. We encourage the Boards to seek specific information from users to identify what level of detail is really needed to provide decision-useful information.

Identification of non-recurring remeasurements

We agree that non-recurring remeasurements should be clearly distinguished. A (possibly somewhat radical) suggestion on how to distinguish this category of remeasurement is to require a 'pure' management approach. This would require the use of management judgement to determine what remeasurements management view as non-recurring. Obviously this would need to be supported by a requirement for clear narrative disclosure to describe each item. This disclosure will add to users' understanding of the (potential) impact of such items from a management perspective.

However, we can see that this approach may lead to an unacceptable level of incomparability so we accept a need for a more structured approach. The current proposal to disaggregate reconciling items into the components set out in DP 4.19 seems reasonable. However, a much clearer distinction between components, illustrated by much clearer and more consistent examples, is needed. We have identified numerous problems with the definitions and examples used in the DP which we believe will create many application problems and inconsistencies. These include:

- DP footnote 18 states that recurring remeasurements arise when IFRSs require an asset or liability to be measured at current value every period (on a recurring basis). The subsequent guidance and examples to demonstrate this are not clear.

- In particular, DP 4.45(d) gives three examples of recurring remeasurements. The third of these is a gain or loss on revaluation of property, plant and equipment as permitted by IAS 16. That Standard requires that any asset carried under the revaluation model should be revalued with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period (IAS 16.31). Consequently, we understand that such remeasurements fit the definition of recurring, which is consistent with the treatment shown in the Toolco 2010 example reconciliation in Appendix A1. However, DP 4.33 (and the related example in Appendix.B2-B9) introduces a notion of 'persistence', which suggests that alternative classification as non-recurring is permitted.
- Similarly, DP 4.45(e) provides some examples of 'other' (non-recurring) remeasurements. We agree that classification of a non-current asset as held for sale and impairment of non-current assets are triggering events resulting in a non-recurring remeasurement. However, we do not see why foreign currency translation adjustments are non-recurring, as IAS 21 requires foreign currency items to be retranslated on an ongoing basis in every reporting period - which seems to meet the definition of recurring remeasurement in DP 4.38.
- It is not clear how the definition of a remeasurement in DP footnote 16 (ie 'a change in the carrying value of an asset or liability attributable to a change in a price or an estimate') ties in with some of the items in the example reconciliation schedules in DP Appendix A. These items are included in the 'from remeasurements - all other' (non-recurring) column. We question the appropriateness of the classification of these items as follows:
 - The share of profit of associates A and B is a recurring allocation of the associate's profit to the investor. We think that it would be more logical to include this figure in the 'not from remeasurements - accruals, allocation and other' column.
 - DP 4.45(c)(iii) uses disposals of long-term assets as an example of changes not attributable to remeasurements. We would expect the amount shown in the Toolco example reconciliation schedule as 'sale of receivable / loss on sale of receivable' to be treated in a similar way and so be included in the 'not from remeasurements - accruals, allocations and other' column. Both items result from actual disposal transactions rather than adjustments to the carrying value.
 - Also, DP 3.50 suggests that this 'loss on receivables' is non-recurring as management views this transaction as unrelated to its normal process of collecting outstanding receivables. This is contradicted in the Toolco Illustration 1A, which shows this item as recurring, suggesting that it is part of the normal receivables management process.

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?

As noted in DP 4.42-43, some disaggregation of changes in fair value is already required or permitted to some extent in existing standards such as IAS 39 and SFAS 5. This question is also being considered in other projects such as the IASB's DP *Preliminary Views on Amendments to IAS 19 Employee Benefits*. The Boards should consider further disaggregation of fair value changes within the context of this project to the extent that the additional disclosure will enhance decision-usefulness by enabling a better assessment of the persistence of results and cash flows.

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?

We agree that the proposed reconciliation from the statement of cash flows to the statement of comprehensive income is much easier to understand for the reasons given in DP 4.46. For the majority of users this format is likely to provide the most useful reconciliation (subject to the limitations highlighted in our response to question 23), as it follows the perspective commonly applied by users in analysing the interaction between earnings and cash.

As with our response to other proposals (see question 11 in particular), we believe that the Boards should recommend a prescribed format but allow management to present a different format if they believe that this would provide more useful information. This may apply in the financial services example, where the entity primarily manages assets and liabilities rather than cash flows. An explanation as to why an alternative presentation has been provided should be required as an accounting policy note.

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?**

A prohibition on disclosing items as unusual or infrequent seems inconsistent with the boards' decision to use the persistence characteristic to develop the proposed reconciliation schedule. We believe that an entity should have the option of presenting information about unusual or infrequent items (supported by narrative to explain the classification). This will allow users to make an assessment as to the persistence and subjectivity involved. We believe that the Boards should not define 'unusual' or 'infrequent' as the narrative disclosure should provide sufficient information to users.

We do not object to such items being disclosed in a memorandum column in the reconciliation schedule, nor do we object to the presentation in narrative format only.

Question specific to the FASB

- 27 **As noted in paragraph 1.18(c), the FASB has not yet considered the application of the proposed presentation model to non-public entities. What issues should the FASB consider about the application of the proposed presentation model to non-public entities? If you are a user of financial statements for a non-public 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.**

Our overall view of the DP is that for non-public entities it is very intimidating and overly complex. Preparing the cash flow statement using the direct method and the reconciliation statement could be particularly burdensome for non-public entities. However, we believe that it is an encouraging starting point for the development of an accounting standard tailored to the specific decision-useful information needs of users of financial statements of non-public entities. The clearer and more comprehensive presentation of information and the use of the management approach should help them to better evaluate past, present or future events and to confirm or correct their past evaluations. This should provide them with a stronger and more comparable basis for assessing the management of their investment as well as improving the predictability of their investment returns.
