



LETTER OF COMMENT NO. 128



Internationaler  
Controller Verein

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### Discussion Paper "Preliminary Views on Financial Statement Presentation"

Dear Sirs,

The International Controller Association (Internationaler Controller Verein/ICA) welcomes the opportunity to comment on the IASB Discussion Paper "Preliminary Views on Financial Statement Presentation". Having more than 6,000 members, the ICA is among the largest non-profit associations of controllers in Europe with professionals in all major industrial and service companies, academic institutions, consulting and related businesses. Any achievements regarding a reliable and solid financial reporting environment under IFRS is strongly appreciated to provide the controllers' community with an adequate basis for their professional activities.

The ICA believes that guidance on financial statement presentation (phase B) clarifying several rules is necessary. Our responses to the specific questions set out in the discussion paper are contained in the attached appendix to this letter. In our view our concerns regarding selected questions of the discussion paper should strongly be considered.

*We are looking forward in participating round table discussions to the development of an exposure draft on financial statement presentation (phase B).*

Should you have any inquiries on the issues presented in the appendix do not hesitate to contact us at [icv@krimpmann.com](mailto:icv@krimpmann.com).

Yours sincerely,

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President ICA

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### Appendix



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## APPENDIX

*Question 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 think that these objectives are in line with the users' needs. Nevertheless, the board should also mention the reconciliation schedule in this context, as it is useful from a management perspective.

*Question 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 believe that users commonly analyze an entity's performance independently of its capital structure. We also believe that the proposed presentation model would provide more decision-useful information than current presentation models. The classification reflects the internal use of the items according to the management approach (please see also our answer under question 5). Nevertheless, we believe that there should be some clarification on selected assets / liabilities. E.g. presentation of leasing arrangements should be classified by nature – either it is an operating lease that is part of the business activities or it is a finance lease that should be recorded under financing activities.

*Question 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?*

Since equity is a residual figure it should be shown separately as proposed.

*Question 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 to the proposed presentation model regarding this issue. The proposed presentation is transparent and concise. Furthermore it is consistent with the activity separation concept (separation by function). We would like to point out that a consistent presentation across all statements should be mandatory. Elements should be presented either net of tax or gross of



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tax. This applies in particular to discontinued units as it is shown net of tax in the profit and loss statement.

*Question 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?*

In principle, we believe, that the management approach would provide the most useful view of an entity to users. The classification will reflect the internal use of the items through the eyes of management and will give the users an overview about the entity's performance. However, to ensure a minimum consistent application, we recommend strongly guidelines for disaggregation and presentation within categories. E.g. the net cash flow for operating activities should be disaggregated further. Beside the advantages for external users, we see big advantages for internal users. The management approach is a chance for a new set up of internal management reporting and harmonization with external financial reporting under IFRS. Managers and their management accountants/controllers will be forced to set up clear criteria for the allocation of assets/liabilities, income/expenses and cash flows to the sections "business" and "financing". During this task they will sometimes reconsider the current use of the entity's resources.

It is obvious that comparability of financial statements will suffer from using the management approach. But we think that this disadvantage will be outweighed by a better data basis and, thus, will generate more useful results of key performance indicators. Compared to the old format almost no information is lost.

*Question 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 believe that calculation of key financial ratios would be easier by considering the proposed changes.



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*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.*

We think that only the classification at the reportable segment level would reflect a clear and consistent relationship between the segments and the whole entity.

*Question 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 would like to link the set up of the statement of financial position to the management approach. Every time management believes that it is useful to report by segment, this information should match to the statement of financial presentation including a disclosure by segment.

*Question 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 proposed format represents a significant change and might lead to misinterpretations and inconsistencies among different business models. In order to assure clear and consistent classification policies among the entities we strongly recommend providing detailed implementation guidance. Such guidance should show examples for classification illustrating the underlying principles.

*Question 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 IFRS and US GAAP as proposed? Why or why not?*

Please provide guidance how to account for prepayments and other financing issues that might not be covered by IAS 39. Please refer to question no. 2 for a leasing example.



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*Question 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?*

We expect that entities in the financial services industry could prefer to present their statement of financial position in order of liquidity. For comparability reasons we recommend to limit this option to entities which operate in specific industries, like banks.

*Question 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 believe that a pure definition of cash may result in misleading presentation of financial statements. There are often situations where pending cash balances may occur, e.g. cash in transit that need to be considered. On the other hand a definition of 90 days as cash equivalents is also not appropriate.

*Question 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 presenting assets/liabilities that are measured on a different basis is more useful for decision making.

*Question 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?*

Basically, we agree to this “single statement approach”. But we recommend separating clearly profit or loss items (the former “income statement”) from items of the other comprehensive income like it is done under IAS 1 (revised 2007). In our opinion the profit or loss, mainly from operating activities, is one of the most useful key performance indicators and should therefore be shown separately.



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*Question 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?*

Separations should be consistent with other parts of the primary financial statements. Therefore, we think that this information would be decision-useful.

*Question 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 the disaggregation objective needs to be balanced against having too much information on the face of the primary statements. We agree that showing costs by nature within a function would be desirable. However, showing costs by nature within a function will in some cases not be possible. In Continental Europe the chart of accounts usually follows the nature of expenses method. The cost of sales format is often derived through internal cost accounting (by means of aggregation of cost centers). In cases of cost allocations between cost centers or functions (e.g. based on hourly rates) information with regard to the nature of costs is lost. A split by nature may not be possible any more. Therefore, it should be kept to management discretion to define the level of disaggregation as appropriate.

*Question 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 to the proposed classification requirements for income taxes. In our understanding income taxes should not be allocated to the sections “business” or “financing” since taxes are the result of all activities of an entity.

*Question 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.*



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*(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?*

In our opinion foreign currency translation gains and losses should be presented in the same section and category as the underlying assets and liabilities that gave rise to these gains or losses. We think, this separation would show the sources of the foreign currency risk and would also give an imagination about the quality of the entity's foreign currency risk management.

*Question 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 believe that the direct method of presenting cash flows would provide more decision-useful information than the indirect method. This applies not only to external users, it is also a sound basis for the entity's liquidity and financial planning (management of liquidity and other financial risks).

We also propose, that the information currently provided using the indirect method to present operating cash flows should be provided in the proposed reconciliation schedule.

*Question 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?*

In our opinion, an implementation of such a system could result in high one-time implementation costs, especially for large groups of companies having subsidiaries in many different locations because it affect company structures as well as EPD systems. Nevertheless, we believe that the direct method of presenting cash flows provides benefits for internal management purposes that might outweigh the costs for this kind of implementation.



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*Question 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.*

We believe, that the proposed reconciliation is not only useful for analysts but also for management purposes. The schedule increases users' understanding of the amount, timing and uncertainty of an entity's future cash flows as it distinguishes effects that are market driven (and therefore fair value based) from effect that can be controlled by the entity. By distinguishing between cash based and fair value effects, management not only has the opportunity to gain a better understanding of the relationship between profit and cash flows but also can to control and monitor the operation in a better way as market effects can be considered by different means. It also provides a sound basis for further management issues like bonus and commission systems.

*Question 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 believe that an alternative format is not necessary if the reconciliation schedule is enhanced by the statement of financial position. In such a schedule, dependencies between assets / liabilities and cash flows might help management to make better management decisions. This applies in particular to heavy asset based companies as the current proposed reconciliation format does not provide transparent information for such kind of companies.

We also believe that an enhanced reconciliation schedule may help management in monitoring operations as this is an ideal supplement for an integrated planning system.