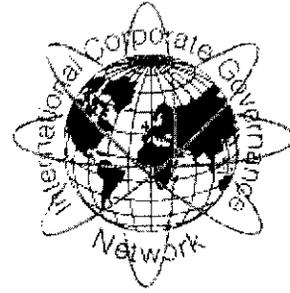




LETTER OF COMMENT NO. 151



**Via Email: [commentletters@iasb.org](mailto:commentletters@iasb.org)**

14 April 2009

Sir David Tweedie, Chairman  
International Accounting Standards Board  
(IASB)  
Robert H. Herz, Chairman  
US Financial Accounting Standards Board  
(FASB)

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Dear Sir David and Bob,

**Re: Discussion Paper – Preliminary Views on Financial Statement Presentation – Joint Project by the IASB and the FASB**

We are writing on behalf of the International Corporate Governance Network (ICGN). The ICGN is a global membership organisation of institutional and private investors, corporations and advisors from 47 countries. Our investor members are responsible for global assets of U.S. \$15 trillion. The mission of the ICGN is to meaningfully contribute to the continuous improvement of corporate governance best practices through the exchange of ideas and information across borders. Information about the ICGN, its members, and its activities is available on our website: [www.icgn.org](http://www.icgn.org)

The purpose of the Accounting and Auditing Practices Committee is to address and comment on accounting and auditing practices from an international investor and shareowner perspective. The Committee through collective comment and engagement strives to ensure the quality and integrity of financial reporting around the world.  
[http://www.icgn.org/organisation/committee\\_membership.php?name=AAP](http://www.icgn.org/organisation/committee_membership.php?name=AAP)

The ICGN is pleased to provide comment to the IASB and the FASB on its joint project on financial statement presentation. We appreciate the boards seeking comment on whether the presentation model proposed in this discussion paper would improve the usefulness of the information provided in an entity's financial statements and help users make decisions in their capacity as capital providers. The ICGN is very supportive of both boards' collective actions to ensure appropriate presentation of financial statements. It is of critical importance that financial statement presentations provide for accurate, high quality, transparent and comparable information for users in making economic decisions.

Institutional investors are well aware that financial turmoil experienced recently in the financial markets has presented challenges and we appreciate that both boards are trying to provide improvement in the usefulness of the information provided in an entity's financial statements. We understand the boards developed three objectives in which information in the financial statement should be presented to: (1) portray a cohesive financial picture of an entity's

activities; (2) *disaggregate information so that it is useful in predicting an entity's future cash flows and (3) help users assess an entity's liquidity and financial flexibility.* Conceptually, we support the end goal of producing high quality, comparable financial information for investors across the global capital markets.

Critical to users is the basic concept of a "multi-step" statement of comprehensive income, which is clear and provides details for users to understand the operations of the business and the costs (expenses) of operations. Some may feel the amount of material is unwieldy; however, we feel it provides for a more direct and clear explanation of the business operations.

The ICGN considers that the objective of enhanced disaggregation of information to be a worthwhile objective as *this could provide users with additional information permitting improved analysis and insight.* We also believe more detail will provide additional confidence in the understanding of the entity that is the subject of the financial reporting and provide a better basis upon which to make more informed investment decisions.

The ICGN agrees that cohesiveness between the Income Statement(s) and the Cash Flow Statement would be most helpful in that it will permit ready comparison across what are the dynamic statements. The specific proposal for a reconciliation schedule between Cash Flow and Income Statements is very helpful. We acknowledge that in practice the debate is about where the right balance lies as to the level of disaggregation of information to be carried in such a schedule or its equivalent in Notes to the Accounts. We agree that additional work would need to be done on the specification of reconciliation information to ensure that an appropriate balance is achieved in this regard; however, we fully support this reconciliation.

The ICGN supports the direct method in the presentation of cash flows. We agree presenting cash receipt and cash payment line items in the operating category provides a more useful disaggregation of cash flow information. The direct method also is more conducive to the proposed new reconciliation which we fully support.

We would recommend that earnings per share (EPS) data be displayed as a block of information elsewhere in the financial statement to include all EPS along with basic and diluted EPS with calculations such as Total Comprehensive Income EPS, Cash Flow per share, etc.

We acknowledge the proposed Statement of Financial Position does not present in the traditional "balance sheet" format to ensure the balancing of the statement. However, we believe a sub-category below the statement as presented in the example would provide this comfort. We agree that net business assets and the proposed presentation is more meaningful to investors and users of financial statements.

Sir David Tweedie, Chairman  
Robert H. Herz, Chairman  
14 April 2009  
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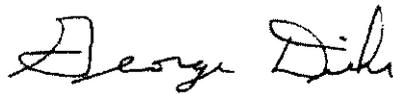
In summary, we wish particularly to emphasize to the boards that, in considering any changes to the financial statements presentation that the information needs of these users should be treated as of paramount importance. We have attached an addendum which addresses many of the questions posed in this discussion paper.

If you would like to discuss any of these points, please do not hesitate to contact Anne Simpson, our Executive Director, at +44 207 612 7098 or [execdirector@icgn.org](mailto:execdirector@icgn.org). Thank you for your attention and we look forward to your response on the points above.

Yours sincerely,



Christianna Wood  
Co-Chair, ICGN Accounting and  
Auditing Practices Committee



George Diehr  
Co-Chair, ICGN Accounting and  
Auditing Practices Committee

Cc ICGN Board Members  
ICGN Accounting & Auditing Practices Committee

Addendum – Responses to 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.

The ICGN strongly supports the objectives of financial statement presentation set out in the discussion paper. Investors and analysts currently have considerable problems in understanding information presented in financial statements. Much effort is spent on reclassifying statements into a more convenient form in order to evaluate management performance and value shares. In particular we support the Cohesiveness Objective and the Disaggregation Objective. More precise measures would be obtained and much effort saved if the various statements articulated better at a more detailed level. Additionally, see general comments in letter.

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, see question # 1 and general comments in letter. We feel this change clearly illustrates the profits received from the business activities as opposed to the costs of financing the business.

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?

The ICGN agrees that equity should be presented separately as the financial statements primary users are shareowners.

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?

Yes, we agree that presenting discontinued operations in a separate section would make the information presented more useful to users. The new proposed formats would allow users to ascertain information regarding continued operations in a more efficient manner. We do not believe there is a need for entities to present information about its discontinued operations in the relevant categories but instead agree with disclosing in its own section.

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?

The ICGN has serious reservations with respect to the management approach. We have earlier objected strongly to the management approach to segment classification and similar objections may be relevant here. The problem is that management and auditors often interpret “the management approach” as giving management the final say on classification and aggregation. As management performance is evaluated based on financial statement information management may sometimes have incentives to hide information useful to investors. We realize that specifying the classification of assets and liabilities and in particular the level of aggregation for every corporation in a standard, is infeasible. However, it is possible to state more clearly what the management approach should and should not involve. It is important that this is not a right assigned to management to decide what information investors should have. It is rather a duty imposed on management to disclose the information in a form that investors find useful. It follows that auditors should evaluate the decisions made by management to see whether this objective is met. Today auditors too often defer to management’s judgment in areas such as this. The ICGN also believes that management, auditors as well as enforcement agencies should listen to investors in matters of classification and aggregation (including segment information). If significant user groups object to choices made by management and supported by the auditors, management and auditors should have obligations to consider these objections with the presumption that the users know best. Requests for information should only be rejected if the corporation can show that they are unreasonable.

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

The ICGN agrees the proposed changes would allow calculation of financial ratios much easier as the information is easily ascertained with this new format.

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.

Segment reporting is of essential importance for investors. This information allows users of financial statements to assess the performance of a diversified group on a basis that can be compared, segment by segment, with sectoral peers. Thus, users can reconcile business performance with underlying industry and competitive dynamics.

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 consider that useful segmental disclosures need to be reconciled to the key line items on the face of the financial statements. Some of the line items required to be disclosed under IFRS 8 Operating Segments such as total assets and total liabilities may no longer be presented on the face of the primary financial under the new proposals. As such, a change in disclosure requirements under IFRS 8 may be needed. We would recommend issuers reconcile financial information at segment level with consolidated financial information as reported under IFRS, down to the net income level. This would enable users to form a better understanding of corporate performance within an industry or a market segment. It would also enhance continuity of financial information over time.

We also feel, as users, that disclosing cash flow information at the segmental level would be very useful.

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?

See general comments in letter.

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?

See general comments in letter.

### **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?

We agree with the analysis that entities with a large number of financial instruments that mature within a relatively short time period may be able to provide more useful information by providing assets and liabilities in order of liquidity rather than using the distinction of maturing in greater or less than one year (short-term and long-term categories).

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?

*Cash equivalents should be presented as part of short-term investments and not included with cash. It is important to know the liquidity and quality of investments.*

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

We agree that disaggregation of assets and liabilities that are measured on different bases provide more decision-useful information. Though, understanding the balance for better detail and the possibility of providing extended details in the notes should be further reviewed by the boards.

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 that an entity should present comprehensive income and its components in a single statement of comprehensive income as proposed. We believe this consistent approach would improve comparability.

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 agree that disclosing the category to which items of other comprehensive income relate may be decision useful. See general comments in letter.

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 providing further disaggregation within each section and category in the statement of comprehensive income may be helpful and decision-useful to users. However, it would be very helpful in the financial statement presentation field testing to see what this may mean to the interpretation of both boards.

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.*

Although, we are generally for disaggregating and providing additional detail, we believe that practical difficulties associated with allocating income taxes to operating financing and investing categories may not make sense, at this time, to implement this change.

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?

No comment at this time.

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?

See general comments in letter. We believe that the use of the direct method of presenting cash flows provides useful information to users and is consistent with the proposed cohesiveness and disaggregation objectives.

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?

See general comments in letter.

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 would prefer to see this in fieldwork testing to develop a more informed response.

#### **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, we believe this would be helpful to investors.

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 a separate reconciliation of cash flows to comprehensive income as proposed and shown on page 116 would be very beneficial to investors. Again we understand the need to balance the additional cost of preparers to providing additional information for investors. However, we believe reconciliation statements provide a better knowledge base and provide for better informed decisions.

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, the ICGN believes the Boards should address further disaggregation of changes in fair value. Investors generally support fair value that delivers a clearer picture of what is actually happening and more detail will enhance this disclosure.

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 clearly outlining the objectives of any alternative reconciliation schedules would provide better guidance.

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? DISCUSSION PAPER OCTOBER 2008 © Copyright IASCF 12*

Investors, users are interested in predicative value of various items in making assessments of the cash flow prospects of an entity. As unusual or infrequent items by definition have relatively lower predictive value, it is decision-useful for these items to be highlighted.

**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.

No response at this time.