



LETTER OF COMMENT NO. 214



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April 30, 2009

CLIFF #: 216703

Via E-mail: commentletters@iasb.org
280-30

International Accounting Standards Board
First Floor
30 Cannon Street
London, EC4M 6XH
United Kingdom

Dear Sir/Madam:

RE: IASB Discussion Paper – Preliminary Views on Financial Statement Presentation

Thank you for the opportunity to comment on the IASB discussion paper – Preliminary Views on Financial Statement Presentation.

The Summary Financial Statements of the Province of British Columbia are prepared in accordance with Canadian Public Sector Accounting Board (PSAB) standards. Although the discussion paper relates to a proposed model within the scope of IASB standards, the Province of BC will be impacted by revisions to IFRSs in the future as several of our entities are currently required to adopt IFRS in 2011. In addition, PSAB guidance may be impacted in the future.

In general, our view on the discussion paper is that we appreciate the consistency that is achieved between the financial statements and that the suggested presentation of financial statements may facilitate improved decision-making for some financial statement users. However, we are concerned about the practicality of these changes and we believe that it would be important to ensure that the benefits of the proposed changes outweigh the costs required to incorporate them.

We also believe that the boards should carefully consider the proposals against current financial statement presentation to ensure that the proposals will benefit all users of financial statements. We are concerned that some of the changes may be beneficial to only those users who prefer a highly sophisticated level of detail within financial statements.

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Ministry of Finance

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We noted that a number of entities would be participating in testing of the preliminary views within the discussion paper during the comment period. We support this testing and believe that it would be helpful if the results were published prior to the initiation of an exposure draft on a proposed standard in order to evaluate whether or not the cohesiveness, disaggregation, and liquidity and financial flexibility objectives are achieved. Additionally, it would be helpful for the IASB to provide information on the diversity of the entities participating in the testing.

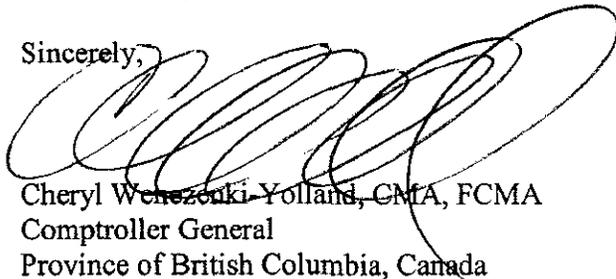
With respect to the objective that the disaggregation of information would provide predictive value, we believe that financial statements alone do not provide a comprehensive predictive picture of an entity's future cash flows.

Additionally, we noticed that there does not appear to be a standard order for financial statements within the discussion paper as the table on page 15 indicates the Statement of Comprehensive Income follows the Statement of Financial Position; however, in Illustration 1A, the Statement of Comprehensive Income is presented first. It would be helpful for guidance to be provided on a standard order for financial statement presentation to ensure consistency.

Finally, if the proposals within the discussion paper move forward, we believe that an implementation period over several years would be helpful for entities that will move to IFRS in 2011, as well as for all entities that will require an extended time period to implement these significant changes.

Responses to specific questions posed in the discussion paper are attached. Should you have any comments or questions, please contact me at (250) 387-6692 or by e-mail: Cheryl.Wenzecki-Yolland@gov.bc.ca, or Carl Fischer, Executive Director, Financial Reporting and Advisory Services Branch, at (250) 356-9272 or by e-mail: Carl.Fischer@gov.bc.ca.

Sincerely,



Cheryl Wenzelki-Yolland, CMA, FCMA
Comptroller General
Province of British Columbia, Canada

cc: Graham Whitmarsh, Deputy Minister
Ministry of Finance

Nick Paul, Deputy Secretary to the Treasury Board
Ministry of Finance

Carl Fischer, Executive Director
Financial Reporting and Advisory Services
Office of the Comptroller General

Chapter 2: Objectives and principles of financial statement presentation

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?

We believe that the proposed financial statement presentation should be carefully considered against the financial statement presentation that is currently in use to ensure that the changes benefit all users of financial statements. We are concerned that the proposed presentation may provide a level of detail within the financial statements that is beyond the scope of the current objectives for financial statements. Although a sophisticated level of detail may be preferred by some users, it is important to ensure that financial statement presentation provides a level of detail that meets the needs of all users across a broad spectrum.

We agree with the objective of cohesiveness because consistency and comparability of financial statements are vital to users; however, we are concerned that the disaggregation objective of providing predictive value may be beyond the purpose of financial statements, which is to report on an entity’s current financial position. We believe that it is unlikely that the financial statements alone could be reliably used for predicting future cash flows. Additionally, we believe that the liquidity and financial flexibility objective is more appropriately met within the notes to the financial statements.

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 believe that the boards should ensure that the objectives of financial statement presentation are focused on the reliable presentation of the financial position of an entity. Additionally, we believe that the provision of predictive value within financial statement presentation should not be a primary objective.

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?

Yes, the separation of business activities from financing activities may provide more decision-useful information because investors would be able to assess whether or not an entity is sound by comparing the financial results of their business activities with the financial results of their financing activities. However, we are concerned that the costs of these significant changes may outweigh the benefits.

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?

Yes, equity should be presented separately from the financing section as it is vital for users to see the amounts from owners and others in order to assess the owner's risk.

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?

Yes, it is important to present discontinued operations in a separate section in order for users to assess the effects of discontinued operations through prior year comparisons.

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 do not believe that information on discontinued operations should be presented within each relevant category because it would be difficult for users to aggregate the information. Additionally, presenting the information within each category may distort the presentation of the continuing operations of the entity. We believe that discontinued operations should be presented in a separate section with additional details provided in the notes to the financial statements.

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?

Yes, a management approach would provide the most useful view of an entity to users of its financial statements because of management's in-depth knowledge of their operations; however there is a risk that comparability between entities may be difficult due to the subjective nature of this approach, which could allow for manipulation of financial statement presentation. Additionally, there is a risk that

management may be sensitive to the classification as the financial statements will provide detailed information to competitors, as well as investors.

(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?

Yes, the potential for reduced comparability outweighs the benefits of the management approach because comparability of financial statements is vital to investors. It would be imperative for the IASB to provide interpretive guidance to ensure that comparability of financial statements is not 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 would like the boards to provide a report on whether or not the calculation of key financial ratios was improved for the entities participating in the testing.

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.

Reportable segments should be disclosed in the notes to the financial statements or within a separate schedule rather than within the financial statement presentation to ensure that financial statements are consistent and comparable, and do not provide a level of detail that is more appropriate within the notes or schedules.

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 believe that it is too early in the process to provide feedback on changes that may be necessary. The results of the testing will be helpful to assess this in the future.

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?

Yes, based on the information within the discussion paper, the definitions appear to be appropriate; however, a re-evaluation following a review of the results of the testing would be helpful to ensure that the users' needs will be met. We are concerned that the management approach to classification may result in a loss of comparability. It would be imperative for the IASB to provide definitions and interpretive guidance that are sufficient to ensure that the comparability of financial statements will not be lost.

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)?

Based on the information within the discussion paper, the definitions appear to be appropriate; however, a re-evaluation following a review of the results of the testing would be helpful to ensure that the financial statement users' needs will be met. We are concerned that the management approach to classification may result in a loss of comparability. It would be imperative for the IASB to provide definitions and interpretive guidance that are sufficient to ensure that the comparability of financial statements will not be lost.

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?

The results of the testing would be helpful in addressing this question.

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

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?

We are not aware of any specific entity types that would not present a classified statement of financial position other than, perhaps, entities that are in financial distress.

(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?

Yes, more guidance for distinguishing entities that should present a statement of financial position in order of liquidity would be warranted to avoid the risk of misleading financial statements.

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?

Yes, we agree that cash equivalents should not be presented as part of cash because they may turn out to be illiquid.

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?

Yes, disaggregation related to different measurement bases would provide more decision-useful information. Financial statement users would value this additional information to assess an entity's future cash flows.

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?

Yes, comprehensive income should be presented in a single statement as proposed because this presentation provides consistency and comparability.

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?

Yes, categories of other comprehensive income (OCI) may allow users to understand the nature of OCI.

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?

Yes, if the disaggregation of these amounts is based on a management decision method rather than a rules-based method, the additional information may be decision-useful for the users of financial statements; however, it is uncertain whether or not the information would be helpful in predicting the entity's future cash flows.

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 are not subject to income taxes; therefore, we have no comment.

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.

This presentation would appear to provide decision-useful information to users as it shows the effectiveness of management to manage their risk with respect to foreign currency.

(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.

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?

Yes, the direct method provides decision-useful information because it is more understandable to users.

(b) Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method? Why or why not?

Yes, the direct method is more consistent with the proposed cohesiveness and disaggregation objectives than the indirect method because the direct method indicates cash receipts and payments, which easily relate to the statement of comprehensive income and the statement of financial position.

(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?

No, only the direct method of presenting operating cash flows should be provided.

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?

The boards should consider the costs of gathering the information for the direct method including one-time implementation costs, as well as ongoing application costs. These costs may be reduced by permitting estimation and allocation of amounts that are not material.

Question 21

On the basis of the discussion in paragraphs 3.88–3.95, should the effects of basket transactions be allocated to the related sections and categories in the statement of comprehensive income and the statement of cash flows to achieve cohesiveness? If not, in which section or category should those effects be presented?

Yes, the effects of basket transactions should be allocated, if possible, to the related sections and categories in the statement of comprehensive income and the statement of cash flows to achieve cohesiveness; however, if the cost of detailed allocation exceeds the benefits, it should be presented in the category that reflects the predominant source of the effects.

Chapter 4: Notes to financial statements

Question 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, all entities that present assets and liabilities in order of liquidity should disclose information about the maturities of their short-term contractual assets and liabilities in the notes to the financial statements as this would be helpful information to allow the users of financial statements to assess the timing of assets and liabilities.

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.

The proposed reconciliation schedule may be useful to users of financial statements who prefer a highly sophisticated level of detail; however, in general, we believe that this would be more beneficial as a working paper for preparation of financial statements rather than a schedule within the financial statements. Therefore, we recommend that the reconciliation schedule should not be required if an entity believes that it would not be necessary.

(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.

No comment.

(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.

No comment.

Question 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?

It appears that further disaggregation of changes in fair value may be useful; however, the costs and benefits should be considered.

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 the proposed reconciliation document may be useful to users of financial statements who prefer a highly sophisticated level of detail; however, in general, we believe that this document would be more beneficial as a working paper for preparation of financial statements rather than a schedule within the financial statements. Therefore, we recommend that a reconciliation schedule should not be required if an entity believes that it would not be necessary.

Question 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?

We believe that the reconciliation schedule provides a highly sophisticated level of detail, which is not necessary for the majority of the users of financial statements. This information should be incorporated into the financial statement discussion and analysis rather than incorporated into the financial statements.

(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?

No comment.

(c) Should an entity have the option of presenting the information in narrative format only?

No comment.

Question specific to the FASB

Question 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.

Non-public entities include governments, which are not capital providers. The IASB should recognize the IPSASB as the standard setter for the public sector. The users of financial statements of publicly traded entities, non-publicly traded entities, and governments each have unique needs with respect to financial statement presentation that should be addressed.