



LETTER OF COMMENT NO. 217

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International Accounting Standards Board 30 Cannon Street London EC4M 6XH

Dear Sirs

Discussion Paper on Preliminary Views on Financial Statement Presentation

IMA represents the asset management industry operating in the UK. Our members include independent fund managers, the investment arms of retail banks, life insurers and investment banks, and the managers of occupational pension schemes. They are responsible for the management of approximately £3 trillion of assets, which are invested on behalf of clients globally. These include authorised investment funds, institutional funds (e.g. pensions and life funds), private client accounts and a wide range of pooled investment vehicles. In particular, the Annual IMA Asset Management Survey shows that in 2007 IMA members managed holdings amounting to 44% of the domestic equity market.

In managing assets for both retail and institutional investors, IMA members are major investors in companies whose securities are traded on regulated markets. Therefore, we have an interest in the requirements governing how such companies prepare their accounts and the information disclosed to our members as the users of that information.

IMA supports the development of high quality accounting standards that are applied consistently internationally and welcomes the IASB and the FASB developing a common framework which will form the basis for the future direction of financial reporting. This should maximise the transparency and comparability of accounts for our members. In respect of the current project, how financial statements are presented is important to our members and we welcome measures to improve it as currently there can insufficient disclosures, inappropriate aggregation of items under meaningless titles such as "other", and a lack of comparability between similar entities.

That said, we do not consider that the IASB has necessarily made the case for such a radical overhaul as is proposed in the DP and believe that many of our concerns could be addressed through changes to the existing format, rather than such a fundamental review. Nor does the DP provide any analysis of the potential costs and benefits of, nor any evidence of user demand for, its proposals.

We set out below our main comments on the proposals in the DP.

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The objective of financial statement presentation

The DP proposes a model for presentation that incorporates three objectives: a) the portrayal of a cohesive financial picture of an entity's activities; b) the disaggregation of information so that it is useful in predicting an entity's future cash flow; and c) an aid to assess an entity's liquidity and financial flexibility.

IMA does not necessarily consider that these objectives taken together would improve the usefulness of the information to help users "make better decisions in their capacity as Whilst a certain amount of cohesiveness in financial capital providers" (question 1). statements is important, we consider that in placing so much emphasis on the alignment of line items across the financial statements, the proposals in the DP may not best reflect For example, if a defined benefit pension the reporting entity's economic reality. scheme's assets and liabilities are included in operating activities then this should mean that its income and expense is also included in the operating category. However, in our view the economic reality of a defined benefit scheme is that the liabilities are financing activities, i.e. deferred pay which finances the business, and the service cost is an operating activity, i.e. part of the employees' remuneration. In summary, users value consistency over cohesiveness and comparability between companies and similar transactions. We agree that users need to be able to trace items across the accounts but this can be facilitated by analyses being provided in the notes.

In principle, we support an objective of enhanced disaggregation - this should help users complete a more thorough analysis and gain a better understanding of the reported entity. It should also enable them segregate fair value re-measurement gains and losses from operating earnings. However, the disaggregation proposed results in so much data on the face of the accounts that it adds to their complexity and could result in information overload.

The categorisation of information

The DP proposes that business activities should be distinguished from financing activities, that the former should be split between operating and financing activities, and that such categorisation should be adopted in the statement of financial position, statement of comprehensive income and statement of cash flows. It also adopts a "through the eyes of management approach" for classification of line items so that management presents the information in the way which they believe best explains their business activities.

Within any categorisation, it is important how the categories are defined and distinguished. In this context, we do not support the operating category being the default category as proposed (question 9). Users want to know what management has generated from its operations and the resources allocated to it and to make the operating category the default category could confuse this. Nor do we necessarily consider that financial assets and liabilities should be the only items that can be included in financing activities in that this could be too restrictive (question 10).

More importantly, IMA considers that the 'through the eyes of management approach' to line items could result in a serious deterioration in the comparability of information between similar companies and across the market, and may limit the ability of the auditor to constrain management action. If such an approach is adopted, IMA would favour detailed principles being set out in the final standard whereby entities "comply or explain"

how they have been applied (question 5). Moreover, if management change the way in which they classify assets and liabilities, at the moment in the UK, only one year of comparative numbers is required and some would question whether that is sufficient.

As is currently the case, IMA agrees that equity should be presented as a separate section from financing in that transactions with owners in their capacity as such are different from transactions with non-owners and do not result in gains and losses (question 3).

We do not consider that consolidating discontinued operations as single line is helpful in that it means that the accounts do not reflect fully the operational performance of the business for the period. We consider the gain or loss arising on disposal, including the associated taxation, should be distinguished from results to disposal so that investors can assess management's performance in managing the business until the date of disposal (question 4).

Lastly, we are not convinced that it will necessarily be possible, in practice, to trace items across the statements in the way proposed. In this context, we note above our concerns at the presentation within operating activities of defined benefit pension schemes. In addition, the allocation of goodwill to operating activities as proposed does not reflect the economic reality of the business in that goodwill is not employed within the business but reflects past transactions that are more to do with investment and financing.

Statement of financial position

The DP proposes fundamental changes to the statement of financial position. This gives us some concerns in that users value the current format where assets and liabilities are listed according to their relative maturities on the face of the accounts: non-current assets; current assets; current liabilities; long-term liabilities; and equity. Although IMA agrees that there is some logic behind using the three categories of operating, investing and financing, we do not believe that the existing headings are broken and consider the current format is sufficiently clear whether the assets/liabilities are operating or financing (question 2).

Moreover, the proposals to analyse assets and liabilities within each category as to long and short term, unless the order of liquidity provides more relevant information, will not necessarily be helpful in than it will only add to the complexity of accounts (question 11). The DP also proposes that an entity should present similar assets and liabilities that are measured on different bases on separate lines. Assets and liabilities are measured in a variety of ways, not simply cost or fair value but also amortised cost, net realisable value, impaired cost etc. Although items that are accounted for in different ways should be readily distinguishable, we consider such a requirement would further add to the complexity and clutter on the face of the accounts and that such a distinction should be made in the notes (question 13).

Segmental reporting

We have written to the IASB with our concerns on segmental reporting and the requirements of IFRS 8 – in particular, the use of the management approach. Another of our concerns was that IFRS 8 requires the disclosure of segment information on gross assets with no analysis of significant costs/liabilities. This means there is insufficient information to determine returns on capital for each segment. We thus welcome the

statement in the DP that an entity should classify its assets and liabilities in the business and financing sections in a manner that best reflects the way they are used (paragraph 2.27) and trust this will ensure that consequential amendments are made such that there is sufficient analysis of costs and liabilities (question 8).

Statement of comprehensive income

We are not concerned whether the statement of comprehensive income has a page break but welcome the acknowledgement of the need for a net income subtotal - investors want to be able to identify the elements that represent operating performance and the underlying operating income and expense (question 14). They want to know what management has generated from its operations and the resources allocated to it, and be able to distinguish this from the distortions that arise from remeasurement and one-off gains and losses. An earnings sub-total is particularly useful in this context.

Although our preference (our letter of 25 October 2007 to Sir David) was that tax should be reported separately for operating activities and for other major gains or losses, we recognise the difficulties for preparers in allocating taxation to various categories in a meaningful way. However, we would value information on the taxation of any items that are considered unusual, such as restructuring provisions, impairments etc. (question 17).

Cash flow statement

The DP proposes requiring a direct cash flow format without including any evidence of strong user demand and/or a clear cost-benefit analysis for such a fundamental change (question 19).

In summary, we consider that financial statement presentation could be improved without having to adopt some of the more radical proposals in the DP. We would like to see areas progressed where users and preparers agree on current weaknesses in presentation and where changes would address those weaknesses. We do not necessarily consider that the DP represents the best means of achieving the necessary improvements or that a case had been made for the changes proposed.

I trust that the above and the attached are self-explanatory but please do contact me if you require any clarification of the points in this letter or if you would like to discuss any issues further.

Yours faithfully

Liz Murrall

Director - Corporate Governance and Reporting

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