



LETTER OF COMMENT NO. 156

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

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Re : Comments on the discussion paper *Preliminary Views on Financial Statement Presentation* .

Madam, Sir

Hydro-Québec generates, transmits and distributes electricity mainly in the province of Québec in Canada. In Québec, transmission and distribution of electricity are regulated by the *Régie de l'énergie*, which sets rates on the basis of cost of service plus a reasonable return on the rate base.

From a theoretical standpoint, the views discussed in this paper offer a new and too complex way of presenting more financial information and from our standpoint, with no value-added. The financial statements and their analysis are too focussed on the financial analyst users. The existing segment reporting requirements should satisfy some of the users' needs for information.

On the practical side, those principles represent more data to be collected and classified which involves management's judgement. The management approach has the benefit of informing users on the way management runs an entity and makes decisions, but its consequences are the lack of comparability among the entities of a same industry and the costs incurred for the reclassification of information as strategies may change over time. Should the International Accounting Standards Board and the US Financial Accounting Standards Board go further with this project, we would advocate for more guidance from the Boards especially on the disaggregation objective to prevent entities from including too much detail in the financial statements.

While some public accountable entities have recently adopted IFRS and other entities are preparing for their implementation, a major change in the preparation of the financial statements represents a challenge that would be unnecessary and unwelcome. Attached are our detailed responses to the questions posed in the discussion paper.

Yours truly,

Lise Croteau, FCA

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Chapter 2: Objectives and principles of financial statement presentation

Questions

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 indicated in the Exposure draft «An improved conceptual framework for financial reporting» (May 2008), one fundamental objective of financial reporting is the usefulness of the information provided to present and potential equity investors, lenders and other creditors in making their decisions in their capacity as capital providers.

The three objectives of financial statement presentation discussed in this paper (cohesiveness objective, disaggregation objective, liquidity and financial flexibility objective) are commendable to achieve the goal of providing useful information. However, the implementation of these objectives is very costly for the companies to comply with because it changes entirely the existing format of financial statements and also it requires a lot of judgement from management.

We support the objective to help users to assess an entity's ability to meet its financial commitments and to invest in business opportunities. But investors do not rely solely on financial reporting, they also consider external factors such as the industry and company outlooks. The objectives presented in this discussion paper focus mainly on the financial statement presentation as a means for investors to obtain more information from an entity. The information needed by users could be provided through the management discussion and analysis report as for other types of information like income forecasts and specific investment projects.

The Boards should review all relevant ratios that capital providers use to decide on their resource allocation and to analyse their investment in the entity, in order to ensure that the objectives presented in this paper satisfy entirely these needs.

We do not think that other objectives should be elaborated in addition or in replacement of those presented in this discussion paper.

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 think that the separation of financial statements items in three categories could create confusion for the financial statement users and could sap their trust in those financial statements. North American economic and financial context is nowadays not very favourable for a change in depth as proposed in this document.

This approach is very different from the one used today and would require to provide a lot of information to financial statements users in order for them to understand those statements. This approach is very complex and subjective because it leaves a lot of latitude for classification. It does not allow comparing the financial year's data of the same entity nor between entities because the classification of items can vary according to the objectives of the management which change over time and differ according to entities. This method would be very costly to apply because it would require a revision of the financial statements preparation process and

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employees training. A lot of information and analysis should be provided to explain variations considering the decisions of management's classification for a given period. We wonder about the benefit of the proposed classification in comparison with the cost to be incurred.

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?

Equity should be presented as a separate section for the cohesiveness objective. Users of financial statements could do their own calculation to get the total capitalisation or financing of an entity, all items are usually available somewhere in the annual report.

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?

The presentation of discontinued operations in one section facilitates the analysis of this type of information and may suppress the need for additional notes in the financial statements. Users would not have to gather information from different parts of the financial statements in order to have a complete picture of these activities.

As noted in paragraph 2.72, the separation of discontinued operations is consistent with existing presentation requirements under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. In IFRS 5, the presentation requirements only concern the statement of cash flows and the statement of income.

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?

(a) Paragraph 2.27 specifies that an entity should classify its assets and liabilities in the business section and in the financing section in a manner that best reflects the way the asset or liability is used within the entity. The management approach implies judgement from the management of what is significant to the entity's performance and how it creates value. This approach should constitute a relevant classification of assets and liabilities and their changes to capital providers.

The management approach may evolve with management's strategies over time as well as with external circumstances. Reportable segments may change, assets use may change and consequently, reclassification to assets and liabilities might be required in order to provide comparability in data. The reclassification would require a lot of efforts to present useful financial information data.

(b) The potential for reduced comparability from one industry to another or among entities in the same industry, would outweigh the benefits of the approach because of the volatility of the information. This is explained in the exposure-draft "An improved conceptual framework for financial reporting", the paragraph QC16 describes one quality of information:

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One characteristic of information is the comparability that enables users to identify similarities in and differences between two sets of economic phenomena. Consistency refers to the use of the same accounting policies and procedures, either from period to period within an entity or in a single period across entities. Comparability is the goal; consistency is a means to an end that helps in achieving that goal.

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?

This change would make it more difficult for users to calculate financial ratios.

Indeed, financial data would not be always comparable for the same entity nor between entities given the various assumptions used by management to classify its assets and liabilities. Additional information would be required to support financial ratios calculation. Also, we think that most of assets would be presented under the business section and the majority of liabilities would be presented under the financing section; this classification exercise would not bring anything new to the financial ratios calculation.

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.

If the « management approach » as proposed in this discussion paper would be adopted for classification of assets and liabilities, we think that the entities with several reportable segments should present their assets and their liabilities according to the classification which they make at the level of each reportable segment. We believe that this classification is more consistent with the objective to present information based on what management uses to make decision. Specifically for entities which have very diversified reportable segments, a presentation of information based on a classification established at the entity level would not give a good measure of reportable segments. On the other hand, we anticipate that important efforts would be required and as a result a high cost to support this presentation without any value-added information.

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.

No comment.

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?

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The proposed definition of the business section (paragraphs 2.32 -2.33) requires judgment from management and more guidance in order to achieve comparability between entities.

For example, how should a short-term investment arising from a cash surplus or a financing surplus be presented as well as the gains or losses related? Investing asset, operating asset (if resulting from customers) or financing asset (if resulting from a borrowing)? The year end classification of this item could differ from the interim periods classification if we consider the materiality, or the short-term investment should be presented under the three categories? Finally, the same item could be presented differently in a subsidiary's financial statements (if for example the subsidiary is in the trading business as its core operations) and in the parent's financial statements (example of paragraph 2.66) depending on the management approach of each entity.

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?

The definition of a financial asset in IAS 32 «Financial instruments: Presentation» is not aligned with the presentation objective of the financing section. For example, in the discussion paper the customers' accounts receivable fit the definition of a financial asset and should be presented in the financing section. The customers' accounts receivable are nevertheless linked to an entity's operations and should be presented under the business section.

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

Questions

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?

(a) In our opinion, all electricity entities should present their statement of financial position according to the classification «current- non current». An alternative presentation should not be allowed because entities would not be comparable to each other and the financial ratios calculation would be more difficult to interpret.

(b) No comment.

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 to present and classify cash equivalents in a manner similar to other short-term investments. It is our current presentation practice.

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

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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?

It is our current practice to present separately assets and liabilities that are measured on different bases. But we believe that in most instances, it will be appropriate to present this disaggregation in the notes to financial statements rather than in the statement of financial position.

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 do not agree to present comprehensive income and its components in a single statement of comprehensive income. Instead, two separate financial statements should be presented: an income statement and a statement of comprehensive income. In our opinion, the focus should not be on the statement of comprehensive income due to the elements that constitute this statement. Effectively, the other elements of comprehensive income include, among others, unrealized gains and losses arising from fair value variations of financial assets available for sale and from fair value variations of effective cash flows hedging instruments. When the maturity of derivative instruments is short, we consider that the statement of comprehensive income could be an interesting information. On the contrary, when this maturity is remote, the statement of comprehensive income is less relevant and it should be analyzed cautiously.

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?

In our view, this information would not be useful. A gain or loss on a cash flow hedge may relate to an asset or liability yet to be recognised. Identifying and indicating the category in the statement of financial position in which each item in the other comprehensive income section will relate, could be difficult. Furthermore, this information could require some category change after recognition. The information related to future reclassification would be presented in profit or loss or net income in the statement of comprehensive income when it will be reclassified.

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 do not agree that the disaggregation by function, nature or both provides more decision-useful information. The primary objective of the statement of income is to measure the return on investment obtained by an entity during a reporting period. We believe that the presentation requirements for financial statements and related notes are sufficient for a user to make investments decision.

The note on reportable segments already discloses information by function. A similar presentation in the statement of income is considered redundant. A different presentation in the statement of income would bring confusion.

Several notes already allow a financial statements user to measure the most important future cash flows, for example the presentation of maturities and interest rates for the long-term debt, the disclosure of post-

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employment benefits, the recognition of the asset retirement obligation, the contractual commitments and the contingencies.

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.

No comment.

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 do not support the proposal that gains or losses arising on remeasurement from foreign currency into functional currency be classified in the same section and category as the assets and liabilities that gave rise to those gains or losses.

(a) We are not convinced that this information presentation is very useful to financial statements users. In our case, almost the entire foreign currency transaction gains or losses relate to the long-term debt and to the hedging instruments. The balance of the foreign currency variation is marginal. The cost of presenting separately this information will outweigh the benefits for users.

(b) The presentation of foreign currency gains or losses in the same sections as the assets and liabilities that gave rise to the gains or losses will lead to systems modifications costs in order to present this information and to match the financial information. Training costs as well as control costs will have to be added to the systems costs to implement this type of presentation.

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?

(a) Under IAS 7 "Statement of cash flows", the cash flows arising from the financing and investing activities are already presented using cash flows. Currently, only the operating cash flows can be presented using a direct method or an indirect method. The direct method would not be more a decision-useful presentation than the indirect method.

(b) The direct method may help to achieve the three objectives of financial statements presentation discussed in this paper, for the same reasons explained in the paragraph 3.78 of this paper. We support that proposition only

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if the direct method is applied to broad categories of inflows or outflows to be defined by the Boards (for example: customers, suppliers, employees, lessors, lessees) without further details or breakdowns.

(c) No, the information presented under an indirect method should not be provided in the proposed reconciliation schedule as it does not add any relevant information and is another costly activity for an 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?

The direct method of presenting operating cash flows requires the tracking of the cash inflows and outflows and would imply modifications to systems used to process sales, purchases, payroll, pension benefits. Other one-time implementation costs would include the training of the accounting personnel and changes to the financial reporting controls.

Ongoing application costs would happen if the entity changes its systems for reasons other than the direct method, for example to upgrade other functionality of the systems or if there are changes in the use of assets and/or liabilities over time.

The costs of implementing and maintaining the direct method of presenting operating cash flows can be curtailed if the requirements are at a more general level as explained in the answer to the question 19 b) above.

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?

Since generally enterprises rarely engage into basket transactions defined in this discussion paper as a single acquisition or disposal transaction that recognises or derecognises assets and liabilities that are classified in more than one section or category (for example a business combination), the effects of basket transactions (income or expense items and cash flows arising from a basket transaction) should be allocated into the different sections or categories they pertain to in the statements of comprehensive income and of cash flows.

This proposition is consistent with the cohesiveness and disaggregation objectives of financial information reporting and detailed data should be available for a basket transaction.

Chapter 4: Notes to financial statements

Questions

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?

Disclosure about the maturities of short-term contractual assets and liabilities in the notes for entities which present assets and liabilities in order of liquidity in its statement of financial position would not be useful to us. In our case, we would present assets and liabilities in short-term and long-term subcategories.

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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) The proposed reconciliation is too detailed for the users' understanding and could bring confusion. The proposition is equivalent to a new statement added to financial reporting since it requires the gathering of a lot of new information and it also overlaps with some information that are already presented in existing financial statements, such as cash received or paid and remeasurement adjustments. International accounting standard 36 Impairment of assets already requires disclosure of information about impairment adjustments and estimates of recoverable amounts of cash generating unit.

The costs of preparing the proposed schedule outweigh the benefits that a user can get from this document. For a specific analysis, users can find information from existing disclosures.

(b) The "accruals other than remeasurements" component could be incremental information for capital providers. Accruals could be required only for significant line items of the statement of comprehensive income instead of all line items of this statement. Examples of such accruals are given in paragraph 4.34 b): revenue from credit sales, depreciation expense, capital expenditures.

(c) The guidance provided in paragraphs 4.31, 4.41 and 4.44–4.46 is not sufficient to prepare the reconciliation schedule.

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?

The Boards should not address further disaggregation of changes in fair value in a future project. In our case, this information would not be useful.

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?

No comment. This question does not apply to our industry.

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

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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) We do not support including this information in the reconciliation schedule because it could be too subjective. This information is usually presented in the Management's Discussion and Analysis in the annual report.

(b) The definitions are not too restrictive.

(c) Narrative information in the notes could be useful in certain circumstance, only for the transactions as defined in APB Opinion No. 30.

Questions specific to the FASB

27. As noted in paragraph 1.18 ©, 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 comment.