

LETTER OF COMMENT NO. 188

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Brambles

International Accounting Standards Board 30 Cannon Street London EC4M 6XH

20 April 2009

Dear Sirs

Discussion Paper, October 2008
"Preliminary Views on Financial Statement Presentation"

Brambles Limited, ABN 89 118 896 021, is a global group of companies, headquartered in Sydney and listed on the Australian Securities Exchange and London Stock Exchange. Its main business activities are pallet and container pooling services (CHEP) and information management (Recall).

This letter sets out Brambles' views on the above discussion paper. Responses to the specific questions raised are provided in the Appendix. Our overall concerns regarding the proposals contained in the discussion paper are summarised below.

Brambles is fully supportive of the principles of reporting transparency and clarity, in particular that an entity's financial statements should provide detailed, accurate and relevant information that clearly communicates that entity's financial position and performance to users of financial statements.

The discussion paper identifies, in paragraph 1.19, the key components of financial statements, but does not convey any convincing vision of how the components would come together in any comprehensive new presentation model. This, in our view, has resulted in the following significant causes for concern:

- The discussion paper seeks to add large quantities of additional data into the primary financial statements with no apparent regard for what this means in the context of the financial statements as a whole. We observe that, since the introduction of IFRS, the page count of our consolidated financial statements has increased by almost 50%, primarily as a result of increased disclosures. We would regard further increases in page count negatively.
- The discussion paper appears to promote a fallacious premise that data alone, preferably in significant quantities, is inherently useful to users of financial statements. An alternate view, to which Brambles subscribes, would be that excessive detail in financial statements results in confused and uninformed users.
- The structural changes to the statement of cash flows appear to require the introduction of cash
 accounting, which is inappropriate and confusing in an accruals based set of financial statements
 and would involve significant change and cost for preparers of financial statements. The level of
 granularity set out in your sample cash flow disclosures in Appendix A8 are excessive and would
 require external disclosure of data which even operational managers do not require to manage their
 business.

In Brambles' view, the focus for the primary statements should embrace a conciseness and clarity that acts as a starting point for an overview of an entity's financial performance and position, and as a guide for the necessary further information and explanations provided in supporting notes. The objectives of cohesiveness, disaggregation and liquidity can then be addressed, as appropriate, in themed notes that address in detail all aspects of particular items/topics, and can present information (not mere data) that is comprehensible and useful.

As preparers of financial statements, we accept that the burden and costs of compliance and disclosure are likely to increase, and understand that this is a consequence of being a responsible corporate member of an interconnected global community of businesses, investors, customers, employees etc. However, we consider that the proposals contained in the discussion paper, notwithstanding good intentions, will not provide the intended benefits to users of financial statements, but will be hugely burdensome for preparers. Accordingly, we must record our strong opposition to the proposals as they stand and would urge the boards to reconsider in light of the responses we have made to the questions raised.

Yours faithfully

Rafe Warren

Group Accounting Technical Manager

APPENDIX - Questions for respondents

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? 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.

Appropriately applied, the three objectives should enhance the usefulness of financial statements for users. However, we have a number of concerns about the application of these objectives as proposed in the discussion paper.

Overall, we are left with the impression that the discussion paper proposals are focussed on the specialist needs of a very specific user population, perhaps large institutional investment managers, with little or no regard or understanding of the implications for the wider universe of users and the preparers of financial statements.

We appreciate that the focus of the discussion paper's proposals accords with the proposed revised Conceptual Framework's identification of 'present and potential capital providers as the primary user group' for financial statements, but it appears to us that the practical application of the proposals would be of benefit only to highly technical specialist users (and we are not even convinced of the usefulness to them). Contrary to the boards' presumed intentions, we believe the discussion paper would lead to hugely increased complexity, and consequently increased incomprehension, for the majority of users in exchange for the (dubious) benefit of a few.

Taking each of the three objectives in turn:

Cohesiveness

As a principle, we consider this objective to be sound, but its application in the discussion paper to be flawed.

In the discussion paper, this objective is being applied to the three primary statements in isolation. It assumes clear relationships between all components of the three primary statements that can be categorised and related to each other in a coherent manner on a line-by-line basis.

We accept this may well be theoretically true, but that does not mean it is either practicable or desirable. The discussion paper itself highlights difficulties, for example where some items would be classified over several categories, or where an item could belong to one or another category and has to be allocated. The discussion paper also introduces the concept of a 'management approach' to classification.

Both these aspects in our view create uncertainty. Should presentation change if a new management takes over? Should management seek to present items in a particular way, or vary the presentation from period to period, because the result is more favourable than an alternative. Of course not, but wherever subjectivity is introduced it opens up avenues for 'interpretation' and uncertainty. How is a management approach to be audited?

A modern set of financial statements, that is the entire document including all notes, reports and commentaries, is already a highly complex and technical document, which makes high demands upon its users in order to be properly understood. In our view, a fundamental role of you (the standard setter) and us (the preparer) is to assist users in navigating financial statements, so that they can readily find and understand the information they seek.

We think this is best achieved by the hierarchical presentation model that more or less exits today. The primary statements, in particular the statements of financial position, comprehensive income, and cash flows, should perform the dual purpose of i) summarising the key important details of an entity's financial position and performance, and ii) act as an index to additional supporting information. To reorganise and insert large quantities of additional data would undermine this purpose.

The secondary tier, or tiers, comprise that supporting information. Presently, these typically appear in separate sections — for example, accounting policies, explanatory financial notes and management commentary. We consider that the cohesiveness objective is best met at this level.

The primary statements each have their own characteristics and 'natural' flows (albeit perhaps only by reason of familiarity). Nevertheless the cohesiveness objective does appear to suit each statement slightly differently.

- The statement of comprehensive income appears to most readily lend itself to a categorisation in accordance with the discussion paper – that is, sections for business (with the operating / investing split), financing, taxation, discontinued activities and other comprehensive income. For present users of IFRS, this format does not radically differ from existing requirements.
- The statement of financial position can be tailored to fit the discussion paper's proposed categories, but the fit does not appear to work as seamlessly as for the statement of comprehensive income.
 Two difficulties are that it may not be straightforward to classify all items, introducing the subjectivity of the 'management approach', and the scattered presentation of assets and liabilities throughout initially appears far more confusing than present practice.
- The statement of cash flows does at first sight appear to fit the discussion paper categorisation well, in a manner very similar to and consistent with the statement of comprehensive income. However, there is one hugely significant fundamental difference — it necessitates the introduction of a cash accounting model into what is, in all other respects, a set of accruals based financial statements.

If cohesiveness is to be introduced as a guiding objective, we consider that it would be far better applied in the 'second tier' supporting notes. A suggestion is that the notes to financial statements should be more themed and fully integrated so that they become a 'one-stop' location for all information on a particular primary statement number (or group of related numbers). For example, in relation to property plant and equipment, have a single note that brings together the relevant accounting policies, the opening and closing positions with intervening movements, income statement and cash flow movements, segment analyses, even reconciliations between the different components, and management narrative explanations and analyses, including expectations for the forthcoming year.

In summary, to apply the cohesiveness objective at the level of the primary financial statements as proposed in the discussion paper would:

- adds far too much information into the primary statements see disaggregation below;
- · ignore the fundamentally different purpose and flows of the individual statements see above; and
- introduce and elevate totally incongruous cash accounting in what should be accruals based financial statements.

Disaggregation

Disaggregation as a principle already exists, and Brambles is comfortable with this objective as a principle. Brambles is also happy with the way it is applied under existing IFRS.

As with cohesiveness, the important issues arise from the application of the objective. In the context of the discussion paper, the particular concerns are how much disaggregation is useful, at what point does it become too costly or counter-productive, and what real bearing does it have in assisting users "in assessing the amount, timing and uncertainty of [an entity's] future cash flows" [DP2.7].

Regarding 'how much' disaggregation:

- Large quantities of financial data of itself provides neither information nor knowledge, and will not confer understanding. Data is of no use without context and explanation. The place for that context and explanation is in the supporting notes to financial statements see cohesiveness above. To include too much detail on the face of the primary statements will serve only to obfuscate, and most likely duplicate (since the information will of necessity have to be repeated in the notes where it is analysed and explained).
- Too much information is as bad as too little information. This is particularly so for the primary
 financial statements where too much data would i) discourage reading the statements, ii) hide or
 confuse the overall picture of an entity, and iii) fail to distinguish important from unimportant detail.

Regarding future cash flows, we are not convinced that disaggregation per se increases the ability to assess the amount timing and uncertainty of future cash flows. An entity's financial statements are intrinsically a historical record of past events and, to paraphrase an investment industry adage, "past performance is not an indication of future performance".

Brambles has direct regular contact with its own investors and analysts. In our experience we are not aware of any demand from investors or analysts for the level of detailed information that would arise from the disaggregation of the statement of cash flows in the manner proposed in the discussion paper. We receive hardly any queries on our financial statements from shareholders and other users. That is not to claim that our investors and analysts are completely satisfied with existing presentation arrangements. However, their questions do tend to focus on specific key aspects of our business, and for future cash flow they are much more interested in management's plans for the business than the historical record.

Liquidity and financial flexibility

Brambles agrees with the sentiment underlying this objective. But, in line with the points raised above, we believe this is best achieved in comprehensive notes to the financial statements – in particular a financing and liquidity note that would cover all aspects of the subject. Presentation of data in the primary statements does not address the issue and, without supporting notes, would not add to the sum of a user's understanding.

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. In our view, this would not differ significantly from existing IFRS practice.

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?

In Brambles view, equity should be kept separate from financing.

In many jurisdictions there is a clear differentiation between the providers of equity capital and the providers of loan finance. A loan finance relationship is usually subject to commercial terms and conditions, and requires the injection of a capital sum in exchange for a regular return (interest) and repayment of the capital sum. Liquidity, both to service the debt and eventually repay it, is of paramount importance.

Of course, equity capital providers are also interested in liquidity, but the relationship is based upon expectations rather than commercial terms and conditions. Those expectations include a regular return (a distribution or dividend) and an eventual realisation of the equity invested, but such distributions are technically discretionary as to timing and amount (insofar as market expectations permit a discretion) and not contractual, and the equity realisation usually carries an expectation of capital growth. Equity is always subordinate to debt.

In Brambles' experience, lenders and equity investors view themselves differently, and Brambles' internal decision processes are different when evaluating projects from a lender's perspective or an equity shareholder's perspective. Our preference would be to keep this distinction clear in an entity's financial statements.

Question 4

In the proposed presentation model, an entity would present its discontinued operations in a separate section (see paragraphs 2.20, 2.37 and 2.71–2.73). Does this presentation provide decision-useful information? Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets and financing liabilities)? Why or why not?

Brambles agrees that discontinued operations should be presented separately in the primary financial statements. This accords with present practice under IFRS.

In the context of the purpose of the financial statements, that is to provide useful information to capital providers, the primary focus should be on the continuing business excluding discontinued activities. By definition, once discontinued, such activities have no influence on an entity's future cash flows, continuing liquidity or financial flexibility.

However, we recognise that information regarding discontinued activities is important from a historical and continuity perspective to users of financial statements. In this regard, we would favour presenting information about discontinued activities in the relevant categories by way of a note 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?
- (b) Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach? Why or why not?

In principle, we would prefer to keep all judgemental or subjective elements to an absolute minimum in order to avoid inconsistency. That said, we appreciate that in practice each entity will be different and that management is best placed to make the decisions necessary in order to make the best possible allocations within any given framework.

To minimise disadvantages, we would like to see:

- A simpler approach to data presentation in the primary statements than that proposed in the discussion paper (commented on throughout);
- Clear guidance on the principles to be applied when deciding the most appropriate category for allocation; and
- Guidance on if or when an allocation might be expected to change.

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?

In our view, the answer to this specific question is both 'yes and no'.

Yes, in a purely mechanistic sense. If a user is presented with two numbers in, say, boxes A and B, calculating a ratio of, say, A/B is obviously easy.

No, in the sense that simplicity risks becoming its own inherent flaw. Blind manipulation of two pieces of data does not necessarily promote an understanding on the part of the user, and indeed if taken without context or explanation could lead to complete misunderstanding. If a homogenised standardised format were to become the norm for all entities in the primary statements, we fear this could lead to dangerous complacency — for example an unquestioning reliance on data because it appears in a particular box, assumptions about relationships and comparability in inappropriate circumstances, and a general failure to engage in independent thought and enquiry, or even apply common sense. This would not help users, but on the contrary may mislead them, or cause them to mislead themselves.

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.

The reportable segment approach is consistent with the overall approach adopted in the discussion paper. This may result in greater complexity and cost within each entity but, for Brambles, our expectation is that

classification on either an entity basis or a reportable segment basis would not differ significantly, if at all. Of course, there may be many other businesses that are significantly impacted.

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.

In our response to Qu 1, we suggested that the cohesiveness model would be better applied to the supporting notes rather than the primary financial statements. Accordingly, it would be logical for certain segment information to be considered in the context of the major note disclosures.

In overall terms, we support the IFRS 8 core principle for segment reporting, and anticipate that there would be a need to clarify or redefine which items should be subject to segment reporting. We have no specific views on what those items might be, provided they remain consistent with the IFRS 8 core principle.

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?

Within the context of the discussion paper, the definitions to be appropriate.

Question 10

Are the financing section and the financing assets and financing liabilities categories within that section defined appropriately (see paragraphs 2.34 and 2.56–2.62)? Should the financing section be restricted to financial assets and financial liabilities as defined in IFRSs and US GAAP as proposed? Why or why not?

Within the context of the discussion paper, the definitions to be appropriate.

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

Ouestion 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?

Brambles considers the introduction of an option to present in order of liquidity has the potential to introduce confusion. For example:

- We do not know what types of entities would expect to adopt an order-of-liquidity presentation;
- We do not know the criteria to determine when an order-of-liquidity presentation would provide "information that is more relevant" [DP3.2].
- Who decides what is most relevant, and can the decision vary from time-to-time as circumstances change? For example, in light of the 'credit crunch', it is possible that every user of every entity's financial statements considers that liquidity is presently the only relevant information. If that were so, would every entity be expected to adopt an order-of-liquidity presentation for their next financial period?

Such uncertainty would require guidance on the appropriate application of an order of liquidity presentation. Also, once the option exists, would it create a demand to see the information anyway – that is, if the

discussion paper's recommended subcategory presentation is adopted in the statement of financial position, information regarding relative liquidity of each item might nevertheless come to be expected by users to be, say, presented in the notes to the 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?

Brambles' cash equivalents comprise surplus cash on deposit with banks, typically for periods between 7 days and 3 months, never longer. Brambles considers that the risks associated with such deposits are not significantly different than for ordinary cash-at-bank held on-demand. If, in these credit-crunch times, a bank were to fail, any cash-at-bank is as at much risk of being lost whether it is on-demand or short-term deposit.

Accordingly, Brambles does not see any need to change and would have a (mild) preference for the existing status quo. However, this is not a major issue for Brambles and a change would not be a cause for concern.

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?

For Brambles*, we cannot see that any useful purpose would be served by providing such information in the statement of financial position.

* such information might be useful in the context of financial entities and their financial instruments, but Brambles is not qualified to comment.

To the extent that such information would be useful, in our view it would be much better provided in notes to the financial statements.

Please note, we strongly disagree with comments to the effect that "providing information in the statement of financial position is more straightforward and avoids making users go back and forth between the statement and the notes to find important information" [DP3.20]. From our perspective, this sentiment appears naïve and unhelpful.

Financial statements are complex technical documents, which place significant demands upon users in terms of the depth of knowledge required in order to understand or interpret them. It is beholden upon you (the standard setters) and us (the preparers) to provide as much guidance as possible to assist users in navigating and understanding financial statements. (See also our response to Qu 1.)

Inserting ever more financial data into the primary financial statements will be counterproductive and potentially ruinous:

- It seems irresponsible to suggest, as appears to be the implication of DP3.20, that the primary financial statements alone could provide a meaningful understanding of a set of financial statements and eliminate the need for a user to refer to the notes and other supporting sections;
- Given that everything disclosed on the face of the primary statements will require a supporting note, repetitious disclosure on the face of the primary statements is an unnecessary duplication;
- A mass of data in the primary statements would obscure any meaningful overview of the
 performance or position of an entity, and renders any index function too difficult to use.

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?

Brambles has no strong view either way on this proposal, but see the response to Qu 15.

A minor caveat, based on the illustrations in Appendix A, is that presentation of earnings per share immediately following total comprehensive income looks 'odd'. A better presentation might be to disclose earnings per share directly below net profit and before other comprehensive income.

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?

This requirement is a logical extension of the cohesiveness objective and the discussion paper's application of the subcategory approach. This of course assumes that such a categorisation would be possible.

Referring to the illustrations in Appendix A, the presentation whereby the subcategory allocation is indicated in parentheses does not seem consistent with the approach throughout the other primary statements, nor is it particularly aesthetically appealing. A better approach would be to present other comprehensive income in a separate primary statement of its own, reporting individual items grouped and subtotalled by subcategory.

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?

For Brambles' general views on disaggregation, see Qu 1. We note the discussion paper considers that, for IFRS users, these proposals may not in practice create any 'major change' from existing disclosures in accordance with IAS 1 [DP3.53]. Assuming that to be true, specific to this question we comment as follows:

- It is not appropriate to provide this level of detail on the face of the primary financial statements.
- Different business units may have differently important flows for example, purchase of lumber is a
 major component of one Brambles business, whilst warehouse space is important to another, but
 with no cross-over importance to either. Too much analysis at a business unit level becomes a) far
 too detailed without conveying any decision-useful information for investors, but b) could be
 commercially sensitive.
- The criteria to determine whether the disclosures should be made, that is 'to the extent that this will
 enhance the usefulness of the information in predicting the entity's future cash flows', is too
 subjective, and does not understand how to predict an entity's future cash flows.

Regarding prediction of future cash flows, historical expenses or cash flows have a limited use as a broad indicator of the possible size of a particular inflow or outflow, if all circumstances were to remain unchanged. Thus any data disclosed under this proposal would be of limited use without the correct and relevant context.

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.

Brambles agrees that income taxes should be allocated in accordance with existing requirements.

Any greater degree of allocation would require a more complex approach to and analysis of tax computations, and is unlikely to provide sufficient information to users of financial statements to warrant the additional effort and expense required of preparers.

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.
- (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?

Brambles is a global group exposed to many different currencies. We consider that understanding of an entity's currency exposures, how those exposures are managed, and the effects of exchange differences, are an important part of understanding any modern global entity.

We have not explored the specific detail, but do not see why it should not be possible to compute and disclose exchange differences by section and category. This would most likely be a centralised automated process, and we would see the major practical issues being confirmation and verification of the end results, including how auditors would be able to express an opinion.

That said, we are not convinced that such an allocation would provide users with any better understanding of the effects of foreign exchange on an entity. On the contrary, splitting the components of FX over many different sections and categories would dissipate an essential piece of information and render it opaque. Our suggestion would be to have FX in one place, with a supporting note to expand and explain how it arises and the nature of continuing exposures. This might include appropriate segment analysis.

Question 19

Paragraph 3.75 proposes that an entity should use a direct method of presenting cash flows in the statement of cash flows.

- (a) Would a direct method of presenting operating cash flows provide information that is decision-useful?
- (b) is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method? Why or why not?
- (c) Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?

Brambles already employs a direct method of presenting its statement of cash flows, albeit determining the two disclosed operating cash flows indirectly (as outlined in DP3.82).

The simple answers to the three specific questions above are 'yes' (or at least 'probably'), BUT we do not agree with the application of the direct method as proposed in the discussion paper.

As presented in the discussion paper, we believe the proposed cohesive, disaggregated, direct-method cash flow presentation can only be achieved by the wholesale introduction of cash accounting.

The discussion paper reaffirms the importance of accrual accounting [DP2.2] and that the focus of this project is consistent with the overall objective of accrual accounting [DP2.3]. The recasting of the statement of cash flows to what appears to be, in effect, a cash basis of accounting contradicts these affirmations. In Brambles' view, a cash accounted statement has no place in an accruals based set of financial statements, and we consider cash accounting to be wholly impracticable and unduly burdensome for preparers of financial statements.

This is not to say that the existing statement of cash flows plus supporting note disclosures cannot be improved. We do not have detailed proposals, but experience with Brambles' investors and analysts suggests the cash flow statement itself is broadly satisfactory, whilst the supporting analysis and explanation could be improved. We support a direct method approach being compulsory, but at a level consistent with existing rules only. In the notes, we would support, for example, greater segment analysis of certain key flows by business and geography, and a clearer reconciliation* between operating profit and operating cash flow, separated between business and investing.

* but do not support the hugely detailed reconciliations proposed in the discussion paper - see Qu 23 below.

Appendix A8 sets out a proposed cash flow statement format for a manufacturing company, Toolco, showing cash flows for individual income and expense line items. We strongly reject the provision of data at this level of granularity. Given that our operating managers do not require cash flow data at this level of

disaggregation to run their businesses, it is difficult to comprehend why this data should be provided to external users of financial statements.

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?

For Qu 19, we noted that we consider the discussion paper's approach to statement of cash flow represents the introduction of cash accounting.

That being the case, then such a change would require the creation and maintenance of a secondary set of accounting records, on a cash basis. Once established those records would need to be properly maintained and controlled, and there would need to be processes in place to ensure that the two sets of records (accruals based and cash based) were co-ordinated and consistent. How this would be achieved, and more importantly evidenced in a manner that could be reliably audited, we have not investigated, but we are firmly of the view that ongoing application costs would be significant.

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?

We appreciate this is a complex area, and that there does not appear to be a simple or straightforward solution that might cover all eventualities. To the extent Brambles has a preference, it would be to allocate by section/category the effects of basket transactions that represent an 'inflow' to an entity, for example a business combination, and to isolate as a separate single item any basket transaction that represent an 'outflow', for example a business disposal.

To properly understand the true effect of a basket transaction, it would be necessary to provide full disclosure in supporting notes to the financial statements.

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?

From our response to Qu 11, we do not fully understand when and by which entities the order-of-liquidity of presentation would apply, so do not have a view on that aspect of the question.

With regard to all entities making such a disclosure, it would be consistent with liquidity being one of the three core objectives of the discussion paper, and, whilst appreciating that it will involve additional work for preparers of financial statements, we do not have any concerns about such a proposal.

Question 23

Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components: (a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments.

- (a) Would the proposed reconciliation schedule increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.
- (b) Should changes in assets and liabilities be disaggregated into the components described in paragraph 4.19? Please explain your rationale for any component you would either add or omit.

(c) Is the guidance provided in paragraphs 4.31, 4.41 and 4.44—4.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.

The response to Qu 19 explained our view that the discussion paper's proposals for the statement of cash flows represents the introduction of cash accounting, and that we oppose that position. This proposed disclosure is a reconciliation between a cash accounted statement and an accruals accounted statement. Our objections to cash accounting would apply to this reconciliation schedule.

Even ignoring the point of principle, we consider that the reconciliation as proposed represents the presentation of data for data's sake. The huge mass of data conveys no meaningful information, would probably discourage reading of the reconciliation, or worse encourage a blind reliance on particular aspects without any underlying understanding.

That is not to say that there is not a need for useful reconciliations between cash and income, and possibly cash and certain assets/liabilities. However, we consider that to be useful reconciliations should be specifically focussed at important areas and must be concise. Several smaller reconciliations of specific relationships and allocated to themed notes as appropriate would, in our view, be far more useful and informative that one huge unwieldy and incomprehensible reconciliation.

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?

Brambles does not oppose the principle of disaggregation, provided it is applied sensibly and achieves a useful purpose in reasonably assisting users of financial statements. We would support a future project but, in line with our overall position on the discussion paper, would have a strong preference for any resulting disaggregation to be dealt with in notes to the financial statements, not on the face of the statement of comprehensive income.

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?

In line with Qu 23, our response here is necessarily 'yes'. However, the examples provided in Appendix B give rise to similar concerns as previously expressed – in particular, that the reconciliations are too large and complex, and ultimately become self-defeating. The principles are fine, but the reconciliations need to be focussed on important items and the end result clear and concise.

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?
- (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?

Brambles considers that information about unusual and/or infrequent items should be highlighted as a footnote to the primary statements (but not form part of the primary statement), with appropriate additional detail provided in a note devoted to such items. In our experience, investors require significant non-recurring items to be highlighted, to facilitate their understanding of the business.

Where such items appear elsewhere in the financial statements, they should cross-refer to the note. Brambles has no issue with allowing a narrative only option but, in our experience, to convey a complete understanding of an unusual item will usually require a combination of numerical and narrative information.

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 not be beneficial to you in making decisions in your capacity as a capital provider and why.

Not applicable to Brambles.		