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LETTER OF COMMENT NO. ZOO

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DISCUSSION PAPER Preliminary Views on Financial Statement Presentation

CIPFA is pleased to present its comments on the above discussion paper, which has been reviewed by CIPFA's Accounting and Auditing Standards Panel.

2. CIPFA welcomes the Board's project which has been undertaken with a view to improving financial statement presentation. However, we are not convinced that the proposals in the discussion paper improve the usefulness of the financial statements for all relevant users. In particular we do not consider that the 'objectives' and 'principles' have been articulated in a way which covers the full decision-usefulness objective, or the full range of user needs. The practical effect of this is that the proposed financial statements are overly detailed, and do not effectively address the information needs of the generality of capital providers.

Objectives

- 3. In developing an approach to improving presentation, the Discussion Paper sets out objectives. Cohesiveness relates to what might be achieved by linking related information in separate statements, while Disaggregation relates to what might be achieved by grouping related information within individual statements. We have some concern that these place too much emphasis on addressing the problems identified in the Discussion Paper, rather than providing general support for the content of financial statements.
- 4. In our view it would be more helpful if the financial presentation discussion were framed to directly support the objective of financial reporting, with Cohesiveness and Disaggregation characterised in terms of the implications for understandability and other qualitative characteristics on which presentation has an impact. It would also be helpful if more consideration were given to
 - how presentation might inform assessment of stewardship; and
 - the information needs of different users within the primary user group.
- 5. We consider that the Liquidity and Financial Flexibility objective concentrates on rather a narrow aspect of decision usefulness. This is always important and a matter of particular concern in current economic conditions, but users also need information on several other equally important aspects of economic substance.. It would be better if this objective were deleted, or replaced with something which captured the wider economic picture.





Principles

- 6. The Discussion Paper sets out three 'principles' which might be characterised as setting out a systematic approach to achieving a particular form of the cohesiveness objective through alignment, through
 - aligned line item descriptions
 - aligned section and category descriptions (and content)
 - · presenting meaningful subtotals on the aligned sections
- 7. We agree that this general approach can add explanatory value. However, as noted at 2.10 of the Discussion Paper there is a balance to be drawn between having too much information and too little information. Furthermore, the value of standardised sections and categories will be diminished where allocations are made to them which do not reflect economic substance. In this context we are concerned that the principles have been applied in a prescriptive way with a view to achieving standardised presentation across all statements, without sufficient consideration of user needs and overall understandability. As a result
 - the presentation is very detailed, and would represent information overload for many users of financial statements
 - transactions and balances may not be objectively separable into the aligned categories, raising questions as to how much benefit is received from this information
- 8. Overall, we are inclined to think that the proposals will result in financial statements that will be and less transparent to users than existing presentation approaches.

General comment

- 9. We have not provided responses to most of the specific questions to respondents. Our answer to Question 1 is that we do not support the way in which the objectives and principles have been applied in the Paper. However, we can see that Cohesiveness and Disaggregation represent important ways of pursuing understandability. We would expect these to be implicit in any further discussion of presentation, but in our view, more needs to be done to relate these to user needs for understandable information.
- 10. While we appreciate that the Discussion Paper does mention the level of detail in primary financial statements, and considers placement of information in notes, in our view it would be helpful if these were revisited in further work on Financial Statements Presentation. We are not yet convinced that radical changes are needed to financial statements. It may be possible to fill key information gaps in a more selective and flexible way, through the use of additional notes and narrative, having regard to those matters which are of most interest or concern to users of general purpose financial reporting.

11. I hope this is a helpful contribution to the discussion in this important area.

Kind regards

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