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International Accounting Standards Board 30 Cannon Street London EC4M 6XH

Discussion Paper - Preliminary Views on Financial Statement Presentation

FAR SRS, the Institute of the Accountancy Profession in Sweden, is responding to the invitation to comment on the *Discussion Paper - Preliminary Views on Financial Statement Presentation*, published as part of the joint project by IASB and the US Financial Accounting Standards Board.

FAR SRS welcomes the opportunity to comment on the Boards' discussion paper (DP) on Financial Statement Presentation. FAR SRS agrees with the Boards that it may be the right time to review the format and content of the primary statements with the goal to improve the decision-usefulness of the information provided to the users. FAR SRS emphasizes the importance that the Boards engage with both users and preparers when the proposal is redeliberated after comments from the constituents.

FAR SRS' detailed comments are set out in the Appendix 1 to this letter. Below we highlight our main concerns with the proposals.

Overall comments

FAR SRS has concerns regarding the cohesiveness, disaggregation and financial flexibility objectives for financial statement presentation proposed in the DP. FAR SRS believes that the objectives are useful and would improve the usefulness of the information provided in the entity's financial statements and help users make better decisions. However, FAR SRS has some serious concerns and the key issues FAR SRS is struggling with are the practical application as described in the DP and how and why the Boards arrived at these three objectives It is FAR SRS' view that the cohesiveness objective needs to be implemented with a pragmatic approach, at least to a certain degree, to avoid any undesirable outcome. One example is the cash flow statement. It appears from the DP that the direct cash flow statement is in default as a result from introducing a full cohesiveness objective. Another example where FAR SRS believes the cohesiveness objective, as described in the DP, needs to be applied more pragmatically is classification of pension assets or liabilities.

FAR SRS believes that many of the proposals will require companies to change the data collection procedures and how it is aggregated and presented. This means increased costs and FAR SRS strongly suggests that the Boards use field tests with preparers and users of financial statements to achieve a robust understanding of the appropriate balance between benefits and costs.

Consistent classification in all financial statements

FAR SRS agrees that a consistent classification of items based on a management approach should improve the cohesiveness and decision-usefulness of the financial statements. FAR SRS agrees to the proposed definitions of business activities and financing activities.



However, FAR SRS does not agree to the proposed definition of investing activities, and we suggest that the investing category is eliminated. FAR SRS believes that the term "investing" is well understood in the context of the current cash flow standard (IAS 7), but that the term is used in the DP in a rather confusing way.

Direct statement of cash flows

FAR SRS believes that a direct statement of cash flows would provide useful information. However, FAR SRS also believes that an indirect statement of cash-flows provides decision-useful information. FAR SRS has found that many users believe that the indirect cash-flow method provides decision-useful information and FAR SRS generally believes that the indirect method provides just as decision-useful information as the direct method. FAR SRS would recommend the Board to rethink whether a direct cash flow method is superior to the indirect method before an exposure draft is published. FAR SRS is also concerned that the DP suggests excessive disaggregation in the statement of cash flows that is not useful. FAR SRS strongly suggests that the Boards use field tests with a range of companies and users to test the benefits of direct method cash flows against the additional costs.

Reconciliation from statement of comprehensive income to statement of cash flows

The Boards' proposal, to require an entity to include a line-by-line item reconciliation schedule between the statement of cash flows (direct method) and the statement of comprehensive income, is in many aspects an interesting thought. FAR SRS recognizes the potential interest by sophisticated users to gain access to the horizontal disaggregation with its different cash and accrual components classified based on whether the effects relates to remeasurements or not. However, FAR SRS is not convinced by the proposal. FAR SRS believes that the basis for the reconciliation schedule as such should be evaluated and carefully weighed. A properly presented reconciliation of operating profit with operating cash flows will in most cases provide information sufficient enough for most users. FAR SRS believes that the DP does not convincingly explain the benefits of the proposed cohesiveness. FAR SRS believes that the proposed schedule will undoubtedly produce a significant amount of numbers and FAR SRS believes that only a small portion of those numbers will be of significance to users, and that the benefit of the additional information is not outweighed by the cost and additional complexity. Therefore, FAR SRS does not support this proposal. FAR SRS would like to see an approach that is more adapted to its purpose, i.e. to provide significant decision-useful disclosures which are not overly complex.

Recognition of items in other comprehensive income and recycling

FAR SRS believes that it would be an improvement to present a single statement of comprehensive income. In some cases (e.g. AFS financial assets and Defined benefit obligations) the rationale for whether value changes in these items will be placed within the Net Profit or within the Other Comprehensive Income is not quite clear. When it is two different statements these considerations may have a large impact on the user's perception of the entities' performance. FAR SRS therefore believes that an overall single statement (in the long run) will lead to a performance evaluation where entities to a larger extent are presented on the same format basis. FAR SRS also believes that a measure of profit or loss is important and we therefore support the requirement to present this sub total within a single comprehensive income statement.



Flexibility of the format of the statement of comprehensive income

FAR SRS believes that disaggregation within each section and category would help the users to analyze the reporting entity. However, FAR SRS believes that the disaggregated information should be presented in notes; otherwise the Statement of Comprehensive Income could be too detailed and "blurred" even if the information is useful. Presentation according to current principles could imply significant difficulties or even make it impossible to find crucial information, especially regarding the operating activities in the statement of Comprehensive Income. Crucial information regarding the finance activities are already required by IFRS 7. However, for most entities information about the operating activities are of significant higher importance to users. FAR SRS therefore believes that disaggregation of operating activities is a step in the same direction as IFRS 7 has taken regarding finance activities, but as mentioned above; disaggregated information should be presented in the notes and not in the Statement of Comprehensive Income. It is also important to establish a principle on how detailed the information should be. As always, there is balance between the usefulness of the information and the resources needed to prepare and present the information. FAR SRS suggests that the Boards consider the possibility of permitting management to decide and determine which items and line items should be presented on the face of the statement of comprehensive income. This could be arranged through a disclosure in the accounting policies.

FAR SRS

Göran Arnell

Chairman FAR SRS' Accounting Practice Committee



Appendix A

Question 1 – Would the objectives of financial statement presentation described 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? 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.

On a direct response to your question raised above; FAR SRS believes that the objectives as set out in paragraphs 2.5-2.13 are useful and would improve the usefulness of the information provided in the entity's financial statements and help users make better decisions. However, FAR SRS has some serious concerns about both the practical application as described in the DP as well on how and why the Boards arrived at these three objectives.

Overall, FAR SRS does not find the arguments provided in the DP on why these three objectives would be superior to any other objective (see paragraphs 1.11 - 1.17). The rationale explaining why the IASB arrived at these three objectives is not robust enough to convince FAR SRS of the superiority of these objectives compared any other possible objectives. For instance, FAR SRS would have expected at least a thorough discussion about comparability as it is our understanding that many users view comparisons between entities as an important tool when analyzing financial performance.

FAR SRS is also concerned about some of the practical application of the three objectives. These concerns are summarized below and further elaborated on specific questions in this comment letter:

Cohesiveness

In paragraph 2.6 the Boards explain that a cohesive financial picture means that the relationship between items across the financial statements is clear and an entity's financial statements complement each other as much as possible and therefore increase the understandability of financial statements. FAR SRS agrees with this overall description, but is concerned with some of the results in the DP. The key issue FAR SRS is struggling with is whether you need apply cohesiveness as described in the DP or if you can apply it differently without losing cohesiveness. It is FAR SRS' view that the cohesiveness objective needs to be implemented with a pragmatic approach, at least to a certain degree. If not, FAR SRS is afraid it would result in some undesirable outcomes.

One example is the cash flow statement. It appears from the DP that the direct cash flow statement is in default as a result from introducing a full cohesiveness objective, i.e. it seems to be the only acceptable approach. FAR SRS is not convinced that this is the case and supports the indirect method. Consequently, FAR SRS believes it would be possible to apply an indirect cash flow statement under the cohesiveness objective as well. For instance, you could argue that the current cash flow presentation format already meets a cohesiveness objective, although at a higher level than what is proposed in the DP. For example, cash and cash equivalents in the balance sheet items is reconciled to the cash flow statement under the



indirect method, net result in the income statement is linked to the cash flow statement as well as the equity statement. Therefore, FAR SRS would expect a more thorough discussion and analysis before the indirect cash flow statement is disregarded and rather be accepted as an allowed alternative. See also question 19 and 20.

Another example where FAR SRS believes the cohesiveness objective as described in the DP needs to be applied more pragmatically is classification of pension assets or liabilities. Under the proposed model an entity would classify a net pension asset or liability as an operating item as it relates to employees and therefore it may not be considered a financial liability. It is FAR SRS' view that many entities in practice would consider this rather a financing decision than operating. Therefore, the cohesiveness objective as applied in the DP could result in less understandability, i.e. the opposite than what the Boards are trying to achieve by introducing the objective in the first place.

Disaggregation

According to the DP an entity should disaggregate information in its financial statements in a manner that makes it useful in assessing the amount, timing and uncertainty of its future cash flows. In paragraph 2.10 the Boards acknowledge that there is a delicate balance between having too much information and having too little information. FAR SRS shares this concern and is to some extent worried that the proposed level of details in the financial statements is too extensive. However, as further elaborated in question 16, FAR SRS finds the disaggregated information in many circumstances to be useful. Before an ED is issued FAR SRS strongly recommends the Boards to perform thorough field studies to ensure a proper cost-benefit analysis of implementing a more disaggregated approach than what currently required under IFRS.

• The liquidity and financial flexibility objective

FAR SRS believes it is difficult to comment on this objective. While it is rather explicitly expressed in the DP how the cohesiveness and disaggregation objective impact the financial statement presentation, the impact from the liquidity and financial flexibility objective is not as clear. Therefore, FAR SRS would encourage the Boards to further explain and elaborate on how this objective is supposed to impact financial statements in practice. In an extreme scenario, the objective could result in requiring an entity to disclose budget information and/or rather detailed cash flow prognosis.

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?

FAR SRS believes that it is an improvement to separate business activities from financing activities. It would make it easier for the users to analyze the reporting entity in a more reliable way. It will certainly improve the possibility to calculate key ratios as Return on Capital Employed and Debt to Equity ratio. In Financial Statements presented according to current principles it could for instance be difficult for the users to decide which liabilities are assignable to business activities versus financing activities.



However many industries, for example banking and real estate, might have difficulties drawing a dividing line between business and financing items. Therefore FAR SRS suggests that additional guidance is given regarding this classification issue.

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?

FAR SRS believes that equity should be presented in a section separate from the financing section due to a number of reasons:

- The equity is the residual and the risk capital. Therefore it is of importance for the user to explicitly see how much of the entity's capital need is financed by risk capital.
- In the cash flow statement it becomes clearer which cash flows are generated by the owners.

However, it could be desirable to present financing activities from non-owners and owners next to each other in the Statement of Financial Position and in the Cash Flow Statement. This would as a consequence mean that the sections Discontinued Operations and Income Taxes have to move "upwards" in the 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?

FAR SRS believes that discontinued operations should be presented in a separate section. FAR SRS believes that the separation of this category makes it possible to analyze the continuing operations in a reliable way.

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?

FAR SRS agrees that the management approach, as described and explained in the DP, provides the most useful view of an entity to users of its financial statements.

According to paragraphs 2.7 of the DP, the objective is that the classification of the various assets and liabilities should reflect how each of those assets and liabilities are used in the business. FAR SRS' understanding is that once the management has decided how to use those assets and liabilities, management will have limited options regarding how the assets and liabilities are classified in the statement of financial position. This is, in FAR SRS' view,



another meaning of the management approach compared to, for instance, the meaning in IFRS 8 Operating Segments.

Using the management approach may remove the current pressure against disclosing measures that are sometimes perceived as being 'non-GAAP' such as subtotals like EBITDA, if the measure EBITDA is how management views the business.

(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?

FAR SRS does not believe that the management approach as described in the DP (see a) will reduce the comparability of the financial statements. Any perceived lack of comparability between entities may just be explained by different use of assets and liabilities, and that is not a deficit in the concept underlying the management approach, but just a consequence of differences between businesses.

However, introducing the concept of management approach in this area may imply that the accounts will no longer be 'general purpose accounts' but rather a presentation of 'management accounts', i.e. they may be too detailed for the users. If the management approach is to be introduced, FAR SRS stresses the importance of coordinating this with the issue of Management Commentary, i.e. it is difficult for a user to understand management's approach separately from MD&A. In addition, FAR SRS recommends the IASB to clarify the meaning of management approach in this area.

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?

Yes, FAR SRS agrees that this presentation will make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities, as the statement of financial position is already categorized in a way that makes any further calculations of financial ratios easier.

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,

FAR SRS agrees with this proposal. This would be consistent with the management approach.

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 the light of the proposed presentation model? Please explain.

FAR SRS believes that the existing management approach under IFRS 8 should be remained unchanged. Therefore, FAR SRS argues that assets should be presented in the same way as presented to the CODM, i.e. if only total assets are presented internally then only total assets should be presented as part of the segment disclosures. As a consequence of that view an entity should only be required to disclose assets further disaggregated in the segment disclosures as long as it is presented internally to the CODM.

Question 9 - Are the business section and the operating and investing categories within that section defined appropriately (see paragraphs 2.31-2.22 and 2.63-2.67 of the DP)? Why or why not?

FAR SRS believes that the 'business section' and 'operating category' are defined appropriately. Although the terms are not precise FAR SRS considers the terms as part of the principle-based standards IFRS represent. FAR SRS believes that the definitions and guidance are sufficient to help preparers and users to understand the objectives of this new format. FAR SRS also believes that the discussion in paragraphs 2.27, 31-33 and 64-67 on the underlying basis for preparation referred to as 'management approach' and 'management views' shows that any classification will be made in a way that best reflects the way the assets and liabilities are used by the business. FAR SRS is of the opinion that in practice this will be sufficient to mitigate significant discretion.

FAR SRS would like to raise the question of whether the 'investing category' within the 'business section' is necessary and appropriately defined. FAR SRS' concern refers to the difference in how core vis-à-vis non-core activities are approached. In paragraph 2.33 the investing category is discussed in terms of management's views that investing is 'unrelated to the central purpose for which the entity is in business'. In the same paragraph this dichotomyization is exemplified in terms of interest, dividends or increased market prices used outside the entity's primary revenue and expense generating activities. In paragraph 2.64-65 the investing category is discussed in terms of what management views as the 'central operations'. FAR SRS finds the terminology confusing; 'investing' has an established meaning in general and is well-established as regards the cash-flow statement. FAR SRS suggests that the investing category is eliminated and that these types of transactions are included in the operating category as other income or expense.

Finally, FAR SRS notes that the Boards have not addressed the issue of multifunctional use assets and liabilities. FAR SRS suggests that the Boards continue to explore the classification on the basis of multifunctional assets and liabilities predominant use, as discussed in paragraph 2.43.

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?



FAR SRS believes that the definition of the financing section is partly appropriate and that it makes sense to include both a financing asset section and financing liability section as stated in paragraph 2.34. FAR SRS supports the 'interchangeability criterion' as we believe that it is an appropriate basis for classification of financing liabilities.

FAR SRS does not support the part of the strict definition stating that only financial assets and liabilities can be treated as financing assets or financing liabilities. FAR SRS has some concerns regarding the strict prohibition, as expressed in paragraphs 2.34 and 62, against including non-financial assets and liabilities in the financing category. FAR SRS is of the opinion that management, based on their view on their business, should have the possibility to decide whether non-contractual liabilities and other types of financing sources, for example defined benefit obligations or leasing, should be considered as items related to the business or the financing section. FAR SRS supports the concept of 'management approach' and the Boards' stated preference for a functional approach to the classification of how the financing assets and liabilities are used. FAR SRS does not find the discussion on the objectivity argument in paragraph 2.64 robust enough to support the conclusion reached in the DP to exclude non-financial assets and liabilities from the financing section. FAR SRS does not believe that objectivity (whatever that term is supposed to represent in this context) is added by excluding items from the financing category and at the same time giving management the option to exclude financial assets or liabilities from the category. This line of reasoning is not consistent with the overall management approach taken in the DP.

Finally, FAR SRS would like to suggest that the Boards consider giving more prominence to the significant disclosure of interest bearing and non-interest bearing liabilities.

Question 11 – Paragraph 3.2 proposes that an entity should present a classified statement of financial position (short-term and long-term subcategories for assets and liabilities) except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant.

FAR SRS does not agree with the proposal to change the classification from current and noncurrent to short-term and long-term subcategories for assets and liabilities. According to FAR SRS the reasons for this change should be reconsidered.

(a) What types of entities would you expect not to present a classified statement of financial position? Why?

FAR SRS' view is that entities that currently present a statement of financial position in order of liquidity may choose to continue to do that, such as banks and insurance companies.

(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?

FAR SRS is in general a strong advocate of principle-based standards, and sees no need for additional guidance. However, FAR SRS proposes a disclosure requirement if a statement of



financial position in order of liquidity is presented, comprising a description of the facts and circumstances behind the choice of this presentation.

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?

FAR SRS does not agree.

FAR SRS suggests a management approach in this classification/presentation. It is not relevant to the users whether cash is on hand, on deposit or invested in a short-term investment that is readily convertible to a known amount of cash. Consequently, FAR SRS suggests that the DP should not introduce a new definition of cash.

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 (paragraph 3.19). 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?

FAR SRS does not agree.

FAR SRS agrees that this information is decision-useful, but FAR SRS' view is that the information presented on the face of the statement of financial position may be too extensive and too detailed. FAR SRS suggests that the information could alternatively be provided in the notes, similar to the requirements in IFRS 7 regarding information of IAS 39 categories.

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?

FAR SRS believes that it would be an improvement to present a single statement of comprehensive income. In some cases (e.g. AFS financial assets and Defined benefit obligations) the rationale for whether value changes in these items will be placed within the Net Profit or within the Other Comprehensive Income is not quite clear. When there are two different statements these considerations may have a large impact on the users' perception of the entities' performance. FAR SRS therefore believes that an overall single statement (in the long run) will lead to a performance evaluation where entities to a larger extent are presented on the same format basis. FAR SRS also believes that a measure of profit or loss is important and we therefore support the requirement to present this subtotal within a single comprehensive income statement.

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?



FAR SRS believes that it is coherent with the overall purpose of the DP. It also makes it possible for the user to analyze the profitability based on the total comprehensive income. This is in line with our opinion given in question 2 and 14: Thus FAR SRS believes that it will help the users to calculate for instance the profitability on operating activities and in this respect also take into consideration any operating activities within Other Comprehensive Income.

FAR SRS also believes that it will help users to understand where items that are expected to be recycled will be presented in the profit & loss section in future Statements of Comprehensive Income.

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?

FAR SRS believes that disaggregation within each section and category would help the users to analyze the reporting entity. However, FAR SRS believes that the disaggregation information should be presented in notes, otherwise the Statement of Comprehensive Income could be too detailed and "blurred", even if the information is useful. According to current principles it could be very difficult or impossible to find crucial information especially regarding the operating activities in the Comprehensive Income. Crucial information regarding the finance activities are already required by IFRS 7. However, in most entities the operating activities are of much more importance. FAR SRS therefore believes that disaggregation of operating activities is a step in the same direction as IFRS 7 has taken regarding finance activities, but as mentioned above it should be presented in the notes and not in the Statement of Comprehensive Income.

It is also important to decide how detailed the information should be and FAR SRS therefore suggests that a principle is established on how detailed the information should be. As always there is balance between the usefulness of the information and the resources needed to present the information. FAR SRS suggests that the Boards consider the possibility to let management decide and determine which items and line items are presented on the face of the statement of comprehensive income. This could be arranged through a disclosure in the accounting policies.

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.

FAR SRS agrees with the conclusion stated in 3.62 that income taxes should continue to be allocated among income from continuing operations, discontinued operations, other comprehensive income items and items charged or credited directly to equity. However, for



the purpose of analyzing profitability after tax it would have been desirable to allocate to business and finance activities. Due to the fact that this is more or less impractical in many situations and may lead to arbitrary allocations this may not lead to reliable result and the costs would outweigh the benefits.

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?

FAR SRS believes that this will improve the possibility for the users to analyze the profitability and it also fulfils the overall purpose of the DP. The benefits have to be compared with the costs but FAR SRS believes that it is probable that the benefits from this information would outweigh the costs.

Question 19 - Paragraph 3.75 proposes that an entity should use a direct method of presenting cash flows in the statement of cash flows.

FAR SRS favours the indirect method for presenting operating cash flows. As discussed in the summary to this comment letter as well as in question 1, FAR SRS believes the indirect method to provide just as decision-useful information as a direct method. Further, the arguments provided in the DP are also not robust enough to explain the superiority of the direct method versus the indirect method. Although the direct method is the preferred alternative under the current version of IAS 7, almost 100 per cent of preparers in our local jurisdiction apply the indirect method. From that perspective, one could argue that if there really was a strong demand from users requiring direct cash flow methods for analyzing cash flows, then they (i.e. the "market") would have forced preparers to use a direct method. FAR SRS would recommend the Boards to rethink whether a direct cash flow method is so superior compared to the indirect method before eliminating the indirect method.

(a) Would a direct method of presenting operating cash flows provide information that is decision-useful?

Yes, FAR SRS believes that a direct cash flow method would provide useful information. Having said that, FAR SRS also believes that an indirect cash flow method provides decision-useful information.



- (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?
 - Based on the arguments above, FAR SRS does not necessarily believe that the direct cash flow method be more consistent with the cohesiveness and disaggregation objectives.
- (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?

FAR SRS does not support the proposed reconciliation schedule and has therefore given this question no further analysis.

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?

One-time costs would include IT-system development costs, analysis of cash account and cash transactions, training and perhaps increased consultancy and audit fees. Ongoing application costs would also include higher IT-system costs and higher costs for integrating a newly acquired subsidiary which previously did not apply IFRS.

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?

In the DP the Boards exemplify a basket transaction with a business combination based on a share purchase and that any allocation may be arbitrary and costly to implement. The Boards also conclude that basket transactions are expected to be rare, or rather that most entities may engage in such transactions only rarely, and that the negative effects mentioned therefore should be mitigated.

Allocation of a basket transaction such as a business combination is an important issue. For quite some time we have managed with disclosures on significant business combinations. This practical solution has in FAR SRS' view worked reasonably well. FAR SRS does not believe that allocation of a business combination into more than one section or category (Alternative A) would improve decision usefulness of the statement of comprehensive income and statement of cash flows in such a manner that it would outweigh the cost and practical disadvantages.

FAR SRS proposes that allocation of a basket transaction to various sections or categories should not be mandatory. Instead it should be allowed to classify a basket transaction in a single section or category with the same type of disclosures as stipulated by e.g. current IAS 7 and IFRS 3. FAR SRS proposes that basket transactions should be classified according to



Alternative B. FAR SRS does not believe that Alternative C is a desirable approach since it purports to introduce a separate section for all basket transactions which may be considered to be an aggregating approach. Alternative A is too prescriptive and rigid and may introduce a prohibition to classify different basket transactions in different sections.

Question 22 – Should an entity that presents assets and liabilities in order of liquidity in its statement of financial position disclose information about the maturities of its short-term contractual assets and liabilities in the notes to financial statements as proposed in paragraph 4.7? Should all entities present this information? Why or why not?

Yes, FAR SRS believes that this is useful information.

FAR SRS has a few comments to the Boards' proposal. It appears as if the terms 'contractual asset' and 'contractual liability' are not defined in any other IFRS and FAR SRS would welcome a discussion on the 'new' terms to clarify if the Boards have any particular intentions with these terms. FAR SRS is not convinced regarding the proposed requirement to prepare the maturity analysis based on contractual dates and not on expected maturity dates and FAR SRS would welcome a discussion on the decision usefulness of contractual dates over expected maturity dates. Finally, FAR SRS would have expected the Boards to propose that the reporting entity should also present information about short-term contractual assets and liabilities in the notes even if the entity has chosen a short-tem/long-term presentation format and not a presentation format based on liquidity.

Question 23 – Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components: (a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments.

(a) Would the proposed reconciliation schedule increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.

The Boards' proposal, to require an entity to include a line-by-line item reconciliation schedule between the statement of cash flows (direct method) and the statement of comprehensive income, is in many aspects an interesting thought. FAR SRS recognizes the potential interest by sophisticated users to gain access to the horizontal disaggregation with its different cash and accrual components classified based on whether the effects relates to remeasurements or not. FAR SRS also appreciates the improved clarity in the distinction between 'recurring fair value changes' and 'all other changes from remeasurement'.

However, FAR SRS is not convinced by the proposal. FAR SRS does not agree with the Boards' requirement that the statement of cash flows should be based on the direct method; therefore, FAR SRS believes that the basis for the reconciliation schedule as such should be evaluated and carefully weighed. FAR SRS believes that the indirect method is sufficient enough. A properly presented reconciliation of operating profit with operating cash flows will



in most cases provide information sufficient enough for most users. FAR SRS believes that the DP is too weak in explaining convincingly the benefits of the proposed cohesiveness and very detailed line-by-line reconciliation of the two statements.

FAR SRS is most interested in the Boards' field tests discussed in the DP. However, FAR SRS believes that the schedule undoubtedly will produce a significant amount of numbers for disclosure purposes, numbers whose decision usefulness could be questioned. FAR SRS believes that only a small portion of the information required will be of such significance to users that it is fair to question whether the proposed schedule will justify the resources necessary to prepare it. FAR SRS would like to see an approach that is more adapted to its purpose, i.e. to provide significant decision-useful disclosures which are not overly complex. FAR SRS suggests that the disclosure requirement should focus on the numbers considered to be the most useful to users.

(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.

With reference to concerns expressed in question 23 (a) FAR SRS would like to reemphasize that users would probably be most interested in the more significant and more long-term accruals, i.e. the significant non-cash movements with a more limited reconciliation discussed in our answer to question 23 (a).

As regards the discussion on additional information on remeasurements FAR SRS supports this idea in the DP and we believe that the proposal should be amended to concentrate on the potential benefit in further disaggregated information. However, FAR SRS would like to see a thorough discussion on the balance between the cost to prepare and use further disaggregated information and the potential benefits.

(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.

FAR SRS is not aware of any issues that would require additional guidance. FAR SRS believes that IFRSs represent a principles-based set of standards and that the guidance proposed is sufficient enough.

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?

FAR SRS believes that the Boards have an opportunity with this project to help preparers enhance user understanding of reported fair values. However, FAR SRS believes that reported gains and losses need to be further disaggregated, even beyond what is being discussed in the (phase B) financial statement presentation project. FAR SRS supports the idea in the DP and we would welcome further work on the subject in a future project.



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?

FAR SRS recognizes that the different formats discussed in the DP require a lot of work. From an information point of view it appears as if each proposed format tries to satisfy different objectives, i.e. reconciling line-items with different starting points and different end results. FAR SRS believes that the issue of whether a reconciliation schedule should be required at all is rather important to address before the format as such is decided. The reason for this position is that unclear disclosure objectives make it very difficult to agree on the format of the disclosure. Therefore, FAR SRS suggests that the objectives with the disclosure requirement be thoroughly discussed, and then, based on defined objectives, a format should be derived based on the defined objectives. Without defined objectives FAR SRS believes that no alternative is superior to the others.

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?

FAR SRS recognizes the potential need for high quality information about very unusual facts and circumstances and related unusual transactions. Although this seems to be a need to satisfy if possible FAR SRS has some concerns. Both the objectivity and how the concept of 'unusual transactions' is operationalized are critical factors and it may be very difficult to agree on an approach that has the potential to produce robust information. 'Unusual transactions', in FAR SRS' experience, tend to be perceived as extraordinary items, or rather 'non-recurring items', and we have concerns on introducing in IFRSs a concept and a disclosure format so closely associated with extraordinary items. FAR SRS notes that the 'memo column' would include information prepared for a different purpose compared to the other information in the reconciliation schedule, i.e. numbers on 'cash flows', 'accruals', 'recurring fair value changes' or 'valuation adjustments' and 'all other'. FAR SRS has concerns that the schedule, if introduced as a requirement, could eventually include all sorts of data a user would have to scan through. Therefore, FAR SRS suggests that management's comments on significant transactions should be included in the 'management's discussion and analysis'.



(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?

FAR SRS is aware that it is difficult to establish a reasonable robust definition of these terms. FAR SRS appreciates and supports that IFRSs represent a principles-based set of standards and we do not support an introduction of terms so closely associated with extraordinary items.

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

FAR SRS supports an adoption of a narrative format; preferably in the 'management's discussion and analysis' or in a separate note to the financial statements comprising numbers that are explained.