

Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Cannon Street
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UNITED KINGDOM



### Discussion Paper (DP) on Preliminary Views on Financial Statement Presentation

Dear Sir David,

We appreciate the opportunity to comment on the International Accounting Standards Board's Discussion Paper (DP) on Preliminary Views on Financial Statement Presentation issued in October 2008. We support the IASB's aim of achieving a degree of cohesiveness that would make it easier for readers to follow the flow of information provided in an entity's financial statements.

We believe that the DP could make a major contribution to increasing the quality and reliability of financial statement information. Before commenting on the questions raised, however, we would like to make some general remarks.

In our view the DP seems to be more a position paper that does not actually illustrate different or alternative points of view. We believe the DP lacks adequate argumentation as to why the proposed objectives should be regarded as optimal or why the proposed implementation should be the best way to achieve pre-defined goals. It does not appear to offer evidence that

April 9, 2009

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the proposed level of disaggregation would provide useful additional information.

We feel that the reasons for proposing to prescribe a certain presentation form are not adequately explained, although in the meantime different possible presentation techniques have emerged from the XBRL project. For some line items, at least, we would appreciate a clearer statement of the reasons for classifying them as financial or as operating activities (as discussed already in the DP about pensions).

We have major reservations about applying a strict "all in the same category" approach without carefully evaluating whether a different classification might better reflect the economic view. An example here would be the interest effects from the discounting of certain (operating) assets or liabilities which economically might have a financing background (e.g. pension liabilities).

With regard to its incremental benefit we feel there should be an explanation of why each item that is already defined by function should also be disaggregated by nature. The question of whether items should be disaggregated by function or by nature should be answered via a management approach, which so far has proven to be the best way of meeting internal reporting requirements. Overall we believe increased costs and workload would be involved and feel that no good arguments have been provided to show that the benefits of the new presentation requirements could outweigh these disadvantages.

Regarding the proposal for the statement of cash flows, we feel that the definition of the direct cash flow method is not sufficiently clear. A clear



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definition is, however essential if companies are to estimate the cost of system changes. Setting up new complex IT structures at the interface between invoicing, treasury and accounting in every subsidiary to allocate primary costs on the required level by function would involve material costs. Furthermore no evidence is provided that the benefit in terms of decision-usefulness would outweigh the work and costs involved in change management. Mainly for these reasons we therefore reject a direct cash flow approach as proposed in the DP.

Overall we favour a management-oriented approach. However, as you can see from our responses, we feel that the concept is not yet fully cohesive. Whereas some of the proposed reporting requirements seem to follow an approach based on more management judgement in light of economic conditions, others would require a rigid reporting structure unrelated to the internal management view and reporting. Thus we still feel that the definition and interpretation of the proposed approach are not sufficiently clear. All our concerns are reflected in the answers to the respective questions. If you have any queries or questions regarding our comments please feel free to contact us.

Yours sincerely,

Bayer AG

Rolf Funk

Head of Corporate Accounting & Reporting



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#### **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 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.

We agree that the cohesiveness principle is an objective which, if achieved, could make it easier to understand the interdependence between the individual statements and ensure greater uniformity. However the objectives of the DP should be linked to the IFRS-framework. Currently there appears to be no connection between the proposed objectives and the overall aim of "decision-usefulness". Furthermore we would like to emphasize such aspects as consistency and comparability. Preference should be given to a presentation that guarantees a high level of uniformity, even if this conflicts with the management approach. There is a lack of further clarification in the DP as to how this trade-off can be handled.

We support the disaggregation objective, but would like to stress the materiality aspect and suggest that alternatives – such as reporting certain information either on the face of the statements or in the notes – be offered. So far no benchmark for the right level of disaggregation for users of financial statements has been established. There could be a risk of information overload in the financial statements if too many (unimportant) details are included. We doubt that the disaggregation objective necessarily requires



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the information to be provided on the face of the financial statements. The questions of the balance between decision-usefulness and disaggregated information and of whether XBRL as a new technology platform can help to overcome disaggregation and format issues do not seem to be addressed. In our view, provided the content of certain line items is clearly defined, the overall format is of minor importance for financial statement users and has little effect on decision-usefulness.

We do not see any need to abandon traditional formats such as that of the statement of financial position. The additional requirement to disclose total assets, total liabilities and net income are a perpetuation of the current requirements even though it contrasts with the new layout concept outlined in the DP. Furthermore, before a fundamental change is made in the layout concept, we believe it is more important for other profound issues that could greatly affect presentation, such as recycling, to be addressed first.

### **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?

We find it difficult to identify the benefits of separating business activities from financing activities. The question of a breakdown into business/financing cannot be separated from the general objectives (Question 1) or the question of a management approach (Question 5). On the one hand a rigid structure is proposed in order to improve comparability. On the other hand a mere management approach is preferred, although this would severely hamper comparability.



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Although classification into business/financing implicitly limits the management approach, it would improve comparability. However there is a need for guidance on the extent to which a section's definition should be influenced by the management approach. Certain criteria need to be established to simplify classification and guarantee better comparability. This might also help to avoid to much complexitiy and thus ensure greater transparency Thus certain specifications concerning the main classifications of the sections would be appreciated. Nevertheless the management approach should be applied when defining sub-sections, though there should be an obligation to illustrate the significant items that are representative of the business activity.

As already mentioned, we cannot see the overall benefit of the new sections. On the contrary, the proposed segmentation could lead to information being lost e.g. today's single-amount disclosure for interest in associates would have to be separated into different sections. Furthermore, it could be difficult to define whether investments in financial instruments relate to the business or financing section. Examples for a hybrid character could e.g. be prepayments or certain hedges. However, apparent arbitrariness in the assignment of certain elements might reduce the overall comparability and information content. If it is intended to classify items in line with the overall strategy of the management, we believe that the management commentary would probably be the better place to disclose certain strategic information. However, if the management approach focuses on the internal view there still will be the question of why preparers should be forced to make this distinction in cases where the internal perspective does not provide for an artificial breakdown into business and financing.



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#### **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 our view equity is a "residuum" and does not belong to financial liabilities. We believe that it is adequate to present owner and non-owner sources of financing separately so as to reflect different risks and opportunities as well. Thus, separated disclosure appears reasonable. An alternative might be to present it in the financing section but defined appropriately.

### **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?

In general, the disclosure of discontinued operations seems reasonable. However, we do not support the further breakdown into the sections business/financing as this would not make the information derived from it any more decision-useful. Specifically the extent to which financing assets are involved in a divestment is a result of negotiations and typically not related to the question of which business assets are to be sold. Financing assets could be easily exchanged in a divestment process depending on the spe-



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cific needs of the acquirer whereas the components of the business to be divested typically do not involve substantial changes during the divestment process.

#### 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?

It might be critical if the proposed implementation of the management approach is carried out according to the recommendation in the DP without any further definition of what management approach actually means. With regard to the financing/ business section we want to point out that the transparency of economically identical circumstances occurring in different companies might vary. Hence, comparability would be negatively affected. We do not reject the management approach. However, we believe there should be further discussion of how much overall flexibility management should have as this also affects consistency form period to period.



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Also absent is any discussion of the extent to which information for external reporting purposes has to follow strict rules for GAAP figures and whether this is in line with the management commentary section — which is probably most affected by a management approach. If certain investors are looking for further "non-GAAP figures", it will be difficult to combine and link these approaches in one set of financial statements. Typically these non-GAAP figures rely on a specific management view which is discussed in the management commentary section.

### 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?

Opinions vary as to how meaningful these ratios are. If the numbers are derived from a different (management) approach, the ratios may not be comparable company by company. Thus their usefulness depends on whether accounting and valuation principles are applied uniformly by different companies. If the management approach detracts from uniform application of these principles, comparability will be very limited. A discussion on the usefulness of segment reporting for this purpose is also lacking.

We doubt that a single overall performance measure can be achieved by setting standards. We see a potential conflict in the use of audited figures to



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cover all external reporting requirements and unaudited "non GAAP figures," which might be used to better reflect management view as presented in the management commentary section.

#### **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.

There appears to be no discussion of whether all assets or liabilities have to be classified on the reportable segment level. If the management approach is followed, a different classification on segment (or CGU) level – depending on operations – should be allowed. However, if this approach were applied consistently, it would result in a rather heterogeneous presentation. This could lead to a lack of comparability between companies.

However, this approach best reflects the way an asset or liability is used within the entity. Alternatively, we suggest that the boards provide clear guidance on the classification of different categories of assets and liabilities into the relevant sections. We believe this would increase comparability between companies.

#### **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



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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.

With regard to this question, we see a general issue. It is not compulsory for all assets and liabilities to be assigned to segments. We would therefore raise the question of whether the allocation of certain assets / liabilities in segment reporting is binding with regard to the other categories of the financial statements. If segment reporting should really be based on the internal information flow to the chief operating decision maker, then the aggregation of this information should determine the form of presentation. Thus, if the assets and liabilities are not disclosed by the same category as for the external reporting, there should be no requirement for adjusting segment reporting.

#### **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?

If the management approach is used, further differentiation of the business section into operating and investing activities becomes problematic and should not be pursued, especially as this is highly dependent on the notion



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of core and non-core activities. Non-core activities also form part of the overall strategy of the company unless it is intended to divest them. Therefore we believe that differentiation might be artificial and could negatively affect consistency of reporting over time. In addition, management might wish to outsource certain areas but be unable to do so for regulatory (e.g. antitrust) reasons.

We believe that the way investing and operating cash flows were previously understood and differentiated had information relevance for financial statement users. We agree that the investing category as currently used in the cash flow statement would have to be abandoned in order to achieve the cohesiveness objective across all financial statements. However, the notion of investing and operating (cash flow) is in line with established practice. Therefore, any new "label" for investing should be carefully chosen.

### **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?

According to our understanding of the DP and in line with the management approach not all financial assets/liabilities need to be included in the financing section. Additionally the DP does not clearly state whether it is referring to financial assets/ liabilities as defined in IFRS 7, IAS 32 or IAS 39.

However, the proposal is that the financing section should include only those instruments that meet the definition of a financial asset/liability and



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that non-financial assets/liabilities should be excluded. We do not agree with the proposed definition, as the scope of financing liabilities from an operating perspective might be broader than just financial liabilities. Specifically, post-employment benefit liabilities are a financing element. In addition, a contradiction will occur if long-term provisions have to be adjusted for interest effects - although a financing element is neglected. Thus pension liabilities clearly belong in the financing section.

### **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.

- (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?

We agree with the view that a strict one-year distinction might be more objective and would increase comparability. However, we would like to focus the attention of the board on a uniform use of the phrase "short-term". We think "short term" should always be less than 12 months (and not sometimes less than 6 or 3 months). With regard to the alternative treatment which obviously will be applied by certain industries, we are concerned about whether this form of liquidity presentation would be in line with the requirement of the amendment of IFRS 7 for the analysis of the liquidity



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risk. Inconsistencies, specifically with regard to contractual and expected maturities, should be avoided.

### **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?

In general with regard to its rationale this proposal is questionable. As a convention to ensure uniform treatment and to prevent malpractice it seems reasonable. But as recent events have shown, cash in on-demand deposits can be affected by sudden events. Investments in a money-market fund that mature in under 3 months may be as liquid and probably carry a lower single-event risk than a cash account. Thus we are not sure whether this differentiation will really be relevant to users in assessing the liquidity of future cash flows. However, in the current situation we would appreciate more guidance as to how a short-term investment in highly liquid money market funds is interpreted with regard to the underlying quality of the port-folio and how certain bonus agreements for cash deposits (e.g. cash on demand with bonus component if not touched for 270 days) should be evaluated. In our view this clearer guidance might be necessary to increase comparability among companies.

#### **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 disaggregating



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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?

The strict application of the disaggregating objective could lead to an excessively detailed presentation that distracts the reader away from more important line items. Thus the understandability of financial statements will decrease. We believe such information should continue to be included the notes. However, such information in the notes need not necessarily be provided for every item. The DP also does not clearly define the measurement basis.

### **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?

We note that the DP focuses on the key figures: net income, other comprehensive income and total amount of comprehensive income. Whereas the current IASB project on earnings per share focuses on net income, the overall bottom line of a single-statement approach is below that figure. From our perspective, as long as the recycling concept is not clearly defined the discussion of whether one or two statements should be presented appears somewhat artificial. The DP does not discuss the question of which figure users really focus on. In our opinion this is less a question of presentation and the number of statements than of definition. Therefore, we believe that there should be no rule as to whether one ore two statements are



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provided leaving room for a management approach. Although we would appreciate clear guidance to the effect that the statements are interdependent and thus should be presented in close proximity and not in completely different parts of the financial reports.

### **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?

We appreciate that from the point of view of cohesiveness and transparency it is important to disclose the category to which the line items of comprehensive income relate in the statement of financial position. In general it should be easy to link those transactions. We agree with the suggested treatment for the foreign currency translation adjustment, i.e. that allocation to a certain category should not be required. However we also would like to draw attention to hedging transactions and IAS 19-related components. Typically treasury management of a group - although using hedge accounting according to IAS 39 hedges - only hedges net positions from a group perspective. Thus, allocation to an underlying transaction is just a "technical" question of documentation. From an economic point of view it would not make any difference which underlying is chosen. Therefore, for foreign currency or hedging of net investments, allocation to a category would not increase decision-usefulness. In light of this we suggest the Board reconsider this proposal with regard to the above-mentioned topics.



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#### **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?

With regard to the incremental benefit of providing such information, the DP does not make it clear why the various items that are already defined by function should additionally be disaggregated by nature. So far the decision on whether to disaggregate items by function or by nature has been based on a management approach. We do not really see the necessity for a compulsory disaggregation by function and nature. In addition IAS 1.104 already requires additional information by nature. We doubt that data for a more detailed analysis could be made available without changing information processes. If so it is not in the scope of internal management reporting and thus — if a management approach were followed - it is questionable whether the new information provided would be used by external addressees. Overall we believe this would involve increased costs and workload, and the DP does not mention benefits that would outweigh these factors.

#### **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



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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.

The question is contradictory to the current presentation of taxes, especially with regard to the fact that taxes currently are not allocated to single items in profit or loss but rather to a higher aggregated level such as income from continued and discontinued operations. For estimating tax effects on a lower level, more judgement and approximations would be necessary which would reduce reliability overall and thus would be open to arbitrary interpretation. We doubt it would increase decision-usefulness or relevance of information.

#### **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?

IAS 21.28 et seq. so far do not prescribe where in the statement of comprehensive income exchange differences should be presented. In our view



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the allocation should follow a management approach in line with internal responsibility and management reporting. If a group-wide treasury system exists that bears responsibility for currency risk absorption and the performance of the operating business internally is adjusted for currency effects, then it would be contradictory to allocate exchange gains or losses differently in external reporting than for internal reporting purposes. In addition we would like to refer back to question 15, where we already discussed elements which could belong to more than one category. Thus it could be misleading to allocate foreign exchange gains or losses just to the same category of the "underlying".

### **Question 19 and Question 20**

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?

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



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and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?

We have several concerns regarding the use of the direct method since the DP does not provide a clear definition of the direct method. Does a direct method mean deriving information directly from an analysis of cash accounts, which would involve tracing back individual cash flows from original transactions, or could accrual-based information from other statements be used for this purpose? Clarification on this point is crucial to estimating the costs for system changes. Setting up new complex IT structures at the interface between invoicing, treasury and accounting in every subsidiary would involve material costs. Also current compliance costs would be higher.

Apart from this it is important to evaluate whether the increase in decision-usefulness outweighs the related change-management work and costs. We are not aware of any company in our industry using the direct cash flow method. Furthermore, the DP does not explain why a directly derived cash flow is relevant to users. Since a choice currently exists between the two methods, companies – also our competitors – would have switched to the direct method if the benefits for our analysts outweighed the additional costs for preparation and system changes. If analysts had needed this additional information, they would already frequently requested it at financial news conferences. Furthermore, we are not able to identify any benefit for preparers if the current indirect approach is used internally for planning and control purposes. It would be contrary to a management approach.

Last but not least, we feel that it is inconsistent that, while promoting the direct method, the DP also says that the direct method by itself does not seem to be sufficient. Hence a reconciliation schedule has to be used in



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parallel to derive certain information that is available anyway if the indirect method is used.

#### **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 question the boards' focus on the effects of basket transaction in the statement of comprehensive income and the statement of cash flows. However we believe that the allocation question is even broader. If basket transactions are required to be allocated to all relevant sections or categories, we do not understand how goodwill related to acquisitions or divestments should be treated. Should this also be split into different components, and if so, what would be the consequences for the size of CGU's, for example, or for impairment testing? According to our understanding so far, a category differentiation (e.g. business and investing) would not mean that both would be in the same CGU for impairment testing purposes. However we see a need for more guidance on these allocation issues before the consequences of basket transactions can be properly evaluated. Furthermore, allocating the effects of basket transactions, especially divestments, would be arbitrary, at least to some extent. We do not believe that companies should be required to split divestment effects into different categories. since the selling price is typically the result of negotiation. For the seller it is not clear for which parts of the basket a selling price might be adjusted. A new requirement in this regard could force companies to carry out not only



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a purchase price allocation but also a divestment price allocation which could cause material costs and time. However we doubt that the additional benefit would justify this work. We propose that the cohesiveness principle should be applied pragmatically in this area and do not favor strict rulings. However, we appreciate that the disclosures necessary for the reader to understand the overall effects of a transaction need to be given in the notes.

#### **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?

We fully agree with this proposal. Consistency with the IFRS 7 requirements and its development is highly recommended.

### **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.



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- (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 proposed reconciliation schedule is based on the assumption that the direct cash flow method has to be applied. We have already presented our concerns regarding the application of this method in our answers to questions 19 and 20. Thus, again we emphasis the need for the Board to carefully balance the arguments. Having analysed the reconciliation schedule we cannot see whether each number would really have information value or whether one would end up with a mountain of undigested figures. Our conclusion is therefore that most of the figures would not justify the costs of providing them. We doubt, for example, that there is great interest in the cash and non-cash element of wages. Neither is there any internal need or controlling purpose for reporting such data. The focus should be on whether the benefits really outweigh the cost of implementation.

With regard to the guidance we are not sure whether e.g. foreign currency effects for monetary items (not arising from translation) have to be reported in D or E in the reconciliation schedule.



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### **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?

Due to the complexity of the topic and the need for meaningful disclosures with regard to fair value changes caused by many different elements e.g. credit risk, foreign currency changes and also – depending on the instrument – interest rate changes, we believe that this issue should be scoped out for the discussion of general presentation issues and form a separate IASB Project dealing with this topic. Furthermore, we believe specifically that if the fair value of a derivative financial instrument is affected by a mixture of all of the above elements, the separation could be – at least in some cases – artificial.

#### 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?



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We are not sure as to the rationale beyond this question. There are several possible reconciliation formats that could be of interest. However we think that the financial statements should be based on clear predefined objectives. We wonder whether these objectives have changed, leading to a proposal for additional further (reconciliation) statements. We would like to mention that every further accounting disclosure instrument should be evaluated very carefully, including including a cost-benefit analysis. Furthermore we would like the potential benefits of XBRL reporting conventions to be discussed. This technology could help any user of financial statement information to develop reconciliation tools on a certain level. Although this could initially be done only on a non-mandatory level, the experience as to its acceptance by users should be helpful and it would not then be to further regulate financial reporting design.

#### **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 Extraordi-



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nary, 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?

We do not understand whether the memo column is meant as a kind of link between GAAP and non-GAAP measures. If so we would appreciate a discussion on why such information should not be given in the management commentary section. From our point of view, this would probably be the place to discuss unusual or infrequent events - probably also providing the opportunity to calculate certain core or key financial data in line with the management approach. If allowed in other sections, it could be seen as a step back towards external reporting of extraordinary items.