



14 April, 2009

International Accounting Standards Board 30 Cannon Street London EC4M 6XH

Dear Sirs

Discussion Paper: Preliminary Views on Financial Statements Presentation

We support the IASB in its aim of producing a set of technically sound standards and are pleased to detail our responses to the discussion paper on preliminary views on financial statements presentation ('the paper') in this letter.

There are significant changes to the presentation of the primary statements proposed in the paper, including reclassifications of individual line items. We believe that, given the economic environment, one of the key objectives of any new accounting standard must be maintaining or improving investor trust and confidence in financial statements, whilst not unduly increasing the costs that preparers incur. One of our principal concerns with the proposals included in the discussion paper is that such wholesale changes to the primary statements will further reduce investor and user confidence in financial statements as they struggle to understand the new formats and classifications, and work through the revised statements to understand any underlying changes in an entity's business. Such a reduction in confidence is clearly not desirable.

We have several fundamental concerns over the basis of preparation of the paper, the three specified objectives of financial statements presentation, the level of detail expected to be included in the financial statements and the proposals for cash flow presentation.

1. Basis of preparation of paper

Focus on narrow band of users

The paper appears to have been presented with a focus on the requirements of a narrow band of users. The preparers of the discussion paper appear to have determined that this band of users are focused on future cash flows (requiring information to prepare highly detailed models forecasting future profits) with much less focus on historical results.

Whilst we understand that such information may be useful to a narrow band of users, we do not believe that such information is relevant to all users and believe, in providing the level of detail envisaged in the proposal, in the format proposed, that many other users of the statements will find financial statements become even less relevant to them than they are now.



In our opinion, the presentation of <u>historical</u> financial information in a concise format that can be clearly understood by users of the financial statements must remain a key objective of financial statement presentation.

While we understand that the focus of standard setters is on meeting users needs, we believe that it is important to acknowledge and accept that financial statements can never be designed to provide a full analysis of every aspect of every company's financial position (past, present and future), and a narrow focus on one particular set of users will not result in the overall improvement of the presentation of financial information. Nor, for that matter, do we believe it appropriate that preparers should be burdened with the costs of such an approach.

Format of primary statements

The paper uses the statement of financial position as the basis for determining the classification of items within other primary statements. The focus on the statement of position is inconsistent with our understanding of the focus of users of our financial statements. Our users mostly focus on the income statement as their primary source for financial information, using the statement of financial position and other primary statements to further supplement their understanding.

We believe that the information requirements proposed in the new standard will inevitably lead to further expansion of the volume of information included in the financial statements but will not achieve clarity of presentation of information that so many of the present users of the financial statements desire.

We have major concerns, expanded on below, that the move to a direct cash flow statement will not result in the presentation of information which is more relevant to the user than is currently presented using the indirect method of presentation.

We also believe that the area of information within the primary financial statements that is presently not well understood by users is the other comprehensive income statement. Other than proposing that this statement is combined with the income statement, the discussion paper specifically does not address the concerns expressed by users over the items included in this statement. We believe that, in order to avoid this fragmented approach giving an anomalous answer, the focus of any financial statements project has to include clarification/resolution of this area of the primary statements as one of its key objectives and we cannot support any paper on a revised financial statement format without this key area being fully addressed.

Use of the 'management approach'

We do believe that utilising a 'management approach' to determining both the classification and the level of detail presented in the financial statements may be relevant. However, we believe that the use of the management approach will result in differences in the classification and level of information included in financial statements. Such a divergence of presentation will not result in greater comparability of financial statements and consequently we believe that any standard on financial presentation needs to have



certain line items defined so that some comparability of financial numbers across different financial statements remains.

However, even using the 'management approach' outlined in the paper, we believe that the presentation proposed in the financial statements will, in reality, represent further divergence from the information used internally to manage business operations, creating financial statements that are less relevant to the internal needs of the preparing entity than they are today.

Therefore, we believe the opportunity to provide management interpretation of information is better presented as additional information and attempts to codify into GAAP risk jeopardising comparability between entities financial statements.

Extent of proposed changes

Finally, we do not believe that the current presentation of results, cash flows and the period end financial position of an entity requires such a radical representation as is outlined in the proposal paper. We believe that such a major reformatting of the income statement, statement of financial position and cash flow statement will create significant confusion within the financial statements user community and result in incorrect analysis of information presented in the financial statements for several years during the transition period.

2. The objectives of the paper

The discussion paper proposes three objectives of financial statements:

- 1. financial statements should present a cohesive financial picture of an entity's activities:
- 2. financial statements should disaggregate information so that is it useful in assessing the amount, timing and uncertainty of an entity's future cash flows;
- financial statements should help users to assess an entity's ability to meet its financial commitments as they become due and to invest in business opportunities.

As highlighted in our comments on the basis of preparation above, we believe that one of the objectives of financial statements has to be the presentation of <u>historical</u> results of an entity in a clear and concise way that is understood by users of financial statements. The above three objectives appear to place much more emphasis on allowing users to predict future cash flows rather than the accurate presentation of the historic results. We therefore do not believe that the above objectives should be the three primary objectives of financial statements. On a more constructive note, there are other ways of achieving the same ends: in the UK, the regulator has addressed objective 3 by tightening the audit requirement around the "going concern" opinion. If adopted more broadly, this would provide a quick and economical way of achieving this objective.

Whilst we understand the reasons that the discussion paper details for presenting items in a cohesive manner across three primary statements we do not believe that this should be a



primary objective of the financial statements; nor do we believe that this requirement is commonly expressed by financial statement users. We believe that the three statements present different information about an entity and as such should stand on their own rather than having to be linked under the proposals set out in the discussion paper.

In addition to having a fundamental concern for the method of ensuring cohesiveness across the three statements, we have several concerns over the practical application of the cohesive objective:

- As highlighted in the discussion paper, several balance sheet items may in practice
 have more than one function in the organisation (e.g. the reference to head office
 properties in the discussion paper). The proposal that all movements in relation to
 such balance sheet items should be recorded within one category in the income
 statement does not reflect the potential fundamental different nature of such
 movements.
- 2. As highlighted in recent IASB meeting discussions on revenue recognition, application in practice of the proposed layout has the potential to create unexpected difficulties in presenting individual transactions in the income statements and will result in replication of line item descriptions across the operating, investing and financing categories. The discussions on revenue highlighted the possibility that the financing element of a revenue earning transaction may be classified within an interest income/expense line item within operating activities. The possible disclosure in three separate areas of the income statement of 'interest' will undoubtedly create confusion across all users.
- 3. The split of items within the comprehensive income statement between business/financing and other comprehensive income is inconsistent with the cohesiveness objective. As detailed above, we cannot support a paper on financial presentation that does not address the present difficulties users have with the items included in other comprehensive income and maintaining the other comprehensive income category, whilst driving cohesiveness elsewhere in the statements, appears to be fundamentally flawed.
- 4. We believe that due to the way many businesses operate, with investing activities supporting the central purpose of an entity's business rather than being unrelated to the central purpose, most activities will be classified in operating rather than investing activities. As such we believe the definition of investing activities in the discussion paper will not result in disagraggation of information as most entities will default to reporting activities in operating rather than investing.
- 5. In addition, the categories proposed in the paper appear to be based on the belief that business operations of an activity are divorced from the financing of a company. In practice, this is not how businesses operate and we do not believe that the separation of the financing and business operations in the statement of financial position reflects the way entities manage their activities.

We have concerns that the practical application of the overall cohesive principle will require significant guidance notes and examples of the treatment of individual accounting items to achieve any sort of consistency between preparers of financial statements. Issuing such guidance and rules would be against the principle driven method of developing accounting standards and is not a route that we support.



We consider that greater clarification of the presentation of the income statement could initially be achieved by separating out the impacts of remeasurements due to fair value changes and similar items from other reported results rather than the proposed focus of splitting transactions between operating and investing. Separation on the face of the income statement, and clarification, of such movements, which are presently not well understood by user of financial statements, would appear to have much more benefit than the proposed separation of activities between operating and investing activities.

We believe that making improvement to individual standards to achieve consistency between the presentation of performance and position, where required, is a much better way of ensuring cohesion rather than attempting to achieve this objective in the single financial statements presentation standard.

3. Level of proposed detail in the financial statements

Although the main text of the discussion paper does not specify the level of detail to be included in the financial statements, the example included in the illustrative financial statements, and in particular the comments of the IASB and FASB in their introductory presentation on the discussion paper, indicate that the level of detail expected to be achieved under the proposal appears to be far in excess of the level of detail presently presented.

We have several concerns over this enhanced level of detail:

- We do not support an assertion that the disclosure of more information is <u>always</u> of greater benefit to users. One of the key objectives of a set of financial statements is to summarise the accounting records of an entity in a way that the information can be clearly presented to users of the financial statements.
 Disaggregation, without a reasonable basis for doing so, will reduce the ability of an entity to clearly present financial information.
- 2. Due to the different ways in which businesses analyse and monitor their business, and differences in underlying accounting systems recording individual transactions, entities will classify transactions differently resulting in the increased possibility of incorrect comparison of line items between financial statements by users of the financial statements.
- 3. Classifications of costs between fixed and variable costs is inherently judgemental as all cost items are variable in the long term. In addition, the internal structure of a business may mean that variable costs for one business (e.g. due to outsourcing of that operation) may have fixed elements for another business (when operations are performed in house). The expectation that entities could disaggregate information between variable and fixed elements, without detailed explanations of the basis of such classification and the underlying operations generating the transactions, in a way that will be useful to readers of the financial statements is unrealistic.
- 4. Many manufacturing business use standard costing for the valuing of production which can make disaggregation of the cost of sales line into individual categories difficult due to the set up of underlying accounting systems (which use the



standard cost and variance accounts to report the cost of sales balance in the income statement). In addition, the movement of stocks between production and selling units may mean that the detail of components of cost of inventories is not available to selling units. In these situations, disaggragation of costs of goods sold into the components detailed in illustration 1 of the discussion paper will not be possible.

5. We have concerns that the level of detail specified in the illustrative examples to the discussion papers will create an expectation from standard monitors around the world that any information detailed in the illustrative examples should be given in all sets of statements. Although we note that this is not the intended consequence of the IASB in including such illustrative examples, we are aware of illustrations appended to issued standard being used by standards enforcers to mandate disclosure. In our opinion, this is not a desirable outcome of the discussion paper.

In addition, and not withstanding our fundamental concerns in the splitting of primary statements into operating, financing and investing activities (discussed in further details above), the use of terms already used in the cash flow statement, but with a different meaning, will undoubtedly cause significant confusion in the financial statement user (and preparer) community. New terms would need to be used to avoid such confusion if the proposals presented in the discussion paper proceed to an exposure draft.

4. Cash flow statement

We do not support the move to a direct cash flow statement.

We are not aware of significant appetite for presentation of a direct cash flow within our financial statement user community. Indeed, we believe that one of the key items of information from the cash flow, utilised by users of our statements, is the movements in working capital balances – such information would be lost (at least from the primary statements) with a move to a direct cash flow statement.

Furthermore, our present financial systems have not been built with the specifications that they should be able to produce direct operating cash flow information and the ability of our systems to generate such information is untested. We do not monitor our operating cash flows on a direct basis for internal purposes. With activities in over 100 countries and multi reporting units in many of these countries, the extent of work to modify our systems to extract information for direct operating cash flows, and the work involved in making sure the extracted information was appropriate, would be significant. Without considerable evidence that such direct cash flow information is relevant to users, we cannot support the costs and time of moving to a direct cash flow as it has no benefit to our internal business operations.

We also believe that the proposed note reconciliation will be of very limited use to user of the financial statements. In the proposed layout of the note, we believe that most of our reconciling items will all be classified within the 'Accruals, allocations and other' column and do not believe that inclusion of balances in this column will provide any significant additional information to users that cannot be determined from the balances detailed in the statement of financial position. As detailed above, we believe the three primary statements



present different information on the financial performance and position of an entity and are not convinced that two (or three) or the primary statements need to be linked by way of a note to the financial statements.

Conclusion

We have significant concerns, highlighted above, over many areas of the changes proposed in the discussion paper and cannot support the proposed changes in their present form.

Given the concerns, we have not sought to answer the 27 detailed questions raised in the discussion paper, as we believe that answers to the narrow questions raised in the discussion paper mask more fundamental problems with the proposals contained in the paper.

These responses represent the views of AstraZeneca PLC. Should you have any queries or wish to discuss these responses further, please do not hesitate to contact Andy Chard (+44 1625 517279) or Paul Kenyon (+44 207 304 5059).

Yours faithfully

Paul Kenyon SVP Group Finance