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International Accounting Standards Board 30 Cannon Street London EC4M 6XH United Kingdom

Discussion Paper: Preliminary Views on Financial Statement Presentation.

Sir.

As you might have concluded from my comment letters on other subjects I disagree with the objective of financial statements as adopted by the IASB being to provide financial information that is useful to equity investors, lenders and other creditors. This objective suggests that the usefulness of the information drives the inclusion or exclusion of it in financial reports as well as that it might suggest that inclusion disregards whether it best portrays reality or not. A further weakness is that this objective necessitates a set of criteria as to by whom and by which means it is to be determined that information is useful enough to be included in financial reports.

I am convinced that the following objective will lead to better financial reporting.

The function of an(y) entity is to acquire resources, convert these and exchange these in a market. Conversion in the broadest sense of the word: from highly complex production processes to simply leaving resources exposed to the "effects of... events and circumstances" (wording used by the IASB). The objective of financial reporting is to report on the outcome of the acquisition, conversion and exchange process an entity is engaged in. In actual fact a reasoning along similar lines is presented in by the Boards in § 2.1 (d)

Financial reporting is about providing the best possible view of this outcome as it is in reality. Whether this best possible view of reality is useful depends on the needs of the users and what use is made of it. Providing a view of reality for a certain purpose, e.g. decisions by present or potential investors or for stewardship, would inevitably lead to a distortion of that view, because it creates a limitation and introduces subjectivity in order to satisfy perceived needs. Usefulness of information is to be determined by the user, not by the Boards.

I am not convinced that separate objectives for financial statement presentation are necessary. Presentation is an aspect of financial reporting which becomes relevant once an economic event is required to be included in the financial statements and that event has been measured. Presentation requires that the underlying economic event is described in the best possible way. Aspects of "best possible way" are faithful, comparable and understandable.

Recognition and measurement are addressed in the Conceptual Framework and I would suggest that the Boards address the subject of presentation in the CF as well.

Consistent with my earlier comment letters I will provide you with my comments on your Preliminary Views on Financial Statement Presentation on the basis the above reasoning.

Q 1.

In §2.3 it is stated that an objective of the proposed presentation model is that "information should be presented ... in a manner that it portrays a cohesive picture of an entity's activities". I would fully agree with that objective if the information itself (rather than merely its presentation) is to portray a picture of the outcome of an entity's activities and, of course, if the objective, so amended, would be the objective of financial reporting.

In the objective described in §2.7 refers to future cash flows. The predictive value of financial statements is by definition limited, because it provides (should provide) insight at reporting date in values at which assets will be probably be realized and liabilities will probably be settled. The limit of this predictive value depends on the length of the operating cycle of the entity. Financial statements do not and obviously cannot provide insight into transactions not yet entered into or events not yet occurred at reporting date. Hence, an objective aimed at future cash flows is flawed as it ignores this limitation and might raise expectations about financial reporting it can not fulfill.

The objective described in § 2.12 is in fact no more than a variant of the disaggregation objective as it also focuses on aspects of the future. Accordingly similar objections to this objective exist.

Consequently I do not agree with the Boards' proposed objectives of financial statement presentation.

I would have been useful, if the Boards would have described in its DP what the intended status of Financial Statement Presentation is. Is the subject to become a replacement of IAS 1? Or is it indeed to become a part of the CF?

Q 2.

No. Activities an entity is engaged in are integrated and the outcome is the common result of these integrated activities. A single activity cannot be viewed independently from the other activities. Separation in operating, investing and financing activities would be arbitrary. Apart from separation being arbitrary, it is also arbitrary to separate activities into those proposed by the Boards. For example, activities of an entity include acquisition of resources, production, selling and this distinction could also have been a basis for separation. No rationale is offered by the Boards for selecting this proposed separation.

In § 2.75 the Board uses the "arbitrary allocation" argument to reach conclusion with respect to income taxes. I think that the "arbitrary allocation" criterion could and should have been used in more areas of the Boards proposals.

In § 2.21 it is proposed to separately present information on income taxes, to which I agree.

Nevertheless the proposal is strange: presenting information related to one "creditor", i.e. the income tax authority, separately is not consistent with the idea to split information by activities (operating, investing, and financing).

Q3.

In any presentation model equity should be presented separately. Equity, as opposed to liabilities, represents the value of resources provided, of which the return of and the return on are fully dependant of the outcome of the activities the entity is engaged in. I oppose to the notion presented by the Boards in 2.19 (b) that equity is linked to ownership. The concurrence of equity and ownerhip is undeniably true in many jurisdictions, but is not relevant for financial reporting. Relevant is the distinction between equity and liability: return of and return on fully dependant on the outcome of the activities or not.

Q4.

Assets and liabilities of discontinued operations should be presented separately from assets and liabilities of continuing operations, because their measurement basis is different.

Q 5.

I fully agree with the notion made in § 2.27 that an entity should classify its assets and liabilities in a manner that best reflects the way the asset or liability is used within the entity. I find the name "management approach" unfortunate. "Intended use" approach is a better description of this fundament of financial reporting. Furthermore I would suggest that the Boards adopt the principle of "intended use" in measurement and valuation standards as well.

Assets and liabilities presented in accordance with their intended use is the only view of an entity that is appropriate for financial reporting. Whether that presentation is useful to users is not relevant and any presentation aimed at perceived usefulness for users or aimed at achieving comparability, while violating the intended use presentation is horribly wrong.

Q 6.

Financial statements are not aimed at facilitating ease of financial ratio calculation. Reading § 2.51 one might get the impression though that the Boards have made it an implicit objective of financial reporting. The only rationale offered by the Board for presenting a separate business and financing section is financial ratio calculation!

Q 7.

Assets and liabilities should be presented in accordance with their intended use. Whether that intended use has its origin at the reportable segment level or at entity level is not relevant.

Q8, 9, 10.

As I oppose the proposed presentation model I will refrain from answering these questions

Q 11.

I fully agree with the observation in § 3.3 that an asset or a liability should be presented as short term if its probable realization, respectively settlement is within one year. Note that I have replaced "expected" by probable, because an expectation might refer to an individual's subjective opinion while probable refers to having a verifiable, objective ground. I have omitted the reference to "contractual ...", because a contract is no more than one of the many objective grounds of realization being probable.

All entities should present assets and liabilities in order of realization, with the distinction more than on year and less than one year. Note that this reasoning would require the value of long term assets and liabilities that are to be realized, settled within one year need to be classified as short term, e.g. depreciation of an office building for the coming year would be classified as short term, whilst the value of the office building to be realized (depreciated) in future years would be presented as long term.

Q 12.

With reference to my introductory remarks I agree with the proposal to separate cash equivalents from cash.

Q 13.

I agree with the proposal that values of assets and liabilities of similar nature and similar measurement basis should be aggregated. A similar measurement basis stems from a similar intended use of an asset, respectively a similar probable way of settlement of a liability. Hence, to present assets and liabilities aggregated two criteria need to be met: similar nature and similar use, respectively similar way of settlement.

Q 14.

All items of income and expense and all changes in value of assets and liabilities should be presented in one, all inclusive income statement. The distinction between other comprehensive income and income and expense through profit and loss should be abandoned. All income and expense and all value changes have in common that these are all the outcome of the conversion and exchange process any entity is engaged in; no reason at exits to treat some outcomes differently, e.g. presenting them separately in equity or in a separate section in the income statement. The income statement is a detail of all changes in equity except for changes originating from transactions with equity holders in their capacity of equity holders.

Q 15.

Decision usefulness should not be a criterion. Understandability of financial reports is the relevant criterion and this criterion requires that descriptions are adequate and consistently applied. No indications or (cross-) references are required.

Q 16.

The principal disaggregation should not be in operating etc. but by nature. Disaggregation of income and expense by nature has a reasonable objective basis and supports comparability of financial reports over time and between entities, while disaggregation by function is

subjective as each entity applies its resources in different ways. In the notes to the financial statements the disaggregation by function should be provided that best represents the use of the resources by the entity. Whether that disaggregation is by selling, manufacturing, investing, providing services, financing etc. will obviously be different for each entity. Into which functions income and expense and assets and liabilities are disaggregated is not something the Boards should prescribe, even not the distinction operating, investing, financing.

Q 17.

I do not agree with maintaining the existing requirement with respect to allocating and presenting income taxes in the income statement. If applicable tax regulations determine income tax as a proportion of a single amount, e.g. taxable income, than income tax should be presented as one amount in the income statement and no allocations should be made. Any allocation would be arbitrary (as the Boards concede in § 3.59 to exist already as a result of current standards) and would not reflect those applicable regulations.

I would recommend to change existing requirements and to prescribe income taxes to be presented in accordance with the way applicable tax regulations require that it is determined. Income tax, as any other item in the income statement, should not be allocated, because allocation is by definition arbitrary!

Q 18.

An entity that engages in transactions in a foreign currency exposes itself to the risk of differences in exchange rates. Any result from changes in exchange rates is a consequence of those changes and not a consequence of the transaction. The management of that entity can choose to reduce or eliminate the result from changes in exchange rates. Hence, any result from changes in foreign currency exchange rates should be presented as such in the income statement, distinguishing in results relating to re-measurement and in results relating to completed transactions.

Q 19.

Apart from disagreeing with the decision-usefulness approach, I sincerely question the decision usefulness of providing information like salaries paid, VAT paid, etc.

The net result of an entity is the sum of cash flow and changes in the amounts of assets and liabilities. I do believe that disaggregating cash flow in cash received from and paid to equity holders, cash received from and paid to cash providers and cash flows related to the conversion and exchange process the entity is engaged in is necessary to provide a best possible view of reality.

Q 20.

As I do not agree with the proposed disaggregation of cash flows I refrain from answering this question.

Q 21.

The effects of a basket transaction should not be classified in more than one section or category because the required allocation would be arbitrary and by definition such allocation would be contrary to the purposes and intents of the parties to the transaction. The effects should be presented in a separate category with a description that best fits the nature of the transaction and its effects.

Q 22.

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All entities should present assets and liabilities in order of probable realization, respectively settlement dates. Disclosure should be provided on differences between contractual realization or settlement dates and probable dates.

In § 4.4 it is noted that "...there should be consistency in period-to-period presentation for a given entity..." This statement ignores that the economic environment in which entities operate can be highly dynamic and that entrepreneurship is a dynamic activity, likely leading to differences in presentation from period to period. Accordingly, the comparability objective for a single entity from period to period would not be achieved. Reconciliation schedules would not solve this problem, because one cannot reconcile something that never was to something that is. The proposed management approach to classification is not consistent with the objective of financial reports of entities being comparable, because it allows different classification of items of similar nature and use.

In \S 4.5 it proposed that an entity's operating cycle is described in the notes if it is longer than one year. I would suggest that such description should be provided regardless of the time it takes; the reasoning provide in \S 4.6 applies just as well for cycles shorter than a year!

Q 23.

The rationale offered by the Boards for the reconciliation schedule is that it might provide predictive value with respect to future cash flows. While academic research might indeed indicate that a relationship exists between the amount of accruals and future earnings, financial reports are not at all, at least not primarily, meant to offer predictive value. The Boards (neither these academic works) do not explain how this predictive value might be derived from the data presented in the reconciliation schedule.

If the Boards consider information about future cash flows or earnings to be important, would not the simplest and best way be to require entities to provide forecasted balance sheets, income statements and cash flow statements, with notes thereto explaining the underlying assumptions?

a. No. The board should investigate and propose alternatives for increasing "understanding of the amount, timing and uncertainty of an entity's future cash flows". The reconciliation schedule might be useful for reaching that understanding, but it is far from certain that it is the only means or the best means.

b. and c. No. The proposed disaggregation, respectively the guidance is related to the proposed reconciliation schedule, to which I do not agree.

I would support the Board addressing further disaggregation of fair value changes because, as the Board notes in § 4.42 and § 4.43, at present only limited guidance exist.

Q 25.

No. The Boards should not consider alternative reconciliation formats. Instead I suggest that the Boards consider the matters raised by me in answering Q 23. In addition I suggest that the Boards investigate all existing disclosure requirements with respect to disaggregation of movements in the financial position of items to determine that these (a) consistently describe the nature of the movement, (b) adequately refer to an accompanying item in the income statement and cash flow statement and (c) lead to a consistent level of detail.

Q 26.

I do not support any view that would allow labeling items as unusual (or similar notions).

Q 27.

I do not agree with the proposed presentation model; hence I do not support application by any type of entity.

Please note that the above views are my personal views, not the views of any of the organizations I am related to.

Since hely Yours,

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