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

Financial Accounting Standards Board 401 Merritt 7 Norwalk, Connecticut 06856 United States

Dear Sir/Madam

Discussion Paper - Preliminary Views on Financial Statement Presentation

The global organisation of Emst & Young is pleased to respond to the International Accounting Standards Board's (IASB) and the Financial Accounting Standards Board's (FASB) Discussion Paper (DP) on financial statement presentation (FSP). While we support the concepts in the DP, we believe that it is critical for the Boards' FSP project to strike the appropriate balance between the costs to preparers and the benefits to users of financial statements and between information in the primary financial statements and in the notes to financial statements. In that respect, we are supportive of the comprehensive field tests that the Boards are conducting, and we encourage the Boards to consider the results of those field tests, in addition to responses on the DP, to validate the previous user feedback and assessment of user needs that formed the basis for the initiation of this project.

We believe that use of the direct method to present operating cash flows within the statement of cash flows, the reconciliation schedule and increased disaggregation of information within the primary financial statements and notes as proposed in the DP may be very costly to preparers. However, we understand the improvements to financial reporting that the Boards expect from these items, and we look forward to the results of the field tests to further evaluate the costs and benefits associated with these items. The reconciliation schedule itself does not add much incremental information to that which is already disclosed in the notes to the financial statements, although it does organise information more concisely and cohesively. As discussed further in the Appendix, we encourage the Boards to consider whether all of the information in the proposed reconciliation is necessary, or whether there may be other ways to convey some of this information.

We believe that there may be some confusion with respect to the application of the "management approach" concept in the DP. We believe that under the management approach in the DP, presentation and classification of assets and liabilities will be direct outcomes of how management deploys the assets and liabilities within the business. This reduces the subjectivity in selecting the relevant sections and categories within the FSP model. We believe that many constituents however, are familiar with the management approach to segment reporting in Statement 131 and IFRS 8. These standards allow management significant latitude in determining what financial information is presented in the notes because that information is based on internal management reporting. We believe that the Boards should more explicitly differentiate the management approach in the DP from the management approach in segment reporting.

9 April 2009



LETTER OF COMMENT NO.

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When initiating the financial statement presentation project, the Boards intended to address whether to change existing requirements that describe which items must or may be presented in other comprehensive income outside of profit/loss or net income and related reclassification adjustments. As noted in paragraph 1.22 of the DP, the Boards have decided not to consider this issue in this project, nor, to our knowledge, have the Boards determined when or how this subject will be considered in the future. Our responses to comment letters in the past have not addressed the issue of reclassification adjustments due to our understanding that it would be encompassed within the FSP project. We believe that this is an important issue to resolve and urge the Boards to add it to their agendas in a timely manner.

We have not evaluated the proposed presentation model with respect to the costs of auditing the information in the proposed format. The proposed presentation model may increase the costs of auditing, because the proposed levels of disaggregation, as well as the introduction of sections and categories, could cause some constituents to conclude that materiality thresholds should decline or be evaluated in each section, thus potentially changing the scope of the audit procedures.

Please note that we have based our responses on the assumption that the proposals in the DP will be amendments to current IAS 1 and US GAAP presentation models for public entities (e.g., Regulation S-X), rather than a wholesale replacement of current standards and guidance.

Our responses to the specific questions posed in the DP are set out in the Appendix to this letter. We would be pleased to discuss our comments further with the Boards or their staffs at your convenience. Please contact either Leo van der Tas (Netherlands – Rotterdam, +31 10 4068114) or Carlo Pippolo (US – New York, +1 212 773 1790).

Yours faithfully

Ernst & young



Question 1 - Would the objectives of financial statement presentation proposed 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.

Cohesiveness, or the presentation of a 'cohesive financial picture', described in paragraph 2.6 of the DP as meaning that the relationship between items across the financial statements is clear and that an entity's financial statements complement each other as much as possible, is an appropriate FSP objective that would improve usefulness of financial statements. As noted in the DP, the manner in which information is presented under current FSP standards and practices lacks a certain degree of consistency. For example, cash flows from operating activities are separated in the statement of cash flows but there is no similar separation of operating activities in the statements of comprehensive income and financial position. We support the presentation of financial information in a more cohesive manner.

Disaggregating information in financial statements in a manner that makes it useful in assessing the amount, timing and uncertainty of future cash flows, as noted in paragraph 2.7 of the DP, is also an appropriate FSP objective. However, we believe, and as noted in paragraph 2.11 of the DP, it is important to acknowledge the limitations imposed by historical financial reporting models in meeting any such objective focused on assessing future cash flows, as financial statement users often base their expectations of future cash flows on information such as forecasts.

We have a particular concern, however, when considering the combined effects of improving the cohesiveness of financial statements with increased disaggregation of information. We agree with the Boards' view as stated in paragraph 2.16 of the DP, that requiring 'line item cohesiveness' may not be feasible and, in our view, not even desirable due to the resultant increase in the length and detail of the primary financial statements to a point where users would not benefit from the additional information being presented. We agree with the Boards' assessment in paragraph 2.10 that there should be a careful balance between having too much and too little information and that an important consideration in applying these objectives is that it should lead to sufficient but not excessive detail.

Thus, we agree with these overall objectives but are concerned with the extent of cohesiveness and disaggregation that might result from the application of the objectives.

We agree that liquidity and financial flexibility are appropriate FSP objectives.

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 believe that the separation of activities into business activities (defined as the way the business creates value) and financing activities (defined as the way it funds or finances those business activities) would provide more useful information to users and aligns with the core FSP objectives included in the DP. The benefits of this separation of activities include:

- Presenting more transparent information about the financial performance and cash flows of business and financing activities in a consistent manner across the financial statements;
- Improving the ability to assess liquidity and financial flexibility by isolating a reporting entity's financing activities across the financial statements;
- Improving the ability to evaluate the predictive nature of cash flows therefore providing users with better information around business valuations and cost of capital; and
- Improving cohesiveness with the format of 'other financial information', for example, information included in Management's Commentary and Management's Discussion and Analysis (MD&A), which in turn increases the ability of users to correlate other financial information to the actual financial statements.

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?

Presentation of equity as a separate and prominent section, consistent with current practice, may be more aligned with users' expectations. Conceptually, we believe there are benefits to the separation of ownerfinancing from non-owner financing activities. Paragraphs 2.52-2.55 of the DP highlight a number of these benefits.

However, while "equity" may be an important concept and one that is deeply ingrained within the community of financial statement users, we believe that the proliferation of financial instruments with characteristics of both equity and liabilities has caused this distinction to blur significantly. From management's perspective, we believe that management frequently chooses between instruments classified as equity or liabilities to finance an entity's operations. We believe that the presentation in the financial statements should reflect this difficulty faced by preparers.

In our comment letter to the FASB and IASB regarding financial instruments with characteristics of equity (dated 30 May 2008), we stated that we believe the Boards should undertake a joint, broadly-scoped Liabilities/Equity project to comprehensively consider the models for the distinctions between liability and equity instruments, as well as the related measurement and financial statement presentation issues. We recommended completion of the relevant components of the Conceptual Framework project in this area first. and consideration of other broad conceptual projects with implications for the reporting of liability and equity contracts and changes in those contracts, including this Financial Statement Presentation project. Likewise, we believe that the relevant components of both the Conceptual Framework project and the Liabilities/Equity project should be considered in determining the appropriate presentation of equity. Similarly, the classification of dividends payable and related cash flows would be dependent on the outcome of these projects.

In addition, in the event equity is included as a category within the financing section, we recommend that the components of equity (e.g., issued capital, retained earnings, equity reserves, etc.) continue to be provided in



the statement of changes in equity (or in the notes) in order to meet the legal requirements that certain jurisdictions (e.g., Australia and Poland) have with respect to financial reporting requirements.

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?

We do not support presentation of discontinued operations in a separate section. As noted in our comment letter (dated 23 January 2009) to the Boards on the Exposure Draft of proposed amendments to IFRS 5 and Proposed FSP FAS 144-d, we believe disposals of components, and even operating segments, are a normal part of today's business processes and thus may not warrant separate presentation on the face of the statement of comprehensive income. In addition, regardless of the frequency of disposals that would qualify as discontinued operations, we doubt that reporting discontinued operations on the face of the statement of comprehensive income provides users with meaningful information. An alternative to discontinued operations presentation in the statement of comprehensive income would include the disclosures proposed by the ED to IFRS 5 and the Proposed FSP FAS 144-d for disposals of operating segments accompanied by a robust management discussion whereby the company could provide information about what it believes would be most useful for readers. Presentation of discontinued operations as a separate section is also inconsistent with the stewardship objective in that users are not able to evaluate the financial performance of all operations at a sufficiently detailed level on a combined basis.

If the Boards determine that continued reporting of discontinued operations is appropriate, we prefer the presentation of discontinued operations within the relevant sections and categories. This would allow section and category subtotals to contain the effect of discontinued operations thus allowing users to evaluate a reporting entity's combined operations, albeit at an aggregated level. We believe that the disposal of a component resulting in discontinued operations classification represents a 'basket transaction', as described in paragraphs 3.88-95 of the DP. Allocation of discontinued operations within the relevant categories in the proposed FSP model is consistent with our response to the Boards' question on presentation of the effects of basket transactions (Question 21).

If the Boards determine that discontinued operations should be presented as a separate section, we recommend presenting that section on a pre-tax basis. Financial statement preparers often incur significant time and effort in allocating income taxes to discontinued operating segments and components. We do not believe that the limited benefit (ie, allocation of income tax on an arbitrary basis) to users in having such taxadjusted information justifies this cost.

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?

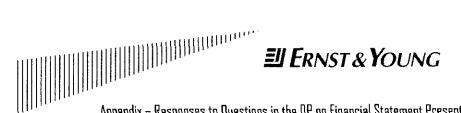
We support the management approach to classification of assets and liabilities as it provides users with a view of the entity's business through the eyes of management. However, we believe there may be confusion as to its application. The management approach to classification is not intended to provide management with complete discretion in determining how to present financial information within the FSP model. Rather, presentation and classification of assets and liabilities will be direct outcomes of how management deploys the assets and liabilities within the business. Classification must follow the actual use of the assets and liabilities, which reduces the subjectivity in selecting the relevant sections and categories within the FSP model. We do note that there are exceptions to this in the DP with respect to assets and liabilities with multiple uses (e.g., corporate assets) as well as elements of post employment benefit plans. We believe that an allocation methodology should be developed to assist in the classification of such items. In addition, the Boards should consider whether a principles-based allocation methodology can be developed from responses to other questions within the DP that involve allocation issues (e.g., Question 21). We believe that a consistent methodology, where applicable, should be applied here.

We do not believe that a reduction in comparability would result from the adoption of this management approach to classification. In regards to comparability of financial information across multiple reporting entities (e.g., peer comparability), classification of assets and liabilities used in similar businesses should be similar under a management approach to classification. Dissimilar presentation among peer companies would reflect the fact that the respective entities utilise assets and liabilities differently. Greater cohesiveness and disaggregation of information, as proposed in the FSP model, would make this difference more transparent and thus the existence of such differences among peer companies would be more apparent to users, enhancing the value of financial reporting.

In regards to period to period comparability for a single entity over time, we believe that changes in the utilisation of assets and liabilities in the business which reflect changes in the business itself should be reflected in changes in classification. Changes in classification policy, other than those resulting from changes in the underlying business, will be discouraged by the requirement (noted in paragraph 2.41) for a change in an entity's classification policy to be implemented through retrospective application of the new classification policy to prior periods.

The FSP model provides for disclosure of an entity's classification policy. We agree that, as the DP notes (paragraph 4.4), such a focus on classification policy, including an explanation of classification policy that might differ between reportable segments, would increase consistency and therefore enhance comparability of information. In addition, there is a certain level of prescription in the presentation of financial statement information that is required by other standards and regulations (e.g., paragraphs 54-111 of IAS 11, SEC

¹ Note that references to IAS 1 in the Appendix are to IAS 1 as revised and issued in September 2007 and subsequent amendments resulting from IFRSs issued up to 30 November 2008.



Regulation S-X) which would contribute to the comparability of financial information. However we acknowledge that the DP may result in changes to IAS 1 and Regulation S-X which might impact the current presentation requirements as stated therein.

In supporting the use of the management approach, we therefore believe that the likelihood of loss of comparability is minimal, and that any potential loss of comparability is outweighed by the benefits of allowing management to communicate the unique aspects of its business to users.

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?

The presentation of disaggregated information in a cohesive manner across multiple financial statements should increase the ability to calculate financial ratios that are important to users given the greater detail of information being presented. As stated in paragraph 2.51, the presentation of assets and liabilities in the business and financing sections will result in the presentation of net assets on a more disaggregated basis (i.e., by section) within the statement of financial position. This presentation, combined with the separation of business and financing activities within the statements of comprehensive income and cash flows, should make it easier to compute financial ratios that are important to users at a more detailed level that in turn should provide more meaningful and relevant information to users.

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.

Entities should classify assets and liabilities (and related changes) at the reportable segment level (or lower level) based on the manner in which those assets and liabilities are being managed and used at the reportable segment level. This classification approach is consistent with the overall management approach. We believe that financial statement preparers would have difficulty in determining the appropriate classification of certain assets and liabilities at the entity level (versus the reportable segment level) in a multiple segment reporting entity. In the example cited in paragraph 2.40 in which an entity has financial instruments being used within each of its three reportable segments (e.g., manufacturing, financial services and retail), it would seem to wholly contradict the management approach to classification of assets and liabilities to report these financial instruments on an aggregated basis. We therefore support classification of assets and liabilities at the reportable segment level.

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 light of the proposed presentation model? Please explain.

IFRS 8 and FAS 131 require the disclosure of a measure of profit or loss by reportable segment. Other information, such as total assets², a measure of liabilities and components of segment profit or loss, is also required to be disclosed by reportable segment if this information is reviewed by or otherwise regularly provided to the chief operating decision maker ("CODM").

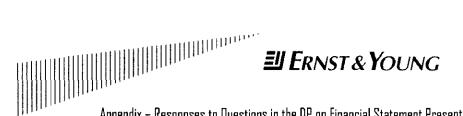
The concepts of disaggregation and cohesiveness in the proposed FSP model, if applied to segment reporting, would produce meaningful information by reportable segment (e.g., net operating income, net investing income and net financing expense; net operating assets, net investing assets and net financing liabilities). However, unless this information is being received and reviewed by CODM on a regular basis, it would not be disclosed based on current principles within IFRS 8 and FAS 131.

Thus there is tension between the level of detail at which information is required by the FSP model, as potentially applied to reportable segments, and the information required for segment reporting based on the CODM review. We do not believe that the underlying principle within IFRS 8 and FAS 131, which drives disclosure of information only if it is reviewed by the CODM, should be set aside to require disclosure of additional segment information based on the FSP model. Therefore, any consequential amendments to the current segment reporting standards should be limited to the information that is regularly received and reviewed by the CODM.

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?

We agree with the underlying principles included in the definitions of the business section and its operating and investing categories (paragraphs 2.31-2.33). Business activities are defined as those conducted with the intention of creating value, such as producing goods and services. We are comfortable with a broad definition for 'Business activities' as the other sections within the FSP model are narrowly defined. In fact, we note that classification within the other sections in the FSP model financial statements – financing, income taxes, discontinued operations and equity – are explicitly addressed by current IFRS/US GAAP. The business section is thus the default category, supported by language in paragraph 2.63 of the DP which states that an asset or liability that is not related to an entity's financing activities, a discontinued operation or income taxes should be classified in the business section. We therefore believe that the principles to support classification of activity within the business section are adequately defined.

² It should be noted that the IASB has proposed changes to IFRS 8 in an exposure draft issued August 2008, as part of annual improvements to IFRS, to require disclosure of total assets by reportable segment only if this information is provided to the CODM. This will align IFRS 8 with FAS 131 with respect to this disclosure.



However, we are concerned that the distinction between operating and investing activities and the resulting classification within those categories is not clear. Lack of clarity in defining these activities will result in financial information that is not meaningful to users. We support the use of terms such as 'core and non-core activities' to align with operating and investing activities, respectively, as noted in paragraph 2.64 of the DP. However, these terms may be difficult to apply as currently used. We recommend providing a definition of core and non-core activities supplemented with examples. Additionally, while we agree that classification of operating and investing should follow management's view of the central operations of the entity, we believe that preparers and users will have difficulty in transitioning from the current definition of 'investing activities' under IAS 7 and FAS 95. We recommend that the Boards consider use of different terminology for 'investing activity' in order to avoid confusion. Implementation guidance in the form of an example (perhaps based on results of the FSP field testing) would also be beneficial in clarifying the types of activities to be included in the investing category. Without additional guidance, uncertainty as to the difference between operating and investing could lead to inconsistency in applying the current definitions as well as frequent reclassifications resulting in retrospective restatements.

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?

We believe that the definitions around the financing section, including the financing assets and liabilities categories, are clear and would not lead to confusion or uncertainty as to which assets and liabilities should be included in this section and categories.

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?

Paragraph 3.3 of the DP indicates that an asset or liability should be classified as short term if either the contractual maturity or the expected date of realisation or settlement is within one year of the reporting date. The DP thus requires that a classified statement of financial position be based on a one-year distinction rather than the length of an entity's operating cycle. IAS 1 (paragraphs 60-76), addresses current and noncurrent classification based on time (e.g., 12 months or the length of an operating cycle), and provides an exception for presentation based on order of liquidity if more relevant. Likewise, under US GAAP, ARB 43 Chapter 3 indicates that the normal operating cycle of an entity should be considered in the determination of current and non-current classification.

Utilising a one-year distinction, rather than the length of an operating cycle as a determinant for short-term classification, would improve the assessment of an entity's liquidity and financial flexibility. However, retention of operating cycle as an additional determinant for classification is consistent with the underlying principles of a management approach to classification of how assets and liabilities are used in the business. particularly for those entities with relatively long operating cycles. There are practical difficulties to consider. For example, entities with long operating cycles (e.g., distilleries and long term construction projects) that would no longer be able to classify based on operating cycle, would have frequent shifts between short and long-term based on, for example, the stage of a long term construction project as of a reporting date. Additionally, such entities would have to split the classification of a single group of assets and liabilities into short and long term, for example, the inventory of a distillery.

We recommend that the Boards gain specific feedback from the FSP field testing to evaluate the advantages and disadvantages that users would experience resulting from eliminating operating cycle as a determinant for short-term classification.

We believe that banks and other financial institutions would not present a classified statement of financial position. In addition, if the use of operating cycle as a determinant for short term classification is not



retained, it is possible that other entities would consider using order of liquidity, as few or no items would be classified within a short-term classification based strictly on a one year time frame.

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?

We support the proposal in the DP to remove the notion of cash equivalents from IAS 7 and FAS 95. This change will result in cash equivalents being classified as short term investments. We believe that the current definition of cash equivalents could result in the presentation of information that does not help users assess liquidity of an entity's assets and liabilities. For instance, it is possible to have short-term investments that are more liquid (that is, closer to maturity) than a cash equivalent. Thus, the presentation of cash and short term investments better reflect liquidity in the statement of financial position. Further, the presentation of cash and cash equivalents" as a single caption in financial statements results in the grouping of dissimilar items, for example, demand deposits and debt securities.

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 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?

We agree that disaggregation of assets and liabilities that are measured on differing bases will help users in assessing the amount, timing, and uncertainty of an entity's future cash flows. However, we are not entirely clear as to which measurement bases the term "different bases" is meant to include and encourage the Boards to provide additional clarification. For example, IAS 1.118 indicates that the notion of measurement bases could be a very broad one (including, for example, historical cost, current cost, net realisable value, fair value or recoverable amount). We believe that differentiating between fair value and other measurement bases is sufficient and would be consistent with existing disclosures required by IFRS and US GAAP, thus making the primary financial statements and the notes to the financial statements more cohesive.

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?

IAS 1 currently provides an option for an entity to present all income and expense items either in a single statement of comprehensive income or in two separate statements comprised of a statement displaying profit or loss and a statement of comprehensive income. Statement 130 permits similar presentation formats and also permits an entity to present other comprehensive income in its statement of changes in equity. The DP proposes that entities be required to present all income and expense items in a single statement of comprehensive income.

IAS 1.BC50 notes that respondents from the IASB's 2006 Exposure Draft on proposed amendments to IAS 1 supported the presentation of two separate statements as a transition measure until the IASB developed principles to determine the criteria for inclusion of items in profit or loss or in 'other comprehensive income'. Our comment letter on this issue (dated 30 June 2006) also reflected this view. As that has yet to be done, we do not support a single statement of comprehensive income.

We are disappointed that Boards did not take up the issue of reclassification adjustments³ in the DP. As noted in our covering letter, one of the original principle objectives of Phase B of the FSP project was to address this issue. We do not perceive significant benefits to a single statement approach if reclassification adjustments continue to be required, particularly since the Boards have decided to retain the presentation of net income and EPS as required performance measures. As a result, the current option to provide a separate statement of other comprehensive income should be retained. However, we believe that the alternative under US GAAP to present other comprehensive income in the statement of changes in stockholders' equity should be eliminated as this presentation is not sufficiently transparent and its elimination would converge with IFRS.

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 support the proposal than in general, an entity should indicate the category to which items of other comprehensive income relate. We believe that it will be beneficial to users in understanding the relationship between items included in other comprehensive income and the sections and categories within the statement of financial position to which they relate (or will relate). Moreover, providing this information is consistent with the cohesiveness objective.

As noted in paragraphs 3.40 and 3.41 of the DP, we acknowledge that there are exceptions for which this information can be provided. These include foreign currency translation adjustments on a consolidated subsidiary (and proportionately consolidated joint ventures) which may relate to more than one category of assets and liabilities within the statement of financial position.

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?

³ Defined in IAS 1.7 as "amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods".



We believe that there may be value to users in the disaggregation of revenue, expenses, gains and losses by their function and/or by their nature. However, we are concerned with the potential costs to prepare this information and that too much information could overwhelm users and result in financial statements that are less useful in making decisions. Paragraph 3.46 of the DP acknowledges the need for the appropriate level of detail in the statement of comprehensive income and that the notes could be utilised to provide certain of the information included in the proposed statement of comprehensive income. We agree with this approach.

The determination of what level of disaggregation would be decision-useful to users is a matter of judgment. We recommend that the Boards provide additional guidance to assist preparers in making this determination as well as what minimum level of detail should be provided on the face of the financial statements rather than in the notes.

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.

As noted in our response to Question 4, if discontinued operations continue to be required as a separate section in the statement of comprehensive income, we recommend presenting that section on a pre-tax basis. Likewise, we are not in favor of allocating income taxes to any other sections and categories within the statement of comprehensive income. We believe that presenting income and expense items net of tax within the statement of comprehensive income is not useful information to users. Any such allocation is likely to be subjective and arbitrary in nature, Furthermore, users are not always able to establish the relationship between tax expense (benefit) and related cash flows and thus often prefer information on a pre-tax basis. We are not convinced that users value post-tax information on a section and category basis. We therefore recommend that income taxes be segregated into a single stand-alone section.

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?

Both IFRS and US GAAP require gains and losses on foreign currency transactions to be included within profit or loss.

We believe that foreign currency transaction gains and losses should be presented in the same section and category as the related assets and liabilities as this would provide more useful information to users. This presentation better reflects the economic substance of the complete transaction than the presentation of the aggregate foreign currency transaction gains and losses in a separate line within the financial statements.



Moreover, because the underlying transaction (e.g., a purchase of a good denominated in a foreign currency or remeasurement from a local currency to functional currency) is identifiable, the foreign exchange effect should be easily determinable. This presentation of foreign currency transaction gains and losses is also more consistent with the cohesiveness principle. Finally, because IAS 21 and Statement 52 presently require entities to compute foreign currency transaction gains and losses, we do not believe that there would be significant additional cost in presenting the gains and losses in the same sections and categories as the assets and liabilities that gave rise to the gains and losses.

Question 19 - 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?

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?

Conceptually, we believe that the direct method of presenting cash flows is more consistent with the cohesive and disaggregated presentation approach set forth in the FSP model. Furthermore, under the proposed FSP model, cash flow information presented using the indirect method could not be easily mapped, for example, to operating assets and liabilities or operating income and expenses presented in the other primary financial statements. Moreover, the direct method provides certain information (e.g., cash collected from customers and cash paid for goods) that increases a users' ability to evaluate the predictive nature of cash flows. The primary benefit of the indirect method is that it provides users with an understanding of the non-cash items that are included within net profit as well as the changes in working capital. The FSP model proposes including this information in a reconciliation schedule, but it could also be captured in footnote disclosures, Despite the fact that we agree with the conceptual merits of a direct cash flow presentation, we have concerns due to the potentially significant costs in preparing cash flows under this method of presentation.

We believe there would be substantial up front costs for entities using a direct method to present operating cash flows. Many entities have complex accounting systems that reflect an operating environment that is diverse in nature and often stretches across a number of jurisdictions. As a result, accounting systems are often comprised of disparate systems that have limited flexibility to report cash flow information. The accumulation of gross cash flows by entities with numerous subsystems could require substantial time, cost and effort. For example, reporting entities that have overseas subsidiaries would have to accumulate gross cash flows for each jurisdiction in order to properly apply the effect of foreign currency exchange in reporting consolidated gross cash flows. Additionally, there would likely be instances in which reporting entities would have to modify multiple systems (e.g., revenue systems, payroll systems, inventory systems, etc.) that feed into a general ledger that does not retain the gross cash flow information. An entity with broad and geographically diverse operations could thus have a significant number of accounting systems to modify in order to obtain gross cash flow information.



It is our understanding, however, that there is an alternative way of presenting 'direct method' operating cash flow information that may result in substantially less preparation costs. Rather than accumulating gross cash receipts and payments from the accounting system, an entity could derive cash receipts and payments from other readily available financial information within the statement of comprehensive income. This latter approach (the so-called 'indirect-direct method') would require the identification and separation of non-cash activity within relevant captions of the business section of the statement of comprehensive income, in order to derive the cash flow component (e.g., cash collected from customers is calculated by subtracting changes in trade receivables from revenue). During its deliberations of Statement 95, the FASB acknowledged (FAS 95.118) that the degree of difficulty for reporting entities in applying the 'indirect-direct method' would vary depending on the nature of an enterprise's operations and the features of its current accounting system. We understand that costs under either approach would depend heavily on the complexity of the underlying business (e.g., breadth of operations, dependence on information technology, existence of disparate accounting systems, complexity of financial reporting structure, etc.). However, we believe that the accumulation of gross cash flow information from the underlying books and records within the accounting system would require more substantial one-time costs. Therefore, we recommend that the Boards evaluate whether the 'indirect-direct method', identified in IAS 7.19 and FAS 95.115 and described in paragraph 3.82 of the DP, could satisfy the needs of users who want direct operating cash flow information while limiting the potential cost and effort that would have to otherwise be incurred in preparing this information.

We understand that there are limitations to the 'indirect-direct method'. An entity may not be able to derive the necessary information regarding operating cash flows in a sufficiently precise manner, in which case an entity would still have to look to the underlying books and records to determine gross cash receipts and payments. We recommend that the field tests being conducted in connection with the FSP project focus on understanding whether the 'indirect-direct method' can provide information at the level of disaggregation that is consistent with that being required in the other primary financial statements or if not, at the limited level of detail currently required in IAS 7.14 and FAS 95.27. If the desired level of detail of direct operating cash flow information cannot be derived using the 'indirect-direct method', the Boards may consider increasing the minimum amount of information currently prescribed in IAS 7.14 and FAS 95.27 so that there is as much consistency of detail as possible across the financial statements. We believe that the use of the 'indirect-direct method' would likely result in sacrificing some level of disaggregation of operating cash flow information from that which is anticipated in the DP. However, we believe that the 'indirect-direct method' is an alternative that may provide the necessary balance between costs to preparers and the benefits to users of cohesiveness between financial statements.

As noted above, the Boards have proposed that information currently provided under the indirect method would be replaced by the proposed reconciliation schedule. The proposed reconciliation schedule would provide users with a single statement that reconciles operating cash flows to operating income or loss on a much more detailed level than the current indirect method presentation of operating cash flows. However, we are concerned that the 'non-cash' activity that is prominently displayed under the indirect method would be indistinguishable in the 'accruals, allocations and other' category given the extent of other disaggregated activity in this category.

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?

Acquisitions that represent basket transactions (e.g., business combinations) should be allocated to the relevant sections and categories in the statements of comprehensive income and cash flows based on the classification of the acquired assets and liabilities. Allocation is consistent with the intended integration of the acquired assets and liabilities into the entity's existing operations. Allocation is also consistent with the cohesiveness principle and should result in more useful information for users who would be interested in understanding the combined effect of existing and acquired assets and liabilities, and related changes in income and cash flows, on the entity's primary financial statements.

Disposals may also represent basket transactions (e.g., discontinued operations). Consistent with our view as expressed in response to Question 4, we believe that the discontinued operations section should be allocated to all relevant sections and categories to which they relate. This would allow section and category subtotals to contain the effect of discontinued operations thus allowing users to evaluate a reporting entity's combined operations, albeit at an aggregated level.

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 agree that disclosing information about the maturities of an entity's short-term contractual assets and liabilities in the notes to the financial statements would be useful to financial statement users. However, we believe that this type of information about short-term maturities would be equally relevant and useful when presented by an entity that prepares a classified balance sheet. The Boards should consider the costs to all preparers in determining whether to require this information, and if the benefits to users are persuasive, require these disclosures for all entities. This would also be true for the disclosures proposed in paragraph 4.10 of the DP. We believe it would be useful for users to understand significant differences in the expected realisation and contractual maturity of contractual assets and liabilities for both entities that present assets and liabilities in order of liquidity and those that prepare a classified statement of financial position.

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. (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.

We believe that the reconciliation schedule provides users with convenient, 'all-in-one' access to information about the components of comprehensive income.

We agree with many of the underlying reasons for supporting the inclusion of a reconciliation schedule in the notes to the financial statements as noted in the DP. Given the key changes proposed in the DP (e.g., more captions and accounting policy notes resulting from greater disaggregation and cohesiveness and direct method presentation of operating cash flows), we believe there will be significant increases in costs for preparers. We are not yet convinced that the benefits to users resulting from this additional information outweigh these additional costs. The outcome of the field testing should provide feedback from preparers and users to assist in the evaluation of the costs/benefits of the reconciliation schedule.

We are concerned that the inclusion of a reconciliation schedule, combined with the other key aspects of the DP, would produce a level of detail in the financial statements and notes that is beyond what is necessary. The example ToolCo reconciliation schedule included in the DP is too long and too detailed and exemplifies our concern. We propose that feedback from the field testing be used to help identify what level of detailed information included within the reconciliation provides the absolute critical information that users need.

In our view, the 'remeasurements' columns in the reconciliation schedule provide useful information to users in understanding future cash flows. As this information might not be available elsewhere in the financial statements or notes, we would recommend that this information be included in a single note in the event there is not broad support for the inclusion of the reconciliation schedule in the notes.

Also, we are concerned about the clarity of information being presented in the 'accruals, allocations and other' column and as such doubt whether this information is useful. Based on the process of disaggregating the components of comprehensive income outlined in chapter 4 of the DP, we are concerned that preparers might view this column as a default column for information. Furthermore, if certain non-cash items within net profit or loss will no longer be included in the cash flow statement (i.e., because of the move to a direct method presentation of operating cash flows) this would further highlight the need for a possible further separation of columnar information within the reconciliation schedule. In addition, we would support a proposal to shorten the length of this schedule (i.e., less disaggregation of information as per the statements of cash flows and comprehensive income), if the field testing indicates that users need the reconciliation schedule but could accept less detailed information than that included in the statements of cash flows and comprehensive income.

Ouestion 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?

The DP proposes that an entity present similar assets and liabilities that are measured on differing bases on separate line items within the statement of financial position. In order to be cohesive, this would also require that associated gains and losses be presented in different line Items in the statement of comprehensive income. We do not believe that any further disaggregation of changes in fair value needs to be considered at this time and in fact could result in undue complexity where costs would outweigh benefits.

Ouestion 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?

Paragraph 4.22 of the DP indicates that one of the objectives in providing the reconciliation schedule is to present additional disaggregation of comprehensive income because users have asked for help in understanding how the components of accrual accounting (e.g., changes in working capital) and fair value measurements affect an entity's comprehensive income and future cash flows. We believe this is a reasonable objective.

However, as noted in our response to Question 23, although we believe that the reconciliation schedule provides users with convenient and useful information about the components of comprehensive income, we are concerned that the benefit of this information to users does not balance the potential cost to preparers, If the Boards determine, based on the input of users and preparers and the field test process, that the reconciliation schedule will be required, we would recommend consideration of the Comprehensive Income Matrix as an alternate reconciliation format. We believe that this alternative to the reconciliation schedule may be easier for users to understand as its flow corresponds to its underlying conceptual principles. The Comprehensive Income Matrix more clearly presents the disaggregation of comprehensive income so that users can better understand its components in terms of persistence and management subjectivity. In addition, if users value the ability to relate this information to the statement of cash flows, we believe that a simple reconciliation added to the bottom of the Comprehensive Income Matrix would suffice.

We would also expect that the input of users and preparers and from the field testing process would provide the Boards with a better understanding of whether a single format reconciliation schedule would provide the necessary information that satisfies the needs of users across multiple industries. In order to meet the needs of a broad user group, the Boards may have to accept a certain degree of variability in the format of the reconciliation schedule.



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

Information about unusual or infrequent events or transactions may be beneficial to users in evaluating current period financial results excluding such activity as well as to assist users in assessing the probability of recurrence and the effect on future cash flows. However, we believe that segregating such information into a separate memo column within the reconciliation schedule would be difficult due to the subjective nature of what is 'unusual or infrequent' as well as the volume and variety of potential events and transactions that would have to be considered. In our experience, the definitions 'unusual' and 'infrequent' provided in APB 30 are difficult to apply, and we do not recommend that the model be integrated into the reconciliation schedule requirement.

We believe that this type of information, to the extent it is material, would in any case be presented (or disclosed) in financial statements. For example, IAS 1.97-98 requires that a reporting entity disclose the nature and amount of any material income or expense items including for example, write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount (as well as related reversals), restructuring activities (and related reversals) and litigation settlements. Further, public entities likely would disclose this information in Management's Commentary or MD&A.

Question 27 (specific to the FASB) - As noted in paragraph 1.18(c), the FASB has not yet considered the application of the proposed presentation model to non-public entities. What issues should the FASB consider about the application of the proposed presentation model to non-public entities? If you are a user of financial statements for a non-public entity, please explain which aspects of the proposed presentation model would and would not be beneficial to you in making decisions in your capacity as a capital provider and why.

Although this question has been directed to the FASB, we believe the issue applies equally to the IASB due to ongoing deliberations on the application of IFRS to non-publicly accountable entities. We do not support the development of different financial statement presentation models for public and non-public entities.