



**KPMG IFRG Limited**  
1-2 Dorset Rise  
London EC4Y 8EN  
United Kingdom

Tel +44 (0) 20 7694 8871  
Fax +44 (0) 20 7694 8429  
mary.tokar@kpmgifrg.com



LETTER OF COMMENT NO. 114

Ms Denise Gomez-Soto  
Project Manager  
International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH  
United Kingdom

Our ref MT/288

Technical Director  
File Reference No. 1630-100  
Financial Accounting Standards Board  
401 Merrit 7  
PO Box 5116  
Norwalk, CT 06856-5116  
USA

14 April 2009

Dear Ms Gomez-Soto and Technical Director

**International Accounting Standards Board and Financial Accounting Standards Board  
Discussion Paper: *Preliminary Views on Financial Statement Presentation* (the Discussion  
Paper)**

We appreciate the opportunity to respond to the Discussion Paper: *Preliminary Views on Financial Statement Presentation* issued by the International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) (together, the Boards). This letter represents the views of KPMG International and its member firms, including KPMG LLP (U.S.), and is being submitted to both the IASB and the FASB.

We continue to support the Boards' efforts to improve, update and converge their guidance about the presentation of financial information and broadly are supportive of the proposals included in the Discussion Paper. We believe that the proposals included in the Discussion Paper are an important step in the convergence of International Financial Reporting Standards (IFRSs) and U.S. Generally Accepted Accounting Principles (U.S. GAAP) and have the potential to provide information to help users better understand the financial reporting consequences of the current mixed attribute measurement model. The overall effect of the proposals in this Discussion Paper will be a significant increase in the amount of data and level of disaggregation provided in financial statements. This is consistent with the trend that we have observed of increasing demand for more detailed information from users, driven in part by the mixed attribute model for current financial reporting and also by significantly improved information processing capacity on the part of both preparers and users of financial information.



While we support the Boards' intention of being responsive to user needs, we note that collecting, preparing, and presenting an increased level of detailed financial information is not cost free. Accordingly, our overall support for the proposals in this Discussion Paper is subject to the Boards' robust testing of costs to preparers and understanding the additional benefits to users of the proposals during field testing. In the Appendices to this letter, which contain our detailed responses to the specific questions raised in the Discussion Paper, we have identified areas that we believe should be a particular focus for the Boards in terms of understanding of costs and benefits. In evaluating the benefits of the proposals, we believe that such field testing should in particular seek to assess whether the proposals set forth in the Discussion Paper would result in an increase in the usefulness of financial statement information when communicating with analysts, reducing dependence on financial measures that are disclosed outside of the financial statements.

We have a number of specific comments and concerns, which are included in our responses to the Boards' specific questions. Some specific responses that we would like to highlight are:

- We believe that using the statement of financial position as the starting point for classification of items in financial statements is not appropriate in all cases and suggest that the starting point for such classification be determined by management, in accordance with the management approach. (Question 5)
- We believe that the guidance provided about items to be included in the financing section may not be sufficient to allow preparers to apply consistently the guidance in practice. We recommend that the Boards clarify the guidance regarding classifying assets and liabilities in the financing section. (Question 10)
- We agree with the preliminary view expressed by the FASB that unusual or infrequent events or transactions should be highlighted for users of the financial statements. (Question 26)

We note that in some instances, the Discussion Paper does not explain fully why the Boards reached their conclusions. For example, it is not clear to us why disaggregation of assets and liabilities by section and category should take precedence over disaggregation by measurement basis. The appendices to this letter include our comments on proposals for which we believe the Boards should articulate more clearly the basis for their conclusions. We also believe that the Boards should explain the relationship between the objectives and qualitative characteristics of financial information proposed in the Exposure Draft of *An Improved Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting and Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information* and the objectives of financial statement presentation set out in the Discussion Paper. We believe that the Boards should address these issues in the Basis for Conclusions of an Exposure Draft based on this Discussion Paper.



We understand the Boards' decision to exclude from the scope of the Discussion Paper the questions of (i) classification of an item in profit or loss or in other comprehensive income (OCI) and (ii) if, and if so when, subsequent reclassification ("recycling") from OCI is appropriate, in order to be able to complete this phase of the project on a timely basis. We support the Boards continuing with this phase of the project with its current scope as we believe that this phase of the project has the potential to make a significant improvement to financial reporting. We believe, however, that the Boards should seek to address in a subsequent project the issues of recognition in profit or loss or OCI and recycling to address inconsistencies both within IFRSs and between IFRSs and U.S. GAAP. For example, under IFRSs gains on revaluations of property, plant and equipment are recognised in OCI, while gains and losses on remeasurement of investment properties are recognised in profit or loss. Additionally, there is inconsistency between IFRSs and U.S. GAAP with respect to whether amounts initially recognised in OCI are recycled later to profit or loss. Under U.S. GAAP, such items are recycled eventually into profit or loss, whereas under IFRSs, actuarial gains and losses related to employee benefit plans recognised initially in OCI, for example, are not recycled into profit or loss.

If you have any questions about our comments or wish to discuss any of these matters further, please contact Mary Tokar or Bruce Darton with the KPMG International Financial Reporting Group in London at +44 (0)20 7694 8871, or Mark Bielstein or Paul Munter with KPMG LLP in New York at +1 (212) 909-5419 or +1 (212) 909-5567, respectively.

Yours sincerely

*KPMG IFRG Limited*

KPMG IFRG Limited

## **Appendix A: Responses to the questions set out in the Discussion Paper**

### **Section 2: Objectives and principles of financial statement presentation**

*Q1. 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.*

**KPMG Response:** We agree that the proposed objectives would improve the usefulness of such information:

- Disaggregating information about dissimilar economic transactions and events is likely to be useful to users in making assessments about the future cash flow prospects of an entity as they are better able to assess the impact of different economic events on future cash flows;
- Providing cohesive information is likely to enable users to identify the relationship between information in the different financial statements; and
- Focusing the presentation of financial information on providing information about an entity's liquidity and financial flexibility is consistent with the objective of providing information about the cash flow prospects of an entity as described in the Boards' Exposure Draft (ED) of *An Improved Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting and Chapter 2: Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information* (the Conceptual Framework ED), which we supported as an objective in our response to that Exposure Draft.

We believe, however, that the Boards should articulate better how the objectives set out in the Discussion Paper follow from and relate to the objectives and qualitative characteristics set out in the Conceptual Framework ED, and how the Boards have assessed the potential tensions between the different objectives, for example:

- between use of a management approach to classify items in the financial statements and the qualitative characteristic of comparability, and
- between disaggregation and the qualitative characteristic of understandability.

In particular, the Boards should articulate the trade-off between maintaining cohesiveness between financial statements and maximising the decision-usefulness of each financial statement. In some particular cases, we believe that strict adherence to the principle of cohesiveness could reduce the decision-usefulness of the financial statements. For example, in the context of basket transactions we believe that seeking to maintain cohesiveness could result

in arbitrary allocations in the financial statements, which we believe would not be decision-useful (see our response to question 21).

*Q2. 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?*

**KPMG Response:** We agree that the separation of business activities from financing activities provides more decision-useful information than is presented in the current financial statement format because it would better reflect the use by an entity of its resources. However, we believe that the guidance and related examples on classification of items in the Discussion Paper are potentially contradictory, as explained in our response to question 10 with respect to the example used in the Discussion Paper of an entity acquiring equipment using either a lease or a bank loan. Accordingly, the Boards should clarify further these definitions to ensure that the related guidance is operational.

*Q3. 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?*

**KPMG Response:** We believe that equity should be presented as a separate section as such a classification would show clearly transactions with owners separately from transactions with other capital providers that are non-owners.

*Q4. 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?*

**KPMG Response:** We agree that discontinued operations should be presented as a separate section within the financial statements as such a presentation would assist users in assessing the future cash flow prospects of an entity by distinguishing which portion of the entity's operations will continue to be part of the entity in the future and which will not.

*Q5. 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?*

KPMG Response: We believe that a management approach to presentation should provide the most informative view to users about how an entity's operations and resources are managed and we believe that information presented in this way should be more useful in assessing the cash flow prospects of that entity. As we noted previously in our response to the Boards' Discussion Paper *Reducing Complexity in Reporting Financial Instruments*, we believe that the best way to reflect differences in how entities use resources is through the presentation of items rather than through using different measurement bases.

While generally we support the use of a management approach, we note that an entity's management might not use the statement of financial position as the starting point for how it manages the business. Therefore, classifying items based on their classification in the statement of financial position as proposed may not be reflective of how the business is managed because items on the statement of financial position often are managed by nature, for example receivables and payables, and not by reference to the source of the item, for example, business or financing. The use of the statement of financial position as a starting point for determining the classification into sections and categories may lead to practical difficulties in classification of items in the other financial statements when no asset or liability is recognised, for example, when classifying research expenditures. Additionally, we believe that the use of the statement of financial position to determine classification into sections and categories causes cash flows relating to the dividend payments on ordinary or common shares to be classified as financing cash flows; we believe that such cash flows should be classified as equity as they relate to transactions with owners in their capacity as owners. We recommend that the Boards reconsider their proposed approach to classification to allow entities to determine which financial statement they consider first when classifying items.

We recognise that use of a management approach is likely, to some extent, to reduce comparability between entities and believe that the Boards should consider the results of their field testing to evaluate whether the benefits of the management approach outweigh reduced comparability. We believe that the Boards should articulate clearly the rationale for adopting a management approach in their Basis for Conclusions.

Notwithstanding our support for a management approach in classifying items, we recognise the need to provide a degree of prescriptive guidance about presentation to ensure a level of comparability between entities and to mitigate against the potential consequences of management bias on disaggregation and presentation of financial information. We believe that the presentation framework described in the Discussion Paper provides an appropriate level of prescription. However, we believe that the development of further industry example formats, similar to those provided in the appendix to the Discussion Paper, would be useful in enhancing comparability within industries and accordingly we support the Boards developing such examples, possibly drawing on input from relevant industry bodies.

*Q6. 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?*

**KPMG Response:** We agree that the presentation of assets and liabilities in sections in the statement of financial position coupled with the same separation in the other statements could assist in the calculation of some key financial performance ratios, such as return on net operating assets, because items would be classified cohesively within the financial statements.

We note that the potential increased difficulty in the calculation of balance sheet ratios would be mitigated by the presentation of subtotals as proposed in the Discussion Paper.

*Q7. 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.*

**KPMG Response:** We agree that entities should classify assets and liabilities at the reportable segment level. However, we believe that implementation could create potential practical difficulties in situations in which significant amounts of assets and liabilities are not allocated at the segment level, similar to the issue of classification of items for which there is no recognised asset or liability as discussed in our response to question 5. Accordingly we suggest that the Boards agree on principles about how to classify such unallocated items.

*Q8. 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.*

**KPMG Response:** As explained in our responses to questions 2 to 6 above, we believe that classifying financial statements in the sections and categories proposed using the management approach should be useful to users as it presents information about the way an entity and its resources are managed and assists users in calculating key performance ratios. Accordingly, we believe that providing information about income, expenses, cash flows, assets and liabilities classified in this manner at the segment level should be decision-useful. We believe that, in some cases, it may be necessary to present such information in the notes to the financial statements in order to provide an additional level of detail beyond the information on the face of the financial statements.

*Q9. 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?*

**KPMG Response:** We agree that these definitions are appropriate as their application would identify and separate the activities that management regards as core to the business. We note that operating activities are defined as related to the central “purpose” of an entity’s activities. Because many constituents and entities believe that the central purpose of an entity’s activity is to generate a return for its owners, we instead suggest that operating activities are defined as related to the central, or core, “activities” of the entity.

*Q10. 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?*

**KPMG Response:** We have concerns about the usability of the definition for classification of items within this section. While in most cases we believe that an entity would be able to utilise the definitions as drafted, we believe that in some instances the definitions may not provide sufficiently clear guidance for preparers. To follow an example used in the Discussion Paper, an entity could acquire equipment using either a lease or a bank loan to finance the acquisition. It is unclear to us from the guidance provided in the Discussion Paper why an entity might classify such a financing lease obligation in the operating category, as shown in Illustration 1A, but would be expected to classify a bank loan financing a similar asset in the financing category, when those two liabilities might share the same economic substance. We expect that neither the nature of the entity providing the financing nor the form of such financing should result in classification differences. As another example, we believe that trade payables might be viewed by some management as a source of financing, and we are unclear as to what factors should be considered when determining whether these trade payables should be reported in the operating category or in the financing liability category.

We recommend that the Boards consider further what factors should be evaluated when making the determination between the operating and financing categories. We believe that, without clearer principles, cohesiveness may be reduced because paragraph 2.35 directs management to presume the asset or liability relates to operating activities whenever they cannot clearly identify an asset or liability as relating to operating or financing.

### **Section 3: Implications of the objectives and principles for each financial statement**

*Q11. 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?*

**KPMG Response:** We support the Boards' proposals for an entity to present a classified statement of financial position except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant. As is the case in current practice, we expect that financial institutions would be most likely to present assets and liabilities in order of liquidity. We believe that further guidance is not needed to distinguish whether an entity should present its statement of financial position under the classified or the liquidity format as, consistent with the management approach, this should be a matter for management's judgement depending on an entity's particular activities. We note that the potential impact on comparability between entities would be mitigated by the proposed disclosures of information about maturity dates as proposed in the Discussion Paper (see our response to Question 22, below).

*Q12. 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?*

**KPMG Response:** We agree that cash equivalents should be presented in a similar manner to other short-term investments rather than together with cash. Cash equivalents do not have the same characteristics as cash itself: while under usual conditions cash equivalents may be convertible easily into cash, this is not always the case as has been demonstrated by recent market conditions.

We do, however, believe that providing information about an entity's short-term liquid assets is important, consistent with the Boards' stated objective of helping users to assess an entity's liquidity and financial flexibility. We note that the Boards' proposed maturity schedule of financial assets for entities presenting their assets and liabilities in order of liquidity would assist in achieving this objective. As indicated in our response to question 22, we suggest that the Boards extend this disclosure requirement to entities that present a classified statement of financial position.

*Q13. 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?*

**KPMG Response:** We believe that disaggregation by measurement basis should result in decision-useful information because it should assist users in assessing the amount, timing and

uncertainty of an entity's expected future cash flows, including uncertainty and subjectivity that may be inherent in the measurement of assets and liabilities.

However, we are concerned that requiring such disaggregated information to be presented on the face of the statement of financial position for all entities may detract in some circumstances from the overall understandability of the statement of financial position. Additionally, such disaggregation may not be practical due to the limitations on the volume of information that can be presented on the face of the statement. We suggest that such disaggregation could be provided in the related notes if disaggregation on the face of the financial statements leads to a presentation too lengthy or impractical for clear presentation, similar to the proposal for allowing disclosure in the notes of by-nature presentation of information that otherwise would be presented in the statement of comprehensive income.

Additionally we believe that the Boards should articulate more clearly the rationale for concluding that a particular hierarchy is appropriate, i.e., disaggregating by section and category before by measurement basis. We believe that in certain circumstances disaggregation by measurement basis might be more decision-useful and believe that the trade-off between cohesiveness and decision-usefulness should be explained more fully in a subsequent Exposure Draft.

*Q14. 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?*

**KPMG Response:** We agree that entities should present comprehensive income and its components in a single statement of comprehensive income as it should enhance the comparability among the financial statements and among entities.

*Q15. 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?*

**KPMG Response:** We agree that the indication of the related category for elements of OCI would be decision-useful. We suggest that the Boards seek input from users as to whether requiring presentation of subtotals of items classified in OCI in order to calculate more easily some key ratios of items within the financial statements, for example, total return by section or category, would be useful to users.

*Q16. 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?*

**KPMG Response:** We agree that the disaggregation of items by function or nature or both should enhance the usefulness of information in predicting an entity's future cash flows. However, we believe that the Boards should not mandate whether by-function or by-nature information is given priority. Consistent with the management approach, we suggest that management be allowed to determine which method of disaggregation best suits the entity's business model. We support the Boards' proposal to permit the presentation of a secondary level of disaggregated information in the notes to the financial statements if not doing so would lead to excessive information being presented in the statement of comprehensive income, reducing its understandability.

We recommend that as part of the Boards' field testing they have discussions with both preparers and users to understand the costs and benefits of this aspect of the proposal. In particular, we believe that in understanding those costs, the Boards should consider the various reasons that entities disaggregate items by function or by nature only. Paragraph 3.52 of the Discussion Paper suggests that the Boards believe that generally entities are able to produce information both by function and by nature and that currently entities present only one of those analyses because the other is not considered useful in their industry. In our experience, the manner of entities' presentation of their income statements is influenced also by other factors, for example, historical national or sector practices. As such, some entities may not be able to produce information readily in an alternative format and we encourage the Boards to evaluate the costs of obtaining and presenting the information and the benefits to users of them doing so.

*Q17. 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.*

**KPMG Response:** We agree that income taxes should be presented in the statement of comprehensive income in accordance with the existing requirements. While we believe that the allocation of income taxes between business and financing may be useful, for example by showing the effect on the effective tax rate of a particular financing structure, we believe that this is a question more appropriately addressed within the income tax project.

*Q18. 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?*

**KPMG Response:** We agree that this proposal may be decision-useful because it may assist users in understanding the exchange rate risk inherent in different parts of an entity's operations. However, consistent with our overall comments, we believe that the Boards as part of their consultations obtain an understanding of the costs to prepare such information as well as the benefits to users.

*Q19. 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?*

**KPMG Response:** We understand that the direct method of presenting cash flows currently is little-used on a global basis and, accordingly, encourage the Boards to seek input from preparers and users in order to understand the costs and benefits of mandating use of the direct method. In particular, we urge the Boards to obtain an understanding of how this information would be used by financial statement users and how this approach would provide useful information that could not be obtained through the indirect method.

*Q20. 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?*

**KPMG Response:** Please refer to our response to Question 19.

*Q21. 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?*

**KPMG Response:** We believe that when attribution to the relevant section is possible on an objective basis, the effects of such transactions should be so attributed. However we believe that this will not always be the case, which could result in arbitrary allocations in certain circumstances. For example in the case of a business combination in which consideration comprises cash and equity and in which the business acquired includes both operating and financing assets and liabilities, the allocation of cash paid between those sections would seem to

us to be arbitrary. We support recognising the effects of basket transactions in a separate section when attribution to the relevant sections and categories on an objective basis is not practicable.

#### **Section 4: Notes to financial statements**

*Q22. 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?*

**KPMG Response:** We agree that an entity presenting its assets and liabilities in order of liquidity should disclose information about the maturities of its short-term contractual assets and liabilities because we believe that this would help users in understanding an entity's liquidity and in predicting an entity's future cash flows.

We believe that this proposal should be extended to entities that present a classified statement of financial position. As stated above, we agree with the proposal that cash equivalents should be presented in a manner similar to other short term investments. As such, information about the maturity of such assets should be useful in assessing an entity's liquidity given the aggregation of cash equivalents and other short-term investments that would be introduced by the Discussion Paper (see Question 12).

*Q23. 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.*

**KPMG Response:** We agree that a schedule reconciling comprehensive income and cash flows should increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows because it would link the cash, accrual and measurement components between the

statements of comprehensive income and cash flows, particularly if the direct method is required for the statement of cash flows. However, as noted in our answer to question 19, we believe that the Boards should, as part of their field testing, evaluate the costs and benefits of mandating such an approach.

We also believe that the Boards should clarify further the definition of “recurring” in the classification of remeasurement items. The Boards indicate that foreign currency translation adjustments should be reported as “remeasurements that are not recurring fair value changes or valuation adjustments”, whereas, in our view, these remeasurements are made at the end of each reporting period and could be understood to be recurring.

*Q24. 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?*

**KPMG Response:** We believe that the Boards should conduct research with both preparers and users to determine whether any demand exists for further disaggregation of changes in fair value and what the costs would be of providing that information.

*Q25. 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?*

**KPMG Response:** As noted in our response to Question 19, we believe that the Boards should seek input from preparers and users in order to understand the costs and benefits of mandating use of the direct method of presenting operating cash flows. If evidence supports mandating of the direct method and that were required, then, as explained in our response to Question 23, we believe that presenting such a reconciliation in the format proposed in paragraph 4.19 of the Discussion Paper would be decision-useful. We believe that the Boards should evaluate the costs to preparers and the benefits to users of presenting information in the different reconciliation formats.

*Q26. 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?*

**KPMG Response:** We agree with the FASB’s view that unusual or infrequent events or transactions should be highlighted as this proposal should be helpful in assisting users in determining future cash flow prospects.

We believe that such items should be defined to maintain a degree of consistency and, accordingly, we urge the Boards to work together to produce a consistent, workable definition of items that should be so highlighted. We note that the definitions provided in U.S. Accounting Principles Board Opinion (APB) 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*, have been used in U.S. practice for more than 30 years, however these definitions do not appear to be consistent with the language in paragraph 28 of the IASB’s current *Framework for the Preparation and Presentation of Financial Statements*, which refers to “unusual, abnormal and infrequent items”.

We believe that such disclosure should show the cash effects of such transactions or events as well as the comprehensive income effects.

## **Appendix B: Response to the specific question from the FASB**

*Q27. 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.*

**KPMG Response:** We agree with the Boards' preliminary views to exclude not-for-profit entities and benefit plans within the scope of IAS 26 *Accounting and Reporting by Retirement Benefit Plans*, and FASB Statement No. 35 *Accounting and Reporting by Defined Benefit Pension Plans*, from the scope of the Discussion Paper.

We support a single financial reporting framework that applies to both public and non-public entities. As described in the FASB's Exposure Draft from Phase A of the conceptual framework project, the Boards have concluded that the information needs of investors, creditors and other external users of financial information generally are the same regardless of the ownership structure or size of the entity.<sup>1</sup> Additionally, the Boards concluded that the objective of general purpose financial reporting should be the same for all entities that issue such reports. We agree with these conclusions and we believe, consistent with the FASB's past practices, that differential requirements generally should be limited to disclosures, transition, and effective dates. Unless it can be demonstrated that the needs of users of private company financial statements differ significantly from users of other companies' financial statements, there should be no differences in the presentation of these general purpose financial statements. That is, the types of transactions entered into by an entity should determine the presentation of the transactions, not the ownership of the entity.

Differential accounting presentation may reduce company-to-company comparability, introduce confusion in the user community, and significantly increase the cost to companies wishing to access public markets for the first time. Complexity will be reduced if public and nonpublic entities are subject to the same requirements.

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<sup>1</sup> FASB Exposure Draft, *Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information*, 28 May 2008.