

LETTER OF COMMENT NO. 123

m

6 Chapter Street, London, SW1P 4NP 020 7663 5441

Tel: 020 7663 5441 Fax: 020 8849 2468 www.cimaglobal.com

International Accounting Standards Board 30 Cannon St London EC4M 6XH

14 April 2009

Dear Sir / Madam

Discussion Paper: Preliminary Views on Financial Statement Presentation

The Chartered Institute of Management Accountants (CIMA) is pleased to have the opportunity to comment on this consultation. CIMA is a global professional body representing accountants in business. CIMA represents over 171,000 members and students in 165 countries. CIMA is committed to high quality, global, principle-based, neutral financial reporting standards and supports the widespread adoption of International Financial Reporting Standards.

One of our major concerns with the IASB's proposals is the timing of the project. We appreciate that accounting standard development work needs to continue during the economic crisis but we question whether now is the time to consider such wide-ranging changes to financial statement presentation. Many IASB constituents from the preparer community are responding to major issues related to the economic crisis and so may not be able to devote sufficient attention to properly analyse these proposals.

In our view the IASB should concentrate on the determination of performance and so focus on the statement of comprehensive income rather than the financial statements in totality. The lack of clarity in this area is adversely affecting the development of other important areas of financial reporting such as the accounting for pensions and financial instruments. The sooner we determine the appropriate classification and presentation of performance the easier it will be to tackle these other areas.

We are generally in favour of the cohesiveness principle although we have reservations about too rigid an interpretation. We believe that there is a stronger case for cohesiveness between the 'performance' statements i.e. the statement of comprehensive income and the cash flow statement rather than cohesiveness between all of the primary statements. For instance, we totally disagree that if a net approach is adopted by an entity to the presentation of pension liabilities on the balance sheet then this automatically predetermines a net presentation in the statement of comprehensive income.

We believe that the primary financial statements should contain the most important information presented in the most useful way. How this principle is applied will differ from one entity to another and management should have the flexibility to choose the most relevant way to report for their particular circumstances. This would mean that a presentation that permits line items to include similar assets and liabilities measured on different bases would be allowable where to do otherwise would result in unnecessary disaggregation.

m

We believe that the indirect method of presenting cash flows more closely represents the way cash is managed within a business and as such would provide information that is more decision useful than that provided using a direct method. Furthermore, we strongly believe that the proposed cash flow reconciliation will only serve to increase the perceived level of complexity of financial reporting and as such fails to adequately communicate any information contained within it. The introduction of a new format to 'improve' cash flow reporting that requires such a voluminous reconciliation schedule to help explain it is, in our opinion, only likely to lead to ridicule.

We do not believe that the proposed change to the cash flow statement passes the 'cost benefit' test. Organisations with centralized purchasing functions are likely to face major system change costs to enable tracking of cash flows to presentation category. Additionally, analysts will face the cost of changes to their models which are currently predicated on the indirect method cash flow.

We attach responses to your specific questions and would be pleased to discuss with you any aspect of this letter that you may wish to raise with us.

Yours sincerely

Nick Topazio

Nick Topazio

Business & Financial Reporting Specialist, Financial Reporting Development Group CIMA London

Charles Batchelor

Charles Batchelor

Chairman of Financial Reporting Development Group CIMA London

Responses to the specific consultation questions:

Chapter 2: Objectives and principles of financial statement presentation

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.

We are generally in favour of the cohesiveness and liquidity principles although we have reservations about too rigid an interpretation of the cohesiveness principle. We believe that there is a stronger case for cohesiveness between the 'performance' statements i.e. the statement of comprehensive income and the cash flow statement rather than cohesiveness between all of the primary statements. For instance, we totally disagree that if a net approach is adopted by an entity to the presentation of pension liabilities on the balance sheet then this automatically predetermines a net presentation in the statement of comprehensive income.

We believe the wording of the disaggregation objective in paragraph 2.7 risks excessive disaggregation. We would prefer that the objective makes reference to only key material information being disaggregated in the primary statements with other material information shown in the notes to the financial statements.

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 note that in practice non-financial institution entities often report an 'Operating Profit' sub-total before financing income and expenditure and so we question whether the proposals in the discussion paper provide information that is more decision-useful than that provided in the financial statement formats used today.

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?

Yes, the nature of transactions with owners (equity) is very different to other financing transactions and should be presented separately.

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?

Information on discontinued operations would be more decision-useful if presented in a separate section rather than in the relevant categories. We prefer a columnar presentation which clearly distinguishes the results from discontinued operations. One of the main reasons for separating information on discontinued operations is to facilitate appreciation of the ongoing business. Including the impact of discontinued operations within relevant categories would only serve to make it more difficult to obtain a view of the continuing business.

- 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?

Yes

(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?

No. We anticipate that significant external pressure will drive financial statements towards comparability over time, especially within individual sectors. We advocate a clear narrative explanation of the management approach to classification where it is necessary to understand the financial statements. As a result, we believe sector comparability would increase over time and where it did not; clear explanations of differences would be available.

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?

Yes, we agree.

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.

This requirement seems fine in theory but there could be problems in practice.

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 Operating Segments is based on a 'through the eyes of management' approach which we strongly support. As a result only information reported to the Chief Operating Decision Maker (CODM) is disclosed within the segmental reporting. We do not believe that this should change. So if only total assets are reported to the CODM then there

should be no change to the disclosure requirement in IFRS 8. If, however, assets for each section or category within a section are reported to the CODM then this additional analysis should be included in the segmental reports.

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 believe that these sections and categories are appropriately defined. We note the principle that assets and liabilities should be classified according to their use within the entity and strongly support this basis.

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?

The proposals seem to adopt a partial management approach in that preparers can exclude financial assets and liabilities from inclusion in this section, on the basis that they do not represent sources of finance, but cannot include sources of finance which are not defined as financial assets or liabilities in IFRSs. We find this approach inconsistent and would prefer a full management approach i.e. this section should represent those items that management views as part of the financing of the entity's business.

Chapter 3: Implications of the objectives and principles for each financial statement

- Paragraph 3.2 proposes that an entity should present a classified statement of financial position (short-term and long-term subcategories for assets and liabilities) except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant.
 - (a) What types of entities would you expect not to present a classified statement of financial position? Why?
 - (b) Should there be more guidance for distinguishing which entities should present a statement of financial position in order of liquidity? If so, what additional guidance is needed?

We believe that the basis for determining whether to use a classified format or a liquidity format should be the form used internally to manage the business as this is likely to be the most useful for users of the financial statements.

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?

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Items that meet this definition are equivalent to cash and should be presented and classified as part of cash.

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 believe that the primary financial statements should contain the most important information presented in the most useful way. How this principle is applied will differ from one entity to another and management should have the flexibility to choose the most relevant way to report for their particular circumstances. This would mean that a presentation that permits line items to include similar assets and liabilities measured on different bases would be allowable where to do otherwise would result in unnecessary disaggregation.

Should an entity present comprehensive income and its components in a single statement of comprehensive income as proposed (see paragraphs 3.24–3.33)? Why or why not? If not, how should they be presented?

We believe that the major consideration here is consistency over time.

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?

Yes, it may be decision-useful but we question whether it is really necessary.

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?

Yes, this level of disaggregation maybe decision-useful; we believe that management judgement should determine the nature of disaggregation in this respect.

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.

We recommend that income taxes are presented within a single section as any allocation across a number of sections is likely to be arbitrary. Any information that is material and decision-useful in terms of income tax segmentation should be provided in the notes to the financial statements where feasible and practical.

- 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?

We believe that this approach may be theoretically the most correct but question its practicability.

- 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?

We believe that the indirect method of presenting cash flows more closely represents the way cash is managed within a business and as such would provide information that is more decision-useful than that provided using a direct method.

(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?

We do not believe that consistency with the proposed objectives should be the determining factor; standard-setters should balance the practicality and feasibility of their proposals with the degree of decision-useful information provided. We believe that this would lead to a decision to maintain the current indirect method.

(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?

We strongly believe that the proposed reconciliation will only serve to increase the perceived level of complexity of financial reporting and as such fails to adequately communicate any information contained within it. We do not believe that the proposed change passes the 'cost-benefit' test

The introduction of a new format to 'improve' cash flow reporting that requires such a voluminous reconciliation schedule to help explain it is, in our opinion, only likely to lead to ridicule

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?

We believe that there would be major system change costs especially for those organizations with centralized purchasing functions. In these systems invoices received are matched with goods received but thereafter there is usually no linkage between the payment to the supplier and the actual use of the goods purchased, which may either change from its original intent or be a bulk purchase for a variety of uses. System changes would be required to determine whether the subsequent cash outflow to the supplier was in respect of cost of goods sold, capital projects, inventory or overhead expense.

m

An additional cost that should be factored into the Board's thinking is the cost of changes to analysts' models which are currently predicated on the indirect method cash flow.

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?

Consistent with our views on discontinued operations expressed in our response to question 4, we would prefer a pragmatic application of the cohesiveness principle to basket transactions. Our preference is that basket transactions are not allocated to different sections on the face of the financial statements but rather presented in a separate section with appropriate disaggregated information disclosed in the notes to the financial statements.

Chapter 4: Notes to financial statements

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 believe that the test should be whether the information about the maturities of short-term contractual assets and liabilities is material to the understanding of the financial position of the entity rather than just on which basis it presents its statement of financial position.

- 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 do not believe that cash flow statement proposals that require a reconciliation schedule of such complexity should be pursued. The proposed reconciliation schedule may well contain information that could increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows but we feel it is unlikely to successfully communicate this information due to its complexity.

We are disappointed not to find proposals for a Net Debt Statement which we understand users would find very useful. Our work with PricewaterhouseCoopers LLP and Radley Yeldar under the Report Leadership banner has shown us that investors want a clear picture of a company's debt position in order to understand management's plans for servicing it and any risks associated with it. We would support proposals from the IASB that require a net debt statement based upon management's view of debt, suitably reconciled to IFRS debt classification. For further information on Report Leadership's proposals download the November 2006 brochure from http://www.reportleadership.com/newsletter/brochures/

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?

Yes, we agree that the board should address further disaggregation of changes in fair value but as a separate project.

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?

We would prefer that the Board adopts a management approach here and allows reporting through the eyes of management i.e. a management judgement should be made to determine which reconciliation format is the most decision-useful. This judgement should be tested against internal reporting practices.

- 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?

We agree with the IASB and would not include information in the reconciliation schedule about unusual or infrequent events or transactions. To the extent that these events or transactions are material to an understanding of an entity's performance, position or

m

prospects then information on such occurrences should be presented in the management commentary accompanying the financial statements.

Question 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.

Not applicable