

LETTER OF COMMENT NO. 124

Cpa

Certified Public Accountants

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To whom it may concern IASB

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To whom it may concern,

The Institute of Certified Public Accountants in Ireland welcomes the opportunity to comment on:

'Preliminary Views on Financial Statement Presentation'

In response to specific questions asked, we would like to make the following comments:

## Chapter 2: Objectives and principles of financial statement presentation

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?

We believe it would improve the overall users ability to cross-reference the income/cost affects of an entity's activities with the concomitant cash affects and resulting outcome in terms of assets and liabilities.

However it may not always be possible to have mutually exclusive classifications with no degree of overlap. Alternatively an event or transaction may not be wholly classifiable under just one category

All objectives should be subject to the true and fair view.

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.

No Comment

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?

Yes provided the definition of Business activities and Finance activities are reasonably clear and capable of practical implementation. By enabling the user to distinguish between the funding and application activities of the business a better appreciation of the entity's financial and business risk may be obtainable.

3 Should equity be presented as a section separate from the financing section or should t be included as a category in the financing section (see paragraphs 2.19(b), 2.36 and .52-2.55)? Why or why not?

Yes it should be presented as a separate section Equity, as per framework equity is defined as the residual amount after all liabilities have been deducted from total assets. On that basis we believe the defined terms of assets and liabilities should be separated.

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 would agree with the proposal for a separate section discontinued activities. This would include a restatement of Financial Statements to show separately the amounts attributable to the activities discontinued in the current year.

The alternative proposal of splitting discontinued result under the various categories carries the risk of creating clutter at the expense of clarity

We feel however that there should be a complementary statement of "Income from Discontinued Operations" This would show the discontinued amounts under the three categories, with corresponding amounts for previous year in respect of the discontinued activities.

The final section of the "Discontinued Operations "would show the "Continued operations net of tax" [ compared to "Discontinued operations net of tax" on main income statement]. The total amount would thus reconcile to the total profit on main income statement

- 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?

We agree that management who are ultimately responsible for meeting the company objectives would be the best informed as to the application and source of the funds. It does however raise issues of subjectivity and the threat of market pressure on management's judgment. There should be some formal mechanism of setting out the entity's accounting policy for determining classification of assets and liabilities other than as part of a review of the company's finalized statements. This might hopefully preset a policy, that could not be amended with out a formal board meeting to solely discuss such a policy as "a single issue item"

(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?

In our opinion No. The issue of comparability with other entities, is always a moot point even with prescribed formats. There will always be the need to exercise judgement in applying any accounting standard to particular transactions and such judgements can vary from entity to entity.

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?

In our opinion it would improve the facility to cross reference categories within individual statements which can facilitate the computation of individual category ratios as well as combining to determine overall ratios but from a liquidity point of view it might be necessary to provide an additional analysis of asset in terms of intended use period, marketability etc. Liabilities might be analysed in terms of due payment dates such as within one year, two to five years and thereafter.

In terms of liquidity the ordering of liabilities for payment has been addressed in Chapters 3 & 4.

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.

We are of the view that it should initially be at the level of the reporting entity as the segmental level may result in an over complex analysis that may destroy clarity of overview. Whilst there may be a good argument for classifying assets at segmental level in relation to the category of Operating assets and Liabilities it can be more difficult in relation to Financing assets.

Because of the complexities involved and the arbitrary nature of the apportionment of the cost of funds we believe that the financing activities should be confined to the entity level

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.

As stated earlier we believe that segmental disclosure should only be at the Operating level whilst Investment and Finance should be at the entity level.

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 give a cautionary yes to the above but until it is tested in the field by our members it is not possible to give a definitive answer.

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 the financing section should display all financing activities and should not be restricted to financial assets and financial liabilities.

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

- 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?

We welcome the proposal to present a classified statement of financial position (short-term and long-term subcategories for assets and liabilities) based on a one year distinction rather than the length of an entity's operating cycle. We believe that most entities would present a classified statement of financial position.

## Why?

No Comment

(b) Should there be more guidance for distinguishing which entities should present a statement of financial position in order of liquidity?

We believe that further guidance should be provided on the circumstances where an entity should present a statement of financial position in order of liquidity.

#### If so, what additional guidance is needed?

Some reference to the economic and market forces that would impact on businesses generally in terms of their liquidity would be welcome.

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 agree that cash equivalents should not be classified as part of cash. We would question the requirement for a separate category of cash equivalents. Such items should be more appropriately classified as short term investments. The provision of a definition of cash would be helpful.

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 believe that on the principal of clarity in preference to over analysis that such proposed segregation of assets and liabilities would not provide information that is more decision useful. Such information can be dealt with

more appropriately in the notes. Otherwise there is a risk of too much information in the statement of financial position.

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)?

We agree that an entity should present comprehensive income and its components in a single statement of comprehensive income

Why or why not? If not, how should they be presented?

No comment

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?

Agree that including such information would be decision useful.

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?

Agree that including disaggregation in the statement of comprehensive income would provide decision useful information. However classification by function in priority to classification by nature requires further examination as it may not be suitable for all entities.

Why or why not?

No comment

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?

There is merit in categorizing taxation on the business activities separate to other taxes such as taxation on passive and investment income, capital gains tax etc. However there should be a note setting out the composition of the total tax amounts among the various categories.

#### Please explain.

No comment

- 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.

This information would be useful however it may be costly and impractical for multi currency entities. A note setting out the composition of the total exchanges gain or loss and its distribution among the various headings would be necessary.

(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 ategories?

Likely costs include (1) amendments to information reporting systems (2) auditing costs (3) training costs

- 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?

Agree that the direct method is more representative of the true flow of cash and more useful to readers of financial statements.

(b) Is a direct method more consistent with the proposed cohensiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method?

Yes provided there is a reconciliation provided in the note.

#### Why or why not?

No comment

(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)?

A reconciliation between the direct and indirect methods should be included

## Why or why not?

No comment

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?

Costs associated with implementation include – one time implementation costs include changes in information systems, auditing costs etc.

Ongoing application costs would be auditing costs and training.

Minimizing ongoing costs will depend on how information systems can adequately cope with extraction of the appropriate information using the direct method.

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?

We are of the view the assets and liabilities of an entity acquired should be designated as acquired assets and liabilities under the appropriate category and similarly for the statement of income.

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

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?

Yes

Should all entities present this information? Why or why not?

Yes

- 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?

Yes. However, paragraph 4.19 (a) should not delete any of the requirements of IAS 24 Related Party Disclosures

Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.

No comment

(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.

Yes but as with (a) material transactions with owners must be disclosed. We disagree with the definitions of "Persistent" and "Subjective" as defined in paragraphs 4.24 and 4.25. The issuer of financial statements should either give more definitive guidance to the user as to whether an item of income or expenditure is indicative of the future amounts of that item. Where an item is subjective that fact should be disclosed in the financial statements together with the basis on which the issuers of the financial statements consider them to be subjective and any assumptions made in coming to a judgement

(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.

The guidance provided in paragraphs 4.31, 4.41 & 4.44 – 4.46 is comprehensive

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. Further guidance in measurement of changes in fair value is required. The board should incorporate comprehensive guidance on fair value measurement in its current fair value project. This is critical in view of the dislocation in financial markets where the financial statements issued by many financial services firms recently where the value of financial instruments were considerable less than those values as stated in the balance sheets.

The board should consider the implications of new guidance or standards for banks and take into considerations the views of The Basel Committee on Banking Supervision/BIS.

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?

Alternatives should be considered but the principles based approach should override any specific guidance.

The question of whether the entities in the financial service industry that are managers of assets and liabilities rather than cash flows could be the subject of a further discussion paper. This could be incorporated into the board's current fair value project

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?

We would favour separate reporting in memo format of "unusual or infrequent events of transactions" as long as they provide the users with more information for them to make decisions according to their needs. Provided the classification does not affect the computation of earnings per share.

## Why or why not?

No comment

(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?

The definitions are not too restrictive.

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

No. The financial implications of unusual or infrequent or transactions should be disclosed separately.

## Question specific to the FASB

27 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.

No Comment.

The Institute of Certified Public Accountants in Ireland hopes that these comments are beneficial to you and we would be happy to discuss any of the above with you.

Yours sincerely,

Declan Nestor Chairperson, Financial Reporting Sub - Committee