

The World Bank Washington, D.C. 20433 U.S.A.

April 14, 2009

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

Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856

We thank you for the opportunity to comment on the Discussion Paper on *Preliminary Views on Financial Statement Presentation* issued by the International Accounting Standards Board and the Financial Accounting Standards Board.

#### Objectives:

Cohesiveness is an interesting conceptual approach – however, as several examples in the Discussion Paper (DP) note, there are practical difficulties and inconsistencies. We agree with the general statement that the relationship between items across statements should be clear and that they should complement each other, but we do not believe that the classifications and sections proposed achieve clarity.

We agree that disaggregation is useful – to the extent that items that differ economically are identifiable. However we caution that disaggregation should be balanced against understandability.

Producing financial information that helps reader predict cash flows and assess liquidity and financial flexibility are appropriate objectives. We note however the absence of "assessing performance" as an objective in the paper. As this project developed we recognize that the objective of addressing performance was diminished (and thus the renaming of the project). We hope that this topic will be restored to the Boards agendas so that the related issues of display will be more directly addressed.

We concur with the proposition that the primary objective of an investor or potential investor is determining cash flows. However we also caution the Boards to consider that accounting presentations should not be limited to a purely investor-oriented approach but should serve many stakeholders in an integrated reporting system.

# Separation of business activities from financing activities

Although we believe that the sections and categories as proposed provide some additional information, we believe it would be more useful to provide information in

the income statement and balance sheet that gives a reader more of a sense of the certainty of cash flows; we think that the disaggregation proposed does not achieve this. We noticed that many of the proposals in the DP are similar to those expressed by the CFA Institute's Centre for Financial Market Integrity's report "A Comprehensive Business Reporting Model" published in 2005. However, one proposal that was not incorporated in the DP which we feel had great value was the income statement format which classified amounts by current period accrual transactions, estimates, and changes in fair value. In light of the current economic environment and the prominence of the impacts of fair value measures on company performance, we think that their income statement approach has even more validity. The DP acknowledges that users want the financial statements to distinguish between remeasurement gains and losses and other components of income and we had hoped that addressing this desire would be a central objective of this project and have resulted in a new presentation of the income statement that is different from the proposal. It seems that addressing that need has been relegated to the notes and reconciliation.

# Requiring a single statement of comprehensive income

We think a single statement should be required. We view this approach as an intermediate step to assist in the "cultural" shift needed to move away from an overreliance on "net income" as the single most absolute and important measure of performance. This excessive focus on a single measure has lead to unnecessary complexity in several standards and politicization about what is reported in net income vs. other comprehensive income (OCI). Earnings per share are an accounting artifact which recognizes only some of the revenues and expenses; as we understand it, many analysts routinely adjust the earnings number for their own purposes. We think a single statement presentation is a first step to acclimatizing users to seeing the non-owner changes as a whole. With more prominent display through inclusion in a single statement we would hope that over time the motivation for using of OCI could be eliminated. This would for example simplify the debate about where changes in fair value for certain instruments or pension obligations would be reported. Traditionally interest in OCI components has been minimal, but, we have noted that as the market has declined and pension asset values have fallen substantially there is new interest in the component of OCI which relates to post retirement benefits and it's implications for reducing capital, increasing liabilities and future cash requirements. We believe that "equal prominence" of all non-owner changes in equity will only begin to be achieved through a single statement of comprehensive income

In the future this statement could evolve to include transactions with owners as well; in fact to a Statement of Changes in Net Assets as suggested in the CFA's paper. This shift could also be better facilitated through a new view of the income statement which distinguishes recurring and non recurring remeasurement gains and losses from other changes (accruals, estimates, etc...) as we discussed above.

With the single statement presentation a company should have discretion as to the captioning of other sub totals. The *Net Income subtotal* should still be required and it

should be the subtotal of all items that are not specifically identified in other standards as components of OCI.

# Direct method for presenting cash flows:

We recognize the generally held theory that a direct method of cash flows is more informative – however we note that in practice very few preparers, having the choice, opt for the direct cash flow method. Since FAS 95 was issued, most preparers have invested significantly in new systems. Often those systems do not capture, accumulate, and report transaction information in a way that permits preparation of a direct cash flow statement. This leads us to question whether it is decision useful if management did not find it valuable to invest in that capability, investing and management decisions are made routinely without it, and there has not been a significant need from outside users.

A mandate for a direct cash flow statement will require a significant investment in time and cost to modify systems to capture and report this information. For entities with many locations, subsidiaries, systems or multiple functional currencies we believe that cost will be even more sizeable. It is hard in this environment to see a persuasive benefit that outweighs the costs. However, if there are preparer's who do use a direct cash flow method they should be permitted to continue presenting it.

There will be high up-front costs to retool transactional and reporting systems and train staff and management – whether a company has an ERP, a combination of legacy systems or some other configuration we believe that cost will be significant. Further, given that data accumulation and reporting will then be subject, at least in the U.S., to Sarbanes-Oxley internal controls testing there will be ongoing costs to implement and operate new internal controls, validate and test these added capture and summarization processes, and support the operations and maintenance of the additional configuration needs of the revamped systems.

If such a change is mandated we urge the Boards to give adequate time to preparers to design, perform and test substantial enterprise wide systems changes before a final standard is effective.

#### Proposed reconciliation

In principle we agree with the objective of providing information in the notes to the financial statements that illustrates the linkage of the primary financial statements. We also support separating out the income statement effects of remeasurements. However we think that the proposed *line by line* reconciliation schedule (and the alternatives in Appendix B) is cumbersome and lacks readability, which will hinder its decision usefulness. In addition, for preparers the level of information and effort is onerous. It is also based on a statement of cash flows prepared under the direct method, which we do not support. We are not persuaded that the majority of the numbers in this reconciliation are highly informative and believe that the focus should instead be on innovation for the comprehensive income statement.

# Classified statement of financial position & liquidity disclosures

We think that financial institutions and other entities with large number of financial instruments will not present a classified statement of position. A presentation based on an assessment of liquidity of assets and liabilities is usually more relevant. Maturity related data for financial instruments is already presented in the notes under existing disclosure requirements (for example IFRS 7). We do not believe that there needs to be additional guidance about which entities should present a liquidity ordered statement of financial position. The existing guidance is consistent with the "management approach" objective. We are unaware of significant practical difficulties existing for preparers. We agree with the proposal to permit each entity to decide whether to provide a classified presentation or one based on liquidity. Given the volume of data on the proposed statements we believe that a presentation in order of liquidity (with corresponding disclosures for short term assets and liabilities) for all entities might be a preferred – since a classified presentation will potentially add additional captions to each of the new sections of the statement of financial position, further decreasing readability.

In conjunction with this, we believe that information about maturities would be useful for all entities—particularly if cash equivalents are included in short term investments as proposed as this will help to meet the objective of helping users assess liquidity.

# Treatment of cash equivalents

Limiting "cash" to just cash, and classifying cash equivalents as part of short term investments has, as its advantage, no need for the application of judgment (about whether an instrument qualifies as a "cash equivalent") or potential lack of comparability across entities. Therefore this approach has as its advantages simplicity and clarity. The tradeoff is an entity may have a much higher level of readily available liquid assets than would be presented – though this may be readily dealt with in the notes. As a general principle, we are supportive of approaches which improve simplicity.

If this change is made we agree with the consequential revision to the cash flow statement to reconcile beginning and ending cash and to retain the guidance that would likely permit netting of most short term investments that are considered cash equivalents today.

# Present assets and liabilities that are measured on different bases separately

This is an approach which we have applied to our own financial statements. For example, IBRD presents Debt at fair value and Debt at amortized cost on separate line items. This presentation is possible however because the current format of balance sheet does not contain as many captions as the proposal would entail. We believe it is useful to provide such information either parenthetically, or in a separate line item because it help the user understand the related impact on income (fair value adjustments vs. amortization of discount/premium) and the relative magnitude of differences resulting from the application of a mixed attribute model. We would not object to this proposal – but believe that similar usefulness could also be achieved

through parenthetical disclosures in the statement line item captions. We recognize however that there are several assets and liabilities to which a significant variety of measurement methods may be applied. An illustration by the IASB which was used at round table discussions highlighted that some items, like intangible assets and property plant and equipment could contain a many measurement methods. Where a number of line items (or lengthy parenthetical disclosure) is entailed there should be an option to present the information in the notes.

Should the proposal persist in its present form, this requirement may need to be considered further in order to not encumber the presentation.

# Disaggregation of expenses by function and nature

The requirements as stated in IAS 1 that permit presentation on the income statement by either nature or function, with additional disclosure about nature if the functional presentation is selected are a useful model that should be retained. We agree with the discussion in paragraph 3.52 that there should not be a requirement to prepare a functional presentation where it is not deemed relevant as that would not support the objective of decision useful. We do understand that the costing systems of an organization are likely to be built primarily around one approach or the other (nature or function) and that in some industries, and in particular in manufacturing where standard costing is often employed and cost accumulation goes through many aggregation steps, the costing systems of an organization may not be geared to providing that information. It may be useful to contact reporting entities in those types of industries who converted to IFRS to obtain a better understanding of the costs they may have incurred to comply with this requirement. That information could further inform the Boards' decisions on this topic.

# Disaggregation of changes in fair value

Disaggregation of changes in fair value should be dealt with as part of a separate project because it may entail many consequential amendments to several other standards that need to be thought through. We note for instance that the recent FASB FSPs issued this month by the FASB already introduce a new level of disaggregation (credit mark for impairment vs. all other reasons) for certain instruments. Any change should be assessed in the specific context of fair value measurement and disclosure and with general consideration of how fair value measures should be presented.

# Other concerns about the classification in business section between the operating and investing categories

The classification between operating and investment activities should be clarified. For instance, it is unclear to us where, as a financial institution, we would classify cash equivalents and other short maturity, highly liquid assets that are invested short term (an investing activity) to meet near term cash needs to meet commitments to disburse loans to clients (an operating activity), and service near term debt obligations (a financing activity).

Where also would derivatives (currency swaps) transacted to balance out the overall currency position of an entire balance sheet be classified when those instruments related both to financing, equity and operations?

Another concern is the suggestion that assets and liabilities that can not readily be assigned to another category are then reported as operating – given that the income statement classifications flow from the balance sheet classifications operating income, a key figure for many may be less useful if it has become the default category for difficult to classify items.

Presenting similar or identical assets and liabilities potentially in different categories may add to the complexity of the statement rather than enhancing its usefulness. The statement would become further cluttered by the multiple redundant note references that would be needed. We also wonder about consistency and comparability from year to year as management may redeploy its assets differently. We were unable to tell where in the reconciliation the impact of reclassifications from one category to another (for example from operating to investing) would be displayed, is it part of "All Other"?

Many businesses will not fit easily into the three categories, we think that it is important that the balances sheet remain concise - therefore we wonder if many of the objectives of the project might be better served through enhanced note disclosure.

Thank you for considering our views. We appreciate the importance of this project and look forward to upcoming developments.

Sincerely,

On behalf of
Fayezul Choudhury

Chuck McDonough

Vice President and Controller