



LETTER OF COMMENT NO. 50

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International Accounting Standards Board
30 Cannon Street
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Dear Sir or Madam

Discussion Paper *Preliminary Views on Financial Statement Presentation*

We are grateful for the opportunity to respond to the proposals in the Discussion Paper. We have some general comments below followed by responses to the individual questions in the paper.

We consider the outcome of this project to be extremely important, as an entity's financial statements are crucial to successful external (and internal) communication, particularly in providing the basis for discussing performance. Any changes should be demonstrated to improve that communication process and not put it at risk - for example by causing confusion and/or driving external and internal reporting apart. We therefore support a key aspect of the paper, the application of the management approach, and also consider that there can be benefits from "cohesiveness" in format across the financial statements and from certain disaggregation, but neither should conflict with the management approach or reduce clarity.

We are concerned that the objectives the boards developed in this project for financial statement presentation (provide a cohesive financial picture; disaggregate for use in predicting future cash flows; help assess liquidity and financial flexibility) do not have reporting performance at their heart: For example, we do not believe that net income (profit or loss) should only be shown as a sub-total within a "comprehensive income" statement when it is generally the starting point for analysis.

From our experience, users focus on the income statement, then the cash flow statement. We understand why the balance sheet is used in the paper for initial categorisation under its cohesiveness principle, but this should not cause a loss of clarity in the more important statements. For example, pensions may be reported in a single line in one category in the balance sheet, but this should not restrict its presentation in the income statement.

As you will see from our detailed comments below, we strongly oppose the proposal for the compulsory use of the direct cash flow method (and for the reconciliation that is predicated on the direct cash flow statement). This would require a high additional cost to implement and maintain, and not having the information readily

available in itself demonstrates a conflict with the management approach. We have not heard of significant demand from users, and therefore cannot see that this requirement could possibly survive cost/benefit analysis.

We do agree that there could be benefits from a more standardised approach to presenting the cash flow statement. In that regard, we have been involved in discussions on a potential format in the BusinessEurope accounting group and we would refer you to the BusinessEurope comment letter on the Discussion Paper. It is not clear of the extent to which the outcome of the Financial Statement Presentation project would replace existing requirements in other accounting standards such as IAS 7.

*1 Would the **objectives of financial statement presentation** proposed in paragraphs 2.5–2.13 improve the usefulness of the information provided in an entity’s financial statements and help users make better decisions in their capacity as capital providers? Why or why not? Should the boards consider any other objectives of financial statement presentation in addition to or instead of the objectives proposed in this discussion paper? If so, please describe and explain.*

As stated in the introduction to this comment letter, we feel that the objectives should be more focused on reporting performance, by reflecting the importance of “stewardship”. This would mean that the reporting of transactions and flows should be given more prominence than the balance sheet and movements in the balance sheet. An example of how this might affect the outcome is (as discussed above) that the reporting of pension costs would not be restricted to a single item in one category in the income statement.

*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?*

This separation, again providing that cohesiveness is applied without conflicting with the management approach, should improve clarity in communications.

*3 Should **equity** be presented as a section separate from the financing section or should it be included as a category in the financing section (see paragraphs 2.19(b), 2.36 and 2.52–2.55)? Why or why not?*

We agree that equity should be presented in a separate section, as transactions with equity holders should be distinguished from those with other finance providers.

*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?*

On the basis that the definition of a discontinued operation is restricted to that proposed in the recent amendments to IFRS, we agree that discontinued operations should be presented in a separate section.

*5 The proposed presentation model relies on a **management approach** to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment (see paragraphs 2.27, 2.34 and 2.39–2.41).*

(a) Would a management approach provide the most useful view of an entity to users of its financial statements?

(b) Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach? Why or why not?

The management approach, coupled with the requirement for each entity to explain its policy, will support good communication externally and internally. This approach should not be compromised by restrictions that may result from applying the cohesiveness principle based on balance sheet categorisation for example, in the reporting of pensions (as described above).

We also do not agree with the proposed treatment of dividends (set out in paragraphs 2.48 and 2.55), as they should be reported in the statement of changes in equity, and within the equity section of the cash flow statement, regardless of whether there happens to be a liability for dividends payable at the period end.

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?

As a preparer, we are not asked to respond to this question but we would expect there may be a benefit.

*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 assume that if there is a segment mainly responsible for the financing of the business segments it would be classified as financing. On this basis then we would not expect our classification to be different at the reportable segment level from that at 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.*

We believe that the management approach should be applied when considering any changes to segment disclosures, for example information should only be presented if already used by management.

*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?*

Consistent with our response to question 5, any definition for these categories should be based on the management approach.

We consider that including a separate category for items not integral (or “non-core”) to the business may be unnecessary and cause additional complexity. Investments in financial assets simply to generate a return may well be allocated to financing, and “non-integral” assets and liabilities should by definition be the exception.

“Investment” is an important aspect of many entities’ activities, especially in industries such as ours with very long-term projects. We are therefore concerned that confusion will arise from using the title “investing” for a category when its meaning in the paper is significantly different from “investing” as used in IAS 7 Statement of Cash Flows. We would recommend that, if this category is retained, an alternative title is used such as “Other”.

There are separate questions below about the cash flow statement, where we have responded with our concerns about the direct method. By bringing the typical “investing” activities within “operating”, the proposal in the Discussion Paper restricts the necessary discussion around the choice of method because it is difficult to see how indirect cash flows and direct cash flows (the latter being currently used for cash flow from investing activities) can be presented together any meaningful way within the same category.

*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 do not agree with proposals that may compromise a management approach.

Therefore for example we do not see the need to have any restrictions on using different categories for different elements of cash. The proposal is not necessarily clear in this respect, it does appear to be possible to use different categories in certain circumstances, but we think it is unnecessarily complex to have a restriction with exceptions (paragraphs 2.69-2.70). We understand from some users that net debt is important information, and we believe this would be net debt within financing i.e. it should exclude cash for operational requirements (as discussed in paragraph 2.61).

*11 Paragraph 3.2 proposes that an entity should present a **classified statement of financial position** (short-term and long-term subcategories for assets and liabilities) except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant.*

*(a) What types of entities would you expect **not** to present a classified statement of financial position? Why?*

*(b) Should there be more guidance for distinguishing which entities should present a **statement of financial position in order of liquidity**? If so, what additional guidance is needed?*

(a) We are not able to answer this question.

(b) We believe the guidance is adequate.

We do not agree that there should be a change to existing requirements in order that deferred tax assets and liabilities should be classified as short-term or long-term, based on the classification of the related items. There would be extra cost in providing this information and added complexity (taking as an example an entity in an overall deferred tax liability position but with a deferred tax asset in respect of short-term items), and we are not aware of a demand for this information from users.

*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 with this change, but would ask for confirmation that as a consequence cash equivalents are no longer required to be shown as an item separate from short-term investments.

*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?*

There are a multitude of ways in which assets and liabilities can be measured, not simply cost or fair value but also amortised cost, net realisable value, impaired cost etc, and the method applied for each item is already set out in an entity's accounting policies. We believe that, because of the potential for significantly increasing the number of lines in the statement of financial position, the proposal will actually make the balance sheet more complex and less easy to understand, and add to the cost of preparation.

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

We do not agree with the statement in paragraph 3.29 that “including all income and expense items in a single statement ... will make it easier for users to understand ...”. We believe that net income (profit or loss) is the starting point for discussing an entity's performance and clarity will be lost if this is part of a single statement together with items of other comprehensive income such as currency translation effects.

We also consider that the income attributable to parent company shareholders is the most important number and should be shown on the face of the income statement.

15 Paragraph 3.25 proposes that an entity should indicate the category to which items of other comprehensive income relate (except some foreign currency translation adjustments) (see paragraphs 3.37–3.41). Would that information be decision-useful? Why or why not?

We do not believe that this information will be decision-useful, and in many cases it may only be possible with rather arbitrary allocations.

On a narrower point, we did not understand why examples in the Discussion Paper appear to present a more detailed analysis of associates' other comprehensive income than is required under IAS 1 Revised.

*16 Paragraphs 3.42–3.48 propose that an entity should further **disaggregate** within each section and category in the statement of comprehensive income its revenues, expenses, gains and losses **by their function, by their nature, or both** if doing so will enhance the usefulness of the information in predicting the entity's future cash flows. Would this level of disaggregation provide information that is decision-useful to users in their capacity as capital providers? Why or why not?*

The proviso “if doing so will enhance the usefulness of the information in predicting the entity's future cash flow” is crucial to this proposal. An unrestricted requirement to show all of this information would not be appropriate, and it would increase preparation costs and in many cases be impractical. We also support the flexibility in the proposal to report any additional information in the notes, rather than on the face of the statement.

*17 Paragraph 3.55 proposes that an entity should allocate and present **income taxes** within the statement of comprehensive income in accordance with existing requirements (see paragraphs 3.56–3.62). To which sections and categories, if any, should an entity allocate income taxes in order to provide information that is decision-useful to users? Please explain.*

We agree with the retention of existing requirements. As explained in paragraph 3.60, it would be arbitrary, and more complex and therefore not of help to users, to allocate tax between operating, investing and financing categories.

*18 Paragraph 3.63 proposes that an entity should present **foreign currency transaction gains and losses**, including the components of any net gain or loss arising on remeasurement into its functional currency, in the same section and category as the assets and liabilities that gave rise to the gains or losses.*

(a) Would this provide decision-useful information to users in their capacity as capital providers? Please explain why or why not and discuss any alternative methods of presenting this information.

(b) What costs should the boards consider related to presenting the components of net foreign currency transaction gains or losses for presentation in different sections and categories?

This may involve somewhat arbitrary allocations in some situations (for example those involving intra-group activities) caused by practical difficulties, and therefore unlikely to be of benefit to users.

*19 Paragraph 3.75 proposes that an entity should use a **direct method of presenting cash flows** in the statement of cash flows.*

(a) Would a direct method of presenting operating cash flows provide information that is decision-useful?

(b) Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method? Why or why not?

(c) Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?

We strongly object to the compulsory use of the direct method for the cash flow statement and do not agree with the paper's arguments in its favour. This change would come at a very high cost, and we do not believe that there is a significant call from users for this proposal and therefore it would not pass a cost/benefit test. It would change the way in which transactional information is captured, and therefore by definition cannot be in accordance with the management approach that is fundamental to the Discussion Paper. The indirect method provides an important link between income and cash flow from operating activities, and it does not conflict with cohesiveness.

As stated in the introduction to this response, we do agree that there could be benefits from a more standardised (indirect) approach to presenting the cash flow statement. With reference to our response to question 23, we believe that this would present information with more clarity than the proposed reconciliation schedule.

On a more detailed point, we believe that the titles of lines which begin "Change in cash ..." (e.g. Change in cash before equity) in the examples shown in the Discussion Paper may be misleading. These are not the change in cash but the "Net cash flow ..." (e.g. Net cash flow before equity) because they ignore the impact of any currency translation differences on cash.

We also refer to our response to question 9 above setting out concerns caused by bringing the typical cash flow "investing" activities within "operating".

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?

This proposal would mean a significant change, at a very high cost, in the way in which data is collected and consolidated. There would also be practical difficulties in trying to allocate cash flows by function and by nature, for example involving items re-charged to functions.

The implementation of this change would take significant resources, including the time to redevelop systems and for training. Because of additional complexity in the way transactional information would be captured, we would expect that ongoing application costs would be far higher than at present (including extra audit and compliance costs).

With regard to how these costs might be reduced, we assume this might be referring to the “indirect” direct method, which means calculating direct cash flows by adjusting indirect cash flows. This would not eliminate the need to collect additional data and we would question the benefit of this to users.

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 would support the management approach and simplicity. Therefore an entity should not be required to carry out any arbitrary allocations just to achieve cohesiveness.

*22 Should an entity that presents assets and liabilities in order of liquidity in its statement of financial position disclose information about the **maturities of its short-term contractual assets and liabilities** in the notes to financial statements as proposed in paragraph 4.7? Should all entities present this information? Why or why not?*

We agree with this proposal but would ask that the Board should ensure there is no conflict or duplication with IAS 17 or IFRS 7.

23 Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components: (a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments.

*(a) Would the proposed **reconciliation schedule** increase users’ understanding of the amount, timing and uncertainty of an entity’s future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.*

(b) Should changes in assets and liabilities be disaggregated into the components described in paragraph 4.19? Please explain your rationale for any component you would either add or omit.

(c) Is the guidance provided in paragraphs 4.31, 4.41 and 4.44–4.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.

We do not see any additional benefit to users from the proposed reconciliation schedule, because the key information should already be disclosed in financial statements and notes under existing requirements.

There will be additional preparation costs. In any case the new reconciliation is predicated on the use of the direct method for presenting the cash flow statement, to which we have fundamental objectives (see our response to question 20). Any cost/benefit analysis for the reconciliation schedule must therefore include the requirement for the direct cash flow statement itself.

We do not consider that it will be possible to define the way items are reported by column in a consistent manner, and arbitrary allocations will be necessary. Difficulties/questions arising with the guidance given in paragraph 4.45 (and in the examples) that we have identified include:

- whether the allocation of an initial provision and a remeasurement of that provision both be shown in the Accruals column, rather than using a Remeasurement column for the latter? Would the treatment be any different if re-estimation was for example due to a combination of reasons (change in discount rate, change in estimated settlement date and a change in underlying cash flows etc)?
- the treatment of “recycling” (even within net income) such as dealing with a realised gain on a traded security when there has been an unrealised gain/loss in previous periods; is the reversal of the unrealised

gain in the “recurring” Remeasurement column? Is this all on a gross basis i.e. does this column include unrealised gains in the quarter/year prior to sale in that quarter/year?

- how to deal with pension elements (not only the elements of pension cost, but the other balance sheet movements), and similar considerations with respect to share-based payments.
- gains/losses on sales of property, plant & equipment are in column C, but apparently in column E if held for sale. Loss on sale of receivable is shown in column E.
- tax: the examples allow show the total movement in B (i.e. no alignment with pre-tax amounts in the other columns). This is a welcome simplification but it not clear why.
- currency translation differences (OCI) are in column E and are therefore apparently not considered to be recurring.
- why is Profit/loss from associates in column E?

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?

No, we consider that this is adequately covered by existing requirements in IFRS.

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?

We currently include a schedule in the notes to our financial statements that analyses movements derived from the balance sheets between (a) movements derived from the cash flow statement, (b) movements arising from currency translation and (c) non-cash movements.

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 LASB 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 do not believe that it is possible for an accounting standard to define unusual or infrequent events or transactions for presentation in the financial statements in a meaningful way, and to be able to meet audit and regulatory considerations. There is an existing disclosure requirement for material items of income or expense (IAS 1, paragraph 97), as well as disclosures in individual standards. There is no requirement to give an option for narrative reporting, as an entity would already discuss significant items in management commentary.

Yours faithfully,

Paul Morshuis

Vice President Accounting and Reporting