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Denise Gomez
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Discussion Paper: Presentation of Financial Statements
International Accounting Standards Board
30 Cannon Street
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Dear Ms Gomez

Discussion Paper: Preliminary Views on Financial Statement Presentation

We welcome the opportunity to comment at this stage on the discussion paper given the potential impact of some of the proposals. We have attached specific answers to the questions in the paper, but summarised below are the main points we would like to make.

Financial statements are an exercise in communication and we can see that some greater standardisation would be of benefit to users. However, the references to the management approach are indicative that one size does not fit all and that users benefit from seeing results through the eyes of management. Moreover, financial statements that reflect this perspective are likely to be a fairer reflection of the business and business model, with clear cost benefits to the reporting entity by preparing effectively one set of results. In a number of past responses we have noted that there are benefits to all involved in financial communication if accounting standards do not drive differences between internal and external reporting. If companies do not produce something internally this is a good indication that it may not be useful, especially in relation to the potential cost involved, and there needs to be a very strong case to then warrant that additional information for external reporting. We are concerned that, in a number of places where the discussion paper believes that current reporting requirements are deficient, the proposals are for blanket requirements rather than just addressing what is material and specifically missing from the existing requirements.

On the specific concepts in the paper, we can see the attraction of cohesiveness. However, this should be applied in a pragmatic way and not override all other issues. It also raises inherent tensions with the management approach and in the paper it starts from the statement of financial position whereas preparers (and users - a point acknowledged in paragraph B21) focus on the income statement and cash flows.

It is also difficult to argue against some disaggregation but the key issue is not to go too far down this route, bearing in mind the need for clarity of presentation for key information, and the increasing complexity of financial statements which is now a recognised problem.

Partly for the reasons above, we do not believe the current option to produce a direct or indirect cash flow should be replaced by a mandatory requirement for a direct cash flow. This is neither consistent with the way most preparers manage nor, we believe, necessary for users if the problems with the current indirect cash flow requirements are addressed. Following on from this an indirect cash flow based on net debt rather than cash, starting from a reconciliation of operating profit to operating cash flow, ending with a net debt reconciliation and with appropriate notes, would also make the reconciliation statements proposed in the paper unnecessary. Overall this would provide a much better approach on cost/benefit grounds.

We also strongly disagree with changing current requirements by moving to a requirement for a single statement of comprehensive income. Such a change should not occur until issues such as recycling have been resolved and the change is deemed beneficial by most users and preparers.

In general we are somewhat surprised that, in what is a fundamental review, reasonable cost solutions which meet most users' needs and reflect many preparers internal reporting were not really addressed, most notably an indirect cash flow based on net debt. In this context we are concerned by comments, such as in paragraph 3.35, which indicate that the IASB may sometimes be focussed more on introducing a new technical approach than on what most users and preparers want in practice. We do not believe this to be helpful in improving financial communication.

We hope that you find our comments useful and thank you for the opportunity to be able to comment on this matter.

Yours sincerely



C E Steyn
Group Chief Accountant

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Discussion Paper: Preliminary Views on Financial Statement Presentation

Given the large number of questions for respondents, we have not repeated these as part of our response.

Q1 – The objectives of financial statement presentation as set out seem reasonable subject to the following points:

- (a) Stewardship is referred to in paragraph 2.4 but then effectively excluded from the paper. Our concern over this is linked to the fact that, for both users and preparers, it is flows (the income statement and cash flows) that are more relevant than the statement of financial position, whereas the paper takes the latter as the starting point.
- (b) Cohesiveness is a useful concept in principle but must not be allowed to override relevance and a pragmatic approach. Moreover, the sensible use of the management approach will raise potential conflicts with an undiluted application of the cohesiveness concept e.g. post retirement benefits.
- (c) Similarly disaggregation is difficult to argue with in principle but it is the practical application that matters, giving appropriate consideration to materiality and clarity in the financial statements.

These overall points are reflected in the responses to the questions below.

Q2 – We believe that this distinction between business and financing activities is useful for both users and preparers in terms of understanding the business model and the results of companies. However, we would refer you to our comments on the use of a cash flow based on net debt in the questions below.

Q3 – We agree with the proposal to have equity and financing as separate sections, as transactions with shareholders are different in nature to those with other providers of finance.

Q4 – We agree with a separate section for discontinued operations. This more clearly identifies the impact of such operations on the results of an entity which helps that entity explain those results and we would expect provides more understandable information for users.

Q5 – We agree with the approach to the classification of assets and liabilities and related changes based on the way an item is used by the entity. This should aid financial communication as the way an entity is managed will be easier for management to explain in relation to their financial statements and clearer to users. We can see that there is an argument that this could reduce comparability between entities but we believe the benefits to users and preparers would outweigh any

apparent non comparability. In this context we also note from paragraphs 2.41 and 2.42 that an entity's approach on this issue would be an accounting policy and so subject to the requirements for disclosure of the policy and any changes therein.

We do however see some potential conflicts between this and other concepts in the paper, notably that of cohesiveness. For example, we would agree that the post retirement benefits should be a one line net number in the statement of financial position but this should not then mean that all the related income and expenses should be in either operating or financing depending on the financial position classification. We have noted the points in paragraphs 2.46/2.48 on this issue but this only raises uncertainty over the future treatment of these items.

We would also disagree with the proposal in paragraph 2.48 that dividends payable and the related cash flows are a financing and not an equity item. It seems counterintuitive for a flow with equity holders to be deemed non equity.

Q6 – We would agree with both assets and liabilities being presented in the relevant business and financing sections of the statement of financial position if that is deemed useful by users in their responses to the paper. However we need to be careful that we do not overly complicate the primary statements and so any final proposals should make use of note disclosure where appropriate. This approach would also be useful in conjunction with the net debt approach to the cash flow as suggested in the responses to the questions below.

Q7 – While we accept that basing the driver of classification at the segment rather than the entity level does add to the complexity of the financial statements, it does seem to be a logical outcome of an approach based on a management view.

Q8 – As indicated in Q7 we agree with the logic of IFRS 8, in respect of looking at what is reported internally, flowing through to this paper. However we would emphasise the words 'reported internally' and if the IASB is to look at extending the requirements of IFRS 8 as a result of the financial presentation project, this should not extend disclosures beyond what the company report internally.

Q9 – As regards the definitions of the business section and the operating and investing categories, we have some concern over the terminology used, most notably "investing" being equated with "non core" - which is not how "investing" is generally understood by preparers and users.

In the context of the net debt approach covered in the responses below, it appears that the paper may currently include some items in investing which might be seen as part of a net debt number that should be in financing e.g. current available for sale investments.

However, we do note the implications of a management approach with some flexibility in deciding the classification of assets and liabilities as for example in

paragraph 2.59, as well as the comments in paragraph 2.61 regarding the recognition of treasury assets, which we read as removing the potential problem.

Q10 – We agree with the management view being reflected in the basis for the financing section in the statement of financial position. While we understand that there is still an issue to resolve over post retirement benefits in this context, in general we consider that the restriction in paragraph 2.62 of the paper, whereby only financial assets and financial liabilities may be included in the financing section, again raises a potential conflict with an approach based on a management view.

As regards the net debt approach covered below, we do not see these requirements on the financing section as causing any problems for a net debt approach to cash flow, albeit that net debt for the cash flow may only be part of the items in the financing section of the statement of financial position.

Q11 – The thrust of this question seems to cut across the management approach and again illustrates a conflict in the views in the paper. Whether a classified statement of financial position or one based on liquidity is presented should depend on how the management views their business. In practice we would expect entities in similar businesses to present in a similar way as the market would expect them to do.

In this context we also disagree with the strict one year rule to determine current versus non current items. Not only is this contrary to the suggested management approach but also seems to provide less relevant information. To reject the operating cycle option because for some entities it is seen as “complex and difficult for users to understand, at least without extensive explanation” seems a weak argument for the IASB given a number of developments in IFRS which preparers and users have had to grapple with in recent years. This approach by the IASB also sits oddly with the paper’s proposal to change current requirements and require deferred tax to be split between current and non current, which needs more justification given that such a split is not always straight forward. We would also find this proposed change odd before the responses to the recent exposure draft on tax have been received and considered.

Q12 – We do not have a problem as such with cash equivalents being classified similarly to other short term investments rather than with cash, but this point does relate back to the net debt approach to the cash flow statement. We are less concerned with the separation of cash and cash equivalents but rather with an overall net debt number which should be the basis for the cash flow and be reflected in the financing section of the statement of financial position. The components of net debt would of course be identified in the accounts.

Q13 – The proposal to disclose assets and liabilities measured on different bases in separate lines in the statement of financial position needs much more careful consideration as to what might be deemed to be “ different bases “, given the range of valuation bases which exist in IFRS. The potential proliferation of items on the

primary statements would lead to a lack of clarity for no real benefit. Accounting policy and note disclosures are the right way to deal with this issue and the only question should be what if anything is missing and material in the current requirements. Users need to be more specific as to whether there is a real gap currently and it needs to be clear whether or not this is a gap for more than just a small number of users.

Q14 – We do not agree with the proposed move to a single statement of comprehensive income.

The arguments put forward in the paper are either only for removing an option (but not which of the two options to remove) or a weak case for the choice of option made in the paper. Indeed the paper recognises the general use of a net income number by preparers and users, which in itself argues for the option the paper has not chosen. Moreover the paper proposes making this change while at the same time deferring decisions on key items that are relevant to any such change, notably the issue of recycling.

Unfortunately the paper arrives at a conclusion that seems less based on what is appropriate for users and preparers and more about what the IASB thinks users and preparers should want. We have a fundamental problem with such an approach given that accounting standards should be about what users and preparers want in order to communicate financial information.

We therefore believe that, until there has been a fuller debate, with resolution of the key outstanding issues and there is a general consensus that change is needed, there should be no change to the existing IFRS requirements on this issue.

Q15 – We are concerned about the added complexity in the primary statements if they were to indicate the category to which each item in other comprehensive income relates. We feel that users need to identify which issues specifically are material and relevant for them. These can then be addressed on cost/benefit grounds, with appropriate consideration given to disclosure in the notes to the financial statements.

Q16 – This is another area where the proposals go beyond existing requirements and, unless there is a requirement that this is only required to the extent produced internally (similar to the approach of IFRS 8), it will not be justifiable on cost/benefit grounds. For example, there are major practical issues in an analysis by function with each function then split by nature. This also again seems like a blanket requirement when what is needed is a specific identification of what is really needed by most users and what can be justified on cost/benefit grounds.

Q17 – We do not believe there should be any change to the existing requirements on the allocation of taxes between the sections and categories in the primary statements.

Q18 – The allocation of foreign currency transaction gains and losses seems logical in principle if user’s responses to this paper provide the basis for reasonable support for this proposal. However it should be noted that in practice there would be complications e.g. how would differences on intercompany balances and intercompany transactions be dealt with.

Q19 – We do not agree with the removal of the options on cash flow statements so that entities would no longer be able to use the indirect method. The general use of indirect cash flows by companies, both internally and externally, should indicate to standard setters that there are good reasons why direct cash flows are rarely used for reporting, and the requirement to produce a direct cash flow would not be justifiable on cost/benefit grounds.

To produce a direct cash flow would require a new approach (see Q20 below) to provide information which, for material items, could be better obtained as described below. The idea of an approximation of a direct cash flow seems a half way house of no real benefit, especially if an indirect cash flow can meet the key requirements. We are therefore somewhat surprised that in a fundamental review, with consideration of some radical changes, proper consideration was not given to the basic approach on the cash flow from the angle that preparers use and users express an interest in i.e. a properly structured indirect cash flow based on net debt. This would have been and is more relevant and useful than a consideration of direct cash flows or whether cash equivalents are split from other short term investments.

We would expect that a properly structured indirect cash flow, starting with operating profit, with material and adequately explained adjustments to get to operating cash flow, based on net debt flows and coming down to a net debt reconciliation, would be largely consistent with the internal reporting of many preparers and provide users with the key information they want. This would also avoid the need to consider including the new reconciliation statements (see Q23 below).

Q20 – To require companies to provide a direct cash flow would require a significant investment in people and systems, the output from which is unnecessary and irrelevant to the management of the business (see Q19). We would also point out that “one-off” costs are just as much real costs for preparers and therefore shareholders as the ongoing costs. We would also regard the question of how to reduce the costs of preparing direct cash flows as only being a relevant question if appropriate reporting could not be obtained by the right indirect cash flow. As noted above, we believe that an indirect cash flow provides relevant and meaningful information.

Q21 – We would prefer a similar approach to the current “single line” in the income statement and cash statement for such transactions as business combinations, with appropriate disclosures in the notes. Again cohesiveness should be applied on a pragmatic basis and rather the approach should be to identify what is really necessary and missing in current requirements that could be justified on cost/benefit grounds. Also we do need a description other than “basket” transactions which has obvious connotations.

Q22 – It seems reasonable for entities using a liquidity basis to also provide some maturity analysis although we would defer to the views of those businesses where a liquidity basis is used in terms of what might be appropriate. Given requirements in existing IFRS it would of course be necessary to have one set of consistent requirements on this topic pulled together in one standard.

Q23 – We agree that users benefit from an understanding of the material components of income and expense as to whether they are related to cash, accruals or remeasurements. However we would question whether the proposed reconciliation statement is the best way to produce what they need, given the costs relative to the benefits and other ways to meet the needs of users. We have serious doubts over the validity of the last sentence of paragraph B19 in which it is categorically stated that the benefits of providing the reconciliation schedule would outweigh the costs of preparing it.

The suggested approach in the paper and the example with its line by line reconciliations raises serious concerns over the complexity and practicality of the approach. However, to some extent this is beside the point as we believe that what most users need could be achieved by an appropriate indirect cash flow with notes rather than a direct cash flow and the reconciliation statement. Moreover both the direct cash flow and the reconciliation statement would be produced purely to comply with IFRS with no material benefit that could not otherwise be obtained.

Users should identify the key elements they really need and these can be addressed in creating better indirect cash flow disclosure.

Q24 – Addressing further disaggregation of fair value changes in a future project is again an area where users in general, and not just “some” users, need to specifically identify what is missing in the current requirements that is critical for them and would be a reasonable disclosure request for entities.

Q25 – We can see that the concern in paragraph 4.29 regarding the difficulty of analysing results where fair value remeasurements are mixed with other components of comprehensive income needs to be considered, but it does raise the same point as we noted in Q24. However, on the more general point of considering the other forms of reconciliation statements, we would refer you to our comments in Q19 and Q23. Having developed the appropriate indirect cash flow disclosures one can ensure that any material user points related to this question are also covered.

Q26 – We do not see it is necessary to go beyond the existing requirements in IAS1, which provide a basis on which to address material items of income and expense which might distort an understanding of the results of an entity.