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LETTER OF COMMENT NO. 37

Sir David Tweedie
Chairman
International Accounting Standards Board
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Dear Sir David

"Presentation of Financial Statements"

The Group of 100 (G100) is an organization of chief financial officers from Australia's largest business enterprises with a purpose of advancing Australia's financial competitiveness. The G100 is pleased to provide comments on the Discussion Paper (DP).

The G100 supports the IASB's objective of seeking to address issues relating to financial statement presentation in conjunction with the FASB and the high priority given to the project.

The G100 believes that the cohesiveness principle on which the proposals are based provides a sound conceptual approach to presentation and facilitating understanding by users. In addition, the management approach if able to be applied consistently by entities could provide users with insights as to how the business is seen by management.

However, while we support these approaches in principle, there are concerns about a number of aspects of the proposals including:

- how the IASB addresses the concerns some will express about the effect of adopting a management approach on the comparability of financial statements. Inter-entity comparability is likely to become more difficult. However, the G100 believes that this is a natural outcome of the management approach which will significantly enhance the comparability and usefulness of information about the entity from period to period. The G100 strongly believes that mandating additional disclosures to ensure inter-entity comparability is inappropriate and inconsistent with the principle;
- the separation of cash and cash equivalents in the cash flow statement. The G100 believes that this is an artificial distinction which does not reflect the current cash management activities of entities and does not adequately reflect the reasons why entities 'invest' in cash equivalents. In addition, there is inconsistency between stating the principle (management approach/view) and mandating a rule on the classification of cash and equivalents;
- the considerable additional detail on the face of the financial statements;
- the lack of usefulness of the proposed reconciliation statement;

- the focus on information for estimating future cash flows and insufficient attention being given to providing information to discharge accountability functions; and
- its relevance and usefulness in respect of the activities of financial institutions.

CHAPTER 2: OBJECTIVE AND PRINCIPLES OF FINANCIAL STATEMENT PRESENTATION

1. *Would the objectives of financial statement presentation proposed in paras 2.5-2.13 improve the usefulness of the information provided in an entity's financial statements and help users made 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.*

The G100 supports the intention of the proposed objectives. However, we do not believe that users will be well served by the proposals for extensive additional detail and related mechanistic approach to their implementation to the extent that fixed formats are effectively required. For example:

- ~ **the treatment of dividends payable as a financing item rather than as an item of equity as a distribution to equity holders;**
- ~ **the application of the disaggregation objective and the extent to which considerable additional detail is provided on the face of the financial statements rather than by way of note. The G100 believes that summary items should be shown on the face of the financial statements with the detail being shown by way of note.**
- ~ **the emphasis on financial flexibility in the absence of appropriate background discussion of the concept.**

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 para 2.19)? Why or why not?*

The G100 supports the separation of activities in this way if it is based on how the assets and liabilities are used by the entity. The approach is consistent with a 'through the eyes of management' approach which is seen to provide relevant information to users.

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 para 2.19(b) and 2.52-2.55)? Why or why not?*

The G100 supports proposals having a separate section relating to equity. We believe that users are interested in the separation of owner and non-owner financing and distributions.

4. *In the proposed presentation model, an entity would present its discontinued operations in a separate section (see paras 2.20, 2.37 & 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?*

The G100 believes that the proposed presentation gives undue prominence to discontinued operations. Rather, the G100 considers that a one-line presentation of discontinued operations is sufficient for the profit and loss statement with the additional and more detailed information being included as a note. The G100 believes that such an approach will meet the needs of users.

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 paras 2.27, 2.34 & 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 G100 supports a flexible management approach under which the classification of items on the balance sheet would reflect how those assets and liabilities are used in the business by management. Once management decides on how an item is used in the business it is our presumption that its classification is determined.

We believe that the management approach will emphasise the differences between entities and as such provide users with a better foundation on which to make comparisons between entities and assessments of their relative performance. The G100 does not believe that comparability is enhanced by mandating uniformity. Accordingly, we believe that the management approach will provide more relevant information to users.

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?*

The G100 believes that requiring this approach will necessitate significant education activity for both preparers and users given the entrenched practice of balance sheet presentation. Although essentially a change in the format of the balance sheet, we do not consider that providing the information most commonly used in determining ratios in a convenient format is a sufficient justification for change. Rather, the proposed change should be justified on the basis that it will facilitate user understanding of the entity's financial position, performance and flexibility.

We believe that in the absence of a significant and extended education program a wide range of users and preparers, including management, will form a view that the financial statements have lost their relevance by being too detailed and complex and will make greater use of alternative means of conveying key messages to users.

7. *Paragraphs 2.27, 2.76 & 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.*

The G100 supports the proposed approach to classification at the operating segment level because it more closely reflects the management approach.

8. *The proposed presentation model introduces sections and categories in the statements of financial position, comprehensive income and cash flows. As discussed in para 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 disclosures should the boards consider to make segment information more useful in light of the proposed presentation model? Please explain.*

The G100 believes that the current level of disclosures made to the chief operating decision maker in respect of segment assets is sufficient. We do not believe that the disclosures required by IFRS 8 'Operating Segments' should be extended unless a review of practice demonstrates that IFRS 8 disclosures are inadequate.

9. *Are the business section and the operating and investing categories within that section defined appropriately (see paras 2.31-2.33 & 2.63-2.67)? Why or why not?*

The G100 considers that the proposed categories are adequately defined and provide entities with sufficient flexibility to reflect different circumstances. However, the investing category is based on a different perception to that commonly understood by the use of the term and, if retained, will require education effort for both preparers and users. However, there is a considerable risk that entities that are quite similar will have different interpretations which will reduce consistency and comparability.

10. *Are the financing section and the financing assets and financing liabilities categories within that section defined appropriately (see paras 2.34 & 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 G100 does not believe that the proposals are consistent with the management approach to the use of the assets and liabilities in the business.

CHAPTER 3: IMPLICATIONS OF THE OBJECTIVES AND PRINCIPLES FOR EACH FINANCIAL STATEMENT.

11. *Para 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.*
- What types of entities would you expect not to present a classified statement of financial position? Why?*
 - 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?*

The G100 believes that consistent with the management approach whether the basis of classification is short-term/long-term or liquidity is a matter for management judgement.

While it would normally expect financial institutions to use a liquidity basis other types of entities should not be precluded from doing so. However, we do not consider that there is a compelling case for shifting from the present requirements in IAS 1 'Presentation of Financial Statements'.

12. *Para 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?*

No. The G100 strongly disagrees with this proposal. The essence of cash management is managing the relationship between cash and its 'investment' as part of the management exercise in cash equivalents. We do not believe that these items which are managed on an unified basis should be shown in separate categories in the financial statements.

13. *Para 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?*

Yes. However, the G100 believes that judgment and flexibility would be required to avoid the balance sheet becoming overloaded with detail particularly as there are a significant number of alternative measurement bases permitted under IFRSs.

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

The G100 supports the concept of the presentation of a single statement of comprehensive income instead of two separate statements. However, the current approach in IAS 1 provides users with all the same information required and we are not aware of interpretation difficulties arising from how entities currently comply with IAS 1.

15. *Para 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 paras 3.37-3.41). Would that information be decision-useful? Why or why not?*

Yes.

16. *Paras 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?*

While the disclosures may be decision-useful the G100 believes that these disclosures should be considered in the context of the overall load of disclosures. Disclosures should not be determined on the bases that because the information may be decision-useful it should be provided to users. The G100 believes that a set of disclosure principles against which proposed disclosures are assessed should be established. It is our belief that an entity should be required to disclose items by nature or by function but not both unless information is provided to management on those bases. Entities have, and will continue to provide additional information to the market in response to the needs of capital providers: not on the basis of mandatory requirements in accounting standards.

17. *Para 3.55 proposes that an entity should allocate and present income taxes within the statement of comprehensive income in accordance with existing requirements (see paras 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.*

The G100 supports the retention of the current approach to allocation.

18. *Para 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 function 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.*

Yes.

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?*

The G100 considers that there are likely to be significant costs and practical difficulties in separating foreign currency translation amounts on translation of subsidiary's financial statements relating to foreign subsidiaries in different sections and categories. The categorisation of foreign currency transaction amounts would not be expected to present the same difficulties.

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

While the use of a certain form of the direct method is established practice in Australia the requirements are not as specific or onerous as those included in the proposals. For example, the proposals to show cash flows for individual operating expenses would defeat the present capacity of the information systems of the vast majority of entities which have not been designed to readily extract this information. If the proposals are proceeded with, companies will incur significant costs to acquire, adapt and implement software to enable compliance with the requirements.

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

Probably. However, a reconciliation required as an additional Australian requirement already provides users with information to reconcile operating profit and cash flow from operations. [AASB 107, Aus 20.1].

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

Yes, but in order to achieve consistency would impose significant costs on entities. As such the approach is not justified on cost-benefit grounds particularly where users can extract similar but not identical information from using the 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?*

The G100 has concerns about the practicality of these proposals in the present circumstances.

20. *What costs should the boards consider related to using a direct method to present operating cash flows (see paras 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?*

See response to Question 19.

21. *On the basis of the discussion in paras 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?*

Yes, so far as practicable. However, the G100 believes that the overall impact of a basket transaction is relevant information for users. For example, a one-line presentation of discontinued operations on the face of the profit and loss supported by note disclosure would be sufficient to meet the needs of users. Similarly for business combinations.

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

The G100 does not believe it is necessary to duplicate the disclosures required by IFRS 7 'Financial Instruments: Disclosures; which deals with maturity analyses. Disclosures relating to maturity analysis should be addressed in a review of IFRS 7.

23. *Para 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.*

The G100 does not support this proposal and is concerned about the increasing tendency of standard setters to require reconciliations of items in the financial statements. We do not consider that the case for further reconciliations has been established particularly when considered in the context of the cohesiveness principle upon which the proposals are based.

- (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.*

No. If proposals achieve their objective a reconciliation will be redundant.

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

No.

- (c) Is the guidance provided in paras 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.*

Yes.

24. *Should the boards address further disaggregation of changes in fair value in a future project (see paras 4.42 and 4.43)? Why or why not?*

Yes. The analysis of changes in fair values, including remeasurements, are more appropriately dealt with as part of a project on fair values.

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, paras B10-B22? For example, should entities that primarily manage assets and liabilities rather than cash flows (for example, entities in the financial service 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?*

The case for and the objective of requiring such reconciliations has not been established. For example, are such reconciliations designed to meet an existing user need or are they anticipatory. This work should be undertaken before proceeding to develop proposals.

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 paras 4.48-4.52). As noted in para 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 para 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?*

While the information about these items may be relevant to users a reconciliation statement (including a memo column) is one of a number of ways in which the information could be provided. However, explanation in an MD & A style document (including narrative and numbers) is more likely to facilitate understanding by users.

Yours sincerely



Tony Reeves
National President