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Sir David Tweedie
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LETTER OF COMMENT NO. 124

Your reference

Our reference

Phone

E-mail

Date April 14, 2009

Subject Discussion Paper 'Preliminary Views on Financial Statement Presentation'

Dear Sir David,

We are pleased to have the opportunity to comment on the above mentioned Discussion Paper issued by the International Accounting Standards Board (IASB). In this letter we would like to set out our general comments on the Discussion Paper. The appendix of this letter provides you with our detailed comments on specific issues raised in the Discussion Paper.

We welcome the initiatives taken by the IASB and the FASB in order to improve the usefulness of the information provided in financial statements in order to make economic decisions. However, we do have some major reservations concerning the proposals. In summary, our key issues are as follows:

- In general, we do not see the need for changing financial statement presentation in such a considerable way. We understand that some of the users might favour such a presentation; however, we have severe doubts that a wide range of users really appreciate such a change. We miss a detailed analysis on users' needs (esp. by classes of users) in order to justify such a

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change.

- Additionally, we are not convinced that the management approach for defining the categories introduced to financial statement presentation as described in the discussion paper is consistent with its objectives and the general notion of a management approach. Some of the requirements proposed fully rely on internal decisions, while other requirements proposed follow different criteria (e.g. following the scope of different IFRSs). For us, this does not seem to be consistent.
- Overall, we have serious concerns whether the (supposed) benefits of the proposed requirements balance the costs of the entities for implementing them. Implementing the different presentation categories and introducing the direct method for the cash flow statement would mean to seriously change the group's chart of accounts, basic bookkeeping processes and basic communication processes within the interfaces of selling & invoicing functions, treasury functions, accounting functions etc. For a group with clearly more than 1.500 entities in the world, these requirements would produce costs that we do not believe are outweighed by the (supposed) benefits of (parts of) the users of financial statements.

We would be pleased to discuss our comments with you at your convenience. If you have any questions, please feel free to contact:

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Yours sincerely,

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Enclosures

Appendix

Chapter 2: Objectives and principles of financial statement presentation

Question 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.

Answer:

The three objectives are

- Presentation a cohesive financial picture of an entity's activities
- Disaggregation of information so that it is useful in predicting an entity's future cash flows
- Assessment of an entity's liquidity and financial flexibility

In general, we agree with these objectives. However, from our point of view the discussion paper does not contain any strong arguments why these objectives are not fulfilled with the format used today. We believe that the above mentioned objectives are already reached in the current financial statement presentation.

The discussion paper follows a very strict way to fulfil the mentioned objectives. In our opinion, this approach is too strict. Especially, the objective of cohesiveness would be required to be applied partially at a line item level. We do not support such an approach, because we are convinced that this approach will result into a too complex preparation of the financial statement.

Additionally, from our point of view it is not quite clear which target group requires such improvements of the financial statement presentations. We would like to point out that the proposed approach tends rather to a business valuation perspective than to an accounting approach. So, it seems that these improvements are required rather by analysts than by shareholders. In contrast, according to the Framework, financial statements serve the needs of a wide range of users having different information needs.

Question 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?

Answer:

We are not convinced of the assumption that a separation of business activities and financing activities provides information that is more decision-useful. The format used today for the profit and loss account also distinguishes between the operating and financing income. From our point of view this distinction is not less decision-useful than the proposed new format.

We miss a detailed assessment of which characteristics make up decision-usefulness and which characteristics of the financial statement presentation currently in place should be replaced by the Board's proposal and why these proposals provide information that are more decision-useful.

Additionally, the proposed management approach for separating these sections will lead to a great diversity in the classification.

Question 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?

Answer:

We prefer to show the equity items and owner-related financing activities in a separate equity section.

The discussion paper requires to show the financing section depending on the source of that financing, that means presenting of information about non-owner-related sources of finance separately from owner-related sources of finance.

Further on, the discussion paper requires a separate equity section which contains items such as ordinary or common shares, treasury shares and retained earnings. All owner changes in equity should be presented in the statement of changes in equity, and all non-owner changes in equity should be presented in the statement of comprehensive income.

There are some arguments which justify showing the equity in the financing section, e.g. that equity is part of an entity's overall financing and users of financial statements are often interested in the total capitalization of an entity. However, if financing activities with owners were presented in an equity category in the financing section, only the statements of financial position and cash flows would include an equity category. The financing section in the

statement of comprehensive income would not include an equity category because, by definition, comprehensive income excludes transactions with owners.

Question 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?

Answer:

We agree with the proposal, that an entity would present its discontinued operation in a separate section because this presentation provide decision-useful information for the users.

The identification of discontinued operations in the financial statement is helpful for users of financial statements. So they can use information about the results of an entity's operating activities in assessing the amount, timing and uncertainty of future cash flows. The separate presentation of information about an entity's discontinued operations is generally consistent with existing presentation.

Question 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?

Answer:

Any management approach, regardless for which (accounting or presentation) purposes, allows the entities great discretion presenting the financial statement in a way that represents the core-business in an adequate way. Logically, this reduces comparability as the managements of different entities might come to different conclusions. However, this is a kind of natural follow-up consequence of implementing a management approach.

Following the basis for conclusions for the management approach implemented in IFRS 8, then a management approach always provides the most useful view of an entity to users of its financial statements, as it is supposed that users are interested in exactly this information. However, this presupposes that the users (wide range of users? privileged users?) and their (individual and different) information needs are perfectly known.

Question 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 statement 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?

Answer:

This approach changes the presentation of the statement of financial position fundamentally.

The proposed presentation is rather appropriate for business valuation than for accounting purposes. In the past, the analysts created this information by themselves out of the financial statements. However, with this proposed model an adequate comparability might be quite difficult because of using the management approach.

Further on and as laid down in the Framework, there exists a wide range of users of financial statement with different information needs. For non-analysts groups it might be more difficult to find out the relevant information. So, the essential question is who should be the preferred target group of the financial statement presentation. Depending on this answer it is possible to decide which information in which details should be presented.

Questions 7 and 8

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.

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.

Answer for questions 7 and 8:

In our opinion no more rules regarding to the disclosures in the segment reporting are necessary.

In general, a classification at the reportable segment would be easier and more precise. However, on group level there might be a mixture of several businesses. This might lead to the situation that specific activities are “core activities” for one segment (identified according to the management approach according to IFRS 8, which is not based on any criteria like “core” vs. “non-core” activities), but these are not “core activities” for the whole group. This would lead to a re-classification for group segment reporting purposes which in our view would clearly not lead to a better understanding of the group.

Additionally, we are not convinced of the consideration that segment reporting should be adjusted in such a way that the classified segment assets and liabilities are reported in segment reporting. Segment reporting according to IFRS 8 should stick to the management approach implemented in IFRS 8. As a consequence of that management approach (Exposure Draft “Improvements to IFRS”, issued August 2008), only those assets and liabilities that are included in the measure of the segment’s assets and segment’s liabilities that are used by the chief operating decision maker shall be reported for that segment. Therefore, making no disclosure of segment assets at all would be in accordance with IFRS if the internal reporting structure is designed that way. On the other hand, if the segment assets are reported to and used by the chief operating decision maker, it would be consistent with the management approach implemented in IFRS 8 to report these assets for each reported section and category.

We do not recommend mixing up the management approach implemented in IFRS 8 with the management approach possibly implemented in classification of the categories in financial statement presentation.

Question 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?

Answer:

In our opinion, the definition of the business section and the definition of the “operating category” within the business section is appropriate. However, and as mentioned above, we are not convinced that the whole approach laid down in the discussion paper provides information that is more decision-useful compared to the presentation format currently applied. Additionally, we are convinced that the proposed management approach will lead to a great arbitrariness in the classification method.

In our view, the distinction between the “investing category” and the “financing section” is not clear (see question 10.).

An unresolved issue is the classification of assets and liabilities which might belong to more than one category. The discussion paper requires, in case of doubt, a classification as “operating activity”. However, the classification of goodwill would be more difficult, as this asset, following the management approach, can be classified as operating and investing activity. We do not believe that the situation “in case of doubt” exists in a management approach as it is proposed by the Board: the “doubt” mentioned by the Board refers to the nature of the asset; the management decision does not necessarily refer to and base on that nature of the asset. In our opinion, it is a simple decision to take and classify e.g. goodwill as investing activity.

Question 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?

Answer:

In our view, the proposed definition of the financing section is not quite clear, especially the distinction between the financing section and the investing category.

- The “investing category” within the business section is defined as assets and liabilities that management views as unrelated to the central purpose for which the entity is in business. The investing assets and liabilities are used to generate a return in the form of interest, dividends or increased market prices but are not used for generating its primary revenues and expenses.
- The “financing section” is defined as what management views as part of the financing of the entity’s business and other activities. According to the discussion paper, only financial assets and financial liabilities according to IAS 39 are allowed to be classified in this section. However, we do not see why non-financial assets and non-financial liabilities are excluded from this section (see also our answer to question 9 above).

In our understanding and according to these definitions, the investing category contains assets and liabilities which result from investments in the operating (but unrelated to the central) business. We do not understand which assets and liabilities might be left in order to show in the financing section. In our understanding, there will not be any assets and liabilities which belong to the financing section because if the investing category, according to the principle of cohesiveness, also contains liabilities related to the investing activities (e.g. specific borrowings) it is not possible to classify any other liabilities into the financing section.

Therefore, we suggest that the financing section only contains liabilities which finance the entity’s business and other (investing) activities. On the other hand the investing category only contains assets which are used to generate a return in the form of interest, dividends or

increased market prices but does not use them in its primary revenue and expense-generating activities.

The distinction proposed in the discussion paper only makes sense in case an entity could clearly distinguish financing activities related to operating and investing activities from financing activities unrelated to these activities; only the latter could be part of the financing section, as the other ones would have to be allocated to the respective categories according to the cohesiveness principle.

Additionally, we strongly reject the approach to restrict the contents of the financing section according to the scope of IAS 32 and 39. On the one hand, it would be a precise definition to restrict the financing section to financial assets and financial liabilities as defined in IAS 39. However, a restriction to financial assets and financial liabilities to this section would probably provide misleading information, because also non-financial positions have a financing character (e.g. pensions). So it is not quite clear why these non-financial positions are excluded from this section.

In our opinion it does not make sense to leave the allocation of assets and liabilities to the decision of management (as required by the management approach) but then (as proposed for the financing section) to overrule this management approach by the scope of single standards. This may make sense (but also is questionable from conceptual perspective) for the scope of IAS 12 and the scope of IFRS 5, but we are strongly convinced that this does not make sense in case of IAS 32 and 39.

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

Question 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?

Answer:

In general, any regulation that allocates certain positions of the financial statements to certain categories is not consistent with the management approach.

However, we assume that cash equivalents would be presented and classified as short-term investments (maturity up to one year). Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of three months or less from the date of acquisition. Thus, cash equivalents are a kind of investments – although highly

liquid – and therefore a separation from the “normal” cash is acceptable and a matter of convention.

Question 13

Paragraph 3.19 proposes that an entity should present its similar assets and liabilities that are measured in 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?

Answer:

We understand that disaggregation of similar assets and liabilities that are measured in different measurement bases might provide more decision-useful information than a presentation that permits line items to include similar assets and liabilities measured on different bases.

However, in our opinion it is clearly more adequate to present this disaggregation in the notes, possibly accompanied with an explanation in the notes section on accounting policies. In our point of view the disaggregation in the statement of financial position results in an information overload with respect to the statement of financial position.

Question 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?

Answer:

We do not agree with the proposal that an entity should present comprehensive income and its components in a single statement.

Currently, IAS 1 requires an entity to present all items of income and expense recognised in a period either in a single statement of comprehensive income or in two separate statements – a statement displaying profit or loss (an income statement) and a statement of comprehensive income that begins with profit or loss and displays items of other comprehensive income.

In our opinion, most entities use the option to present all items of income and expense recognised in a period in two separate statements. The last item in the income statement shows the profit or loss of the period. If this item is somewhere in the middle of the single statement, it has to be highlighted. We believe that with a single statement an entity would be measured with the last item “total comprehensive income” in this single statement, which is clearly not best-suited for evaluating an entity’s performance.

Question 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?

Answer:

In our opinion, the management approach should be applied in deciding whether the items are presented "by function" or "by nature". As users then have the opportunity to assess the entity through the eyes of the management, this provides the most useful information to them.

Thus, if internal reporting is based on the disaggregation "by nature" it is appropriate to use this disaggregation as well for external purposes.

Question 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.

Answer:

We agree with the board's view that if the existing income tax allocation process were extended to include some or all of the categories in the proposed presentation model, the arbitrary nature of those tax allocations would increase.

The discussion paper proposes that an entity should allocate and present income taxes within the statement of comprehensive income in accordance with existing requirements. In our point of view, it does not provide information that is decision-useful to users if an entity allocate income taxes in further details. In addition, the allocation process could become more complex if an entity had to trace the income tax effects to the operating, investing, financing asset or financing liability transactions.

Question 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?

Answer:

The existing requirements in IAS 7 “Cash flow statements” permit both types of presentation the direct and the indirect method for cash flow statements. The direct method shows gross cash receipts and gross cash payments. On the other hand, the indirect method shows the net cash flow from operating activities determined by adjusting profit or loss. Further on, the current IAS 7 allows for the presentation of the direct method two types of determination – the original and the derivative determination method of the direct cash flow. The indirect method can only be determined in a derivative way. In practice almost all entities (in Germany) use the indirect method for the operating cash flow and the direct derivative method for the investing and financing cash flows. It seems that there is no need for the direct method.

The discussion paper requires the direct method of presenting the operating cash flows and using the derivative determination method. In current practice, the operating cash flow is determined and presented in accordance with the indirect derivative method. The investing and financing cash flows are determined in accordance with the derivative method and presented on the direct basis.

From our point of view this approach is error-prone and needs a very long implementation phase especially with respect to the operating cash flows.

Using the direct derivative determination method means that both, the p&l-position and the changes in the balance sheet-position have to be netted and the remaining part is the cash position. For this, a detailed classification of balance sheet accounts according to p&l-hierarchy is needed.

E.g. cash inflow received from customers results from: revenues ./ change in trade receivables + change in advance payments. For this part it might be possible to calculate the cash position roughly. However, the following example shows the difficulties for the trade payables:

The creditor accounting (accounting for trade payables and other payables) contains a lot of creditors like e.g. suppliers. There are suppliers relating to costs of material as well as relating

to other operating expenses. For connecting profit and loss account with balance sheet information, it is necessary to classify every invoice from a supplier into a category. This has to be done at the time of order. However, it might be that one supplier affects several p&l-positions so it is not sufficient to do that classification "per supplier". Therefore the classification depends on each event and must be done "per event". In practice, the IT-processes covering this information are not driven by accounting but by business needs. However, according the approach proposed by the discussion paper, these IT-systems would have to be re-designed and adjusted according to accounting requirements. So, this approach would contain potential error risk and is very cost-intensive.

The changes of the group chart of account, of local ledger and source systems (e.g. ERP, billing systems) for clearly more than 1.500 reporting units in the whole Deutsche Post DHL group would be so immense and expensive that we strongly reject the proposed approach using only the direct method for cash flow statements. We believe that this change in accounting is absolutely disproportionate to the relating benefit.

But even from a conceptual perspective, in our point of view the direct method does not provide information that is more decision-useful than the indirect method. We are not convinced that the direct method does provide information that is more decision-useful than the indirect method. We suggest to retain the option of choosing between the direct and indirect method for the cash flow statement.

Question 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?

Answer:

Basket transactions are defined as effects of a single acquisition or disposal transaction that recognise or derecognise assets and liabilities that are classified in more than one section or category. A typical example is a business combination in which an acquirer acquires 100% of the equity instruments of the acquiree for cash, the acquiree 's assets and liabilities are then consolidated with the existing assets and liabilities of the acquirer.

On the one hand, the effects out of a basket transaction might be shown in a single item in the comprehensive income. On the other hand, the alternative would be to show the effects in more than one section or category (i.e. in the affected sections / categories according to the principle of cohesiveness).

In general, we clearly prefer the non-allocation approach which means that the effect in the statement of comprehensive income and the effect in the cash flow statement should be shown in a separate section. This approach would be consistent with the proposed presentation of a discontinued operation which is also a kind of basket transaction.

There might be an argument that the non-allocation approach fails the cohesiveness objective. However, from our point of view the discussion paper follows a very strict way to fulfil the cohesiveness object. So, we think this approach especially relating to basket transaction would be too strict. Additionally, it is absolutely not supportable to perform the relative fair value-calculations (as discussed in par. 3.93 of the discussion paper) only for purposes of presentation, especially in case of a disposal transaction.

Chapter 4: Notes to financial statements

Question 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.

Answer:

As already mentioned, we do not agree with the proposed direct method for the cash flow statement. So, from that point of view we do not agree with the proposed reconciliation schedule because all relevant information are already presented in the indirect method for cash flow statement.

Further on, we are convinced that this reconciliation schedule would result in a very detailed information. Preparing such a reconciliation schedule would be very complex and expensive. In our opinion, the relating benefit is not identifiable.

The proposed reconciliation schedule starts with the cash flow using the direct method and reconciles it to comprehensive income. In our opinion, the information given in the reconciliation schedule are identical with the information using the indirect method for the cash flow statement. In other words, the Board requires the direct method for the cash flow statement as well as the indirect method.

Question 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?

Answer:

We do not agree with the implementation of further reconciliation schedules.

This results in an information overload if there are too many reconciliation schedules. We suggest that any further reporting instrument should be analysed if it is really necessary. That analysis should also include a cost-benefit-analysis.