



LETTER OF COMMENT NO. 145

THE  
INSTITUTE OF  
CHARTERED  
ACCOUNTANTS  
OF SCOTLAND



AH/ASC-SUB/mb

IASB  
30 Cannon Street  
LONDON  
EC4M 6XH

15 April 2009

Dear Sir or Madam

**IASB DISCUSSION PAPER: PRELIMINARY VIEWS ON FINANCIAL STATEMENT PRESENTATION**

The Institute's Accounting Standards Committee has considered the above Discussion Paper and I am pleased to set out its comments below.

The Institute is the first incorporated professional accountancy body in the world. The Institute's Charter requires the Accounting Standards Committee to act primarily in the public interest, and our responses to consultations are therefore intended to place the general public interest first. Our Charter also requires us to represent our members' views and protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

General comments

Financial statement presentation is a key area of financial reporting and we are pleased that the IASB has decided to issue this discussion paper. One of the major criticisms of current financial reporting is that financial statements have become so long and complex that they are excessively difficult to understand and interpret and do not give a clear overall view of an entity's financial performance and position. We believe that this has been highlighted in the recent financial crisis – relevant information was made available in the financial statements, but such is the level of detail that at times the key information was obscured.

Therefore financial statement presentation clearly has an important role in enabling entities to communicate more effectively and succinctly. While we agree in principle with some of the objectives of financial statement presentation that the IASB proposes in this paper – for example, cohesiveness and disaggregation, we are concerned that the way in which they have been applied will in fact lead to even longer and more complex primary statements which will only amplify existing concerns about financial reporting. The example financial statements and reconciliation schedules are highly detailed and we believe are aimed chiefly at sophisticated investment professionals. Generally such users have access to a number of sources of information about a company and access to a company's management so there is little need to tailor general purpose financial reports in this way. This focus risks moving away from the stated objectives of financial reporting which include providing information for a wide range of users. The formats proposed in this discussion paper could be made available to analysts if the market demands it, but in our view they are not workable as the primary financial statements.

We believe this model of financial statement presentation also moves away from the objectives of financial reporting in another important way in that it appears to put the greatest emphasis on presenting information in a way that is useful in assessing future cash flows. In our view, the presentation model also needs to support the objective of demonstrating management's stewardship of the entity.

In terms of standardisation of financial statement formats, this project has moved from one extreme to the other – IAS 1 currently has very little standardisation, while the new model proposed consists of rigid, highly detailed formats. We recognise that more standardisation than is currently provided for in IAS 1 is desirable, but there is a balance to be struck in designing formats that allow entities of varying sizes and structures to communicate effectively with their stakeholders. We believe that if the financial statements are highly complex, there will be an even greater reliance amongst users on the single profit or net income figure. Of course any new model will take time to become established, and an understanding will develop amongst users over time. We are concerned that the rigidity of these formats creates an illusion of comparability, objectivity and accuracy and users will therefore be less aware of the subjectivity involved and possibility of error.

We agree with a number of the ideas in this discussion paper for example, the cohesiveness objective and the separation of business and financing activities for certain entities, but the way in which these have been applied does not seem to meet the objective of creating more useful financial statements. We believe that the IASB should consider how these concepts can contribute to a model of financial statement presentation that is concise and understandable, with the option for users to obtain more detailed information if required.

*We have set out our responses to certain of the questions in the discussion paper in an appendix to this letter.*

I hope our comments are useful to you in the development of this project. If you wish to discuss them further, please do not hesitate to contact me.

Yours faithfully



AMY HUTCHINSON  
Assistant Director, Accounting and Auditing  
Secretary to the Accounting Standards Committee

## APPENDIX

*Q1: 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.*

Overall we believe that the objectives of financial statement presentation should be the same as the objectives of financial reporting more widely i.e. as stated in the IASB's conceptual framework discussion paper 'to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers. Information that is decision useful to capital providers may also be useful to other users of financial reporting who are not capital providers.' As stated above, we are concerned that the proposed objectives of financial statement presentation place the greatest emphasis on presenting information that is useful in assessing future cash flows – the presentation model should also support the objective of demonstrating management's stewardship of the entity.

### Cohesiveness

We agree that cohesiveness is a desirable attribute of financial statements, in that users should be able to see the links between the various statements. Cohesiveness should be seen as a means of contributing to the overall objectives of financial reporting rather than as an end in itself. We do not agree that it follows that cohesiveness at the individual line item is the best way to address the concern that information is not presented consistently in financial statements. This will result in some arbitrary allocations between categories, and similar assets and liabilities being treated differently. We are concerned that this will create an illusion of cohesiveness and consistency but the complexity of the proposed formats will mean that the underlying information cannot be as accurate or objective as it may be perceived to be.

### Disaggregation

We agree that disaggregation in the financial statements is useful but needs to be balanced by the requirement to present neither too much nor too little information on the face of the accounts. We do not agree with the wording of paragraph 2.7 which states that an entity should disaggregate information '...in a manner that makes it useful in assessing the amount, timing and uncertainty of its future cash flows.' This is only one of the objectives of financial reporting – information should be disaggregated in a way that is useful in achieving the other objectives as well. A focus on the assessment of future cash flows may result in information being disaggregated to a very detailed level which will impair the overall understandability of the financial statements.

### Liquidity and financial flexibility

The liquidity and financial flexibility objective as described in paragraph 2.12 ties in with the overall objectives of financial reporting set out in the conceptual framework, and as such does not need to be re-stated in this document.

*Q2: 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? Why or why not?*

The separation of business activities from financing activities would provide useful information in many situations, since it is helpful for users to be able to identify an entity's core activities. This is likely to be useful in a number of industries but we believe it is less likely to provide meaningful information in banking and financial services. There is also the issue of assets and liabilities that cannot be easily allocated to either business or financing activities, which the paper proposes should be allocated to the operating category. This will detract from the usefulness of the information since the operating category will include items relating to other activities of the entity. We are less convinced that the classifications are useful in the balance sheet, where it is more helpful to show similar assets and liabilities grouped together.

*Q3: Should equity be presented as a section separate from the financing section or should it be included as a category in the financing section? Why or why not?*

We believe that preparers and users are used to equity being presented as a separate section therefore this approach should continue.

*Q5: 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.*

- (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?*

We agree with the principle of a management approach to the classification of items in the financial statements as this will assist users in understanding the way that the business has been run. If there are broad principles that entities are required to follow in classifying items, this will enable management to communicate meaningfully with users of the accounts. However, there are some rules set out in the discussion paper which we believe will limit the usefulness of the management approach e.g. if an asset or liability cannot clearly be identified as operating, investing or financing, it should be included in operating; only financial assets and financial liabilities should be included in the financing section. We are concerned that the proposed presentation model will be too rigid to allow management to communicate their business structure.

*Q6: Paragraph 2.27 proposes that both assets and liabilities should be presented in the business section and 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 financial activities? Why or why not?*

Presenting both assets and liabilities in the business section and the financing section of the statement of financial position represents a significant change in the format of this statement. We believe that a format in which total assets and total liabilities are clear on the face of the statement is preferable.

*Q11: 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 presentation of assets and liabilities in order of liquidity may provide more relevant information for entities such as banks and other financial institutions that hold a large number of financial instruments with varying maturity dates. We do not think that any further guidance for which entities should present this type of statement of financial position is required.

*Q13: 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?*

We agree that disaggregation of similar assets and liabilities that are measured on different bases will provide decision-useful information. However, providing this information on the face of the statement of financial position will lead to a highly detailed statement which may be difficult to interpret. We would prefer this disaggregation to be provided in the notes to the financial statements.

*Q14: Should an entity present comprehensive income and its components in a single statement of comprehensive income as proposed? Why or why not? If not, how should they be presented?*

We believe that the net income figure remains an important number for financial statement users and this is therefore what is focussed on in a single statement of comprehensive income. We do not find the IASB's arguments in favour of a single statement of comprehensive income particularly persuasive and would prefer to see a fuller debate on this issue before the option to present either one or two statements is removed.

*Q16: 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 for 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 extent of disaggregation by function or nature will depend on the individual entity and the usefulness of this information to the users of their financial statements. Very extensive disaggregation could lead to a cluttered income statement – we would prefer the disaggregated information to be presented in the notes. The discussion paper seems to lead an entity to disaggregate always by function and also by nature which could result in entities providing too much information that is not required. It should be the choice of the entity whether to disaggregate by function, by nature or both.

*Q19: 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 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? Why or why not?*

We agree that the direct method of presenting cash flows in the statement of cash flows provides decision-useful information but we believe that this can be said equally of the indirect method, and we note that the discussion paper refers to support amongst users for the indirect method. We do not agree with the discussion paper's arguments in favour of the direct method which refers to its contribution to achieving the cohesiveness objective. As we have stated earlier in our response, cohesiveness is a means of creating useful financial statements rather than an end in itself. We are unsure how the direct method is more consistent with the disaggregation objective than the indirect method. We would prefer to retain the option for entities to use either the direct or indirect method.

*Q20: What costs should the board consider related to using a direct method to present operating cash flows? 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?*

We believe that requiring the use of the direct method to present operating cash flows could result in entities incurring significant additional costs without resulting in more useful information.

*Q23: 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.*

The proposed reconciliation schedule is a long and detailed disclosure which we do not believe will be useful as part of general purpose financial statements. This is the type of information that could be provided to analysts and other users if required, but should not form part of the main financial statements.