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International Accounting Standards Board 30 Cannon Street London EC4M 6XH

UNITED KINGDOM

IASB Discussion Paper - Preliminary Views on Financial Statement Presentation

Ladies and Gentlemen:

We hereby wish to accept the invitation to comment on the above Discussion Paper and would like to thank the IASB for this opportunity to express our opinions.

The German Association of Energy and Water Industries (BDEW Bundesverband der Energie- und Wasserwirtschaft), Berlin, represents the interests of approximately 1,800 companies. The spectrum of its members ranges from local and municipal to regional and international companies. They represent about 90 percent of electricity sales, more than 60 percent of local and district heat supply, 90 percent of natural gas sales as well as 80 percent of drinking water abstraction and 60 percent of wastewater disposal in Germany.

General Remarks on the Discussion Paper

We believe that the presentation of consolidated financial statements has served us very well in the past and that it delivers to users of financial statements all relevant information in an appropriate degree of detail. We are not aware of any indications that users of the financial statements of our members are questioning the reliability of the published financial information.

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Accordingly, we cannot understand the necessity of introducing structural requirements for the presentation of financial statement information beyond the current regulations of IAS 1 and the Framework. The project now initiated supposedly seeks to improve the analyzability and comparability of the financial statements of international companies. The IASB has mentioned input received from users of financial statements as a premise for the project. We, however, are not aware of such input, and therefore see no need for such radical changes. Moreover, we fundamentally doubt that additional information (on data from the past) will lead to an improvement in the ability to predict future cash flows.

The adjustments resulting as a consequence of these substantially altered reporting requirements involve extremely high costs for the utilities organized in our Association, which we believe are currently being neglected by the IASB and are not appropriate given that we cannot identify the decision-usefulness of the vast majority of the proposed regulations. We believe that the large amount of information required in the Discussion Paper will lead to a flood of information that stands in opposition to the intended objective of IFRS financial reporting, which is to provide users with decision-useful information.

Such a radical, far-reaching presentation of information requires far more comprehensive data collection and processing. When the necessary quality assurance measures are also taken into account, this results in a very substantial time investment. In our opinion, decision-usefulness also means the availability of financial information after an appropriate interval following the close of the reporting period. We believe that these ever-expanding information requirements will eventually make timely, high-quality and consistent reporting possible only at a significantly higher cost, if not altogether impossible.

We note with concern that the IASB is moving ever farther away from principle-based guidance, instead turning toward the regulation of individual cases. This departure is also reflected in this Discussion Paper, as in the case of matters concerning the separation of business activities from financing activities, for instance. We believe that the desirable objective should be a body of regulations that is consistent, principle-based and, above all, largely stable over time.



It would seem to us to be particularly important that we do not lose sight of the intended objective of financial reporting. Thus, it should not be the sole objective, in our opinion, to create a method for assessing the generation of future cash flows. Consideration should rather also be given to the accountability function of financial reporting. We believe that a one-sided focus on assessing the ability to generate future cash flows cannot be the intended objective of IFRS financial reporting, especially since that would require forward-looking, strategically oriented reporting tools over backward-looking financial reporting methods.

We would like to point out that we have responded to the questions from the Discussion Paper in numerical order and not according to their relevance to the affected companies. Accordingly, we would like to emphasize already at this stage that we categorically reject in particular the requirement to determine operating cash flow exclusively using the direct method, along with the associated additional reconciliation schedules.

In the following we shall take the opportunity to comment on those selected areas of the Discussion Paper that in our view represent a fundamental change to the status quo, and which we believe require further discussion. We reserve the right to supplement these comments with additional comments on critical points subsequently identified.

Responses to the questions asked by the IASB

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?

The discussion paper stipulates three objectives for financial statement presentation: cohesiveness, disaggregation and the liquidity and financial flexibility objective. We believe in principle that the most important objective should be to make information more decision-useful. In this respect, it is our view that, aside from a few exceptions, the project objectives set by



the IASB do not necessarily improve the usefulness of financial statement information. Although the objective of uniform classification of financial statement data (cohesiveness) might at first glance seem useful for direct comparison of the various data, it wholly contradicts the balance sheet and income statement structures used in the utility sector.

The presentation of financial statements that has been applied by our members in practice for many years provides for an allocation of transactions to individual line items that is seamless and known to users of financial statements. The existing IASB regulations, in particular those contained in the IAS Framework and in IAS 1, have been and in our opinion still are entirely adequate for providing information that is user-targeted and decision-useful.

Although the classification of assets and liabilities into business activities and financing activities, as proposed in the draft standard, does seem quite meaningful, the disaggregation of financial statement information has not been sufficiently specified, which has resulted in a large number of differing degrees of detail. This prevents comparability of information in annual financial statements. In our opinion, the outcome of the abundance of information required in the Discussion Paper for disaggregation purposes (operating, financing and investing, as well as long-term and short-term) will be a rather confusing array of financial information that detracts from the objective of decision-usefulness.

We believe that the information required by the existing body of IFRS regulations, including in particular those of IFRS 7, is entirely adequate for determining the extent to which a company is able to meet its financial obligations in future.

We would point out in this context that financial statements are always subject to the respective situation-dependent interpretation by the user of the statements. The need to present an analysis of the financial statements in terms of the respective situation is independent from the degree of detail in the information presented.

Moreover, the existing conceptual weaknesses of performance reporting under IFRS, such as the distinction of components of income recognized in income from those recognized in equity, are not remedied in this part of the project.



Against this backdrop, it is our view that premature requirements imposed on companies for costly adjustments to the reporting structure should be avoided at all costs without at first having set or at least simultaneously setting important definitions (e.g., EBITDA, EBIT, net income, other comprehensive income) and making adjustments to the Framework. As the Framework is to be revised in the medium term, we have doubts concerning the correct timing of this project in the IASB's overall project plan.

The further objective of the draft, namely to enable an assessment of the liquidity and financial flexibility of a company from its financial statement information can, in our view, also be achieved using the structure of today's annual financial statement information.

We see no evidence indicating that such radical structural changes, which would entail substantial, costly transitions for the companies applying them, would support established analytical methods.

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? Why or why not?

In principle, the proposed separation of business activities from financing activities could provide users with better insight into the financial statement information that is already published today for the purpose of evaluating a company's financial position, financial performance and cash flows. Further differentiation of business activities into operating and investing activities should be avoided, especially in the balance sheet and in the income statement.

Nonetheless, as stated at the outset, we do not believe that such fundamental structural changes will lead to significant improvements over to-day's financial statement information.

Separation gives rise to a variety of classification issues. No consideration seems to have been given to the fact that certain transactions are relevant only on a whole-enterprise basis and that as such they cannot be classified into the different categories, at least not without making arbitrary as-



sumptions. Such disaggregation leads to a spurious level of accuracy that cannot be the intention of the IASB.

We believe that the information presented in today's reporting format in the balance sheet and income statement, as well as in the notes, is sufficient in our opinion, particularly in view of their maturities. If new regulations on additional subdivision of today's balance sheet and income statement are nevertheless incorporated into new IASB standards, the requirements on the scope of the respective disclosures absolutely must be reduced.

The "familiarization phase" for the new reporting format may well be very long for those investors having only average understanding of the finer points of IAS financial reporting, which could lead to difficulties in generating external capital in the short- to medium-term.

Also, it must not be neglected that a transition from today's reporting format to the format proposed by the IASB involves immense costs (business support, advisory costs) for the companies applying IFRS. Overall, these costs are not matched by an appropriate corresponding increase in value. The required information will cause a great deal of complexity in the data structure. Every single transaction will require the addition of features as soon as it arises, otherwise a subsequent reconciliation, as required in more than one area, will not be possible. Retroactive determinations seem to have been ruled out. That entails an unreasonably high degree of system conversion work, as well as massive increases in cost for continuing operations.

We therefore categorically reject the separation of business activities from financing activities as proposed by the IASB, especially in the balance sheet and in the income statement.

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?



Given the nature of equity, it should continue to be presented separately on the balance sheet. We also consider the separate presentation in the cash flow statement of (equity) transactions between the enterprise and its shareholders to be decision-useful.

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?

Discontinued operations should continue to be presented in a separate section in accordance with IFRS 5. This in our view provides decision-useful information. Further sub-classification into operating, financing and investing activities is not necessary in our opinion.

We also find that this proposed regulation might conflict with the provisions of IFRS 5. IFRS 5.32 requires that a discontinued operation must represent a separate major line of business, which can generally only be an operating activity.

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

At first glance, it would seem that the introduction of the management approach might be a way to enhance the decision-usefulness of financial



statements, since a core feature of the management approach is to provide the information used internally for enterprise management to users of financial statements. Another potential argument in favor might be that this would mean that financial information, in the sense of convergence of internal and external financial reporting, would have to be processed only once, thereby achieving cost savings.

Nevertheless, we have our doubts about the efficacy of a management approach for classifying assets and liabilities on the balance sheet as a tool to enhance decision-usefulness because it provides no way to ensure the comparability of information in the annual financial statements of different companies, not even within particular sectors. Although the type of classification of assets and liabilities in the management approach corresponds with management's definition of the core business, it substantially limits the comparability of balance sheets and financial ratios across companies or sectors.

For the above reasons, we believe that the management approach conflicts with the project objective of the IASB, namely to improve the usefulness of financial statement information and to help users make decisions.

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 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?

In our view, such a separation of assets and liabilities into "business" and "financing" categories does not represent a significant improvement in decision-usefulness in the financial statement information. We do not believe that an appropriate, non-arbitrary classification of assets and liabilities can be made in every case. This applies in particular to the liability items presented on the balance sheet (provisions and other liabilities) in the proposed categories, since they are interdependent and together make up the financing of the company



Question 11:

Paragraph 3.2 proposes that an entity should present a classified statement of financial position (short-term and long-term subcategories for assets and liabilities) except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant. 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 balance sheet structure used today by the utilities represented in our Association already encompasses a classification into subcategories of long-term and short-term assets and liabilities (non-current assets and long-term debt vs. current assets and short-term debt). Furthermore, the information made available today in order of maturity is used regularly for analytical purposes (debt/equity ratio and equity/assets ratio), and is therefore sufficient to provide guidance in this regard.

Accordingly, we do not believe that a further subclassification of assets and liabilities beyond the existing presentation format is necessary. This also eliminates the need for further guidance.

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?

We believe that a limitation regarding the option on the presentation of components of comprehensive income currently available under IAS 1.81 does not meet the objectives and additionally produces no identifiable improvements in the provision of decision-relevant information.

In general, our members currently publish compliant two-step presentations that provide users with quick and coherent access to the relevant information. The advantages of a single summarized presentation containing all components of comprehensive income are questionable, given the actual absence (or exclusion from the current project) of definitions for the



components of comprehensive income and of other comprehensive income. We therefore reject a mandatory transition of reporting to a compressed format.

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 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?

In our view, any discussion of the future classification of the income statement should be conducted with the prime objective of creating an appropriate and useful structure. We therefore agree with the IASB's proposed retention of the presentation of income statement items either by type or by function. Dispensing with the requirement for a particular classification structure will continue to allow a more decision-useful presentation of information, particularly in the utility sector.

Classification of information by function and then also by nature leads to a disaggregation all the way down to account level, which in our view is neither meaningful nor decision-useful to users of financial statements in predicting future cash flows.

Question 19:

Paragraph 3.75 proposes that an entity should use a direct method of presenting cash-flows in the statement of cash flows. Would a direct method of presenting operating cash flows provide information that is decision-useful? 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? 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?

Our members currently determine operating cash flow using the indirect method and have organized all of the associated reporting systems to that end. This current method of determining cash flow would be disallowed by the proposed restriction of the option in the draft standard, which would lead to substantial additional costs for our members as a consequence of necessary and comprehensive reporting adjustments (established IT systems, report layouts, etc.).

It is doubtful that a cash flow statement prepared using the direct method will be more decision-useful to users of financial statements than one prepared using the indirect method. The current provisions of IFRS offer an option to use the direct or the indirect method (IAS 7.18). The indirect method has prevailed as the more common method in accounting practice. If the direct method were seen by users of financial statements as more decision-useful than the indirect method, the use of the direct method would have been demanded by users of financial statements, and preparers would have complied. Since to our knowledge there have been no such demands from users, it has to be assumed that users of financial statements consider the indirect method to be at least equivalent to the direct method.

We also do not see any need at this time to switch to the direct method of determining cash flow from the perspective of analytical methods and options. Existing reporting (applying the indirect method) derives cash flow from net income for the period, and this already meets analytical objectives as a reconciliation schedule. The IASB would now require in the current draft standard that, applying the direct method, a separate schedule reconciling cash flow to comprehensive income be presented in the notes to financial statements (cf. paragraph 4.19). The existing method of cash flow presentation already provides for a similar reconciliation, which we consider sufficient for analytical purposes.

In summary, the mandatory use of the direct method must be rejected categorically, since for our members it also contains a substantial cost factor that simply is not compensated by a supposedly better way to achieving the IASB's project objectives. In particular, the IASB statement



in paragraph 3.78 that the direct method for determining cash flow is consistent with the project objective of "cohesiveness" is not conclusive.

Question 20:

What costs should the boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81–3.83)? Please distinguish between one-off or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?

At this time, it is not possible to estimate reliably the costs that would be related to the introduction of the direct method for determining cash flow. However, in our view there can be no doubt that in terms of related costs, the introduction of the direct method would be a very burdensome and costly effect of the Discussion Paper.

The BDEW will conduct a survey of its members on these related costs. We will provide the IASB with the results as soon as they are available.

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.

As already discussed, an additional reconciliation from cash flow to comprehensive income, which in our opinion results in part from the prohibition of the use of the indirect method for determining cash flow, must be rejected.

The additional expense required for such a reconciliation is enormously high and is in no way proportionate to the additional information gained.



In our view, the information provided to the user of financial statements when cash flows are presented using the indirect method (in the form of the necessary reconciliation from net income to cash flow from operating activities) is completely sufficient for providing insight into a company's ability to generate future cash flows.

We shall be glad to respond to any questions you may have in this matter.

Best regards,

Thomas Kunde

Unit Manager