

DANMARKS REDERIFORENING

(DANISH SHIPOWNERS' ASSOCIATION)

IASB 30 Cannon Street London, EC4M 6XH United Kingdom



LETTER OF COMMENT NO. 218

11 May 2009

ulr/bc

Dear Sirs,

Comments to discussion paper on Financial Statement Presentation

We acknowledge that the deadline for comments on the above-mentioned discussion paper is overdue, but hope that our comments will be of value in the coming process and that they will be taken into consideration.

The IASB discussion paper "Preliminary Views on Financial Statement Presentation" has raised some general concerns. Overall it is difficult to see the purpose of this project, meaning the reason that users should be in a need for changes in the financial presentation of this substantial character.

On the one hand it has been said that users would like to have conformity in financial reporting in order to ease the comparison of entities' performance and position. To meet this demand the Board is limiting the options of the management for how they best communicate their financial statements. On the other hand emphasis is laid on the wish to include the management approach in the reporting. As this approach will vary from a homogeneous entity to a complex conglomerate, the standards for presentation should be flexible.

Generally the amount of information expected out of the proposed statements is viewed as exceeding the need from external stakeholders. The question is whether more detail creates greater clarity and understanding for the users due to information overflow.

Below specific comments can be found on:

- 1) The level of information on the face of the financial statements
- 2) Classification requirements
- 3) A single statement of comprehensive income
- 4) Elimination of the indirect cash flow method
- 5) Reconciliation schedule

Ad 1)

In order to meet objectives of consistent presentation the Board has introduced the concept of cohesiveness. The relationship between items across statements shall be clear and ideally they shall be cohesive at the line item level. Generally the goal is admirable, but the concern is whether the expected level of detail should be achieved. The consequence is a break with the traditional understanding of the financial statements that users and preparers are used to. The cohesiveness should be limited to main categories like operations (continued & discontinued), financing (external & owners) and tax. As the statements serve different information purposes — i.e. displaying the performance in creating profit and cash and the current financial position — the elements of each single statement may differ in order to achieve the right understanding.

Although the Board appreciates the management's approach when classifying assets and liabilities and when presenting segment activities, it now proposes changes for format and disaggregation that may conflict with the management's view. The proposal calls for presenting the income statement by function with sub-lines by nature and for disaggregating fixed and variable items. Under the current standard the choice of format, aggregation of items and display of subtotals is made by management with respect to relevance and business character. This is highly appreciated and should be given more weight than having a fixed format for all types of business to fit into, the purpose of which is not seen as increasing the quality of reporting.

Ad 2)

Another proposal is that an entity should classify its activities in value-creating (business), financing, income taxes, discontinued operations and equity. The overall perspective of this is not disturbing. But the consequences seem again a break with the traditional concepts and have a major impact on the way users and preparers are viewing the entity.

The impact is also that structures in accounts and reports shall be adapted and processes and systems need to be changed. This is a costly project and should, in the companies' interest, only be made when it creates more value for the management's control and decision taking and thereby also for shareholders.

In addition it seems as the segment note is lifted up and incorporated on the face of the financial statements. The division of Business in operating and investing activities, where the Board is making the distinction as to whether they are core or non-core, is from our point of view a division to be made within the segment disclosure. Investing is a general term used in the business for capital spending and is an important measure for the development of the operations. Introducing the concept of Investing as non-core activities may cause confusion or create an incorrect picture of the business activities.

Ad 3)

The Board argues that presenting a single statement of comprehensive income will improve the comparability of financial statements and make it easier for the users to understand the information. Some concern can be raised to this approach. Which amount shall be considered being the profit for the year? Operating profit is a general measure today to be commented on, so is net profit. Merging the Income Statement and the Other Comprehensive Income (OCI) puts increased focus on total comprehensive income.

The elements of OCI are today considered as equity postings allowed or required in different standards. The perception is that these options or requirements are made with a purpose. It would make more sense to eliminate these if reporting of income and expenses directly in equity would not be desirable. In our point of view it does make good sense that currency translation adjustments of net investments and actuarial gains/losses on defined benefit plans, for instance, are kept separate from the measures of the period's performance. Another example is unrealised gains/losses on cash flow hedges, where the correspondent gains/losses on the hedged items (being future payments) are not recognised in the financial position. Consequently the bottom line of the comprehensive income is impacted by very volatile elements and can be difficult to relate to and comprehend.

Ad 4)

In accordance with the cohesiveness objective the Board eliminates the indirect method of cash flows. First and foremost this proposal goes against the principle to include the management's approach in deciding which presentation format best suits the character of the business. When the indirect method is often chosen as the preferred model, it may be interpreted as giving the most useful analysis for decision making.

In the proposal cash equivalents should no longer be part of cash. The consequence is that all transactions of the financial assets classified as cash equivalents should be presented as cash flows from investing. As the motives for cash management activities are often different from the motives for financial investments this proposal seems unfortunate.

Ad 5)

The reconciliation schedule displays a substantial amount of information and would probably serve very well as a working paper for the entities' own use. However, the level of detail, complexity and size exceed what can be seen as providing meaningful information. The schedule puts a lot of focus on the technical accounting and takes up relatively much detail that are not giving valuable information to the user.

Generally, the requirements for cash flow presentation may be in a need for improvement. The objectives of separating operations from tax and financing can be incorporated by smaller adjustments to the current standard and thereby being more cohesive with the two other statements.

Yours faithfully,
DANISH SHIPOWNERS' ASSOCIATION