



April 14, 2009

The International Accounting Standards Board 30 Cannon Street London, United Kingdom EC4M 6XH

Re: Discussion Paper – Preliminary Views on Financial Statement Presentation

The Committee on Corporate Reporting of Financial Executives International Canada ("FEI Canada") is writing this letter to provide its response to the International Accounting Standards Board and the United States Financial Accounting Standards Board (collectively "the Boards") Discussion Paper ("DP") on *Preliminary Views on Financial Statement Presentation*.

FEI Canada is the all-industry professional membership association for senior financial executives. With eleven chapters across Canada and more than 2,000 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. The association membership, which consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controller, Treasury and Taxation functions, represents a significant number of Canada's leading and most influential corporations.

The Committee on Corporate Reporting ("CCR") is one of two national advocacy committees of FEI Canada. CCR comprises more than 20 senior financial executives representing a broad cross-section of the FEI Canada membership and of the Canadian economy who have volunteered their time, experience and knowledge to consider and recommend action on a range of issues related to accounting, corporate reporting and disclosure. In addition to advocacy, CCR is devoted to improving the awareness and educational implications of the issues it addresses, and is focused on continually improving the standards and regulations impacting corporate reporting.

We support the overall premise that the presentation model proposed in this DP would "improve the usefulness of the information provided in an entity's financial statements and help users make decisions in their capacity as capital providers". However, while many of the suggestions included the DP have theoretical appeal, the costs and consequences of certain requirements appear enormous relative to the benefits expected to be achieved. We anticipate that the issuance of this Standard will not be the "remedy" that will solve the issues and questions around financial presentation and indeed some of the provisions of this Standard could well increase the complexity of the financial statements without corresponding incremental benefits. We have identified a number of concerns with this DP and would like to draw particular attention to four general concerns and three specific concerns.

Our general concerns relate to:

- The timing of the issuance of the final accounting standard related to this topic("the Standard") and priority of this DP vis-à-vis other IASB projects,
- Overall increase in financial reporting costs and increased pressure in meeting reporting deadlines without a commensurate increase in benefits,



- The role of Extensible Business Reporting Language vis-à-vis this Standard, and
- The costs of enhancing and maintaining internal controls addressing financial reporting (in the context of this Standard), again without a commensurate increase in benefits.

Our specific concerns relate to:

- · The direct method of preparing cash flows,
- The reconciliation of the direct method cash flows to the statement of comprehensive income and.
- The disaggregation of expenses and revenues "by nature".

General Concerns:

Timing of Standard and priority

We are concerned that the proposed issue date of June 2011 is too close to the first annual reporting date, for the majority of Canadian public filers (and a fair number of filers in other countries), of December 31, 2011. This Standard will create a significant amount of work either in 2011 for enterprises that elect to "early adopt" or in the following eighteen months when the Standard is effective. Public entities in Canada will also be dealing with the transition to the IFRS at precisely the same time and it is not clear what incremental benefit the Standard will bring when overlaid with the considerable work involved with the adoption of the IFRS—especially in the area of information systems.

Also, whilst the improvement of the presentation of financial statements is a matter that is important and relevant we feel that this DP should rank lower in priority to other IASB projects such as the projects relating to Revenue Recognition, Fair value guidance and Financial Instruments and other "convergence" related projects. In view of this we suggest that the convergence related projects be given higher priority and we would propose that the timing of the eventual release of the Standard be delayed to a date after the completion of the convergence related projects.

Overall increase in financial reporting costs and pressure on reporting deadlines.

The additional burden in terms of costs and time to help meet these presentation requirements will be significant for all entities and will be especially burdensome for those in the small and medium enterprise ("SME") sector. We believe that from a cost/benefit perspective the overall costs of meeting the requirements of this Standard will exceed the related benefits. This needs to be carefully reviewed before issuance of the Standard. The additional costs would include – by way of example - costs relating to extensive reconfiguration of accounting systems, consulting costs, staff training and education requirements and quite possibly significantly higher audit fees.

Overall, financial statement disclosure —as a result of this standard — will increase (especially in relation to the direct method of cash flows, the cash flow reconciliation and the articulation of expenses and revenue by nature). This will significantly impact the ability of entities to report their financial results within the existing reporting deadlines and could potentially impact the quality of information being reported.



XBRL Impacts

We believe that this DP has not taken into account the future use of the Extensible Business Reporting Language (XBRL). For instance, the United States Securities and Exchange Commission (SEC) has released rules mandating the use of XBRL and the DP will need to address how the proposed financial statement presentation format will be impact entities that have commenced filing their financial statements under XBRL. We observed a number of examples where the DP required ratios and other financial statement analysis. One of the benefits of XBRL is to allow the user to perform these calculations and, to that extent, we believe that the existing financial statement presentation does not need to be "reconfigured" to achieve the benefits that are being achieved through the adoption of XBRL. Additionally, we are also concerned about the amount of time and effort required to re-map existing taxonomies in order to comply with the DP.

Internal Controls

Our final "general" concern pertains to internal controls and more specifically around whether and to what extent this Standard will impact the existing internal control "framework".

A Standard of this magnitude and complexity encompasses a number of operational and financial statement risks and we believe that entities will incur significant costs to document, test and maintain the internal controls that mitigate these risks for both the transition to the new Standard and for on going "maintenance".

Specific Concerns:

Our response to the DP, inclusive of the three specific concerns outlined earlier, is set out below and is set forth with reference to the "Questions for respondents" included on pages 7 through 12 of the DP. It may be noted that only questions relating to which we have responses/ comments have been included hereunder.

Question No 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?

The advantage of a management approach is that it enables a financial statement preparer to tailor the financial statement presentation to the operational demands and environment of the business, and thereby provide users of the financial statements with



the most useful view of the entity. Both preparers and users in various industries tend to benchmark presentations across entities in the industry, which over time drives consistency of practice within the industry. This especially applies to entities operating in a rate regulated environment and in other industries where a "standardized" presentation has emerged due to regulation.

On the other hand, there are risks of such an approach are as follows:

- Entities providing "too much information" from a desire to be fully compliant with the new presentation rules and in the absence of precise guidance.
- This could lead to a situation where otherwise comparable entities operating within the same industry could potentially report their financial results in a dissimilar and non-comparable fashion.
- The possibility that securities regulators that are tasked with reviewing the
 financial statements of their registrants perceive the financial statements of an
 entity that has provided "less" information as having "inadequate disclosure" from
 a GAAP perspective, although the entity would have prepared its financial
 statements based upon a management approach

In view of these risks, we believe the Boards should consider providing some prescriptive guidance on presentation, possibly similar to that provided by the US Securities and Exchange Commission in its Regulation S-X.

Question No 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?

We disagree with this proposal. As "cash equivalents" are short-term, highly liquid investments that are readily convertible to known amounts of cash and are so near maturity that they present an insignificant risk of changes in value because of changes in interest rates they are, in our minds, more akin in nature to "cash" rather than other short-term investments.

It may be noted that although, as has been pointed out in paragraph 3.17 of the DP, "an entity normally distributes cash- not short-term investments considered to be the equivalent of cash - to its capital providers" such distributions of cash are, more often than not, on account of the sale of cash equivalents and not from "idle" cash.

We also note that existence of an "adequate" cash balance is often viewed as a "key metric" by users of financial statements and such classification could arguably create "incentive" for entities to maintain their cash balances in "cash" and not "cash equivalents" thus reducing the potential for short-term idle cash to earn a modest return. Also, entities that actively hold their cash balances in "cash equivalents" will see volatility in the "cash" and "short-term investments" line items on the Balance Sheet as they convert the short-term investments into cash and vice versa for day to day operational reasons and this will reduce predictive value of these items from the point of view of users.



Question No 16

Paragraph 3.42-3.48 proposes 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?

We believe that this additional level of disaggregation might arguably result in entities either providing "too much" or "too little" information. Aggregation "by function" rather than "by nature" is, in our view, generally more representative of an entity's overall operational performance and entities that have historically reported their revenues, expenses, gains and losses by function (only) should be allowed to continue to do so. Also, further disaggregation by nature would reduce the comparability of financial statements of otherwise comparable entities since each entity might differ in the extent of disaggregation provided. As a tangential (but relevant) matter it is not clear how the disaggregated presentation by nature and function will align to the financial statements of entities that have commenced filing their financial statements using the XBRL format.

An "acceptable alternative" that we believe will serve users of financial statements best is to allow entities to continue to provide disclosures similar to what is already required by Standards such as the FASB's Statement of Financial Accounting Standards No. 131 Disclosures about Segments of an Enterprise and Related Information and IFRS No. 8 Operating Segments. These Standards require disclosures based upon "management's view" and we believe that the new Standard is unduly prescriptive in terms of requiring disaggregation "by nature".

Question No 18

Paragraph 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 functional 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.
- (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?

We agree that such information would be useful to users that are capital providers but also note that capital providers would generally have developed their own expectations of the foreign exchange impacts on their lending activities and would not rely merely on their borrowers' financial statements to confirm such expectations. We believe that presenting



transactional foreign currency gains and losses in a "standalone" section with disclosure in the notes to deal with material items would best serve the purposes of the users.

The costs involved relate primarily to developing a tagging system that would attach labels to foreign exchange impacts of all foreign currency asset and liability remeasurements such that these impacts are then aggregated within the appropriate category. Such changes would necessitate significant and costly changes to legacy accounting systems and in the case of entities in the SME sector such costs could be prohibitively expensive to the point of preventing an SME entity from initiating such system changes.

Question No 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?

We strongly feel that the DP does not make a compelling argument for the use of the direct method convention. In our view such an approach is justified only when an entity's management itself uses the direct method convention to take decisions relating to its cash flows

The direct method of presenting operating cash flows is not, in our view, decision useful for the following reasons:

- There will be significant costs to implement these requirements (without commensurate benefits) as enterprises today do not capture data in this form (for example, companies do not manage payments to suppliers according to the lines items in the cash flow statements prepared under the direct method
- Entity managements generally manage their cash flows on a "top down" basis with emphasis on the major categories within the "traditional" cash flow format rather than a granular emphasis on every line item of the operating cash flow.
- "Requiring" entities to follow the direct method in instances where it does not align with how management reviews the cash flows conflicts with the concept of the "management approach".



As an alternative we believe that the Boards should allow for the continued use of indirect method for determining operating cash flows either as the "primary" method of determining operating cash flows or be deemed to be an acceptable alternative and provide the "option" for entities to present operating cash flows via the direct method as additional disclosure within the notes to the financial statements only if:

- The entity's management believes that such additional information is decision useful to the users of its financial statements and
- The entity's management uses the direct method of determining operating cash flows in assessing and managing the cash flows of the entity.

We do not believe that the DP makes a convincing argument that the direct method is more consistent with the proposed cohesiveness and disaggregation objectives and also believe that the indirect method does provide decision-useful information that is relevant to and required by the users.

The central issue that the Boards should consider, we believe, is whether such presentation is "decision useful" and not whether such information is consistent with the proposed cohesiveness and disaggregation objectives. Said differently, useful presentation should rank higher in priority than cohesive presentation and we strongly urge the Boards to keep this in mind.

Question No 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?

The following costs need to be considered:

One time implementation costs

- Accounting system re-configuration and conversions costs: These are costs necessary to re-configure and convert existing Enterprise Resource Planning ("ERP") systems to capture cash flows using the direct method.
- Redesign of ERP systems to report cash flows using a transactional level approach (i.e. a "bottom up" approach) versus the "top down" approach that is used by most entities today (including large multinational corporations),
- For multinational entities that transact in multiple currencies and use disparate accounting systems such changes will be harder -and in some cases almost impossible - to implement.
- Training and education costs to acquaint preparers in the usage of the new ERP system.
- Additional coding of information as it enters the information systems at the transactional level such that payments and receipts may be distinguished from other debits/credits within given Balance sheet accounts.
- Additional "one-time" audit fees during the transition to the direct method convention
- Costs related to changes to the internal control "infrastructure".



Ongoing application costs

- Increased ongoing audit fees since overall (inclusive of the reconciliation) an entity's auditors would have to perform increased procedures to obtain comfort that the financial statements are representationally faithful.
- Increased financial statement preparation time from the point of view of the preparers.
- Additional time and effort to conduct a review by management especially in situations where entity management does not rely upon the direct method convention to take decisions regarding its cash flows.
- Additional internal control procedures and costs relating to the use of the direct method convention.

Question No 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 and 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.

As an overall comment we would like to emphasize that the incremental costs relating to the creation and maintenance of this reconciliation would far outweigh the benefits of this additional disclosure. We are concerned about the amount of detail suggested in this reconciliation and the proposed format requires a cumbersome level of detail that has little informational value. For instance, it is not clear why granular details regarding accruals and revaluations are necessary for the purpose of obtaining an understanding of an entity's financial statements and here again the DP does not make a compelling argument for providing details at such a microscopic level. The proposed reconciliation schedule will increase the preparation time of the financial statements (and the costs of such preparation) without providing a commensurate benefit to the users of the financial statements.



We appreciate your consideration of the comments made in this letter and welcome the opportunity to further discuss any and all matters related to this DP.

Yours very truly,

Victor Wells

Chair

Committee on Corporate Reporting

FEI Canada