



COMMITTEE OF EUROPEAN SECURITIES REGULATORS

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RE: CESR's response to EFRAGs consultation regarding IASB's Discussion Paper

“Preliminary views on Financial Statements Presentation”

The Committee of European Securities Regulators (CESR) has, through its standing committee on financial reporting (CESR-Fin), considered EFRAG's draft letter on IASB's Discussion Paper “Preliminary views on Financial Statements Presentation”.

We thank you for this opportunity to comment on your draft letter and are pleased to provide you with the following comments:

- In general, CESR is supportive of the comments made by EFRAG on the Discussion Paper.
- CESR agrees with EFRAG that the three suggested objectives behind the presentation of financial statements - namely cohesiveness, disaggregation and liquidity/flexibility - are commendable objectives which should be applied in a pragmatic way:
 - o Cohesiveness: CESR believes that the objective of cohesiveness is a good one which will result in greater consistency in presentation in financial statements. Like EFRAG, CESR has however identified several cases where applying the cohesiveness principle may be difficult in practice, for instance:
 - Whether borrowing costs capitalised in accordance with IAS 23 should be classified as ‘operating’ or ‘financing’ in cases where the related asset is classified in ‘operating’; and
 - Whether the time-value of money (discounting) should be classified within “financing” or “operating” when the related asset or liability is classified in another section or category.

CESR therefore suggests that the cohesiveness principle should be set out as an underlying presumption – i.e. that all flows from a single operation should be classified within the same category - unless management can rebut that presumption in which case they should explain why classifying all the flows from one operation into the same category would not provide useful information.

- o Disaggregation: CESR's opinion is that disaggregation is useful to and valued by users, as long as such disaggregation is balanced and does not lead to the provision of too much information. However, the example financial statements of Toolco presented at the end of the Discussion Paper are very disaggregated and quite long, whilst by contrast the business activity of Toolco is presented as being simple. Given

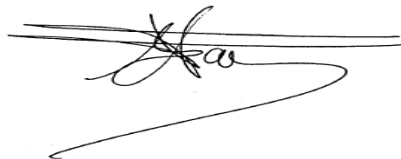
this scenario, CESR is concerned what the financial statements produced by complex, international issuers might look like. Furthermore, CESR believes that the Board should indicate more clearly what information it expects issuers to present in their primary financial statements and what information it expects them to disclose in the notes to their accounts.

- Liquidity and financial flexibility: CESR's view is an objective of '*financial flexibility*' is a new one within IFRS and consequently should be more thoroughly defined either in paragraph 2.13 or in paragraph 3.2 of the Discussion Paper. In this respect, CESR fully supports EFRAG's comments.
- CESR believes that the separation of '*business activities*' from '*financing activities*' is important as such separation allows issuers to distinguish clearly those flows that arise from their continuing business activities from those that arise from the financing of their continuing business activities. However, like EFRAG, CESR believes that the IASB's proposed definition of "financing" is not sufficiently precise to allow accurate determination of what assets and liabilities the category is designed to cover. For instance, the guidance proposed that only financial assets and liabilities according to IAS 39 should be classified in the '*financing*' category (contained in paragraphs 2.34 and 2.62) should be better justified in the Discussion Paper as such guidance is neither necessarily intuitive nor consistent with a '*management approach*'. Indeed should an issuer's management classify post-employment benefits or advances paid by customers into the '*financing*' category if they consider these elements contribute to the financing of the issuer's activities? Should issuers be obliged to classify working capital into the '*operating*' category even though working capital is often used by issuers as *financing*?
- CESR fully supports paragraph 2.41 which states that any reclassification from one category into another category should be treated as a change in accounting policy and therefore be applied retrospectively.
- CESR is on balance supportive of the '*management approach*' as described in the Discussion Paper, although it feels that what is presented is probably not a 'full management approach' as defined in IFRS 8. Although CESR supports the idea that some discretion should be given to management as to how items are classified within financial statements, it also believes that more guidance should probably be provided also to ensure greater comparability. In its comment letter, EFRAG indicates in paragraph 35 that the application of the management approach in IFRS 8 has frequently led to changes and restatements in segment reporting due to internal reorganisations. CESR would of course also be concerned if such changes and restatements happened in the presentation of financial statements. However, CESR is still in the process of gathering experience with the current application of IFRS 8 by EU issuers and consequently believes that it is too early to have an opinion on the usefulness - or limitations - of the '*management approach*'.
- CESR has mixed views on whether the statement of comprehensive income and the statement of other comprehensive income should be presented in two separate statements or in one single statement as suggested in paragraph 2.24 of the discussion Paper. CESR is however in favour of keeping the '*net income*' subtotal as suggested in paragraph 32.24(a) of the Discussion Paper, particularly when that subtotal is used to calculate the earning per share.
- CESR agrees with EFRAG that allocating income taxes between the different categories within the statement of comprehensive income (i.e. operating, investing and financing) as indicated in paragraph 3.55 of the Discussion Paper is too complex and arbitrary and should therefore not be required,. CESR therefore agrees that an entity should only be asked to apply the existing requirements for the allocation and presentation of income taxes.

- CESR's experience of the disaggregation of the statement of comprehensive income is that users prefer disaggregation by nature, which usually gives them more useful information than disaggregation by function only. CESR therefore fully supports the Board's proposal to require disaggregation of income and expenditure within each category by function, with a further disaggregation by nature. CESR also believes that if an entity chooses not to disaggregate income and expenditure by function, it should first disaggregate by nature and then disclose in the notes to the accounts the reasons why it believes that a disaggregation by function would not provide useful, further information.
- CESR notes but is surprised by the assertion that users of financial statements are not generally satisfied with the information provided in statements of cash flows that use the indirect method. The direct method is supported by theoretical academic research, however is very rarely used by issuers in practice. Consequently although CESR is more supportive of the direct method from a purely technical perspective, it believes issuers may face additional costs setting up systems to obtain the necessary figures to construct statements of cash-flows using the direct method. CESR therefore believes the IASB should conduct a cost/benefit analysis and a field test before imposing the direct method on all IFRS users.
- CESR is also of the opinion that, although the suggested schedule of reconciliation might provide users of financial statements with useful information, a cost/benefit analysis and a field test should again be performed before introducing a requirement to provide such a schedule.

I should be happy to discuss all or any of these issues further with you.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'F Restoy', is written over a horizontal line. A long, sweeping underline extends from the end of the signature.

Fernando Restoy

Chair of CESR-Fin