



Accounting Standards Board

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Irina Ipatova
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Dear Irina

EFRAG's Financial Statement Presentation Paper (the Paper)

I am writing to set out the ASB's views on the above Paper, issued by EFRAG in October 2010.

Firstly as a general point, we question why EFRAG is continuing with its focus on this topic at the present time. The scope and timing of the project is currently uncertain, given that it will fall to be considered as part of the IASB's forthcoming request for views on its forward agenda – as acknowledged by the IASB at its March meeting.

Turning to EFRAG's Paper, as you know the ASB hosted an outreach event on Financial Statement Presentation with EFRAG in December 2010, and prior to that published preliminary views on some of the questions in the Paper. Our response, which is attached, largely confirms those preliminary views. In particular the ASB:

- Would like the project to consider the fundamental issue of what constitutes performance, and how measures of performance should be split between profit and other comprehensive income. The ASB has in the past supported the IASB taking forward a project on this issue, and will consider whether it continues to take this view when it discusses the IASB's forthcoming request for views on its forward agenda.
- Is concerned that aspects of the IASB's staff draft may lead to disclosure of excessive detail, which will obscure key messages, rather than providing a clear picture of the performance and financial position of an entity.

If you would like to discuss any of our comments in more detail, please contact either Jenny Carter (j.carter@frc-asb.org.uk) or myself.

Yours sincerely

A handwritten signature in black ink that reads "Roger Marshall". The signature is written in a cursive style with a large initial 'R'.

Roger Marshall
Chairman

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Financial Statement Presentation

ASB response to EFRAG Paper

The ASB has not responded to each question raised in the EFRAG paper. Cross-references to the relevant paragraph in the EFRAG paper are provided.

General - Scope of the joint project

EFRAG question to constituents	ASB response
<p>1 Do you share EFRAG’s view that fundamental issues related to performance reporting should be given a higher priority on the IASB’s agenda? (EFRAG para 9)</p>	<p>1.1 As discussed in its response to ED/2010/5, the ASB finds it disappointing that a principled review of the role and components of other comprehensive income is not within the scope of any of the current financial statement presentation projects.</p> <p>1.2 The “two proposed core financial statement presentation principles” established for this project are not sufficient to address which gains/losses should be recognised in profit and loss or other comprehensive income.</p> <p>1.3 In the ASB’s view presentation should be secondary to a fundamental consideration of what constitutes performance, and any split between profit and other comprehensive income. These fundamental issues should be resolved before progressing with the project as currently scoped.</p>

Core principles of financial statement presentation

EFRAG question to constituents	ASB response
<p>2 Can you provide other examples of cases in which applying the cohesiveness principle at the category level may cause problems? (EFRAG para 21)</p>	<p>2.1 There are likely to be examples where applying the cohesiveness principle leads to similar items being presented in dissimilar ways. For example, if an entity finances the purchase of an asset by taking out a loan, the loan would be recognised in financing, although the asset would be likely to be operating. If the same asset were financed using a finance lease, the liability would be recognised in operating finance.</p> <p>2.2 In both cases the intention, and economic reality, is that there is an obligation to finance the use of the asset. Both obligations could even be due to the same counter-party, but the cohesiveness principle will require them to be reported differently.</p>
<p>3 How would you propose to deal with such cases (e.g. provide additional guidance, provide some exceptions to the cohesiveness principle, or make the principle rebuttable)? (EFRAG para 22)</p>	<p>3.1 There may be some common cases, for example, post-employment benefits, where it is appropriate for the standard to specify in which category different elements of the costs/balances should be recognised. However, in general the ASB believes it is better to provide a framework within which preparers can exercise their judgement about the most appropriate and informative presentation of their financial statements.</p>

EFRAG question to constituents	ASB response
<p>4 Do you share EFRAG's concerns that the disaggregation requirements in the Draft ED might result in overly detailed primary statements? (EFRAG para 27)</p>	<p>4.1 The ASB believes that financial reporting is more effective as a communication tool when the key messages are not obscured by 'clutter'. The ASB has recently published a report 'Cutting clutter: Combating clutter in annual reports'. We believe immaterial disclosures can obscure relevant information, and we would welcome greater debate about how materiality should be applied to disclosures.</p> <p>4.2 The ASB agrees that the proposals do appear to run the risk of creating clutter, not only in the notes to the financial statements but also on the face of the primary statements.</p>
<p>5 Do you support EFRAG's proposal to specify the principles for disaggregation in the standard, which should be followed to determine the level of detail on the face of primary statements, or are you in favour of the rules, which would set the required level of detail for all entities? (EFRAG para 28)</p>	<p>5.1 The ASB agrees that the proposals would be improved by specifying principles for disaggregation, rather than using too much prescription. Another improvement might be to reiterate that the requirements only apply to material items, and therefore disaggregation need not always be provided.</p> <p>5.2 The ASB also has concerns about the interaction of the proposals with IFRS 8 <i>Operating Segments</i>. The proposals require disaggregation by function and nature, and then in addition IFRS 8 requires disaggregation by segment, consistently with the way financial information is reported internally to the Chief Operating Decision Maker.</p> <p>5.3 If IFRS 8 provides users with information they requested, disaggregated in the way management manages the business, it is not clear how useful further functional disaggregation is.</p>

EFRAG question to constituents	ASB response
<p>6 What other alternatives would you propose to avoid primary statements becoming overly detailed? (EFRAG para 29)</p>	<p>6.1 The ASB considers the primary financial statements, as a representation of very many transactions and events taking place in a reporting period, to involve a substantial degree of aggregation. As a result the notes to the financial statements provide some disaggregation to help users understand the differing characteristics of individual transactions.</p> <p>6.2 It is clear from feedback about other comprehensive income that many users of financial statements regard certain totals in the performance statement as significant. Although the ASB believes that an holistic view of performance is necessary for a full understanding, certain key totals should not be obscured by excessive disaggregation in a primary statement.</p>

Classification into sections, categories and subcategory

EFRAG question to constituents	ASB response
<p>7 Do you share EFRAG's view that equity should be a section on its own rather than form part of the financing section? (EFRAG para 36)</p>	<p>7.1 The ASB agrees that equity has characteristics that are distinct from those of debt.</p> <p>7.2 However, it is not clear that this distinction is adequately reflected in the financial statements by debt and equity both being sub-categories of financing. For example, dividends paid on equity are not recognised in the performance statement, unlike the cost of financing.</p>
<p>8 Do you have concerns about the term "net debt" not being defined? Would this reduce comparability between entities? (EFRAG para 39)</p>	<p>8.1 UK accounting standards have long included the notion of net debt, which can often be used by current and potential lenders as a reference for indebtedness.</p> <p>8.2 In practice, what is regarded as debt depends on the substance of the transactions – whether a transaction (or specific terms of it) was entered into for the purposes of financing. This inevitably involves exercising judgement, and may not always be consistent from one entity to another.</p> <p>8.3 The ASB considers a principles-based definition should be provided for net debt.</p>

EFRAG question to constituents	ASB response
9 In which category would you prefer to classify cash? (EFRAG para 43)	<p>9.1 The amount of cash on hand at any one time is a function of a number of different activities, including receipts from customers. However, cash can also be received from taking out debt instruments and issuing equity, neither of which would be classified to the operating category.</p> <p>9.2 For most entities cash management is an integral part of debt management. As a result the ASB would support the disclosure of net debt/funds and that cash should be part of it. As a result the ASB would categorise cash to financing.</p>

Statement of cash flows

EFRAG question to constituents	ASB response
<p>10 Do you share EFRAG's disagreement with the removal of the option to present operating cash flows using the indirect method? (EFRAG para 58)</p>	<p>10.1 The ASB notes that the indirect method is usually preferred for reporting purposes.</p> <p>10.2 The current UK accounting standard FRS 1 (Revised 1996) 'Cash flow statements' is generally regarded as striking a good balance between direct and indirect cash flows for different types of cash flow. It contains more categories of cash flow than IAS 7, responding to feedback following the issue of the original FRS 1 in 1991. It also requires disclosure of net debt.</p> <p>10.3 It is not clear that there has been a great call for cash flow information to be presented in an alternative way. The direct method does not appear to provide information that is more useful than the indirect method. As a result the ASB sees this proposal as incurring additional cost to implement, for little, or no, benefit.</p> <p>10.4 This proposal appears driven by the desire to push the cohesiveness principle through all financial statements without sufficient regard to the usefulness of the information that will be produced.</p> <p>10.5 Another improvement that could be made to IAS 7 is to require a common starting point for the cash flow statement. At present there is diversity in the line item from the income statement that entities choose as the starting point for reconciling to operating cash flows.</p>

Information about remeasurements

EFRAG question to constituents	ASB response
<p>11 Do you share EFRAG's concerns about the lack of a principle underlying the definition of remeasurements and the duplication of the disclosure requirements? (para 78)</p>	<p>11.1 The ASB agrees that the proposal to require disclosure of remeasurements as a separate note appears to duplicate information that will be disclosed elsewhere, for example in notes about changes in assets or liabilities.</p> <p>11.2 Repetitive disclosures increase clutter in financial statements.</p> <p>11.3 In addition, the Staff Draft requires the disclosure of information about estimation uncertainty, including details of the carrying amount of relevant assets and liabilities at the year end. This, in conjunction with disclosure of relevant changes in assets and liabilities should be sufficient.</p>

Analysis of changes in assets and liabilities

EFRAG question to constituents	ASB response
<p>12 Do you share EFRAG's concerns about the proposals on the analysis of changes in assets and liabilities? (para 83)</p>	<p>12.1 The ASB agrees with the objective of providing information on significant changes in assets or liabilities that are important to an understanding of the financial position of an entity. However, as drafted, these proposals look likely to result in excessive disclosure, of changes in every line item in the statement of financial position. The resulting detail could obscure relevant information.</p>