



17 April 2009

Mr. Stig Enevoldsen
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Ref.: ACC/MB/SS/LF/SH

Dear Mr. Enevoldsen,

Re.: FEE Comments on EFRAG's Draft Comment Letter on IASB/FASB Phase B Discussion Paper *Preliminary Views on Financial Statement Presentation*

- (1) FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the EFRAG Draft Comment Letter on the IASB/FASB Phase B Discussion Paper *Preliminary Views on Financial Statement Presentation* (the "DP").
- (2) In our view the DP contains good elements and positive directions. However, we are not convinced that the DP has sufficiently argued why the proposals have been made and why the existing financial statements presentation is no longer adequate. We also note that the proposals in the DP do not address the issue of "recycling" which is in our opinion one of the main reasons why a project on Financial Statement Presentation is needed, although we appreciate that this will require more time given the complexity of the issue and the different views held.
- (3) We welcome EFRAG's recently issued Discussion Paper under the Pro-active Accounting Activities in Europe (PAAinE) with various national standard-setters on Performance Reporting, a topic which we note is not dealt with in the DP and which in our view would also require to be thoroughly discussed in the context of the presentation of financial statements.
- (4) We agree with some of the concerns highlighted by EFRAG:



- We agree with EFRAG that cohesiveness is a good principle and that it can be considered useful. In particular, the objective of cohesiveness might improve the usefulness of the information provided by clarifying the relationships between the different statements. We agree with EFRAG that the implementation of the cohesiveness principle should be done in a way that is thoughtful and pragmatic if it is to provide useful and meaningful information. In addition, we agree with EFRAG that the disaggregation objective should not always require information to be provided on the face of the balance and it might be better addressed by disclosing the more detailed information in the notes to the financial statements.
- We agree with EFRAG and would not support an approach allowing unnecessary flexibility on financial statement presentation. Regarding the management approach proposed in the DP, we are not sure how the proposed presentation can easily be done in practice. We also note that this might reduce comparability. If management does not know how to make the split of the information in accordance with the proposed presentation model requirements - i.e. notably what to put in financing and what in operational - there will be a significant level of estimation. A further question is how to deal with changes affecting net indebtedness. We are seriously worried that this will be difficult for management to do. It would be helpful to see how useful users view the proposed presentation, but we have not seen a strong argument for this in the DP. Therefore, we have concerns that the presentation model which relies on a management approach for classification of assets and liabilities is not sufficiently ring fenced and allows for too much flexibility in application.
- We agree with EFRAG that requiring the direct method for the presentation of the cash flows statement may not be appropriate on the basis that there are no grounds to believe that it would be more useful and relevant than the indirect method which is currently widely used. We understand that the main rationale for the IASB to propose the direct method is to achieve fully the cohesiveness objective. We are not sure how important the cohesiveness objective is against other factors such as the ability to apply the requirements in practice and the costs involved. In our view, if the direct method were to be selected, there would be a need for additional guidance to change the current practice.
- We note that EFRAG has not considered suggesting that the current option to apply the indirect method should be kept. We suggest to the IASB keeping the current option not to prevent the use of the indirect method for entities that are currently applying it. If entities were to opt for the use of the indirect method, it should be made clear to users that this option has been taken. We encourage EFRAG to suggest this point to the IASB too in its final comment letter.



- Regarding the proposed reconciliation schedule, if its requirement would merely be to achieve the disaggregation objective, in our view this might not be a strong argument since it would compromise the usefulness and understandability of the financial statements. From a theoretical point of view, the proposed reconciliation schedule might be an interesting piece of information, but in practice it would require a significant amount of work. In our view, unless there is strong evidence that the proposed reconciliation schedule meets its purpose, it may not be useful to have the reconciliation schedule in the notes to the financial statements. On this basis, we agree with EFRAG that although it might be an interesting idea, the resulting disclosures might be of little informational value to justify the cost of preparing the information that would be required under the proposed schedule. Regarding EFRAG's suggestion to focus on the numbers that are considered the most useful, we question whether this information would be useful in the first place. One possible solution to this would be to carry out the necessary field-testing to assess the usefulness of the proposed reconciliation schedule.
 - We would welcome however a form of reconciliation between the performance statement and the cash flows statement.
 - We believe that only genuine improvements to financial reporting should be considered and although a level playing field between IFRS and US GAAP is important, this also risks to drive the global financial reporting towards the lowest common denominator. FEE supports the principle of seeking convergence, provided that this leads to higher quality accounting solutions.
- (5) We wish to observe that we found EFRAG's letter complex to read and we recommend restructuring it to make it easier to understand. For instance, Appendix 2 of EFRAG's letter might not be needed if the fundamental points are incorporated either in the covering letter or in the responses to the Questions in Appendix 1. Appendix 1 could also benefit from being shortened; this would help better understand the responses to the invitation to comment.

Our responses to the questions in the Invitation to comment of the DP are included as an Appendix to this letter.

For further information on this letter, please contact Ms. Saskia Slomp from the FEE Secretariat.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Hans van Damme', with a stylized flourish extending to the right.

Hans van Damme
President



Comments on the EFRAG draft comment letter – Appendix 1

QUESTIONS CONCERNING OBJECTIVES AND PRINCIPLES OF FINANCIAL STATEMENT PRESENTATION

- (6) We agree with EFRAG and support the proposed objectives in principle. Having said this, it is difficult to see precisely what the objectives are aiming at in practice, although more detail is obtained when getting into the specific questions of the DP. In general, there is little to object in the proposed objectives. However, in practice the objectives may not be easy to achieve and we agree with EFRAG's general remark that a proper balance must be found to avoid too little or too much information being required and disclosed.

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? Should the boards consider any other objectives of financial statement presentation in addition to or instead of the objectives proposed in this discussion paper? If so, please describe and explain.

Cohesiveness objective

- (7) We agree with EFRAG that cohesiveness is a good principle and that it can be considered useful. In particular, the objective of cohesiveness might improve the usefulness of the information provided by clarifying the relationships between the different statements.
- (8) However, we agree with EFRAG that the implementation of the cohesiveness principle should be done in a way that is thoughtful and pragmatic if it is to provide useful and meaningful information.

Disaggregation objective

- (9) The disaggregation objective would allow in our view the reporting entity to better reveal the nature of its operations by reflecting as much as possible how its business is driven by the management. Nevertheless, a proper balance must be found to avoid too little or too much information. In particular, we agree with EFRAG that the disaggregation objective should not always require information to be provided on the face of the balance and it might be better addressed by disclosing the more detailed information in the notes to the financial statements.



The liquidity and financial flexibility objective

- (10) As noted for the two other objectives proposed (of cohesiveness and disaggregation) this objective may not be easy to achieve in practice.
- (11) We favour presenting a classified statement of financial position (short-term and long-term subcategories for assets and liabilities), except for banks in which a presentation of assets and liabilities in order of liquidity would provide more relevant information (see our response to Question 11), hence the option to present the statement of financial position on a liquidity basis is necessary.

Are other financial statement presentation objectives needed?

- (12) In general, there is little to object in the proposed objectives. However, it appears odd that there is no discussion on whether “comparability” across reporting entities should be a higher objective of financial statements presentation. A reason for this might be that “comparability” is assumed to be a “higher” objective (and as part of the conceptual framework), i.e. an objective such as “fair presentation”, or “understandability”.
- (13) In our opinion, the success of the objectives proposed should be judged in the context of the “higher” objectives such as “comparability”, “understandability” and “fair presentation”. For instance, we are not sure that it is very clear how important the cohesiveness objective is and whether it is more important than other objectives such as “understandability” in the Framework. There might be a presumption that other principles continue to be applied but this should be more explicitly mentioned. In principle, it would be difficult to disagree with the objective of cohesiveness. However, there is no evidence that a balance is struck with other objectives, such as “understandability.” We agree with EFRAG that it would be helpful to make this clearer and to explain how the financial statement presentation objectives that are being proposed relate to the objectives and principles in the Framework.

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 (see paragraph 2.19)? Why or why not?

- (14) The first issue raised to address question 2 is whether it is possible to make the proposed split between business activities and financing activities. Overall, in our view it might be difficult to make this split in practice. For example, in the case of the cash balance in a retail organisation; it will be difficult to decide whether cash belongs to business or financing. The same would apply to bank overdrafts which are not necessarily linked to business activities or financing. Some entities such as retail may have no finance activities.



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- (15) We also note that the distinction between Operating, Investing and Financing may be rather difficult in practice for banks. Moreover, for some banks both Investing and Financing may be part of the core business, depending on mission, business model, management responsibilities. Furthermore, the proposed split between Business and Financing may be problematic, depending on how each bank sees its core business. In addition, some figures are missing such as the total net interest income, gross operating income and net fee income and this could represent an issue, particularly in the context of Basel II. Another example is the mix of general operating expenses with net fee income. The proposed format is theoretically sound but in practice the presentation will depend on the way banks see their operating activities. This could have an impact on the comparability of the financial statements amongst different banks.
- (16) In addition, the DP might not include enough explanation to have a proper answer to whether the separation of business activities from financing activities provides information that is more decision-useful than that provided currently.
- (17) The DP argues that the proposals will facilitate the calculation of some key ratios, but in our view there is not enough evidence in the DP that the ratios referred to are the most important ratios. For instance, the return on net operating assets is mentioned as a key financial ratio in paragraph 2.6 of the DP where it is argued that separating operating assets and liabilities will provide users with more complete data for calculating some key financial ratios. It would be helpful to carry out further work in this respect by providing additional examples.
- (18) Moreover, if it is up to management to decide on the split proposed, we envisage some difficulties in practice. It may not always be clear for management to decide how to make the split, particularly if some of the assets and liabilities are not necessarily linked to one activity or the other, as explained earlier. Therefore, it may end up being a “random” split as a result of management not knowing how to make the split and this will ultimately provide less comparability.
- (19) Another issue noted is that the information provided with the proposed split may not really be auditable as it is up to management’s judgment to make the split.
- (20) Given the concerns raised, there is a preference for not systematically separating the items presented if there is no clear justification that this is feasible or that it will provide more useful information.
- (21) In addition, it is not clear what the objective of the proposed split is but this might be rather a question for users of financial statements. In general, if the proposed split is not considered more useful by users, it will not make sense to make such a separation. On the other hand, even if it is considered useful to have the proposed split, we still have the problem of whether it can be done in practice.



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- (22) As noted earlier, it is not going to be easy in practice to separate some items. In addition, there are other potential issues such as what to do if changes occur impacting the decision of how the split is made. For example, if an error occurs or if there is a change in the management approach on the use, would retrospective application be required? And would this be seen as a change in accounting policy? It would be helpful if there was some further clarification on these matters.
- (23) Another concern raised is that the split proposed is a bottom-up approach and it is not clear how to deal with this on consolidation; what might be a business activity in one segment could be a financing activity from the group point of view. This could create difficulties in practice.

Preliminary conclusions

- (24) In principle, it seems like a good idea to separate business activities from financing activities but there may be practical difficulties. We have no direct evidence that users want the proposed split and it might be up to financial analysts and other users to help concluding on this. In our opinion, for many assets and liabilities it will be difficult for management to split them without a lot of judgment involved and therefore we have the problem of auditability linked to this. For this reason, we would like enough evidence that this is what users of financial statements prefer before concluding that the proposed split should be favoured over the current presentation model. Moreover, the difficulties in consolidation need to be addressed. For example, when different parts of the organisation make different judgments in splitting assets and liabilities will the consolidated figures be understandable? It might also be difficult to conclude on whether the objective of cohesiveness is useful before having an answer to the issues raised in relation to the proposed split.

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?

- (25) On the whole, it is fairly clear for most entities what instruments are equity and which are not, so we generally think that it will not be difficult to separate the information as proposed, and it will be useful. As long as instruments that are equity are presented separately from those which are not, we do not really see an issue where these are presented.
- (26) A relevant question here is whether shareholders are a particularly important set of stakeholders to which the financial statements are addressed. As our answer to this question would be yes, and the DP takes this view, we agree that it would be useful to



separate equity from the financing section. We note that EFRAG has a slight different reasoning for this but supports this proposal too.

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?

- (27) It will be easier for users to determine future cash flows if an entity presents its discontinued operations in a separate section as is the case in the proposed presentation model. We agree with EFRAG that it is important that discontinued operations are clearly highlighted in the financial statements. Having said this, it might depend on how significant the discontinued operations are to the overall financial statement.

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 (see paragraphs 2.27, 2.34 and 2.39–2.41).

Some general comments

- (28) We note EFRAG's general comments about the approach to classification that the DP refers to as the management approach. One of EFRAG's remarks is that there seems to be some difference of view as to what exactly the management approach proposed in the DP involves. Indeed, paragraph 2.27 of the DP states that an entity should classify its assets and liabilities in the business section and in the financing section in a manner that "best" reflects the way the asset or liability is used within the entity. We understand like EFRAG that this would be a key requirement of the proposals. In our view this may result in a significant degree of flexibility in practice since the interpretation of what is "best" is likely to differ. Therefore, we have concerns that the presentation model which relies on a management approach for classification of assets and liabilities is not sufficiently ring fenced and allows for too much flexibility in application.



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

(29) We have answered this question in our response to Question 2. Mainly we are not sure how the proposed presentation under a management approach can easily be done and this will reduce comparability.

(30) If management does not know how to make the split of the information in accordance with the proposed presentation model requirements, there will be a significant level of estimation. As noted in paragraph 19 of this letter in our answer to Question 2, another issue linked to this is that the information provided with the proposed split may not really be auditable as it is up to management's judgment to make it split. We are seriously worried that this will be difficult for management to do. As noted earlier it would be helpful to see how useful users view the proposed presentation. We have not seen a strong argument for this in the DP.

(31) It is not clear either whether the management approach envisaged is from the perspective of the group or that of individual entities. Generally, it appears that the management approach considered starts with the segments and moves up to group level; this might lead to difficulties on consolidation, as discussed earlier.

(32) In addition, how to account for a change in the management approach? Is this change something that needs to be accounted for retrospectively? In our view, there are two ways of looking at this. If the change in the management approach is the result of a correction of an error in the way management was reflecting its approach to the financial information presented, this should be considered as an accounting error and treated retrospectively. However, if the change in the management approach is a genuine change in the way the business is driven, retrospective application would not be appropriate in our view since the financial information before the change was accurately presented in accordance with the management approach valid at that time. We would appreciate to find in the Basis for Conclusions the reasoning supporting the proposed retrospective approach.

(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?

(33) The reduced comparability issue may arise with a management approach but it is up to the management of the reporting entity to explain this in its financial statements, i.e. to explain the reason why the choices have been made which are different from the trend in the industry. So long as these choices are explained and are coherent and if any further changes are made that these are again explained and justified, in our opinion the reduction in comparability as a result of having a management approach may be less of an issue.



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?

- (34) In general, the objective of cohesiveness may improve the usefulness of the information provided. However, as already noted it might also be difficult to conclude on whether the objective of cohesiveness is useful before having an answer to the issues raised in relation to the proposed split. In principle, the proposed presentation might make it easier for users but only if the split proposed is proven to be meaningful. Cohesiveness should be assessed in conjunction with the level of understandability that it has achieved. In the case of a very large entity for example, there is a risk that the proposed presentation may be theoretically correct but that it cannot be understood by the users in practice without proper explication.

Question 7

Paragraphs 2.27, 2.76 and 2.77 discuss classification of assets and liabilities by entities that have more than one reportable segment for segment reporting purposes. Should those entities classify assets and liabilities (and related changes) at the reportable segment level as proposed instead of at the entity level? Please explain.

- (35) In our view, there is a lot of emphasis on segmental reporting and this risks to constitute an overload of information both in terms of usefulness and understandability. For performance reporting it would make sense having information on the reportable segments in the income statement but we are not sure whether this would be useful regarding the financial position. We are not sure that the proposal to classify assets and liabilities (and related changes) at the reportable segment is appropriate if it is only a requirement to ensure the cohesiveness principle and if we are not sure that this is what users require.
- (36) We agree with EFRAG that the issue might be what level of classification should be implemented.

Question 8

The proposed presentation model introduces sections and categories in the statements of financial position, comprehensive income and cash flows. As discussed in paragraph 1.21(c), the boards will need to consider making consequential amendments to existing segment disclosure requirements as a result of the proposed classification scheme.



For example, the boards may need to clarify which assets should be disclosed by segment: only total assets as required today or assets for each section or category within a section. What, if any, changes in segment disclosures should the boards consider to make segment information more useful in light of the proposed presentation model? Please explain.

- (37) We are not convinced that the proposed level of disaggregation is appropriate. It would be useful to test it against the principle of understandability to ensure that the proposed level of disaggregation remains understandable to users.
- (38) We welcome EFRAG's suggestion to encourage the IASB to carry out an early post-implementation review of IFRS 8 in order to consider whether it is working effectively and in the way intended, and under the proposals set out in the DP.

Question 9

Are the business section and the operating and investing categories within that section defined appropriately (see paragraphs 2.31–2.33 and 2.63–2.67)? Why or why not?

- (39) In general, financial analysts appear to have in practice a sort of an idea of what are core and what are not core activities. However, the definitions appear to lack practical criteria to help deciding on the split of the activities between these. The definitions might allow too much flexibility and thereby undermine comparability.

Question 10

Are the financing section and the financing assets and financing liabilities categories within that section defined appropriately (see paragraphs 2.34 and 2.56–2.62)? Should the financing section be restricted to *financial assets* and *financial liabilities* as defined in IFRSs and US GAAP as proposed? Why or why not?

- (40) We agree with EFRAG that it might not be appropriate to exclude non-financial assets and liabilities from the financing section, since this might be in contradiction with a principles based approach which we would favour.

QUESTIONS CONCERNING IMPLICATIONS OF THE OBJECTIVES AND PRINCIPLES FOR EACH FINANCIAL STATEMENT

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 (paragraph 3.2). Is this presentational option in order of liquidity really necessary?

The short-term/long-term split

- (41) We support EFRAG and agree with the proposal. In general, we do not expect there to be a significant change in practice as a result of this requirement; there is no fundamental alteration and overall it might represent a good movement because it is more principles based.
- (42) However, we note that it might not be clear who decides what information is more relevant and this might add to the complexity of being able to apply the proposed exemption.

The option

- (43) Like EFRAG, we support this proposal.
- (a) What types of entities would you expect not to present a classified statement of financial position? Why?**
- (44) For banks a presentation of assets and liabilities in order of liquidity would provide more relevant information than presenting a classified statement of financial position (short-term and long-term subcategories for assets and liabilities). On this basis, we expect the banking industry to utilise the option in paragraph 3.2 of the proposals to present assets and liabilities in order of liquidity instead of the general requirement for entities to present a short-term and long-term subcategories for assets and liabilities. A shared industry solution to this issue would improve consistency.
- (45) We support EFRAG in that the existing IFRS 7 requirements to provide a maturity analysis of financial liabilities in the notes to the financial statements and the expected enhanced disclosures should not result in the elimination of the option to present the statement of financial position on a liquidity basis.
- (b) 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?**
- (46) We are not convinced that there is a need for more guidance. We expect that banks, insurance companies and brokers would continue to have a focus on liquidity presentation and would therefore present a statement of financial position in order of liquidity. Adding guidance would also be contradictory to the management approach. We agree with EFRAG that in principles-based standards which we support less guidance rather than more is preferable.



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- (47) We note that the DP expresses a preference for the classification in long-term and short-term but has in our view not sufficiently demonstrated this preference and its benefits over the order of liquidity. Users need to indicate which of the ways of presentation is more useful to them.

Question 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?

- (48) We agree with EFRAG and support the proposed treatment of cash equivalents.

Question 13

Paragraph 3.19 proposes that an entity should present its similar assets and liabilities that are measured on different bases on separate lines in the statement of financial position. Would this disaggregation provide information that is more decision-useful than a presentation that permits line items to include similar assets and liabilities measured on different bases? Why or why not?

- (49) Overall, we agree with EFRAG's comments as detailed in paragraphs 72 and 73 of its draft comment letter, in particular that we are not convinced that it is essential that it should be done through disaggregation on the face of the statement of financial position and providing the information in the notes might be sufficient.
- (50) In our opinion, the concept of disaggregation under this proposal could lead to a very detailed presentation. In our view there should be limitations to disaggregation set by understandability and usefulness. The illustrative example on pages 108 and 109 of the DP does not seem to provide so much information presented on different bases. It would be helpful to have an illustrative example demonstrating what the statement of financial position would look like when most assets and liabilities are measured on different bases. It would also be helpful providing in the illustrative example the segment reporting presentation that is being proposed in the DP.
- (51) In principle we agree that it would be useful requiring disaggregation of assets and liabilities according to their measurement bases but we are not sure that providing this information in the statement of financial position is always more straightforward if this results in a significant number of separate lines making the statement difficult to understand. The disaggregation principle underlying the proposed presentation might be in contradiction with the objective of understandability.



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?

- (52) Overall, we in principle agree that an entity should present comprehensive income and its components in a single statement of comprehensive income, since there is no articulated reason why two separate statements should be presented. However, we would support the introduction of an option to have two separate statements for those entities for which this would result in a clearer presentation. The net income or loss under the current proposals may not be clearly identified depending on the nature of the entity, if there are many lines disclosed there is a risk that the net income or loss “gets lost” in the single statement. For this reason in our view there should be the possibility to present the income statement and other comprehensive income in two separate statements to ensure that the net income/loss line can become more clearly identifiable than under the current proposals if necessary.
- (53) It would have been helpful when the issue of recycling would have been addressed.
- (54) For banks, on balance, having only one statement could be considered appropriate if there is a clear line in the presentation of net income and other comprehensive income in order to help assessing performance and other parts of total income. The key issue is that there is no clear definition of performance, so it might not always be clear where the performance of the reporting entity should be reflected. Is this information in the interest of users?

Question 15

Paragraph 3.25 proposes that an entity should indicate the category to which items of other comprehensive income relate (except some foreign currency translation adjustments) (see paragraphs 3.37–3.41). Would that information be decision-useful? Why or why not?

- (55) We agree with EFRAG that this information would be useful. In addition, we note that it will not be difficult to apply this classification except for the items which are already exempted from this presentation (like some foreign currency translation adjustments). It would be sensible to have the proposed classification in other comprehensive income as we have it at present.



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 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?

- (56) If the disaggregation of revenues, expenses, gains and losses can be made either by function or nature, this might not enhance the usefulness of the information since a decision has to be made for this and this decision might not always be clear or easy to make. It might be more useful to indicate clearly whether this information should be disaggregated by nature or function.
- (57) In our opinion, to disaggregate this information by nature first might be more sensible as it is clearer how this can be done. There is more judgment in estimating information by function. Therefore, we would favour to disaggregate the information the other way round than proposed; i.e. requiring the information to be disaggregated by nature first and then by function (for certain items) will be more useful.

Question 17

Paragraph 3.55 proposes that an entity should allocate and present income taxes within the statement of comprehensive income in accordance with existing requirements (see paragraphs 3.56–3.62). To which sections and categories, if any, should an entity allocate income taxes in order to provide information that is decision-useful to users? Please explain.

- (58) In principle, we agree with EFRAG that following the existing requirements (under the revised IAS 1) would be useful.

Question 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.**
- (59) In our opinion, this can be done and would be useful.



(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?

- (60) In order to present the components of net foreign currency transaction gains and losses in different sections and categories, management must know what hedges are in place. In principle, we cannot see any significant issues arising with this requirement if there is a well organised accounting system.

Question 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?**

- (61) In practice, the indirect method is widely used by most entities. The proposal suggests to require one method only; the direct method. EFRAG confirms its preference for the indirect method as (i) it is more convenient to obtain multiple cash flows and (ii) there would be a cost for changing the system to apply the direct method. In addition, the idea of “free cash flows” in the current indirect method of cash flows statement will be lost with the proposed direct method.

- (62) We understand that the main rationale for the IASB to propose the direct method is to achieve fully the cohesiveness objective. We are not sure how important the cohesiveness objective is against other factors such as the ability to apply the requirements in practice and the costs involved; we note that the cohesiveness objective is not in the current conceptual framework for example. In our view, if we were to go for the direct method, we would need some additional guidance to change the current practice.

- (63) Other issues noted specifically for banks regarding the proposed statement of cash flows (CFS) include:

- The distinction between principal and interest may be difficult in practice for many banking assets and liabilities;



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- There is inconsistency in the presentation if the split between principal and interest is done for cash received from loans but not for other lines;
 - While the direct method may be better for users, it may represent a bigger burden for preparers;
 - The relevance and usefulness of the CFS as far as liquidity is concerned can be questioned. With a management approach, if the information required in the CFS is considered relevant for banks, it should be in theory available. If in practice there are on-going difficulties to present the information proposed, this might be an indication that it may not be relevant for banks. The IASB may put the questions of the relevance of banks' CFS to users.
- (64) We note that EFRAG has not considered suggesting that the current option to apply the indirect method should be kept. We suggest to the IASB keeping the current option not to prevent the use of the indirect method for entities that are currently applying it. If entities were to opt for the use of the indirect method, it should be made clear to users that this option has been taken.

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?

- (65) In its draft comments letter, EFRAG confirms that collecting the necessary information to apply the direct method would often not be practically achievable at a reasonable cost and that this would involve setting-up systems costs, especially in the current framework of the accrual-basis information in the other statements. We agree with EFRAG.

Question 21

On the basis of the discussion in paragraphs 3.88–3.95, should the effects of basket transactions be allocated to the related sections and categories in the statement of comprehensive income and the statement of cash flows to achieve cohesiveness? If not, in which section or category should those effects be presented?

- (66) In our view this requirement would result in too much information in the primary statements and it would be more useful to deal with this level of detailed information by way of notes. In our answer to Question 13, we have noted that the concept of disaggregation under the proposals could lead to a very detailed presentation. In our



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view, the concept of cohesiveness should also be limited to achieving understandability and usefulness.

- (67) Like with the concept of disaggregation, in principle we agree that it would be useful requiring cohesiveness but we are not sure that providing this information in the primary statements is useful if it makes the statements difficult to understand. The cohesiveness principle underlying the proposed requirement might be in contradiction with the objective of understandability.
- (68) In addition, we are not sure to understand the proposal to allocate the effects of basket transactions to the related sections and categories if at the same time the proposals suggest that an entity presents its discontinued operations in a separate section.
- (69) Moreover, in our view the implementation of the split requirement between business and investment categories will need some assumptions to be made. It would be necessary to require additional information regarding the assumptions that have been made in order for the split to be understandable. Overall, it would be helpful assessing whether there is evidence that this split is useful to users before embarking into the requirement.
- (70) We note the three possible approaches that could be adopted if the total effects are not to be allocated. EFRAG is not in favour of the allocation method and would favour alternative c), i.e. to present the effects of basket transactions in a separate section (the most prominent exception to cohesiveness principle). In principle, we think that the other two alternatives (alternative A: present in the operating category (practical expedient) and alternative B: present in the category that reflects the activity that was the predominant source of those effects (similar basis already applied in the proposed classification of items) might be preferable, purely on the basis of trying to achieve cohesiveness. In practice, we do not have a strong view as to which alternative we would favour.

QUESTIONS CONCERNING THE PROPOSED ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

Question 22

Should an entity that presents assets and liabilities in order of liquidity in its statement of financial position disclose information about the maturities of its short-term contractual assets and liabilities in the notes to financial statements as proposed in paragraph 4.7? Should all entities present this information? Why or why not?

- (71) We are not sure that there is complete coherence between the financial statements requirements in the proposals and the requirements regarding financial liabilities under IFRS 7. In addition, we note that the scope might be different if in the proposals the



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focus is on contractual liabilities and under IFRS 7 the requirements center around financial liabilities. In our view, the requirements of the financial statement presentation should be coordinated with the disclosure requirements of financial instruments. It would be also necessary to define contractual assets in order to explain whether there is a difference with financial liabilities as defined in IFRS 7. We agree with paragraph 138 of the EFRAG draft comment letter.

- (72) In general, if it is considered useful to require this information for some entities (i.e. for entities that present assets and liabilities in order of liquidity in its statement of financial position), we think that this information should be required to be presented for all entities on the basis that it is useful information.

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.

- (a) Would the proposed reconciliation schedule increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.**

(73) We are not sure to understand who is asking for this information. The proposed reconciliation schedule would appear to be some kind of supporting document but that would not necessarily be useful to users of the financial statements. If its requirement would merely be to achieve the disaggregation objective, in our view this might not be a strong argument since it would compromise the usefulness and understandability of the financial statements.

(74) From a theoretical point of view, the proposed reconciliation schedule might be an interesting piece of information, but in practice it would require a significant amount of work for its preparation and its presentation in the financial statements would also need to be audited. In our view, unless there is strong evidence that the proposed reconciliation scheduled has a purpose, it may not be useful to have it in the notes to the financial statements. On this basis, we agree with paragraphs 141 and 142 of the EFRAG draft comment letter.

(75) Regarding the suggestion by EFRAG in paragraph 143 of its draft comment letter, we are not sure to agree with the suggestion to focus on the numbers that are considered the most useful; we question whether this information would be useful in the first place.



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- (76) In addition since we are not supportive of the direct method for the presentation of the cash flows statement, we cannot support the proposed reconciliation schedule requirement.
- (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.**
- (77) We are not sure to understand how banks could implement this requirement.
- (78) We agree with paragraph 146 of the EFRAG draft comment letter that the proposal should probably be amended to concentrate on the additional information on remeasurement that Columns D and E of the schedule would give them.
- (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.**
- (79) Like EFRAG, we are not aware of any issues which would require additional guidance.

Question 24

Should the boards address further disaggregation of changes in fair value in a future project (see paragraphs 4.42 and 4.43)? Why or why not?

- (80) We agree with the comments in paragraphs 148 – 151 of EFRAG's draft comment letter.

Question 25

Should the boards consider other alternative reconciliation formats for disaggregating information in the financial statements, such as the statement of financial position reconciliation and the statement of comprehensive income matrix described in Appendix B, paragraphs B10–B22? For example, should entities that primarily manage assets and liabilities rather than cash flows (for example, entities in the financial services industries) be required to use the statement of financial position reconciliation format rather than the proposed format that reconciles cash flows to comprehensive income? Why or why not?

- (81) It is difficult to understand what is the objective being addressed for each of the statements proposed in Appendix B. It is still not clear how useful these statements would be to users of financial statements. We agree with the comments in paragraph 151 – 154 of EFRAG's draft comment letter.



Questions for constituents:

The DP is suggesting that, even with the changes to the presentation of the primary financial statements being proposed, something is missing and that, as a result, some sort of reconciliation (of either statement of cash flows to statement of comprehensive income or opening statement of financial position to closing statement of financial position) or breakdown (of the statement of comprehensive income) is needed to provide more information about the transactions, accruals and remeasurements that have taken place.

Do you agree that there is a need for such information that should be met in the financial statements?

If you do, what exactly is that need and in your opinion which of the proposals in the paper best meets that need?

Does some other form of disclosure meet the need even better? Does the type of disclosure needed vary depending on the type of entity involved? For example, should entities that primarily manage assets and liabilities rather than cash flows be required to use the statement of financial position reconciliation format rather than the proposed format that reconciles cash flows to comprehensive income?

(82) We do not agree that there is evidence of a need for such information.

Question 26

The FASB's preliminary view is that a memo column in the reconciliation schedule could provide a way for management to draw users' attention to unusual or infrequent events or transactions that are often presented as special items in earnings reports (see paragraphs 4.48–4.52). As noted in paragraph 4.53, the IASB is not supportive of including information in the reconciliation schedule about unusual or infrequent events or transactions.

(a) Would this information be decision-useful to users in their capacity as capital providers? Why or why not?

(83) In our view, it would be useful to have this information as long as the IASB defines the objective of this information.

(b) APB Opinion No. 30 *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, contains definitions of *unusual* and *infrequent* (repeated in paragraph 4.51). Are those definitions too restrictive? If so, what type of restrictions, if any, should be placed on information presented in this column?



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(84) We support EFRAG’s remark that producing a viable definition of terms such as “unusual” and “infrequent” events and transactions is always very difficult, especially if bearing in mind that IFRSs represent a principles-based set of standards. In addition, we agree with EFRAG and would not support the reintroduction of extraordinary items by another name.

(c) Should an entity have the option of presenting the information in narrative format only?

(85) We agree with EFRAG and are not against the adoption of a narrative format but it should also contain and explain numbers.

Question specific to the FASB

Question 27

As noted in paragraph 1.18(c), the FASB has not yet considered the application of the proposed presentation model to non-public entities. What issues should the FASB consider about the application of the proposed presentation model to non-public entities? If you are a user of financial statements for a non-public entity, please explain which aspects of the proposed presentation model would and would not be beneficial to you in making decisions in your capacity as a capital provider and why.

(86) It would be helpful to have a clear idea about who are the main users of non-public entities financial statements in order to address this question properly. One of the issues that might be considered is the resulting costs of imposing any new requirements.

(87) It was also noted that the same question should be addressed for entities under 1.18(b), i.e. “entities within the scope of the IASB’s forthcoming IFRS for Private Entities”. In principle, if the proposed presentation was to be required, we are of the opinion that it should also apply to the Private entities envisaged in the IFRS for NPAEs. This would benefit comparability for example.

Comments on the EFRAG draft comment letter – Appendix 2

(88) We understand that the purpose of this appendix is to briefly summarise the views expressed in Appendix 1. Our comments on Appendix 2 of EFRAG’s draft comment letter are included in our comments of the covering letter or appendix to this letter.