EFRAG

European Financial Reporting Advisory Group

Financial Statement Presentation – Paper

Your input on all or some of the issues covered in the paper is invited by 30 April 2011. This is your opportunity as a European constituent to influence the development of the IASB project.

Introduction

1 In July 2010, the IASB released on its website a staff draft of the exposure draft *Financial Statement Presentation* (the Draft ED). The Draft ED is a result of a joint effort of the IASB and the FASB. Prior to finalising the exposure draft (the ED), the IASB and the FASB, in the US, will conduct further outreach activities in order to gather views on the proposals included in the Draft ED.

2 EFRAG and European National Standard Setters (NSS) are jointly organising outreach events throughout Europe from September to November 2010. The objective of the outreach activities is to assist EFRAG in providing feedback to the IASB on the views of European constituents on the proposals included in the Draft ED. The IASB will be participating in these events. The objective of the events is:

- to present the IASB's tentative decisions;
- to present EFRAG's and the NSS' tentative views, highlighting the areas of support and focusing on the areas of concern;
- to seek views from constituents in Europe on the proposals; and
- to seek views from constituents in Europe on whether the proposals could be improved and how this could be done.

3 This paper, which is based on EFRAG's preliminary views, is intended to stimulate the debate by European constituents on the proposals included in the Draft ED and will serve as a basis for the outreach events in Europe.

4 This paper raises technical issues related to the tentative decisions included in the Draft ED and seeks constituents' input on the implementation costs, timeline and the costs to maintain the upgraded systems. This paper also raises a question as to whether the benefits of the new presentation model, as outlined in the Draft ED, would outweigh the costs of implementing and maintaining the upgraded systems for both preparers and users.

5 EFRAG invites input from constituents either on all or on selected issues included in this paper. This is your opportunity as a European constituent to influence the development of the IASB project.

6 EFRAG will publish a report summarising the views expressed by constituents during the outreach events and in response to the paper. This report will also be communicated to the IASB for its consideration and will be taken into account by EFRAG in preparing its draft comment letter on the ED once it is issued.

General

Scope of the joint project

EFRAG believes that fundamental issues related to performance reporting should be given a higher priority by the IASB.

7 EFRAG is supportive overall of the IASB and FASB efforts to address some fundamental issues and to achieve greater convergence in the area of financial statement presentation. However, as indicated in our comment letters on various projects, we believe that some fundamental issues underlying performance reporting should be given a higher priority by the IASB. We believe that a proper debate is necessary on fundamental issues related to performance reporting, such as:

(a) the notion of performance and its relationship with business models;

(b) the content of performance statement(s), including the principles that underpin comprehensive income; and

(c) recycling.

These issues are not currently considered by the IASB within its Financial Statement Presentation project or any other project.

8 The objective of financial reporting is to provide financial information about the reporting entity that is *useful* to existing and potential equity investors, lenders and other creditors, in making decisions in their capacity as capital providers.

Questions to constituents

9 Do you share EFRAG's view that fundamental issues related to performance reporting should be given a higher priority on the IASB's agenda?

Overall costs and benefits of a new presentation model

Questions to constituents

10 EFRAG seeks input from constituents, especially from users, on whether a new presentation model would result in *significantly* improved and more useful information.

11 EFRAG also seeks input from constituents on whether benefits of the new model would outweigh the costs associated with implementing and maintaining it.

12 Further questions on the cost of implementing and maintaining the new presentation model are included in paragraphs 86 to 88.

Financial institutions, including insurance

13 The Draft ED applies equally to all entities, including financial institutions. Some may argue that the new presentation model proposed in the Draft ED would not overall improve financial reporting for the banking and insurance industry. EFRAG has not formed a tentative view on this issue and invites input from constituents.

Questions to constituents

14 EFRAG seeks input from constituents, especially from users, on whether the new presentation model would improve financial reporting overall for the banking and insurance industry.

15 Do you believe that separate proposals or special application guidance should be developed for the banking and insurance industry?

Core principles of financial statement presentation

EFRAG is supportive overall of cohesiveness and disaggregation as core principles of financial statement presentation, but has concerns about the proposed application of these principles.

16 The Draft ED proposes two principles – disaggregation and cohesiveness – which are intended to *work together* to enhance the understandability of information in an entity's financial statements and ensure effective communication to those outside the entity.

17 EFRAG supports cohesiveness and disaggregation as the core principles underlying the presentation of financial statements. We agree that these principles are critical for effective and meaningful communication with the users of an entity's financial statements. However, we have concerns about the proposed application of these principles, which are outlined below.

Cohesiveness

18 EFRAG supports the proposal that cohesiveness as a principle should be applied at the category level rather than on an item-by-item basis, as originally proposed in the Discussion Paper *Preliminary Views on Financial Statement Presentation* ("the DP") issued in October 2008. We also agree with the arguments for the proposed change to the DP, included in paragraph BC63 of the Draft ED, that in some cases the change in an element in the statement of financial position may generate effects (either in activity or flow) that relate to multiple lines in the statement of comprehensive income and cash flows. However, the drafting appears to imply that although some effects generated by a change in assets or liabilities may result in the

multiple lines in the statement of comprehensive income and cash flows, these multiple lines are restricted to the borders of the same category.

19 EFRAG notes that the cohesiveness principle might not *always* work without exception. Consider an entity that issues equity-settled instruments to its employees and/or suppliers of goods or services. Following the proposed approach in the Draft ED, equity-settled, share-based payments would be classified in the equity category of the financing section in the statement of financial position. However, the nature of the related items in the statement of comprehensive income is *operating* rather than financing, as it represents a consideration to employees or other parties for goods or services provided. Another example would be post-employment benefits, which under the proposals in the Draft ED would be classified in the operating finance subcategory on the face of the statement of financial position. In the performance statement, accretion expense or the return on plan assets would be classified in the operating finance subcategory and service costs in the operating category.

20 EFRAG proposes that the Board consider providing some exceptions to the cohesiveness principle or making the principle rebuttable, but neither of these options is ideal. Exceptions entail problems with the completeness of the list and tend to move the principle-based standard towards the rules-based path. Furthermore, the option to rebut a principle may result in reduced comparability between entities.

Questions to constituents

21 Can you provide other examples of cases in which applying the cohesiveness principle at the category level may cause problems?

22 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)?

Disaggregation on the face of primary statements

EFRAG broadly supports the disaggregation principle, but remains concerned about the level of detail *required* on the face of primary statements. This can obscure key messages and could complicate rather than improve the communication between preparers and users of financial statements.

23 The IASB has considered the concerns expressed by constituents in response to the DP and decided to permit some of the disaggregated information to be presented in the notes to financial statements, rather than on the face (for example, income and expenses disaggregated by nature).

24 The Draft ED may leave some room for discussion as to whether the level of disaggregation on the face of primary statements is driven by a principle or by rules. On the one hand, the Draft ED requires an entity to consider the *relevance* of a separate presentation to an understanding of the entity's financial position (paragraph 119) and to consider usefulness of separate presentation for understanding the activities of the entity and for assessing the amount, timing and

uncertainty of future cash flows (paragraph 140) in determining the appropriate level of detail on the face of primary statements. The function, the nature and the measurement basis are listed as *factors* in determining the level of disaggregation (paragraph 47).

25 On the other hand, the Draft ED is rather prescriptive about the *required* level of detail on the face of primary statements. For example, paragraphs 120 and 121 *require* disaggregation of assets and liabilities by nature and by measurement basis on the face of the statement of financial position, and paragraph 140 *requires* disaggregation of all items of income and expense (including other comprehensive income) by function on the face of the performance statement(s), unless disaggregation by function is not useful to users of financial statements. In addition, paragraph 115 *requires* that assets and liabilities are also grouped as short-term and long-term within each category in the statement of financial position or presented in order of liquidity.

26 We are concerned about the level of detail required on the face of the primary statements. We believe that these requirements may result in overly detailed primary statements, which could obscure key messages and complicate rather than improve the communication between preparers and users of financial statements. We believe that the standard should outline the *principle* that should be followed to determine the appropriate level of detail on the face of primary statements.

Questions to constituents

27 Do you share EFRAG's concerns that the disaggregation requirements in the Draft ED might result in overly detailed primary statements?

28 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?

29 What other alternatives would you propose to avoid primary statements becoming overly detailed?

Classification into sections, categories and subcategory

EFRAG is pleased that the Draft ED clarifies that the overall classification approach based on *functional activities* is a requirement that is not at management's discretion.

EFRAG supports the principles underlying the classification of items into sections, categories and subcategories, but has concerns about the proposed application of these principles.

30 The Draft ED proposes that classification of items in financial statements into sections, categories and subcategory should be based on *how* those items relate to the entity's activities. The Draft ED clarifies that the overall classification approach based on *functional activities* is a requirement that is not at management's

discretion. EFRAG agrees that classification should reflect the use of assets and liabilities in the business, and should take into account the function of these assets and liabilities within each reportable segment. Although this proposal may result in similar assets and liabilities being classified in different sections and categories, if they are used differently, EFRAG believes that it strikes the right balance between flexibility and comparability between entities, and thus will improve communication between users and preparers of financial statements.

31 EFRAG also supports the principles for classifying items into sections, categories and subcategories. However, we are concerned about the proposed application of these principles, especially in respect of the financing section. These concerns are discussed in detail below.

Definition of financing section and the "net debt" notion

EFRAG believes that equity should be a separate, standalone section, rather than a category within the financing section.

EFRAG believes that the definition of the financing section should be based on the notion of net debt.

32 The Draft ED proposes that the financing section includes items that are part of an entity's capital-raising activities. Depending on the nature of the source of the capital raised, items would be classified into either the debt or equity category.

33 EFRAG broadly agrees with the *principle* that the financing section should reflect an entity's capital structure and its financing activities. EFRAG also supports the IASB's decision to make the definition of the financing section more specific than in the DP and not to restrict it to the items that meet the definition of a financial asset or a financial liability. However,

(a) EFRAG disagrees that equity should be considered a category within the financing section. EFRAG believes that equity should form a separate section, as debt and equity are fundamentally distinct sources of capital. The difference in nature of these sources of capital justifies their separate presentation. The IASB is currently working on a project concerning the distinction between debt and equity. EFRAG agrees with the objective of that project.

(b) EFRAG disagrees with the IASB's decision not to define the financing section based on a notion of net debt and to exclude the assets, which are used to manage an entity's financial position (e.g. cash and short-term investments) from the financing section. EFRAG believes that it would be more decision-useful if the definition of the financing section were aligned with the definition of "net debt", as this would allow *all* items related to the financing activities of an entity to be presented together. It would better inform the users as to *how* the financial position is being managed. Therefore, EFRAG believes that the financing section should include both liabilities and assets used in the financing activities.

34 We appreciate that the Draft ED includes a proposal in paragraph 255 to provide an analysis of changes in the line items that normally constitute net debt. However, this does not take away our concerns about the definition of the financing section.

35 EFRAG acknowledges that there may be concerns that the term "net debt" is not defined and that different opinions about its definition exist amongst preparers and analysts. Therefore, some may feel reluctant to define a section in financial statements with the reference to an undefined term. However, based on the discussions with European users, we understand that users generally do not believe that these concerns are critical or cause significant practical issues. The European users indicated that, for the purposes of their analysis, net debt does not need to be entirely consistent between entities. They also indicated that it is more important that financial statements disclose how this term is defined within them, clearly specifying the list of items considered, and that this definition is used consistently from period to period.

Questions to constituents

36 Do you share EFRAG's view that equity should be a section on its own rather than form part of the financing section?

37 Do you share EFRAG's view that the financing section should include *all* items (i.e., including assets) engaged in the activities related to management of the financial position?

38 Do you share EFRAG's view that the definition of the financing section should be based on the notion of net debt?

39 Do you have concerns about the term "net debt" not being defined? Would this reduce comparability between entities?

40 If you do not agree with the proposals in the Draft ED in respect of the content of the financing section and you do not share EFRAG's view that it should be defined based on the notion of net debt, then what alternative approach would you propose?

Classification of cash

EFRAG disagrees with the proposal that all cash should be classified in the operating category. Consistent with its view on the definition of the financing section, EFRAG believes that cash should be classified together with all other assets and liabilities used in the financing activities.

41 The Draft ED proposes that *all* cash should be classified in the operating category in the statement of financial position. However, an overdraft (i.e., negative cash balance) would be presented in the debt category as a short-term borrowing. In support of this proposal, paragraph 103 of the Basis for Conclusions to the Draft ED includes an argument outlining that it might be difficult, if not impossible, for an entity to identify some of its cash as having one function and some as having another function. In addition, the Board believes that allowing cash to be classified, based on

how management intends to use that cash in the future, could result in the presentation of misleading, rather than useful, information.

42 We appreciate the practical difficulties of applying a classification approach, based on functional activities to cash balances, and have sympathy with the Board's arguments for proposing to classify cash within one category. However, we disagree with the proposal to classify cash in the operating category. As indicated earlier in paragraph 33(b), we believe that it would be more decision-useful if the definition of the financing section were aligned with the definition of "net debt", and that this would better inform users as to *how* the financial position is being managed. Therefore, we believe that all cash (including negative cash balance) should be classified within the financing section.

Questions to constituents

43 In which category would you prefer to classify cash?

Objective and the bottom line of a cash flow statement, net debt reconciliation

44 The issues of cash classification and the content of the financing section are closely related to questions about the objective of the cash flow statement and the question of whether it should portray movements in cash or net debt. EFRAG held preliminary discussions about these issues, but did not reach a consensus. Some EFRAG TEG members, however, referred to the alternative format for presenting cash flow information included in response to the DP prepared by the Corporate Reporting Users' Forum (CRUF). The alternative statement proposed by the CRUF in lieu of a cash flow statement shows changes in the net debt rather than in a cash balance. EFRAG's comment letter on the DP also highlighted the importance of net debt reconciliation; however it did not propose that it should replace a statement of cash flows. The CRUF's response to the DP argues that a reconciliation of net debt helps to ensure that users' assessment of net cash flows is not distorted by redemptions or issuance of debt or purchase of money market funds, since these transactions are all value neutral to shareholders.

45 EFRAG seeks views of constituents on these matters.

Questions to constituents

46 EFRAG seeks input from constituents, especially from users, on whether a cash flow statement should provide information about changes in:

- cash balance; or
- a net figure of assets and liabilities included in the financing section (i.e. "net debt" under EFRAG's proposal).

47 Please provide arguments supporting your view.

Other classification challenges – different sources of financing

48 The Draft ED proposed that borrowings be classified into different sections and categories depending on their source. For example, an entity acquires a building for its activities and it has the following options to finance the transaction:

(a) obtaining a loan from a financial institution, which will be classified in the debt category of the financing section under the ED;

(b) entering into a finance lease transaction, which will be classified in the operating finance subcategory of the business section under the ED;

(c) entering into a long-term borrowing arrangement with the seller, which will be classified in the operating finance subcategory of the business section; or

(d) raising capital by issuing either debt or equity instruments, which will be classified in the respective categories in the financing section under the ED.

Questions to constituents

49 EFRAG seeks input from constituents, especially from users, on whether the proposed approach to classification of different types of financing arrangements would result in decision-useful information.

50 Please provide arguments supporting your view.

Statement of cash flows

Direct operating cash flows

EFRAG disagrees with the proposal to require the direct method for presenting operating cash flows accompanied with an indirect reconciliation of operating profit to operating cash flows, because the IASB has not provided compelling arguments explaining why the change is needed.

51 The Draft ED proposes to require the direct method for presenting operating cash flows, accompanied with an indirect reconciliation of operating profit to operating cash flows, which would immediately follow the Statement of Cash Flows. EFRAG disagrees with this proposal.

52 The IASB argues that the direct method for presenting operating cash flows is more intuitive and understandable to a broad range of users of financial statements, and it improves the ability of users to predict future cash flows. However, the Board does not specify *how* that ability would be improved and why the indirect cash flow statement does not provide information of the same quality.

53 The IASB also believes that a direct cash flow statement would improve insight into an entity's cash conversion cycle and the relationship between revenue and expenses presented in the statement of comprehensive income and cash flows. Although we may agree with the argument that the direct method could improve

insight into an entity's cash conversion cycle, we do not agree that it would improve insight into the relationship between items presented in the comprehensive income and cash flows. In fact, we believe that the *indirect* method results in more useful information about this relationship.

54 The IASB acknowledges that the costs associated with the preparation of a direct operating cash flow, by tracking it at an individual transaction level, could be high. Therefore, the Draft ED proposes that the direct operating cash flows could be derived using the indirect-direct approach. We understand that this indirect-direct approach is currently used by analysts, for example, in calculating the amount of cash received from customers during the reporting period. One of the arguments in favour of the direct method for operating cash flows put forward by the IASB is that it would result in information that is superior to any derivations at which even the most skilled analysts would arrive, and that it results in fewer analytical and processing errors than might result by using the indirect method. We are not convinced that information prepared using the indirect-direct approach would differ in any way from the information currently derived by analysts using exactly the same techniques, and therefore would address concerns about accuracy.

55 We understand that the IASB considered different options for improving the current indirect method for presenting operating cash flows. One of the options was to define the starting point for the indirect reconciliation as the profit or loss from operating activities. We agree that the starting point for the indirect operating cash flows currently causes comparability issues for users, as some entities use operating profit, some use net profit or loss, or some other figure, as a starting point for the statement of cash flows. The other option was to require a separate disclosure of cash receipts and payments related to the purchase, sale and settlement of operating assets and liabilities (e.g., purchase of fixed assets). We are disappointed that the IASB decided, without providing sufficient arguments, that these options would not address the shortcomings of the indirect method.

56 We believe that the IASB failed to provide sufficiently convincing and compelling arguments supporting the advantages and superiority of the direct method over the indirect method.

57 We do not believe that the change, which will involve significant costs for preparers, is really justified or needed. In our view, the current option of presenting cash flows using the indirect method should be retained. However, some improvements to it may be considered; for example, by defining the starting point for the statement to improve comparability between entities. Some users additionally raised concerns that the proposed indirect-direct method for presenting cash flows is an approximation technique, which may produce insufficiently accurate results.

Questions to constituents

58 Do you share EFRAG's disagreement with the removal of the option to present operating cash flows using the indirect method?

59 If you are in favour of the proposal to *require* the direct method for presenting operating cash flows, please:

- state the *shortcomings* of the indirect method for presenting operating cash flows and explain how this affects your analysis;

- state whether, and if so how, the direct-indirect method proposed by the ED would address these shortcomings.

60 What do you, as a user, think is necessary to address the IASB's concerns about shortcomings of the indirect method?

Disaggregating cash flows

EFRAG is concerned that the proposals as currently drafted would result in the same information being presented several times. This overload of information may obscure key messages and deteriorate, rather than improve, the communication between an entity and its users.

61 The Draft ED proposes that cash receipts and cash payments be disaggregated in the statement of cash flows to reflect the *nature* of the income or expense to which the cash flow is related (e.g. cash received from customers, cash paid for labour and cash paid for advertising). In addition, cash flows that are not expected to occur every reporting period would be presented separately (e.g. payment of a legal judgement, payment of termination benefits or receipt of an insurance settlement).

62 EFRAG notes that, in addition to the above requirement, the Draft ED also proposes that information about cash receipts and payments be included in the analysis of changes in assets and liabilities that management regards as important for understanding the current period change in the entity's financial position and in the note providing information about remeasurements. EFRAG believes that the IASB did not sufficiently justify why the same information is required to be presented several times. EFRAG urges the IASB to analyse the full list of disclosures required prior to finalising the ED to avoid superfluous information.

Questions to constituents

63 Does information about different types of operating cash outflows (e.g. cash paid to suppliers, cash paid to employees, cash paid for advertising) have substantially different predictive values[1] for users, and therefore should be presented separately? If yes, then please explain why? If not, would it be sufficient if information about cash outflows related to operating activities is presented as a single amount?

64 If you believe that information about operating cash outflows needs to be disaggregated, then please provide the preferred *principle* for disaggregation (e.g. recurring / non-recurring), and explain how this information would enhance your analysis.

65 Does information about cash inflows and cash outflows need to be presented in multiple places (i.e. statement of cash flows, analysis of changes in assets and

1 Analysts may treat information in financial statements differently depending on the relevance of the information in forecasting future cash flows.

liabilities, information about remeasurements) or would it be sufficient if it is disclosed only once? If yes, then which disclosure would result in the most useful information?

Cash flow information for financial institutions, including insurance entities

EFRAG believes that the statement of cash flows is of little value for users of financial services and insurance entities' financial statements.

66 Our discussions with the banking and insurance sector suggest that cash flow statements, irrespective of whether they are prepared using the direct or indirect method, are of little use to the users of the financial statements of financial services entities, as it does not reflect the value generated for the shareholders of the entity. In addition, the cash flow statement is not a tool normally used to manage a bank and thus is of limited relevance.

67 EFRAG also considered the proposals related to the presentation of financial statements included in the ED *Insurance Contracts*. Under the proposals in the ED *Insurance Contracts*, an insurance liability would be presented net in the statement of financial position. Premiums received, claims and expenses paid would not be presented gross on the face of the statement of comprehensive income, as the ED *Insurance Contracts* proposes a summarised margin approach. We believe that volume information on transactions with customers represents useful information for users of insurance entities' financial statements.

68 We believe that the proposals included in the ED *Insurance Contracts* are not consistent with the cohesiveness principle outlined in the Draft ED. When considering the "net" presentation proposals in the ED *Insurance Contracts* for the statement of financial position and the statement of comprehensive income and the "gross" presentation proposals in the Draft ED for the statement of cash flows, one may argue that it may be even more confusing for users. It would not be possible to relate the actual cash flows to the items presented on the face of the statements of financial position and comprehensive income, as the detailed disclosure on transactions with customers and expenses paid will only be included in the notes.

69 Notwithstanding our view that the current option to present operating cash flows using either the indirect or direct method should be retained, we have some comments about the netting proposals should a financial services entity choose to present operating cash flows using the direct method. First of all, we do not support the proposal to present deposit transactions between an entity and its customers (e.g. by crediting interest to a customer's account or deducting fees from a customer's account) as cash inflows and cash outflows of the entity in the statement of cash flows. These transactions do not result in actual flow of cash and, as such, should not be included in the statement of cash flows. In addition, we would suggest that the list of cash flows arising from activities of an entity, with financial services activities where the net presentation is allowed, should be expanded to include deposits with governments and other state bodies, where relevant. We understand that in some countries, the clearing systems are set up in such a way that the government or other state body acts as the clearing house. Therefore, we believe that it is equally relevant to present deposits and withdrawals from those entities on a

net basis. We believe that presentation of transactions with a clearing house on a gross basis would not provide meaningful information.

Questions to constituents

70 Do you share EFRAG's view that statement of cash flows is of little value for the users of financial services and insurance entities' financial statements?

71 What alternative approaches would you propose?

72 EFRAG seeks views from the users of financial services (including insurance) entities' financial statements on the following:

- please specify the *list* of items of cash inflows and outflows, which is essential for your analysis (e.g. cash received from customers);
- please explain *why* the disclosure of these cash flow items is essential for the analysis.

73 Do you share EFRAG's concerns about the netting proposals, should an entity choose to present a direct cash flow statement?

Information about remeasurements

EFRAG agrees with the overall *objective* of the disclosure on remeasurements, i.e. to help users of financial statements in assessing the extent to which the various components of comprehensive income for a period will recur in the future. EFRAG believes that this objective should be articulated clearly in the standard itself and not just in the Basis for Conclusions. However, EFRAG has concerns about the proposed approach to meet this objective, the proposed definition and the proposed location of the disclosure.

74 EFRAG agrees with the overall objective of the remeasurements disclosure to help users of financial statements in assessing the extent to which the various components of comprehensive income for a period will recur in the future. However, we believe that this objective should be articulated clearly in the main text of the standard, rather than in the Basis for Conclusions. EFRAG believes that the standard should clearly state the requirement, i.e. *what* should be done, and the explanation as to *why* this should be done, could be included in the Basis for Conclusions. This is particularly important because the Basis for Conclusions does not form part of the authoritative guidance and is not part of the legal framework in Europe.

75 Although we agree that some information in the financial statements can be treated differently by analysts for their projections of future cash flows, and it may be important for them to distinguish between different types of information, we are concerned that the Draft ED fails to articulate clearly *the principle* for distinguishing between items with different predictive value. That may be the main reason for defining remeasurements by listing the items, which are included or excluded from the definition. We analysed the list of items included and excluded from the

definition of remeasurements, but failed to identify an underlying principle for allocating items to one group or the other. For example, it is not clear why a realised gain or loss on a sale of property, plant and equipment is treated differently from a write down of non-current assets held for sale to their fair value less cost to sell, as the "realisation" does not seem to be a determining factor in cases of changes in fair value of other assets.

76 We believe that further consultation with the users is required to understand *how* they distinguish between items with different predictive values and what *principle* they employ. This would also help to address concerns about the definition of remeasurements.

77 In addition, we note that information about remeasurements is required to be presented as part of the analysis of changes in assets and liabilities. We do not support duplication of disclosures in financial statements. We believe that they should be provided in the context that is most useful to the users. In our view, this information is best presented in separate notes for each individual item. Therefore, we do not support a proposal to require a *separate* note on remeasurements.

Questions to constituents

78 Do you share EFRAG's concerns about the lack of a principle underlying the definition of remeasurements and the duplication of the disclosure requirements?

79 What information about remeasurements would you find useful? EFRAG seeks input from constituents, especially from users, on the following:

- do you support the proposed objective for the disclosure on remeasurements, or do you believe that it should be further clarified or amended (consider *how* you use information about remeasurements);
- please specify the principle you employ for distinguishing between items with different predictive value;
- please indicate the most useful location for the information about remeasurements.

Analysis of changes in assets and liabilities

EFRAG is concerned that the proposal might result in a requirement to present a reconciliation for most items displayed on the face of the statement of financial position.

80 The Draft ED replaces the detailed line-by-line reconciliation schedule proposed in the DP for all items in the statement of financial position, with an analysis of changes in balances of those assets and liabilities that management regards as important for understanding the current period change in the entity's financial position. EFRAG is supportive of this development and agrees that the reconciliation will provide decision-useful information, as it helps users to distinguish between items with different predictive value.

81 However, we are concerned that when all factors listed in paragraph 244 of the Draft ED are considered, the proposal might result in a requirement to present an analysis of changes for nearly all items displayed on the face of the statement of financial position.

82 In addition, we understand that the requirement to present changes from cash inflows and outflows will not cover *all* items on the face of the statement of financial position, but only those linked directly to the cash inflow or outflow. For example, the Draft ED proposes that changes in the inventory balance will not include cash outflows, as cash paid for it is likely to be disclosed in the analysis of changes in the accounts payable. We agree with the proposed approach, which allows avoiding duplication of information in the financial statements. However, we note that if this approach is applied consistently, then information about cash outflows related to acquisition of items of property, plant and equipment would not be provided separately, but included as part of the reconciliation for accounts payable. We understand that this is not the intention, as information about capital expenditure and cash received from disposal of property, plant and equipment is required to be disclosed separately. We recommend that the IASB review and clearly articulate the principles for presenting or not presenting information about cash inflows and outflows related to separate items. In addition, we recommend that requirements are not duplicated. Therefore, if information about cash inflows or outflows is required to be disclosed in the analysis of changes in assets or liabilities, then such information should not be required in the statement of cash flows. This is an additional argument against the proposal to require a direct statement of cash flows.

Questions to constituents

83 Do you share EFRAG's concerns about the proposals on the analysis of changes in assets and liabilities?

Comparative information for changes in classification following a change in use

EFRAG disagrees with the proposal to require reclassification of comparative information in all cases, including a change in presentation following a change in an entity's activities.

84 EFRAG disagrees with the proposal to require reclassification of comparative information in all cases, including a change in presentation following a change in an entity's activities. EFRAG acknowledges that this proposal reflects the current requirements in IAS 1 *Presentation of Financial Statements*, but believes that the proposal is inconsistent with the classification principle proposed in the Draft ED, which is based on the functional activities. If the underlying principle is considered to be that financial statements reflect the functions in which assets and liabilities are used, and the functions of a particular asset are different in different periods, then this should be reflected in the financial statements. The change in classification may be explained in the notes.

Questions to constituents

85 Do you share EFRAG's view about the requirement to reclassify comparative information for a change in presentation, following the change in the entity's activities?

Implementation costs and timeline

Questions to constituents

86 Please provide an estimate of costs to implement this proposed standard, that includes estimates of the following:

a) Systems costs (software and consulting)

i. Changes to the consolidation and reporting systems

ii. Changes to sub-ledger systems

iii. Other system changes (please explain)

b) Business process change costs

i. Documentation of new business processes and controls

ii Accounting policy documentation

iii Training of employees

If you are not able to provide an accurate quantitative cost estimate, please provide a *qualitative* assessment.

87 Please provide a summarised implementation timeline that contains your best estimate of expected activities and the time required to complete those activities.

88 Please provide an estimate of costs to maintain the financial reporting using the new presentation model.