BUSINESSEUROPE

POSITION PAPER

7 April 2009

BUSINESSEUROPE RESPONSE TO IASB DISCUSSION PAPER ON FINANCIAL STATEMENT PRESENTATION

BUSINESSEUROPE welcomes the opportunity to comment on the proposals set out in the Discussion Paper. The financial statements are key to communication between preparers and users and therefore we believe that, for the project to succeed, the outcome must be accepted by both parties as improving this process. It should not drive internal reporting and external reporting apart, especially in providing the basis for discussing performance. We believe that, unless reporting on performance is the key objective for this project, there is a risk of this divergence, and of increasing barriers to good communication.

We have answered below each of the specific questions in the paper and would like first to highlight the key themes.

The Discussion Paper begins by stating that the boards developed three objectives for financial statement presentation based on the objectives of financial reporting and the input the boards received from users of financial statements and from members of their advisory groups. Those proposed objectives state that information should be presented in the financial statements in a manner that:

(a) portrays a cohesive financial picture of an entity's activities. A cohesive financial picture means that the relationship between items across financial statements is clear and that an entity's financial statements complement each other as much as possible.

(b) disaggregates information so that it is useful in predicting an entity's future cash flows. Financial statement analysis aimed at objectives such as assessing the amount, timing and uncertainty of future cash flows requires financial information that is disaggregated into reasonably homogeneous groups of items. If items differ economically, users may wish to take that into account differently in predicting future cash flows.

(c) helps users assess an entity's liquidity and financial flexibility. Information about an entity's liquidity helps users to assess an entity's ability to meet its financial commitments as they become due. Information about financial flexibility helps users to assess an entity's ability to invest in business opportunities and respond to unexpected needs.

We support the boards undertaking this project, partly for convergence reasons and partly because there may be a benefit to users in having a more standardised format, for example presenting a separate financing section and in a prescribed layout for the cash flow statement (see Appendix to this letter). We also agree with basing the

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presentation of the financial statements on using the management approach. However we understand that, for some, this term may indicate a level of flexibility beyond what we believe the Board intends. Our understanding is that it must reflect the entity's business model and is therefore likely to be consistent from period to period and provide comparability within industry sectors and beyond.

Consistency (or "cohesiveness" in formatting the information) across the standards has merit, but should not take precedence over relevance and practicality, and therefore not where it results in a loss of clarity. Disaggregation, separating information that responds differently to economic events, is also useful but only where appropriate and also not if the level of detail on the financial statements would cause a loss of clarity (as acknowledged at the end of paragraph 2.10).

Our major concerns on the proposals are:

- although we understand the logic for using the balance sheet as the basis for applying the cohesiveness principle, this should not compromise the presentation of the income statement and/or cash flow statement which are considered more important by users. Cohesiveness is helpful but should not override relevance for these statements; for example, for pensions a single line item in a single category in the balance sheet should not drive a similar requirement in the income statement.

- presenting the most important measure, net income (profit and loss), only as a sub-total within a larger statement when it is a key starting point for users' analysis.

- compulsory use of the direct cash flow method

- introducing a reconciliation between the statement of cash flows derived using the direct method and the statement of comprehensive income. We do not support the direct cash flow method, and we consider that the existing indirect cash flow statement (adapted to reconcile income to cash flows at the Business or Operating category level) is both more practical and useful.

Changes should be made only where deficiencies from existing practice can be demonstrated, and where there is sufficient evidence that they are supported by users with practical benefits exceeding the costs. Some of the changes have significant cost implications because the data required is not readily available from existing systems and processes. It is important, and aligned with the management approach (an entity's business model), that the information presented is readily obtainable from existing reporting systems. A full cost/benefit analysis should be carried out for changes that would require additional data to be obtained.

To succeed it should be recognised that the financial statements alone, in whatever format, cannot provide the full story. They must be read in conjunction with the management commentary to understand the entity's "health", whether its key KPIs are being met, how it creates wealth, how sustainable this process is, what risks there are to the process i.e. to future cash flows, where and why volatility occurs.

The scope of the proposals, in terms of the impact on individual accounting standards other than IAS 1, is also not clear. For example, will it replace IAS 7, some of the disclosures in IFRS 7, any disclosures in any other standards?

The paper explains (Paragraph 1.22, and 3.32-3.33) that the boards decided not to address in this project consideration of which gains and losses should be presented in other comprehensive income and the issue of recycling. We understand that these are matters on which the Board did not feel it could reach a conclusion within the new deadline for issuing an IFRS.

The Board is aware that BUSINESSEUROPE has submitted a paper based on using the entity's business model to determine net income (measuring performance) and we will be happy to have further discussions. Whilst it may not now appear to the Board to be relevant to this phase of the Financial Statement Project, we believe that it will be important to develop a proposal on this issue in the future, for example:

(a) otherwise the Board may have to make rather arbitrary decisions going forward within other projects (pensions being a good example); it may perhaps decide to "freeze" the type of items that can be included in other comprehensive income, or remove some of the items.

(b) in order to align segment disclosures with the financial statements. It is noted in paragraph 1.21 (c) that potential consequential amendments to segment disclosures will be considered for consistency (and see Question 8).

We have also expressed the view that consideration of issues relating to earnings per share should be part of this project.

Chapter 2: Objectives and principles of financial statement presentation

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*.

   It is acknowledged at the end of paragraph 2.4 in the Discussion Paper that the proposed objectives of financial statement presentation are not fully consistent with the objectives of financial reporting in the Conceptual Framework Phase A Exposure Draft published in May 2008 (quoted in paragraph 2.1). As one of the key issues debated earlier in the project, the retention/definition of net income, is no longer part of this project, then the Board may consider this inconsistency may not necessarily affect the outcome at this point but BUSINESSEUROPE believes it is important that the fact investors and lenders are interested in how well the directors and management have discharged their responsibilities ("stewardship") is reflected in the objectives and in the supporting paragraphs. It would improve the understanding of and the reasoning behind the proposed format and provide clarity going forward.

   Elevating the status of stewardship would mean that transactions and flows are not given less prominence than the balance sheet (statement of financial position) and movements therein. We understand from our discussions with investors that this is much more in line with their approach to analysing financial statements. The only specific reference at present seems to be in paragraph 2.8 where it is stated that disaggregation can assist users in understanding an entity's financial results.

   An example of the different focus would be that pension costs would not have to be reported on a net basis in a single category within the income statement (see Question 5 below).

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?*

   We believe that, subject to our view of applying cohesiveness with appropriate flexibility, communications between preparers and users will benefit from this separation. Even though different companies will allocate different items between the two activities based on their respective business models, it will enable a better understanding of the way that the entity is managed.

   In fact, we would propose to go further and require the cash flow statement to reconcile to the movement in net debt rather than with the movement in cash (see our response to Q6 below). This is reflected in our proposed format given in the

Appendix to this letter. The composition of net debt would be based on the management approach (business model) and be a sub-set of the financing section.

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?*

   We agree with the proposal to present equity as a section separate from the financing section. Transactions and balances with equity holders are of a different nature from those with lenders, which is why the separate project currently underway to determine the classification is important.

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?*

   In general we agree with presenting discontinued operations as a separate section. Assuming the definition of a discontinued operation is revised as proposed in the project to amend IFRS 5, we do not consider that separately identifying the cash flow (net) from discontinued operations will be onerous.

   We would like to raise a minor issue arising from the Toolco Statement of Financial Position in "Illustration 1A: Proposed format" where items (and the total) of the Discontinued operations section are described as "Assets held for sale". We assume that this is a coincidence, i.e. in this example all assets held for sale also qualify as Discontinued operations, but presentation of held for sale items and discontinued operations should not be confused.

5. *The proposed presentation model relies on a management approach to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment (see paragraphs 2.27, 2.34 and 2.39–2.41).*
   (a) Would a management approach provide the most useful view of an entity to users of its financial statements?
   (b) Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach? Why or why not?

   We agree with the management approach which, as described in the introduction to this response, we view as using an entity's business model. It is important that preparers and users have a common understanding of the entity.

   However, we believe that this can conflict with the proposed restrictions of (a) a cohesiveness approach based on categorisation in the balance sheet and (b) the

financing section containing only financial assets or liabilities. We provide some examples below:

i. the presentation of post-employment benefits (discussed in paragraphs 2.45-2.47), where an entity might determine under the management approach that the net asset or liability should be reported in financing and/or the pension cost should be analysed between the business and financing sections. We understand from hearing Board discussions with the staff that in fact the net position may be considered a financing item, even if the corridor approach is applied, although we would be grateful for confirmation. However it would not be acceptable under the proposed model to analyse the cost between different categories.

ii. the treatment of dividends (see paragraphs 2.48 and 2.55). We do not believe that simply because dividends payable are a liability this categorisation should be carried into the cash flow statement as financing rather than equity. Dividends of course have to appear in the Statement of Changes in Equity. Would this mean that entities that declare and pay a dividend in the same reporting period (i.e. do not present a liability) can report payments as equity in the cash flow statement?

iii. the treatment of equity settled share-based payments, which would be within equity in the balance sheet but of course must be presented elsewhere in the income statement.

iv. guidance in the examples indicates that the asset and liability relating to finance leases may have to be shown in the same category; however we understand this is not the case and, as in i), would like this to be clarified.

We consider that for the management approach to be useful it should not be subject to such restrictions, (indeed the third example above shows that there is already some flexibility in the Discussion Paper). The proposal (paragraph 2.41) would require each entity to set out its policy, with any change (and we agree with paragraph 2.42 that it is possible for an item to change category during its existence) subject to the retrospective requirements of IAS 8. We refer to the introduction to our response: reflecting an entity's business model is likely to result in consistency from period to period and provide comparability within industry sectors and beyond.

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?*

This question is addressed to users, but our view is that there will be a benefit, particularly by bringing together assets and liabilities in the financing section. As

explained in answer to Q2 above (and see the Appendix to this letter), we would propose to require the cash flow statement to reconcile to the movement in net debt rather than with the movement in cash.

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.*

   We agree with the proposal, whereby assets and liabilities might be classified differently in different segments.

   Our understanding is that, if an entity has a segment predominantly responsible for the financing of the other segments, then this would be classified as financing. It would be helpful if this could be clarified.

   It is also not clear whether an entity that is not required to apply IFRS 8 Operating Segments must use the classification approach set out in the Discussion Paper.

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.*

   We understand that segment disclosures are an important area for users. In developing IFRS 8, the Board decided that segment information should be presented in accordance with the management view. We believe it is important that this principle is retained, and that any additional segment disclosures (a) do not conflict with that management approach, and (b) are only required to the extent that the information is already provided to management. Also see our response to Q.7 above.

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?*

   We refer back to our comments (to Q.5) above that there should be no restrictions in the definitions that might prevent an entity following its business model (applying the management approach). In our response to Q.5 we provided examples of where restrictions would be damaging.

We believe that using the term “investing” as a category title may be confusing to users, as its components will conflict with “investing” as currently applied in IAS 7 Statement of Cash Flows.

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?*

The restriction placed on the financing section is not consistent within a management approach, and we highlight some specific concerns about pensions and leases earlier in our response to Q.5, although it is possible that further clarification may alleviate these.

We understand that the outcome of the separate project on Amendments to IAS 19 Employee Benefits may have implications for the presentation of post-employment benefits in the financial statements, indeed we made that point in our response to the 2008 IAS 19 Discussion Paper. However we consider that at this stage it is premature to introduce restrictions.

There are no specific questions addressing the treatment of cash (paragraphs 2.68-2.70), discontinued operations (2.71-2.73) or income taxes (2.74-2.75). We support the proposed treatment for discontinued operations and for income taxes.

Chapter 3: Implications of the objectives and principles for each financial statement

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.*
(a) What types of entities would you expect not to present a classified statement of financial position? Why?
(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?

(a) We do not see the purpose of this question, whether or not to present a classified statement of financial position will be a matter for each entity to decide.
(b) We consider that the guidance provided is sufficient; it is a continuation of the management approach to allow entities to select the appropriate classification within this broad guidance. However we comment below on two aspects of the proposal.

We believe that a classification between current and non-current should be based on the operating cycle, assumed to be one year unless stated otherwise. We believe that this provides more useful information.

We are concerned by the requirement that deferred tax assets and liabilities should also be classified as short-term or long-term depending on the classification of the related items (a change to existing requirements); this would align IFRS with existing US GAAP requirements. We do not believe that the additional cost of providing this information can be justified by benefits to users. There is potential for confusion, for example where an entity may be in an overall deferred tax liability position entity in a tax jurisdiction but in that same jurisdiction has a deferred tax asset in respect of short-term items.

12. *Paragraph 3.14 proposes that cash equivalents should be presented and classified in a manner similar to other short-term investments, not as part of cash. Do you agree? Why or why not?*

We support this change to existing requirements. However, although the Discussion Paper (paragraphs 3.73-3.74) clarifies that the offsetting guidance for short-term investments would also apply to cash equivalents, it is not clear whether cash equivalents would remain a defined item required to be presented (and on a net basis) separately from short-term investments. To reduce complexity, we would not support this separation from short-term investments.

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?*

BUSINESSEUROPE considers that separately presenting in the balance sheet assets and liabilities that are measured on different bases will reduce clarity and therefore understandability. There is the potential for an explosion of line items when considering this together with various other categorisation proposals in the Discussion Paper.

There are many measurement methods that can be applied to assets and liabilities, for example cost, depreciated cost, impaired cost, amortised cost, lower of cost or net realisable value, depreciated revaluation, fair value (with many variants) - and more complex methods for such items as post-employment benefits. The method applied for each material item is already disclosed in an entity's accounting policies, and balance sheet line items are further analysed as necessary in notes. We do not consider that the proposal will provide additional useful information, and we believe that it will lead to unnecessary complexity to the financial statements (and, contrary to the assertion in paragraph 3.20, add to the cost of preparation). We believe that users are more interested in understanding the transactions/flows and other events recognised in net income (profit and loss).

We note the reference to an existing requirement in IFRS 7, but this is restricted to categories of financial instruments and also allows disclosures in the notes.

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?*

We do not agree with requiring a single statement of comprehensive income. At the beginning of this response, we mentioned the critical issue of defining net income (profit or loss) and the related paper that BUSINESSEUROPE prepared. In that paper we stress the importance of net income in the communication between preparers and users, and therefore it should not become a mere sub-total within a larger statement. The DP seems to be more concerned with the removal of options, rather than demonstrating the need for a single statement. As stated in the introduction to this letter, the issue of recycling should be addressed at the same time.

We do not believe the statement in paragraph 3.29 that "including all income and expense items in a single statement … will make it easier for users to understand …". The assertion at the end of paragraph 3.35 that it is necessary to "allow users to become familiar with the notion of comprehensive income ..." seems illogical, as it follows the statement that "Users from all sectors incorporate profit or loss or net income in their analyses, either as a starting point for analysis or as the main indicator of an entity's performance". We consider that it will be detrimental to financial reporting if the requirements of IAS 1 (as issued in September 2007) are changed in this area. The Board seems to believe that part of the role of the project is to re-educate users towards their point of view.

In our comment letters on the Board's Conceptual Framework proposals, we have raised concerns that the case has not been made for applying the entity rather than the parent approach. By only including net income as a sub-total, this does not readily allow the minority (non-controlling) interest element to be shown and again the entity approach is being required without due process.

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?*

Although there may be situations where somewhat arbitrary allocations are necessary, in general we do not consider the proposal to be onerous.

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?

BUSINESSEUROPE generally supports this proposal as the level of detail in the disclosures is consistent with existing requirements that we believe have the right balance between cost to preparers and benefits to the user. It is important that the level of disaggregation required is linked to the usefulness of the information. For example, companies may accumulate costs across plants or products to determine the cost of production, transfers between manufacturing and/or service centres and of the inventories and cost of goods sold; an analysis of the original cost by nature is not maintained and would not be required under the proposal.

We consider that, in many cases, clarity will be lost if too much detail is included in the financial statements themselves, and therefore we welcome the flexibility in the proposal that the additional by-nature information can be provided in the notes (if indeed an entity considers it is required at all), and that an entity may consider it appropriate for a individual item to be presented separately rather than by function or by nature.

Paragraph 3.42 only refers to a requirement to provide further disaggregation in the statement of comprehensive income. However "Illustration 1A: Proposed format" shows this carried forward into the cash flow statement, and into the reconciliation schedule. If an entity considers it appropriate to present by-function by-nature information for the statement of comprehensive income, we would not support a requirement that the same level of disaggregation must also be presented in the cash flow statement, and in the reconciliation, and we have discussed this in our answer to Q.19 below. (Cohesiveness does not extend, rightly in our view, to the need to consider a by function/by nature analysis in the statement of financial position.)

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.*

    We do not support the allocation of income taxes to individual items of other comprehensive income, but otherwise we agree that existing requirements should remain unchanged in this area. Where necessary, entities have already developed methods to allocate income taxes to discontinued operations. We agree with the statement in paragraph 3.60 that it would be highly arbitrary and potentially misleading (and more complex, requiring significant effort) and therefore unlikely to be of benefit to users, to allocate tax between categories of income from continuing operations.

18. *Paragraph 3.63 proposes that an entity should present foreign currency transaction gains and losses, including the components of any net gain or loss arising on remeasurement into its functional currency, in the same section and category as the assets and liabilities that gave rise to the gains or losses.*
(a) Would this provide decision-useful information to users in their capacity as capital providers? Please explain why or why not and discuss any alternative methods of presenting this information.
(b) What costs should the boards consider related to presenting the components of net foreign currency transaction gains or losses for presentation in different sections and categories?

In principle it seems logical that foreign currency transaction gains and losses associated with individual assets and liabilities should be allocated to the same category as the related item(s). However there can be significant practical difficulties in making the allocation, particularly for inter-company balances and/or where an entity manages foreign exchange risk centrally.

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 cohensiveness (sic) 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?

BUSINESSEUROPE does not support the proposal to require the direct method of presenting cash flows, and does not agree with many of the supporting arguments in the paper. This is possibly the most contentious of all the changes to existing practice in the Discussion Paper because of its cost, and of course there are significant implications for the proposed reconciliation statement (and also the proposed extension to non-cash disclosure requirements in paragraph 4.18). This change is expected to have a real impact at the underlying transaction capture level, even for “by function” information, with another dimension of difficulty added if this was further analysed “by nature”.

Currently cash flow from investing and financing activities (under the existing definitions in IAS 7 for those categories) must in theory already be presented using the direct method, so the change only affects cash flows from operating activities (where there is a choice). However the categorisation in the Discussion Paper is likely to require the majority of entities to bring together items that, for cash flow purposes, are currently within “operating” with many of the items currently shown as “investing”. This would of course be extremely difficult for those proponents of the existing method, particularly for entities with any items within the newly defined “investing” category.

We have concerns with the assertion that the direct method would provide more decision-useful information than the indirect method, as in our discussions with users there does not seem to be a significant demand for a change. In fact users look for the link between income and cash flow from operating activities that the indirect method provides. We understand that for example in Australia, where the direct method is applied, the information is extremely limited and data is given in the notes based on the indirect method as this is what users focus on.

We also disagree that the direct method is necessarily more consistent with the cohesiveness principle, because the required categorisation would remain (for example cash flow from operations would still be provided).

We believe that there is a need to link the income statement and the cash flow statement but that can be adequately addressed by including a requirement to start the cash flow statement with a defined sub-total, for example Income from operating activities or Income from business activities, and reconciling to the Cash flow from that activity. We attach a possible solution as an Appendix to this comment letter.

We would ask that the Board carry out a full cost/benefit analysis. It is very important that those users who would prefer the direct method on theoretical grounds (and we do not believe that this is the majority) understand the full cost implications (see Q.20 below).

A further issue arises in respect of the line item requirements of the cash flow statement. As stated in our response earlier to Q.16, we do not agree with a requirement to continue the disaggregation (by-function by-nature) in the income statement (should an entity choose to do so) on to the cash flow statement. Although paragraph 3.42 only refers to a requirement to provide further disaggregation in the statement of comprehensive income, "Illustration 1A: Proposed format" shows this carried forward into the cash flow statement, and into the reconciliation schedule. This would add another significant layer of complexity, for example dealing with the allocation of capital expenditure. Illustration 1A avoids this issue by placing all capital expenditure in "general and administrative activities", an apparently arbitrary allocation which demonstrates the lack of additional information that any disaggregation would provide.

We also refer to our response to Q.16 in relation to companies that accumulate costs across plants or products to determine the cost of production, transfers between manufacturing and/or service centres and of the inventories and cost of goods sold. An analysis of the original cost by nature is not maintained.

20. *What costs should the boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81–3.83)? Please distinguish between one-off or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?*

The direct method is the one proposal in the Discussion Paper that has the potential for fundamentally changing the way in which data is collected and reported up through an organisation – at enormous extra cost with no added benefit internally.

There are also substantial practical difficulties that would lead to arbitrary allocations –particularly with disaggregation by function (and by nature within function), where examples include cash payments for items that are charged out to functions via cost centres at tariff rates, and sales and purchase taxes.

Although a material element of the added costs might be considered as one-off, the Board must take into account the time that any change would take to implement (and the preparation of comparative data, potentially for two years for some companies). These initial costs would not only be the resources required to rebuild systems from the general ledger upwards (resources that may be scarce) but also the consequences for training staff. Simply because some cost are one-off should not mean they are ignored in cost/benefit analysis. However the on-going costs must also not be underestimated, as it will increase complexity in coding, data storage and retrieval. There will be consequences for audit costs and regulatory compliance.

This question also asks about the potential for reducing preparation costs, and paragraph 3.83 gives the example of specifying a lower level of detail. We also assume that this question refers to the possible use of an "indirect" direct method, i.e. obtaining direct cash flows by making high-level adjustments to indirect cash flow movements. We understand this is often applied in those jurisdictions where the option to use the indirect method has been eliminated.

The disaggregation proposals (by-function by-nature) in the paper add a further level of complexity. If this is not a requirement, then the indirect direct method would involve adjustments to indirect cash flows at a central level to provide direct cash flows at a suitably aggregated line item level but this would not eliminate the cost of collecting additional detailed data. If we assume for the moment that some users are asking for a direct cash flow statement, we would question whether they would in any case be satisfied by this simplification. (And, of course, the reconciliation statement would have to be simplified in the same manner.) Relying on this degree of simplification also has implications for audit and regulatory compliance.

We also refer to our response to Q.16 in relation to companies that accumulate costs across plants or products to determine the cost of production, transfers between manufacturing and/or service centres and of the inventories and cost of goods sold. An analysis of the original cost by nature is not maintained.

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?

BUSINESSEUROPE believes that this is another situation where the management approach and simplicity should have precedence over the maintenance of a "forced" cohesiveness. Complexity should not be created where there is no corresponding benefit to users.

We would support a separate category or sub-category as appropriate within Business, and only applicable to the income statement and/or cash flow statement. However this issue should be considered together with the disclosures of IFRS 3 Business Combinations and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations to ensure there is a consistent set of requirements.

As a more minor point, we wonder if there is a better term to use to describe these transactions rather than "basket transactions", which has connotations of referring to a business in trouble. "Multi-category transactions" is one suggestion.

Chapter 4: Notes to financial statements

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?*

BUSINESSEUROPE supports the proposal but subject to further clarification. Contractual maturities for items recognised on the balance sheet are generally only relevant for financial instruments where information on liquidity (for liabilities) is already part of requirements under IFRS 7; other areas would include finance leases where maturity disclosures are required under IAS 17. We are not clear whether the Board is considering moving the requirement out of other standards or whether it is intended to have two potentially duplicitous or conflicting disclosure requirements in IFRS.

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.

(b) Should changes in assets and liabilities be disaggregated into the components described in paragraph 4.19? Please explain your rationale for any component you would either add or omit.
(c) Is the guidance provided in paragraphs 4.31, 4.41 and 4.44–4.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.

BUSINESSEUROPE agrees that users' understanding benefits from information on distinguishing the impact of transactions from other movements. We believe however, that the necessary information should already be available in a set of financial statements and notes under current requirements, and we do not agree that to try to bring this together in the single reconciliation schedule proposed will add to that understanding.

- as we have stated in responses above, we believe the focus should be on net income (profit and loss) rather than comprehensive income.

- again as mentioned above, we are not aware of any significant demand for the direct cash flow method from the users with whom we have regular contact, and the detailed disaggregation proposed (plus the separate "Cash flows" column), and this must be coupled with the major negative cost and timing implications. We believe that a relatively minor change to the indirect cash flow statement, which would set out a required format (see Appendix) for reconciling from income to cash flow from operating activities (including fair value adjustments), would meet users' needs.

- we also do not believe that it will be as straightforward as set out in the Discussion Paper. There will be considerable practical difficulties in identifying where to place individual items into the components, which will inevitably result in arbitrary allocations, and in understanding the schedule. We do not consider that it is possible to provide guidance that will result in consistent application. There will also be a cost in preparing this analysis and maintaining definitions within each entity.

A further issue arises in respect of the line item requirements of the reconciliation (see our response to Q.19 on the subject of continuing the disaggregation (by function by nature) requirement in the income statement on to the cash flow statement).

We would also take this opportunity to highlight again the potential costs and resources required to prepare this reconciliation. In Appendix B, paragraphs B17-B19, there is a discussion of the cost/benefit of the reconciliation and alternative proposals, which includes the statement "The boards believe that the benefits of the reconciliation schedule outweigh the incremental costs associated with preparing that schedule". We would like to be assured that the boards have considered in making this assessment the cost/benefit of requiring the direct cash flow statement itself (and we refer back to our response to Q.20), as this is a prerequisite to preparing the reconciliation.

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?*

    No. In view of our response to Q.23 above, we do not see the benefit of considering any further disaggregation of changes in fair value.

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?*

    As stated in responses above, BUSINESSEUROPE believe the focus should be on net income (profit and loss). We do agree that the objective (as described in paragraph 4.29) should be to address users' concerns about the commingling of gains and losses from fair value measurements and other components (although we question that this is in relation to comprehensive income, as the text asserts, rather than net income).

    We would point out that a requirement to provide a schedule to analyse movements in the balance sheets between (a) movements in the cash flow statement, (b) movements arising from foreign currency translation and (c) non-cash movements would (assuming no further disaggregation requirement) be a relatively simple extension of the existing requirement in IAS 7, paragraphs 43-44 (and FAS 52, paragraph 32). This would of course differ from the statement of financial position reconciliation suggested in Appendix B.

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

BUSINESSEUROPE would not support a requirement to include a memo column for management to report unusual or infrequent events or transactions. Selection of items for inclusion is highly subjective, and we do not believe that it is practical for an accounting standard to define such items (which in itself will also give rise to audit issues). There is an existing disclosure requirement for material items of income or expense (IAS 1, paragraph 97), plus requirements in individual standards, which should meet users' needs. It is also not necessary to provide an option in an accounting standard to present the information in narrative form only; management would be expected to highlight significant items in their commentary on the results.

APPENDIX (SEE RESPONSE TO Q.19, AND TO Q.2/6/10)

Statement of Cash Flows

Operating

Profit/loss from business activities (or start with Profit from operating activities And re-arrange so that investing is added (on direct basis) to arrive at cash from business activities

Add/subtract adjustments:
Depreciation
Profit/loss on sale of property, plant and equipment
Working capital movements (item by item)
etc
Subtract: cash flow from investing (below)

Sub-total**

Purchases of property, plant and equipment (capital expenditure)
Proceeds from sale of property, plant and equipment

Cash flow from operating activities

Investing

Purchases of investments
Dividends received from investing activities

Cash flow from business activities

Cash flow before tax and equity

Tax

Tax paid

Cash flow before equity

Equity

Repurchases of shares
Dividends paid

Cash flow from equity

Movement in financing
Interest paid on debt
Other items (excluding net debt)

Non-cash movements in net debt
Currency translation effects on net debt

Decrease in net debt XXX

Opening net debt

Closing net debt

Decrease in net debt:
New debt
Repayment of debt
Movement in cash
Non-cash movements
Currency translation effects
XXX

** IAS 7 “Cash from operating activities” excluding cash from items shown as investing under the proposal in the Discussion Paper