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PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
GPO BOX 1331L
Melbourne Vic 3001
Australia
www.pwc.com/au
Telephone +61 3 8603 1000
Facsimile +61 3 8613 2308
Direct Phone 03 8603 2022

Bruce Porter
Acting Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

20 May 2009

Dear Bruce

Exposure Draft ITC 19 Request for Comment on IASB Discussion Paper *Preliminary Views on Financial Statement Presentation*

I am enclosing a copy of the PricewaterhouseCoopers response to the International Accounting Standards Board's (IASB) Discussion Paper *Preliminary Views on Financial Statement Presentation*. The letter reflects the views of the PricewaterhouseCoopers network of firms and as such includes our own comments on the matters raised in the Exposure Draft.

In our view, changes to presentation should be made only if they address weaknesses in the way the existing model meets the needs of users. We have therefore recommended that the Boards engage specifically with investors and other stakeholders as they redeliberate the proposals to ensure that some of the more significant changes proposed in the discussion paper (for example to the presentation of cash flows) meet the needs of users.

In principle, the objectives of financial statement presentation would also be relevant to not-for-profit and public sector entities, although the Australian Accounting Standards Board (AASB) may need to consider additional objectives, depending on whether the users of these entities' financial statements look for additional information to be included in financial reports. Accordingly, the implementation of the principles, including determining an appropriate format for the financial statements which provides relevant information to these users needs to be subject of further consideration by the AASB.

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We would welcome the opportunity to discuss our views at your convenience. Please contact me on (03) 8603 3868 if you would like to discuss this further.

Yours sincerely

Jan McCahey
Partner
Assurance

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LETTER OF COMMENT NO. 172

PricewaterhouseCoopers LLP
10-18 Union Street
London SE1 1SZ
Telephone +44 (0) 20 7583 5000
Facsimile +44 (0) 20 7822 4652
Direct Phone +44 20 7213 5336
Direct Fax +44 20 804 1004
www.pwc.com/uk

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5116
United States of America

14 April 2009

Dear Sir or Madam

Preliminary Views on Financial Statement Presentation (Discussion Paper)

We are responding to the invitation of the IASB/FASB ("the Boards") to comment on the above-mentioned Discussion Paper on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the Discussion Paper. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Overall comments

We welcome the opportunity to comment on the Discussion Paper. Presentation is an important aspect of financial reporting. Changing the way financial information is presented can enhance the usefulness of that information. However, changes should be made only if they address weaknesses in the way the existing model meets the needs of users. The Boards should therefore engage specifically with investors and other stakeholders as they redeliberate the proposals to ensure that some of the more significant changes proposed in the Discussion Paper (for example to the presentation of cash flows) meet the needs of users.

The Boards' proposals will require many companies to modify their reporting systems to change the way in which financial data is collected, aggregated, and presented. They will also require users and investors to adapt the models and processes they currently use to analyse and interpret the information in financial statements. There will be a cost associated with these changes. The Boards should use the results of the field tests conducted in connection with the Discussion Paper to engage with preparers and users to measure the benefits of the proposed improvements against the associated implementation costs.

PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP is authorised and regulated by the Financial Services Authority for designated investment business.

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Objectives of financial statement presentation

We support the Boards' conclusion that financial statement presentation should be based on objectives that can be applied by a range of entities to enhance the transparency of their financial information. We support this goal, but are concerned that the objectives explained in the Discussion Paper could be interpreted in a way that detracts from the clarity and usefulness of the financial statements, for example by requiring excessive disclosure in the primary statements.

The links between the primary statements would be improved if each statement was organised and classified in the same way. This would enhance the transparency of the financial statements, and we support this aspect of the cohesiveness objective. This principle should not be extended, however, to every item in the financial statements. It is not necessary that every item be presented in the same way or that every line item in the statement of comprehensive income is also presented in the statement of cash flows. For example, pension expense includes a service cost component and a finance cost component. These components react differently to economic events and the usefulness of the financial information would be improved if they are presented on different lines in the statement of comprehensive income.

We agree with the Boards that information should be disaggregated in a manner useful to users of the financial statements. This should not mean, however, that every item is disaggregated to the same extent or that excessive detail should be included in the primary statements. Decision-useful information is conveyed by the financial statements as a whole, and therefore it is unnecessary to include all of the detail in the primary statements. The illustrative examples, and the guidance in the Discussion Paper, suggest significant disaggregation. We are concerned that this will make the primary statements too detailed and obscure important information.

We suggest that the Boards refine the cohesiveness objective in a way that allows for judgment and flexibility in presentation. It would be helpful for the objective to be based on a principle that can be applied in a flexible and pragmatic way to provide decision-useful information.

The usefulness of the financial statements is enhanced by providing users with different analyses of the data, for example, by analysing expenses by nature and function or by analysing borrowings by currency and by maturity. Many users also find it helpful to see a separate analysis of the items of income and expense that arise from non-core activities and re-measurements. This information is most helpfully provided in the notes to the financial statements. The clarity of the primary statements is enhanced by including summarised information on the primary statements, with different slices and analyses of that information presented in the notes. We suggest that the Boards refine the disaggregation objective to reflect this principle.

The objectives should also include a requirement that the financial information explain clearly the results of the business. The performance of management affects the ability of the business to generate future cash flows, and is therefore of particular interest to users of the financial statements.

Statement of cash flows

The Boards have proposed that a direct method of presenting cash flows be required. This proposal would affect the way most companies present cash flows from business activities, although financing and tax cash flows are usually presented using a direct method.

We agree that some information about the actual cash flows relating to business activities is useful. For example, users find it helpful to understand how much cash has been collected from customers. We therefore support the proposal to require a direct method of presenting information about cash flows from business activities.

We are concerned, however, that the approach proposed in the Discussion Paper could result in excessive disaggregation in the statement of cash flows. The presentation in the statement of cash flows of extremely detailed direct cash flow information adds complexity to the financial statements. Such detailed information is not useful to users and risks obscuring important information. The reconciliation of cash flows to the statement of comprehensive income contains some interesting information, but also requires significant detail that may be unnecessary and confusing. This level of detail does not provide all of the information about movements in working capital required by users and will add time and cost to the preparation of financial statements.

We suggest that the proposals be scaled back to require the presentation of cash receipts from customers and cash payments related to business activities. This would enable all of the information in the statement of cash flows to be presented consistently using a direct method. This information should be further disaggregated in the notes if management believes the additional analysis is useful. We also suggest that the proposed reconciliation schedule be replaced by a reconciliation of the profit from business activities to the related cash flows and a requirement to disclose material non-cash transactions.

Existing IFRS and US guidance require a detailed reconciliation from profit to cash flows when the indirect method of presenting cash flows is used. This reconciliation includes adjustments for non-cash items and for movements in working capital. Many users find this reconciliation useful. We suggest that the link from comprehensive income to cash flows be retained by requiring a reconciliation of the profit or loss and cash flows from business activities.

Useful information about an entity's ability to meet its commitments and its financial flexibility is provided by a reconciliation of opening and closing net borrowing, showing adjustments for changes in net borrowings caused by cash flows, measurement adjustments, and other items. This information is widely presented in some jurisdictions, and we understand that it is valued by users. We suggest that the Boards' proposals be amended to require this reconciliation.

Other comprehensive income and recycling

The Discussion Paper proposes a single statement of comprehensive income in which profit or loss and other comprehensive income are separated. Many companies and users continue to believe that a measure of profit or loss is important. We therefore support the requirement to present this subtotal within a single comprehensive income statement.

The Discussion Paper acknowledges that the separation of profit or loss from other comprehensive income is one of the key issues related to financial statement presentation. The purpose of other comprehensive income and its separation from profit or loss and recycling are not addressed. The extent to which gains and losses on re-measurement to fair value should be reported in profit or loss or other comprehensive income is also not addressed. We acknowledge that these are recognition and measurement issues beyond the scope of this project. We suggest the Boards initiate a separate project to address these issues as a matter of priority. That project should develop principles that can be applied consistently to guide the classification of all items of income and other comprehensive income and should not deal with individual items on a piecemeal basis.

Format of the statement of comprehensive income

Flexibility in the way information is presented in the statement of comprehensive income is essential to allowing companies to present performance in a way that best reflects the business and the underlying transactions. It is not possible to develop a "one size fits all" presentation model appropriate for a range of entities, from insurance companies to industrial businesses. However, we suggest that the Boards articulate a principle that would allow entities to determine how the statement of comprehensive income should be prepared to meet the needs of users.

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The Discussion Paper acknowledges that the proposals may not change the way many entities present the statement of comprehensive income. That presentation reflects the current guidance in the relevant IFRS and US standards. Some of those principles should be incorporated into the Boards' proposals. For example, we suggest including the existing principle in IAS 1 that additional line items and subtotals be included in the statement of comprehensive income when that information is relevant and necessary to an understanding of an entity's financial performance.

We suggest that the proposals are also amended to require that line items and subtotals presented in the statement of comprehensive income should be unbiased, presented consistently from year to year, and should not give undue prominence to any measure of income. Individually material items of income and expense should be shown separately in the statement of comprehensive income when necessary to explain performance. More detailed disaggregation of income and expenses should be presented in the notes. The basis used to determine the line items and subtotals presented on the face of the statement of comprehensive income should be disclosed clearly in the accounting policies.

Our answers to the specific questions in the discussion paper are attached in the appendix to this letter

We would be pleased to discuss our comments or answer any questions that the Boards may have. Please contact Richard Keys (44 20 7212 4555), Tony de Bell (44 20 7213 5366), Douglas Kangos (1 973 236 4994) or David Kaplan (1 973 236 7219) regarding our submission.

Yours faithfully

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

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APPENDIX

Detailed responses to the questions in the discussion paper

Question 1

Would the ***objectives of financial statement presentation*** *proposed in paragraphs 2.5–2.13 improve the usefulness of the information provided in an entity's financial statements and help users make better decisions in their capacity as capital providers? Why or why not? Should the boards consider any other objectives of financial statement presentation in addition to or instead of the objectives proposed in this discussion paper? If so, please describe and explain.*

We support the Boards' conclusion that financial statement presentation should be based on objectives that can be applied by a range of entities to enhance the transparency of their financial information. These objectives should be consistent with the objectives of financial reporting to supply providers of capital with decision-useful information set out in the Exposure Draft of Chapter 1 of *An Improved Conceptual Framework for Financial Reporting*, which we support.

We understand that the Boards have developed the objectives explained in the Discussion Paper from the overall objectives of financial reporting. We are concerned, however, that in some areas the proposed cohesiveness and disaggregation objectives are not balanced with the overriding requirement to present decision-useful information.

We have the following recommendations:

Cohesiveness

The linkage between the primary statements would be improved if each statement was organised and classified in a similar way. This will make it easier for users to understand the relationships between an entity's assets, cash flows and income and the interaction between the statements of comprehensive income, financial position, and cash flows.

We also agree that in many cases it will be appropriate to present individual items in the same category or section of each primary statement. This will not always be appropriate, however, and we believe that the cohesiveness objective should be balanced with a requirement that classification reflects the nature of the transactions and balances. For example, it is not useful to:

- present both the depreciation and finance expenses associated with an asset held on a finance lease as operating expenses in the statement of comprehensive income because the asset is classified in the operating category in the statement of financial position; and
- present all items of income and expense related to defined benefit pension plans as operating costs because the obligation is classified in the operating category in the statement of financial position.

We also note that management and users of financial statements continue to focus on information about the income and cash flows of a business. They attach as much, or more, importance to this information as they do to information in the balance sheet. It is therefore not appropriate to classify items in all the primary statements based on the balance sheet classification when this does not properly reflect the way management evaluates and manages the business.

We suggest the Boards refine the balance sheet-driven cohesiveness objective to balance it with the need to reflect the nature of transactions and balances. We suggest they articulate a principle for improving the links between the primary statements that can be applied in a flexible and pragmatic way to provide decision-useful information.

Disaggregation

We agree that a principle for the disaggregation of financial information should result in more decision-useful information. We also agree that there should be a requirement to report separately items that react differently to economic events. This information helps users predict future cash flows and understand the performance of the business.

The requirement for disaggregation should not result in the presentation of so much detail that important information is obscured. Appropriate disaggregation should not, for example, require that every item is disaggregated to the same extent or that excessive detail is included in the primary statements. We are concerned that the proposed guidance and, in particular, the illustrative examples, will result in too much information being presented in the primary statements.

We suggest that the Boards refine the disaggregation principle to ensure that the clarity of the primary statements is enhanced by including only appropriately summarised information. Different slices of that information should be presented in the notes. We have commented specifically on the disaggregation of expenses in our response to Question 16.

Stewardship

The Exposure Draft of Chapter 1 of *An Improved Conceptual Framework for Financial Reporting* notes that financial reporting should provide information that allows equity investors of the Group to assess the performance of management in discharging its responsibilities. The performance of management and the business usually affects the ability of the business to generate future cash flows and is therefore also of interest to other users of the financial statements. The objectives of financial statement presentation should include a requirement that the financial statements explain the performance of management of the business.

Question 2

Would the ***separation of business activities from financing activities*** *provide information that is more decision-useful than that provided in the financial statement formats used today (see paragraph 2.19)? Why or why not?*

The separation of business activities from financing activities using a management approach throughout the financial statements will provide decision-useful information. Such separation allows users to analyse the performance of an entity independently of its capital structure. The definition of the financing section and financing assets and liabilities should include all items that management regards as being used to finance the entity's activities. We comment further in our response to Question 10.

We understand that many users find a reconciliation of opening to closing net borrowings useful and that this information is provided in some jurisdictions. The Boards' proposal would require companies to disclose separately the assets and liabilities related to financing activities, which provides some of this information. We suggest that the proposals also require a reconciliation of opening to closing net assets related to financing activities, showing separately movements related to cash flows, re-measurements, and exchange differences.

Question 3

Should ***equity*** *be presented as a section separate from the financing section or should it be included as a category in the financing section (see paragraphs 2.19(b), 2.36 and 2.52–2.55)? Why or why not?*

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We agree that equity should be presented separately from the financing section. Equity is part of an entity's overall financing strategy, but transactions with owners are not reflected in the statement of comprehensive income under either IFRS or US GAAP. Separating the cash flows and balances relating to transactions with owners is therefore consistent with the cohesiveness objective and with the principles of both accounting frameworks. This presentation should be retained as long as the current definitions of debt and equity under IFRS and US GAAP are used.

Question 4

In the proposed presentation model, an entity would present its ***discontinued operations*** *in a separate section (see paragraphs 2.20, 2.37 and 2.71–2.73). Does this presentation provide decision-useful information? Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets and financing liabilities)? Why or why not?*

We agree that discontinued operations should be presented in a separate section of the primary financial statements. This is appropriate disaggregation that makes it easier for users to assess the performance of the continuing operations. It therefore enhances the decision-usefulness of the financial statements. When discontinued operations are a significant part of the entity's business, the results should be further disaggregated into the business and financing categories in the notes to the financial statements Additional disaggregation into the individual line items may be given if this is necessary to explain the performance of the entity and management.

Question 5

The proposed presentation model relies on a ***management approach*** *to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment (see paragraphs 2.27, 2.34 and 2.39–2.41).*

(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?

(a) We support the management approach to the classification of assets and liabilities and the related changes in those items. We agree that this approach provides the most useful information about an entity's performance and the way it is managed.

We are concerned that the Discussion Paper implies that classification is an accounting policy choice over which management has complete discretion. This is not necessarily the case. Management has discretion about how assets and liabilities are used in the business, but the classification of those items should follow the way they are used. We suggest that this be clarified.

The management approach requires high quality transparent disclosure of the basis used to classify assets and liabilities. We suggest the illustrative examples in the Discussion Paper be enhanced to demonstrate these disclosures.

We are also concerned that the Discussion Paper proposes that the allocation of assets and liabilities in the statement of financial position drives classification throughout the primary statements. This guidance may not be appropriate in all circumstances as we have explained in our answer to Question 1. There may be circumstances in which it is appropriate to classify items based on the way management evaluates and manages the related income or expense or cash flows.

We suggest that the proposals be revised to articulate a principle that the management approach should be applied to each item in the financial statements in a way that provides the most decision-useful information. This might require that the different components of income and expense related to a single balance sheet item (for example, the pension obligation) be presented on different lines in the statement of comprehensive income.

(b) We do not believe the potential for reduced comparability outweighs the benefits of the management approach. Companies that use their assets and liabilities in different ways are often subject to different economic forces. Differences in the way items are used should be reflected in differences in the way the items are presented.

Question 6

Paragraph 2.27 proposes that both assets and liabilities should be presented in the business section and in the financing section of the ***statement of financial position****. Would this change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities? Why or why not?*

The proposals will have a significant impact on the presentation of the statement of financial position. Assets and liabilities will be classified under the different sections, although the information required to calculate key financial ratios should be readily available from sub-totals of total current and non-current assets and liabilities. We suggest that the presentation of these sub-totals be required.

Question 7

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

We agree that assets and liabilities should be classified at the reportable segment level rather than at the entity level. This is consistent with the management approach. An entity-wide classification would not necessarily enable an entity to classify its assets and liabilities according to their use, as the same type of assets or liabilities may be used differently in different segments. This could result in allocations that do not reflect the management approach and therefore less useful information.

Question 8

The proposed presentation model introduces sections and categories in the statements of financial position, comprehensive income and cash flows. As discussed in paragraph 1.21(c), the boards will need to consider making ***consequential amendments to existing segment disclosure requirements*** *as a result of the proposed classification scheme. For example, the boards may need to clarify which assets should be disclosed by segment: only total assets as required today or assets for each section or category within a section. What, if any, changes in segment disclosures should the boards consider to make segment information more useful in light of the proposed presentation model? Please explain.*

We do not believe that any consequential changes should be made to the principles of the segment reporting standards as a result of this project. The segment reporting standards under IFRS and US GAAP require that segment disclosures reflect the information provided to the chief operating decision maker (CODM) and focus on the information that management believes is important to running the business. These requirements should not be changed as a result of the proposed changes to the classification of items in the primary statements. The Boards should not mandate disclosure of segment information that is not provided to the CODM.

The segment reporting standards require that the segment disclosures be reconciled to the statement of comprehensive income and the statement of financial position. The reconciliation is essential if the segment disclosures are to provide useful information. The changes to the format of the primary statements may make this reconciliation more complicated because the measures of segment assets and liabilities may not reconcile naturally to the line items presented in the primary statements. It would be consistent with the proposed presentation model for segment assets and liabilities to be disclosed and reconciled by category, as long as this information is provided to the CODM.

Question 9

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

The proposed definition of business activities is appropriate and consistent with the management approach to classification.

The Discussion Paper explains that many companies will not include any items in the investing category in their financial statements because the definition is relatively narrow and applies only to assets and liabilities unrelated to the central purpose for which an entity is in business.

We agree that users find it helpful when entities disclose separately items of income and expense, cash flows, and assets and liabilities that arise from unusual events or transactions outside the core activities of the entity. This information could be provided without requiring a separate section of the primary statements. We believe it would be more decision-useful if information about these items was disaggregated in the notes to the financial statements. This would provide the information that users need, but avoid the disclosure of unnecessary detail in the primary statements.

We therefore suggest eliminating the investing category, which will reduce the volume of information presented in the primary statements. Unusual items of income or expense or items that arise outside a company's ordinary business activities should be included in the business section and explained in the notes to the financial statements if this information is useful.

There will inevitably be an element of judgment in the classification of some items. The Discussion Paper proposes that the operating category of the business section is the default category when classification is unclear. This may result in a classification that does not reflect the management approach in some circumstances. We suggest that the principle of the management approach to classification require that items be classified in the manner that best reflects the way they are used and the performance of the business.

The term "investing" is currently well understood in the context of the cash flow statement and the category required by IAS 7 and FAS 95. The Discussion Paper proposes that the term be used differently, which could be confusing to users and preparers. Should the Boards decide to require an additional category within the business section in the primary statements, we suggest that the term be revised to eliminate the risk of misunderstanding and better reflect the context in which it is used. We suggest that "non-core activities" would be more easily understood than investing activities.

Question 10

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

We support the proposed definition of the financing section and we agree that this should include a financing asset and a financing liability category.

We agree that the financing section should generally include only the balances, cash flows, and comprehensive income statement items that relate to financial assets and liabilities that management views as being used to finance the entity's business activities. However, this section should not be restricted only to financial assets and liabilities within the scope of the financial instruments standards. For example, management might view the pension obligation as one of the liabilities used to finance its operations. Management might also regard lease finance as an integral part of its financing activities. It is inconsistent with the management approach to classification to require classification that is inconsistent with management's perspective.

The Discussion Paper notes that including only financial assets and liabilities as defined in the financial instruments standards in the financing section will add objectivity to the classification. We believe this proposal will result in classification that is inconsistent with the proposed management model. A more appropriate principle would require that the financing section include all financial assets and liabilities that management views as being part of its financing activities. The related cash flows and income and expense should be presented in the financing section when the liabilities are used in this way.

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

Question 11

*Paragraph 3.2 proposes that an entity should present a **classified statement of financial position** (short-term and long-term subcategories for assets and liabilities) except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant.*

*(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?*

We agree that a classified statement of financial position provides useful information about an entity's financial flexibility and therefore that it should be retained. The notion of the operating cycle is difficult to apply. We agree that it should be removed from the classification guidance, so that items are classified as current if their contractual maturity or expected settlement is within one year of the reporting date. We suggest that the classification of items required in the statement of financial position be consistent with the classification required in the liquidity disclosure guidance in the financial instruments standards.

(a) We expect that banks and other deposit-taking institutions and insurance companies would not present a classified statement of financial position due to the nature of their assets and liabilities. These entities are likely to present their assets and liabilities in order of liquidity.

(b) There is a principle in the Discussion Paper that is unambiguous, so we do not believe that there is a need for more guidance for distinguishing which entities should present a statement of financial position in order of liquidity. We suggest, however, that entities be required to explain why the order of liquidity model has been selected and the basis used to determine the order of liquidity.

Question 12

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

A statement of cash flows based on movements in cash rather than cash and cash equivalents provides better information about an entity's liquidity and financial flexibility. Cash equivalents, no matter how short the maturity, are different from demand deposits and are subject to greater risk of changes in fair value. They should be presented on a different line item in the statement of cash flows and the statement of financial position. Items that are presented as cash equivalents under the current guidance should be presented as short term investments under the proposal.

The existing guidance has caused inconsistency in practice, which decreases the usefulness of the information. The Boards' proposal will eliminate this diversity and is consistent with the management approach to classification. We therefore support the proposal to separate cash from cash equivalents and to present cash equivalents as short-term investments.

Management sometimes uses cash and cash equivalents together as part of its overall financing structure. Useful information about changes in an entity's financing structure would be provided by the reconciliation of opening and closing net assets used in financing activities as suggested in our answer to Question 2.

Question 13

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

We agree that it would provide decision-useful information if similar assets and liabilities that are measured on different bases are presented separately where the impact is significant. It is not necessary, however, for this information to be given within the primary statements. Companies should be permitted to provide this information in the notes to the financial statements, which would reduce the number of line items required in the statement of financial position.

Question 14

Should an entity present comprehensive income and its components in a ***single statement of comprehensive income*** *as proposed (see paragraphs 3.24–3.33)? Why or why not? If not, how should they be presented?*

We agree that the financial statements would provide more decision-useful information if all income and expense items were presented in a single statement of comprehensive income, with the options for alternative presentation eliminated. Many companies and users continue to believe that a measure of profit or loss is important. We therefore support the requirement to present this sub-total within a single comprehensive income statement.

We understand that some investors and others do not use total comprehensive income. There is, however, important decision useful information contained in the components of other comprehensive income, such as actuarial gains and losses and changes in the fair value of hedging instruments. This information should be presented in the primary statements. We therefore agree that it would be helpful to present all items of income and expense in one statement.

Question 15

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

We agree that it would be decision-useful to allocate items of other comprehensive income between categories in some circumstances, although there might be situations in which the allocation would be obvious. This information should be provided in the notes to the financial statements, if it is useful, to avoid presenting excessive detail in the primary statements.

Question 16

Paragraphs 3.42–3.48 propose that an entity should further ***disaggregate*** *within each section and category in the statement of comprehensive income its revenues, expenses, gains and losses* ***by their function, by their nature****, or* ***both*** *if doing so will enhance the usefulness of the information in predicting the entity's future cash flows. Would this level of disaggregation provide information that is decision-useful to users in their capacity as capital providers? Why or why not?*

Disaggregation of items that respond differently to economic events provides decision-useful information. It is important for example, for users to understand which costs are fixed and which vary according to activity and to identify income and expenses that arise from events outside the core activities of the company and from re-measurements. We therefore agree with the proposal that further disaggregation of revenues, expenses, gains and losses by function or nature should be required.

The Discussion Paper requires disaggregation only "if it enhances the usefulness of the information in predicting the entity's future cash flows". We suggest that disaggregation either by function or by nature should be required in the notes to the financial statements in a way that provides the most useful information.

The Discussion Paper proposes that income and expenses are first disaggregated by function, with additional disaggregation by nature if this enhances usefulness in predicting cash flows. An entity that does not disaggregate by function should disaggregate by nature if this provides useful information. This implies that most entities will disaggregate by function, with additional information provided by nature. We believe that disaggregation should reflect the circumstances of each company and there should be no preference for one approach over the other. We suggest that the language in the proposal be modified to accommodate this.

There is no requirement to disclose additional information about expenses by nature when an entity disaggregates by function unless this provides useful information. We understand that many users find an analysis of expenses by nature helpful and there are unlikely to be circumstances where this information is not useful. There is existing guidance in IAS 1 that requires disclosure of some expenses by nature when the remainder of the disaggregation is by function. We suggest that this be retained.

Decision-useful information is also provided when income and expenses that relate to unusual events or to fair value and other re-measurements or transactions outside the core activities of the entity are disaggregated. We suggest that entities be encouraged to provide this information in the notes to the financial statements.

Question 17

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

Further allocation of income taxes should not be addressed in this project. A more detailed allocation of income taxes would be consistent with the cohesiveness objective, but would not provide more decision-useful information. The existing allocation guidance under IFRS and US GAAP is arbitrary and sometimes difficult to apply because the tax effects of individual transactions are interrelated. Further allocation of income taxes to the business, investing, and financing sections would therefore be arbitrary and would not improve the usefulness of the statement of comprehensive income.

Question 18

*Paragraph 3.63 proposes that an entity should present **foreign currency transaction gains and losses**, including the components of any net gain or loss arising on remeasurement into its functional currency, in the same section and category as the assets and liabilities that gave rise to the gains or losses.*

(a) Would this provide decision-useful information to users in their capacity as capital providers? Please explain why or why not and discuss any alternative methods of presenting this information.

(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?

The benefits of an allocation of foreign currency transaction gains and losses to individual sections would not outweigh the associated costs of collecting the necessary information. There will often be no consistent basis for the allocation, which would therefore be unlikely to enhance usefulness. The allocation of foreign currency transaction gains and losses should not be mandatory, but should be permitted when management believes it would be useful to present this information in notes to the statement of comprehensive income.

Entities that choose not to allocate foreign exchange transaction gains and losses should determine which category is most appropriate for the majority of their gains and losses and present the full amount in that category.

Question 19

*Paragraph 3.75 proposes that an entity should use a **direct method of presenting cash flows** in the statement of cash flows.*

(a) Would a direct method of presenting operating cash flows provide information that is decision-useful?

(b) Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method? Why or why not?

(c) Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?

(a) We agree that some information about the actual cash flows relating to business activities is useful. For example, users find it helpful to understand how much cash has been collected from customers. We therefore, support the proposal to require a direct method of presenting information about cash flows from business activities. This would enhance the usefulness of the statement of cash flows, which would be presented consistently using a direct method.

We understand that many preparers and users are unsure about the proposed requirement to "use a direct method of presenting cash flows" and whether it is necessary to aggregate an entity's individual cash flows. IAS 7 provides a helpful explanation of the different ways in which an entity may derive the information required to present direct method cash flow information. We suggest that this guidance be retained.

(b) The direct method is consistent with the proposed cohesiveness objective, as it provides users with a link between the statement of cash flows and statement of comprehensive income. We suggest, however, that guidance for dealing with cash flows collected or paid on behalf of third parties, for example, sales taxes, and transactions in which an entity settles net with its customers, be included so that relevant information is not obscured by grossing up transactions that are actually settled net.

We are concerned that the approach proposed in the Discussion Paper would result in excessive disaggregation in the statement of cash flows. The presentation of extremely detailed cash flow information is not useful to users and risks obscuring important information. We therefore suggest the proposals be scaled back to require only the presentation of cash receipts and cash payments from business activities.

(c) We understand that some of the information currently provided by entities using an indirect method to present cash flows is valuable to users. Much of this could be extracted from the proposed reconciliation schedule, although the information is not easy to identify and analyse. We have explained in our answer to Question 23 that we do not support the requirement for this reconciliation. We believe it would be better to provide the bridge from comprehensive income to cash flows in a format similar to that used for the indirect method cash flow statement under existing IFRS and US GAAP guidance. The reconciliation should include adjustments for non-cash items and movements in working capital.

Question 20

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

Preparers and users will necessarily incur some costs associated with establishing systems and processes to capture the information needed to present cash flows using the direct method. The nature and extent of these costs will vary between entities depending on their current systems and processes. These costs might be significant, even though they may not recur.

The approach used to capture direct method cash flow information will affect the cost of implementation. Information that is derived from movements in assets and liabilities is likely to be less expensive to obtain than information obtained by aggregating individual cash flows. Implementation costs would be reduced by reducing the level of disaggregation required in the cash flow statement as proposed in our response to Question 19 (b) and Question 23.

Question 21

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

The requirement to allocate the impact of basket transactions between categories is consistent with the cohesiveness objective. This allocation, however, will always be arbitrary to some extent, and will not improve the decision-usefulness of the financial statements.

The impact of business combinations and disposals is not necessarily indicative of future cash flows It is important therefore that users are able to separate the impact of business combinations and disposals from other events that affect the financial statements. This means the impact of such transactions should be separated and disclosed.

We suggest the effects of basket transactions be presented as a single line item in the most appropriate category in the statements of comprehensive income and cash flows. This will most often be the business activities section. The single line item should be further analysed in the notes to the extent that disaggregation is useful. An analysis of the impact of basket transactions on the statement of financial position should be presented in the notes in accordance with the requirements of the business combinations standards.

Chapter 4: Notes to financial statements

Question 22

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

We agree that entities that present assets and liabilities in order of liquidity should disclose information about the maturities of its short-term and long-term contractual assets and liabilities. We are not clear, however, what is meant by "contractual assets and liabilities" and we suggest that this be defined.

Short-term liquidity information is particularly useful for banks and financial institutions. This information would assist users in predicting future cash flows for those entities. This information should be presented consistently with the liquidity information required by financial instruments standards. Entities that present a classified statement of financial position should not be required to present further disclosure about contractual maturities of assets and liabilities falling due within 12 months, unless this information is required by the liquidity disclosures in the financial instruments standards.

Question 23

Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components: (a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments.

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

(a) The reconciliation schedule provides some useful information that may enhance a user's understanding of the amount, timing, and uncertainty of an entity's future cash flows but the schedule contains so much detail that it risks obscuring important information. We are also aware, as we explain in our answer to Question 19, that users obtain helpful information from the reconciliation required when an indirect cash flow method of presenting cash flows is used. Not all this information is available from the proposed schedule.

We believe the additional complexity introduced by this schedule is not supported by the value of the information it provides. We suggest the reconciliation be replaced by a reconciliation of the profit to the cash flows from business activities and by a reconciliation of opening and closing net assets used in financing activities as suggested in our answer to Question 19. Separate disclosure of material non-cash transactions should also be required in the notes to the financial statements.

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The proposed reconciliation would result in additional costs to some entities. Systems changes may be required to capture the detail required by the reconciliation and some entities would need to modify group reporting schedules. This would add complexity to the financial statements and the preparation process. We believe the needs of users can be met by providing the more limited reconciliations described above and from more summarised information.

(b) We agree that the disaggregation of cash flows from accruals and re-measurements provides useful information, but we do not believe this information is required for each line item. Users' needs would be met by providing information about significant non-cash movements, including accruals and re-measurements, combined with the more limited reconciliations described above.

(c) We have not identified any areas in which clarity or additional guidance is required.

Question 24

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

Disaggregation of the income and expense that arises from changes in fair value or other re-measurements from other items of income and expense provides decision-useful information that enhances a user's ability to understand a company's performance and to predict future cash flows. This is an important issue, which we agree is beyond the scope of this project.

The current financial environment has also raised questions about the extent to which changes in the fair value of some financial instruments should be recognised in profit and loss. We believe that the changes in the fair value of financial instruments that do not reflect the economic exposures created by an entity's business model should not be reflected in its performance and therefore its profit or loss.

We agree that the Boards should address as a priority further disaggregation of changes in fair value and other re-measurements in the notes to the financial statements. We suggest that this project also address the extent to which changes in fair value should be reflected in profit or loss and the purpose of other comprehensive income and recycling. This project should develop principles that can be applied consistently to guide the classification of all items of income and comprehensive income and should not deal with individual items on a piecemeal basis.

Question 25

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

As noted in our response to Question 23, we do not support the detailed reconciliations proposed in the Discussion Paper. Full reconciliation on a line-by-line basis provides excessive detail which is likely to obscure important information.

We have suggested in our answer to Question 23 that a more measured approach is required.

Question 26

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

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

(a) We agree that the disclosure of information about unusual or infrequent events would be decision-useful and consistent with the disaggregation objective. We also believe it would be decision-useful to require disclosure of individually material items of income and expense. We do not, however, support the detailed reconciliation statement as we have explained in our answer to Question 23, so we do not support the memorandum column.

We suggest an alternative approach in which information about material, unusual or infrequent events is disclosed separately in the notes to the financial statements, unless presentation within the primary statements is necessary to explain the company's performance. This would be consistent with the disaggregation objective and would provide decision-useful information. Providing this information in the notes would avoid presenting excessive detail in the primary statements. IAS 1 currently requires that additional line items be included in the statement of comprehensive income when relevant and necessary to an understanding of an entity's financial performance, together with a requirement to disaggregate unusual or infrequent items in the notes. We suggest that this be retained.

(b) We agree that the definitions included in APB Opinion No. 30 are helpful in considering whether items are unusual or infrequent and should, therefore, be disclosed. We consider, however, that these definitions may be too prescriptive. It would be better to require disclosure of items necessary to an understanding of the company's performance.

(c) Qualitative information alone is unlikely to provide enough information about unusual or individually material transactions. Entities should be required to provide both quantitative and narrative explanation of unusual or infrequent events or transactions.

Question specific to the FASB

Question 27

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

The final standard should be applicable to all entities, both public and non-public, in order to retain comparability and reduce the unnecessary complexity that two different reporting formats would create. Our suggestions will allow a preparer to scale its reporting appropriately to its particular user group.