



New South Wales
TREASURY

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Contact: Barbara Richardson
Telephone: (02) 9228 4832
Our Reference: T05/1897
Your Reference: ITC 19

30 March 2009

Dear Mr Porter

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

Thank you for the opportunity to comment on the above Discussion Paper. NSW Treasury has several areas of concern:

1. Although you can read the discussion paper and think the objectives sound quite reasonable, we feel the discussion paper does not provide what users really want. The sub-classification of balance sheet and income statement items into business (operating and investing) and financing activities seems unnecessarily complex. Most users want to see what the “underlying” profit is. And they want underlying profit and remeasurements to be separately identified on the face of the income statement (rather than as a note disclosure to a cash flow reconciliation schedule).
2. The discussion paper fails to fully address issues closely linked to presentation, especially the different nature of items in other comprehensive income; i.e. remeasurements. Closely linked to our first concern, the paper does not address why some items of remeasurement are in profit while others are in other comprehensive income. This classification is confusing and results in a document that does not adequately or completely cover all aspects of presentation.
3. The scope of the project is even more limited than previous IASB projects. This approach does not encourage neutrality in accounting and may also lead to less than robust outcomes; i.e. better outcomes may be achieved by looking at a wider scope of entities.
4. The limited scope leads to questions about the potential applicability to not-for-profit entities and public sector entities in the future when the boards consider to what extent the conclusions reached in the project might apply to not-for-profit entities.

5. We would currently not support extending the requirements to the public sector, given the alternative AASB 1049 format.
6. The enormous amount of additional disclosure requirements may not always provide information that is more useful than current disclosure requirements and may be quite difficult and costly to implement.

We discuss these and other matters in further detail in the attached submission. Please contact me on (02) 9228 3019 or Barbara Richardson on (02) 9228 4832 if you wish to discuss any of the matters raised.

Yours sincerely

Robert Williams
for Secretary

Attachment

NSW Treasury Response

AASB Specific Matters for Comment

- (a) whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:
- (i) not-for-profit entities, in light of the IASB's focus on for-profit entities. Do you think that the proposals are suitable for not-for-profit entities? If not, please explain why not and give your ideas for an alternative approach;
- NSW Treasury does not think the proposals are appropriate for not-for-profit entities because the focus is on business, value creation, generating financial returns, equity investors and capital providers.
- Not-for-profit entities are specifically scoped out of the discussion paper. Conversely, paragraph 2.1(a) acknowledges that information useful to capital providers may also be useful to other users.
- Not-for-profit entities could still interpret the proposals to provide meaningful guidelines and principles for financial statement presentation. For example, just as service potential for not-for-profit entities is analogous to economic benefits for for-profit entities, analogous terms could be applied to the standard for it to be able to be applied by not-for-profit entities.
- Nevertheless, we agree with the boards that significant additional research and analysis are needed to determine to what extent the conclusions reached in this project might apply to not-for-profit entities (paragraph 1.18). We have no suggestions at this time for an alternative approach.
- and
- (ii) public sector entities, including implications for GAAP/GFS harmonisation;
- AASB 1049 *Whole of Government and General Government Sector Financial Reporting* applies to whole of government and general government sector financial reports and will soon be extended to the individual entity level. AASB 1049 has presentation requirements that are significantly different from those of the proposed AASB 101. It would be possible to adapt the proposed requirements to GFS. However, we do not feel the result would add any value. Further, harmonising with GFS would be very complex to achieve as it would involve mixing GFS concepts of transactions versus other economic flows with IFRS proposals of business (operating and investing) and financing activities.
- (b) overall, the proposals would result in financial statements that would be useful to users; Yes.
- and
- (c) the proposals are in the best interests of the Australian economy. Yes.

General Comment to the IASB:

- We note that the scope of the project regarding affected entities is even more limited than previous IASB projects. This is unfortunate, as it reinforces the current situation – i.e. the IASB only develops standards for publicly listed entities, and other entities are either private entities (also referred to as small to medium entities/non publicly accountable entities) or out of scope. This approach does not encourage neutrality in accounting and also may lead to less than robust outcomes; i.e. better outcomes might be achieved by looking at a wider scope of entities.

- When first reading the discussion paper, the principles and proposals sounded quite reasonable and positive. However, upon a closer look, we wondered how the proposals would fit operationally into organisations and whether the proposals would actually produce results that would be what users want. We found ourselves answering “Yes, however” or “No” to proposals we originally agreed with.
- In addition to the scope limitation above, the discussion paper does not address recognition or measurement requirements provided in other standards. As discussed below in more detail in our response to question 2, we do not believe you can separate presentation from recognition and measurement issues. Because of this limitation, we feel that many important issues dealing directly or indirectly with recognition and measurement which should have been included in the discussion paper are missing; e.g. other comprehensive income, how to classify an asset or liability used for more than one function, net presentation of assets and liabilities in a post-employment benefit plan.
- We also suggest that current developments in XBRL, which seem to be moving very rapidly and which will greatly impact future financial statements, should at least be considered at this time.

IASB Questions for respondents

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?

No.

You can read the discussion paper and answer “Yes, subject to the following qualifications.” For this, see comments under this heading below.

However, you can read the discussion paper and say “No, this is not what users want.” Most would say that users want to see what the “underlying” or “sustainable” profit is. This is likely to be “net profit” excluding other recognised income and expense. These items seem to be of a different nature, and as remeasurements, more volatile, less reliable and arguably less relevant.

Further, users may want to have “net profit” before non-recurring items. IAS 1 has allowed management to have a “net profit before,” sub-heading by permitting additional line items, headings and subtotals in the operating statement when such presentation is relevant to an understanding of the entity’s financial performance and by requiring separate disclosure when items of income or expense are material.

But the sub-classification of balance sheet and income statement items into business (operating and investing) and financing activities seems unnecessarily complex and not what the vast majority of users want.

Rather, users want underlying profit and remeasurements to be separately identified on the face of the income statement (rather than as a note disclosure to a cash flow reconciliation schedule).

Yes, subject to the following comments:

- Cohesiveness: we agree that cohesiveness provides a clearer linkage from one primary financial statement to another and we agree that it also facilitates calculation of financial ratios by users.
- Disaggregation: we agree that segregating items with essentially different economic characteristics makes sense but are not certain that it meets the objective of being useful in assessing the amount, timing and uncertainty of future cash flows. We suppose it could assist analysts with their forecasts.

Conversely, the disaggregation increases complexity in financial reporting. There is a balance that needs to be sought. The proposals in the discussion paper seem more directed to financial analysts than other users. Examples of this increased complexity include:

- Long-term / short-term subcategories within each section
- Reconciliation schedule of cash flows to comprehensive income
- Liquidity and financial flexibility objective: we are happy with the liquidity objective but are not sure you can really gauge financial flexibility just by examining an entity's financial statements. Financial flexibility is described as an entity's ability to earn returns on investments and fund future growth and to take effective action to alter amounts and timing of cash flows. We note that this concept comes from FASB Concepts Statement No. 5 dealing with recognition and measurement. How is information on financial flexibility obtained from the proposed financial statements?

However, having in principle agreed with the objectives, we are unsure how these objectives would be applied if, in a future stage as predicted, the IASB no longer discloses "other comprehensive income" as a separate category in the statement of comprehensive income.

Moreover, we believe that you cannot separate presentation from recognition and measurement issues. For good presentation, you need to address the inherent problems in recognition and measurement. In particular, the concept of other comprehensive income and the distinction between what is recognised in profit and total comprehensive income are not clear and do not sit well with the proposed format. Separate reporting of other comprehensive income suggests that it is somehow different from the other line items: i.e. a remeasurement. However, neither the Standards nor the discussion paper adequately addresses the basis for what is included or excluded from other comprehensive income. At the moment, there is no clear rationale as to the other comprehensive income classification given that some remeasurements are part of profit and some are part of other comprehensive income.

We also query why cash flow presentation is driving the format of other primary financial statements: i.e. the proposal most closely aligns to the current format of the cash flow statement. There is a perception that "cash is king". This cash focus potentially detracts from accrual principles.

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.

No.

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?

No, for the same reasons stated above re question 1: i.e. "sustainable profits" is the key issue for users. Despite this view, we can agree in principle that separating business activities from financing activities in the statements of comprehensive income and financial position could provide information that is more decision-useful than is currently the case because it would clarify the distinction between amounts related to continuing business activities and those related to funding those business activities.

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?

Yes, we agree with presenting equity in a separate section. It would satisfy the cohesiveness objective and would also be consistent with the current presentation so would be one less change to make. It also maintains the traditional approach where the 'balance sheet' balances.

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?

Yes. The proposed presentation would highlight the discontinued operations amounts more than the current presentation by separate disclosure in the three primary statements.

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?

No, information should be kept in a separate section for the reasons above.

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?

Certainly management should know its own business better than anyone else. As long as the information is not manipulated by management for any reason, the management approach should provide the most useful view of an entity to users, but the downside is that it will reduce comparability.

(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?

No, the usefulness of the information generated by the management approach should justify the approach. If you restrict entities to a rigid rules-based format, you would have consistency and comparability in format among entities, but the information might not be relevant and useful.

However, management subjectivity reduces comparability between similar entities and increases the incentive for management manipulation. And it would be difficult to question specific accounting classifications, as the response would be “this is management’s view” (although there is protection against manipulation by management because management must explain its classification policy in the accounting policy note).

There is also a potential conflict between the management approach and the ‘market’ view: i.e. is it appropriate for the format of the financial report to be dictated by management’s view when many assets and liabilities are measured based on the market’s view and not management intent?

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?

No.

We could say yes, the change in presentation may facilitate the calculation of some key financial ratios because the information would be more transparent. However, we say no because financial analysts are already able to come up with the ratios with the current

financial statement presentation. It would probably make it easier for the ordinary user, who is not a financial expert, to calculate and to track.

However, the actual appearance of the proposed format will take some getting used to and seems to be very “busy” with extra categories and a mix of assets and liabilities within the same category. We do not agree with all of the proposals, as discussed below:

- The discussion paper at paragraph 3.22 states that an entity should disclose total assets and total liabilities *either* in the statement of financial position *or* in the notes to financial statements (emphasis added). We do not believe there should be an option: entities should be required to disclose totals for assets and liabilities on the face of the statement of financial position.
- Netting assets and liabilities (as a result of combining assets and liabilities within sections) appears to be contrary to current accounting requirements regarding offsetting (AASB 101.32-35).
- Some financial ratios would be more difficult to calculate because assets and liabilities will no longer be shown separately and total assets and total liabilities might only be shown in the notes as would be permitted in the discussion paper.

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 are unsure. We can see advantages and disadvantages to classifying assets and liabilities at the segment level rather than at the entity level. An advantage would be that the information, based on management’s judgment, would best reflect the unique aspects of the business. A disadvantage would be that the information would not achieve the consistency objective within the organisation and might not be comparable with other entities.

The requirements of IFRS 8 *Operating Segments* are also based on information that management uses for decision-making purposes so there would be alignment with IFRS 8 if assets and liabilities are classified at the reportable segment level based on the management approach.

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 query whether it is necessary to amend existing segment disclosure requirements to require more detailed information than is currently required. We do not think the additional information would be significantly more useful than what is already disclosed currently. The basic line item information would already be included in the primary financial statements and IFRS 8 requires entities to reconcile the total of the segments’ profit or loss, assets and liabilities to the entity’s profit or loss, assets and liabilities in the note disclosure on segment operations.

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?

Yes, the definitions are appropriate. The discussion paper has proposed a clear-cut distinction between an entity's business activities and its financing activities. And it has further separated business activities into those related to how the entity operates versus how it invests, to provide more transparency. They have based the operating and investing categories on the concept of "core" and "non-core" activities which are readily understood by entities.

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?

No. The definitions are appropriate. However, we do not agree with restricting this section to financial assets and financial liabilities because it would be contrary to the concept of the management approach.

We assume that, for the most part, all financial assets and financial liabilities would be included in this section, although management has the option at paragraph 2.62 to exclude a financial asset or financial liability from the financing section. Since management has the option to exclude a financial asset or financial liability from the financing section, why shouldn't management also be able to include a non-financial asset or liability if such asset or liability is used for financing purposes?

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?**

We agree with paragraph 3.6 that it is not appropriate for most financial institutions to present a classified statement of financial position as it would not provide useful information to the reader.

(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?**

No, we do not feel additional guidance is necessary because deciding which presentation is most appropriate is a management decision.

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?**

No, we disagree. We are not convinced by the arguments in paragraphs 3.17-3.18.

Paragraph 3.17 says that although an entity would usually be able to convert cash equivalents to cash quickly to satisfy its needs, a short-term investment is nevertheless subject to some risk of price change, regardless of how near it is to maturity. Cash equivalents are currently defined as short-term, highly liquid investments that are readily convertible to cash and are *so near their maturity that they present an insignificant risk of changes in value* (emphasis added). Clearly, if a short-term investment does have more than an insignificant risk of a change in its value, it should not be classified as a cash equivalent.

Paragraph 3.18 says that the boards decided that allowing cash equivalents to be presented differently from cash would be more consistent with the management approach to classification, and it would also help users assess an entity's liquidity. The discussion paper

does not provide any reasons supporting why the proposal would be more consistent with the management approach. In fact, under the management approach, management would argue that it should be their decision as to whether or not cash equivalents should be presented as cash.

Moreover, users can easily assess the entity's liquidity by referring to the note disclosure on cash and cash equivalents which disaggregates the amount for cash and the amount for cash equivalents. The accounting policy note will provide information on how management determines its cash equivalents: e.g. specifically mentioning the cut-off maturity date for classifying an investment as a cash equivalent. We feel that this is sufficient information to provide the user. If the money can be, and is intended to be, used as an equivalent for cash, it is not an investment.

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?

No. Although this disaggregation would provide more decision-useful information, it would greatly increase the length of the statement of financial position. We would therefore prefer this information to be located in the relevant note disclosures. We note that the boards considered this option but felt that providing the information in the statement of financial position is more straightforward and avoids making users go back and forth to find important information. The boards also considered it was unlikely to impose undue costs on an entity (paragraph 3.20). We would still prefer to see the disaggregation only in the notes in order to reduce the length of an already quite detailed statement of financial position. Users of financial statements are accustomed to going to the notes for more detail on a line item.

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?

Yes. We consider a single statement of comprehensive income to be superior to two statements. We see no advantage in presenting the information in two statements. Splitting the relevant information up into two separate statements with different titles confuses the reader. In addition, we prefer fewer options in accounting standards to enhance consistency and ease of comparability among entities. Also, in the NSW public sector, a single statement of comprehensive income would align with GFS requirements.

However, refer also to our response in question 1 regarding our uncertainty about future presentation if the IASB no longer discloses "other comprehensive income".

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?

Yes. NSW Treasury believes the information would be decision-useful. It should be straightforward to include the related category of each item of other comprehensive income and would tell the user which statement of financial position sections or categories have been affected. As stated in paragraph 3.37, it would also alert the user to the section or category in which potential reclassification adjustments may be presented in the future.

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?

Yes, this level of disaggregation would provide decision-useful information. However, the discussion paper qualifies the requirement by stating that further disaggregation should be done *if doing so will enhance the usefulness of the information* (emphasis added). Again, it is up to management to determine the level of information required and to ensure there is not an “overload” of information which could be less helpful than not providing enough information. Also, management can opt out of providing further disaggregation by saying that doing so will not enhance the usefulness of the information.

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.

No comment.

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.

Yes, and this would achieve the cohesiveness objective.

(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?

No comment.

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?

Yes.

(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?

Yes. We agree with paragraph 3.78 regarding the direct method being more consistent with the cohesiveness and disaggregation objectives.

IAS 7 *Statement of Cash Flows* already encourages the use of the direct method as it provides information which may be useful in estimating future cash flows, which is not available under the indirect method (paragraph 19). The use of the direct method is supported in the Australian public sector because it provides more reliable and more relevant information than the indirect method. The details presented under the indirect method consist of non-cash operating items rather than the cash receipts and payments of the direct method. Surely a statement of cash flows should include cash items rather than non-cash items? The amounts presented in the direct method would provide information capital providers would find more useful for decision-making than those presented using the indirect method.

(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?

No. Such a level of detail is unnecessary. Most users do not need to be able to analyse at the individual line item level. And there do not need to be so many columns breaking down the accrual components. See response to questions 20 and 23 for a suggested alternative.

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?

We are aware that private sector entities have significant concerns about being required to use a direct method for presenting the statement of cash flows. They argue that much of the required information is not currently available and would be difficult and costly to develop; i.e. cost of systems implementation. Moreover, they doubt that the benefits would outweigh the costs or that the information would be decision-useful. They apply the same arguments to the reconciliation schedule.

In the NSW public sector, we already mandate the direct method.

In Australia, we also provide more information when using the direct method than is currently required by IAS 7 *Cash Flow Statements*. Paragraph Aus20.1 of AASB 107 *Cash Flow Statements* requires entities using the direct method to disclose in the financial report a reconciliation of cash flows arising from operating activities to profit or loss. This reconciliation very closely resembles the indirect method cash flow statement, with the exception that the direct method reconciliation only reconciles to cash flows from operating activities. [Cash flows from investing and financing activities are the same in both the direct method and the indirect method.] Users are most interested in the cash flows from operating activities. The reconciliation to the direct method cash flow statement supplies useful information in this regard.

However, the direct method cash flow statement provided currently is not disaggregated to the level being proposed by the IASB. Even though we are already applying the direct method, we too may have difficulties expanding the disclosure to the proposed levels, resulting in added one-off or ongoing costs. The only way we can see to reduce the costs would be to reduce the level of disaggregation, but then you wouldn't be meeting the objective proposed in the discussion paper.

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?

Yes.

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?

Yes, we feel that all entities should present this information, which would be more appropriately a requirement of IFRS 7 *Financial Instruments: Disclosures*. IFRS 7 already

requires this disclosure for financial liabilities. Providing information on short-term contractual maturities will help the user assess the entity's liquidity.

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:

- (1) cash received or paid other than in transactions with owners,
- (2) accruals other than remeasurements,
- (3) remeasurements that are recurring fair value changes or valuation adjustments, and
- (4) 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.

Yes, but we feel reconciling to the individual line items is not necessary. See also comments in response to questions 19(c) and 20. The proposed reconciliation would be very costly and time-consuming to implement and we are not sure the benefits would outweigh the costs.

We see merit in disclosing remeasurements separately; however, we believe this information should be in the income statement, not in a reconciliation schedule. In Government Finance Statistics (GFS)/GAAP, this is effectively done in the income statement by separating other economic flows. Also in GFS, the section "other economic flows" better aligns with remeasurements than "other comprehensive income."

The proposed justification at paragraph S13 seems primarily to be about helping users "predict" cash flows. Again, there is an over-emphasis on cash and a focus on the future versus the past (accountability).

Further, the reconciliation schedule has the appearance of a work paper designed to verify the mechanics of the relationship between the cash flow and operating statements, not to help users.

We suggest considering an alternative reconciliation schedule, an example of which is illustrated in Australian Accounting Standard AASB 107 *Cash Flow Statements* at Appendix A, page 28 (copy attached). Admittedly, it does not provide the cohesiveness that the proposed reconciliation provides, but it does provide the relevant basic information without going to the individual line item detail. Our argument for adopting this alternative is that the reconciliation schedule is a note disclosure, not one of the primary financial statements where the cohesiveness objective is a paramount consideration. The summarised information would not be as costly or difficult to provide as the detailed reconciliation schedule proposed in the discussion paper.

(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.

If the reconciliation schedule is adopted: yes, generally. However, we would combine "Recurring valuation adjustments" and "All other" into the one column "From remeasurements" because we feel that level of detail is sufficient. We would certainly not add any other components.

(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.

Yes, the guidance seems clear and sufficient.

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?

Yes, to provide more consistency and comparability among entities.

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?

No, because the boards have already considered the two other reconciliation formats and rejected them. NSW agrees with the reasons for rejecting the alternative formats for most entities.

We could see that for some entities; e.g. the financial services industry, the statement of financial position reconciliation might provide more useful information than the statement of cash flows reconciliation, as pointed out in paragraph B22 of the discussion papers. However, we do not think they should be required to use the statement of financial position reconciliation format. If there is more than one reconciliation statement, and we don't think there should be, the choice as to which to use should be a management decision. The boards' advisory groups advised that the schedule would be too detailed and too complex and costly to prepare (paragraph B21(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?

Yes, it could provide useful information; however, we agree with the IASB that it is not appropriate to be located within the reconciliation schedule because there is no notion of unusual or infrequent events or transactions in IFRSs. This information can instead be drawn to users' attention in a narrative.

(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?

We do not support the inclusion of a memo column. The definitions equate to what used to be termed abnormal or extraordinary items. Current IFRSs do not permit these items to be disclosed. Moreover, it does not sound reasonable to include events or transactions that are similar to items that are unusual in nature or occur infrequently but do not meet the Opinion 20 definitions. Where is the line drawn? If the items are similar to items meeting the definitions, how can the user be sure they are really different?

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

No, the entity should be *required* to present the information in narrative format only. They should not be permitted to include the information in a column within the reconciliation schedule itself.