



Australian Government

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Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
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Dear David

IASB/FASB Discussion Paper *Preliminary Views on Financial Statement Presentation*

The Australian Accounting Standards Board (AASB) is pleased to provide comments on the Discussion Paper. In forming its views, the AASB held three Roundtables with constituents and considered the comments it received in response to its Invitation to Comment on the Discussion Paper.

The AASB particularly commends the Boards for working on this project together, thereby enhancing the likelihood of there being one, high quality, global standard on financial statement presentation. The AASB supports the project particularly because the project has the potential to bridge the gap between the Conceptual Framework and the presentation of financial information. For example, the project has the potential to provide a foundation for greater acceptance of fair value measurement by addressing the separate and consistent presentation and disclosure of remeasurements. In this context, the AASB thinks that the project should address the 'recycling' issue. The AASB does not think that recycling is appropriate, and it is particularly important for the Boards to address the issue as part of this project given the proposal to adopt a single statement of comprehensive income.

Although the AASB thinks that financial statements based on the proposed presentation model have the potential to provide decision-useful information and improve the decision making process, the AASB has a number of significant concerns, including:

- Management approach: Consistent with a principles-based approach to standard-setting, the AASB strongly supports the Discussion Paper's proposals to adopt a management approach for the presentation of financial statements. However, the AASB is concerned that the manner in which the principle is proposed to be implemented in the Discussion Paper is inconsistent with the principle, and too rules-based. In particular, the AASB is concerned about the proposal that classifications are driven off the statement of financial position and the consequential significant increase in the level of disaggregation (for example, the proposals relating to distinguishing between operating and investing activities and likely classification of many items as operating, which have conventionally been considered to be investing in nature. Furthermore, the proposals relating to nature

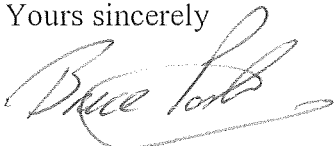
and function classifications may not be consistent with a management view). The AASB does not believe that the proposals would satisfy users' needs.

- Users' needs: The AASB is concerned the focus of the Discussion Paper is on analysts' needs, given that there is a broader range of users of general purpose financial statements. Also, the AASB is not persuaded the proposals would satisfy even analysts' needs. For example, the AASB does not think the proposals would reduce the amount of information entities currently provide to the market in addition to the general purpose financial statements. The AASB notes that the Boards intend undertaking further research on the needs of users (for example, paragraph 1.3 of the Discussion Paper mentions that the Financial Accounting Standards Research Initiative [FASRI] will study investor use of financial statements prepared using the proposed presentation model by conducting a series of controlled tests). Those Australian analysts consulted on the Discussion Paper proposals indicated a strong preference for a statement of financial performance or statement of cash flows focus, rather than a statement of financial position focus, if the Boards decide to circumscribe a starting point. The AASB encourages the Boards to broaden the range of users to be 'tested'.
- The extent of the proposed disclosures: The AASB is concerned that not only the proposed level of disaggregation, but also the information proposed to be included in a reconciliation schedule, is too onerous for entities to prepare and too detailed to be useful for users. If the Boards proceed with their proposals to increase the volume of disclosures, the Boards should evaluate existing disclosure requirements and remove those that would no longer be decision-useful.

These and other significant concerns that the AASB has with the proposals are incorporated into its responses to the specific questions, attached. In addition, the attached includes at the end a section on 'other comments'. I hope that you find the comments constructive in progressing the project.

If you have any queries regarding any matters in this submission, please contact me or Latif Oylan (loylan@asb.gov.au).

Yours sincerely



Bruce Porter
Acting Chairman

AASB responses to the IASB/FASB Preliminary Views on Financial Statement Presentation

Chapter 2 Objectives of Financial Statement Presentation

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 statements presentation in addition to or instead of the objectives proposed in this discussion paper? If so, please describe and explain.

The AASB thinks that the determination of the objectives of financial statement presentation would benefit from considering the issues from a broader perspective (for example, in both a publicly accountable and a non-publicly accountable context). This would result in more robust universal objectives (for example, although the objectives of cohesiveness and disaggregation may be universal, the objective of liquidity and financial flexibility is less so). Taking a broader approach would also be of assistance in those jurisdictions who have elected to apply IFRSs to a broad range of entities.

The AASB notes that the cohesiveness, disaggregation, and liquidity and financial flexibility objectives are not explicitly referred to in the Conceptual Framework, and the Discussion Paper does not provide a clear link between the Framework and the specified objectives. The AASB thinks it would be helpful if the Boards were to articulate the link to the Framework's concepts of, for example, relevance, understandability and comparability. With that articulation, the AASB thinks that the objectives, if applied appropriately, would improve the usefulness of the information provided in an entity's financial statements, by helping users make better decisions.

The AASB has significant concerns about the way in which the objectives have been applied in the Discussion Paper. For example, the 'cohesiveness' objective as applied in the Discussion Paper could lead to a disconnect between the way a business is managed and the way its financial statements would be presented. Also, the way the 'disaggregation' objective is applied could result in financial statements that are too detailed and cause information overload. Because of these concerns, as noted in its response to the questions later in this submission, the AASB is not persuaded that the proposals would result in a model that is a significant improvement on the existing model, particularly in relation to the statement of financial position.

The AASB notes, and agrees, that 'comparability' is not identified as a specific objective in the Discussion Paper. In that regard, as noted in response to question 5(b):

- in relation to comparability over time, the AASB strongly supports treating a change in classification as a change in accounting policy, as proposed in the Discussion Paper; and
- in relation to comparability among entities, the AASB acknowledges that, while inter-entity comparability is desirable, it could result in less useful information being provided to users to the extent comparability is achieved at the expense of providing information that best reflects the activities of each entity.

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?

Yes, the AASB thinks the separation of business activities from financing activities, particularly in the statements of cash flows and comprehensive income, is useful and would be an improvement on existing requirements. This is because businesses can be financed in a number of ways and users typically want to assess an entity's business/business model separately from its funding model.

However, the AASB is significantly concerned that the separation of business activities from financing activities is driven off the statement of financial position, which could result in some items regarded by users as financing activities being classified as business activities (See also the AASB's comments on question 5). A key interest of users is whether, or the extent to which, financing costs will be covered by a business' operations. This might not be easy to assess under the proposed model. Accordingly, consistent with the management approach, the AASB's strong preference is to separate business from financing activities across the statement of comprehensive income and statement of cash flows, with the separation being applied consistently in both of those statements. The AASB is not persuaded that the same separation is necessary for the statement of financial position (see response to question 6). The AASB considers this approach is more in-line with the needs of users, including its understanding of the type of information that entities currently provide the market that is in addition to the general purpose financial statements prepared in accordance with accounting standards.

On a less significant matter, paragraph 2.59 of the Discussion Paper makes the point that management should have flexibility as to which items are classified as operating and which as financing. If the Boards proceed with the proposal to separate business from financing activities in the statement of financial position, the AASB encourages the Boards to illustrate the flexibility referred to in paragraph 2.59 in one of the examples (eg illustrate a working capital loan being classified as operating) as there is a risk many entities will not understand the proposed flexibility and will follow the examples without regard to each entity's circumstances. Such an example would help preparers see how the definitions might be applied.

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?

The AASB notes some users want to know how an entity is financed, and they regard financing as including equity. The primary funding purpose of equity, debt and hybrids means that, in concept, equity should be presented within the financing section. Users typically want to know the level of debt relative to equity, and therefore separating debt from equity within the financing section would provide useful information. Furthermore, keeping the distinction between debt and equity would align with other standards, including IAS 39 *Financial Instruments: Recognition and Measurement*.

The AASB notes this issue is related to the more fundamental ‘entity view’ versus ‘proprietary view’ pertinent to financial reporting. The AASB also notes that the view currently adopted by the Boards in their existing frameworks is mixed, and in the current environment it would be difficult for the Boards to agree on a single model. Retaining a separate equity section is consistent with a proprietary view, as is the retention of a separate ‘other comprehensive income’ section. If the Boards proceed with their proposal to separate business from financing activities in the statement of financial position, until issues relating to ‘other comprehensive income’ (see the AASB’s response to question 15) and the proprietary view are resolved, the AASB can accept maintaining an equity section separate from the financing section. The AASB notes the proposed approach for equity to be in a separate section facilitates greater cohesion with the statement of comprehensive income, which only presents transactions with non-owners. It is also consistent with the Boards’ proposals in the Discussion Paper *Financial Instruments with the Characteristics of Equity* to retain the separation of liabilities and equity.

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?

Consistent with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the AASB considers that separately presenting discontinued operations provides decision-useful information because it conveys information relevant to predicting future cash flows. The AASB considers that this is best achieved by having a separate section for discontinued operations.

If the financial information attributable to discontinued operations were to be disaggregated into the other sections, those sections would be potentially too long, thus detracting from the overall usefulness of the financial statements. Information about the categories to which the discontinued operations items belong could be disclosed in the notes.

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) Yes, in principle, but the AASB is significantly concerned that the principle is not applied in a consistent way throughout the Discussion Paper. For example, the proposals relating to classifications being driven off the statement of financial position and the proposals relating to classification of expenses by nature or function are inconsistent with the principle. Whilst understanding the need for some constraints,

this lack of adherence to the principle detracts from the potential benefits to be derived from a management approach. One possible approach would be to require management to identify its own starting point – whether that be the statement of financial position, statement of financial performance or statement of cash flows, based on the circumstances of its business. Another approach, if it is considered critical to specify a starting point, would be to drive the classification off the statement of financial performance or statement of cash flows, because the AASB understands most businesses would be managed by reference to operating income or cash flows rather than the statement of financial position. Either of these approaches would seem to have the potential to be a better basis for producing information of greater relevance to users than the existing proposals. Although either approach would not necessarily fully satisfy the cohesiveness objective, the AASB thinks that cohesiveness is worth sacrificing in the interest of satisfying user needs. The AASB's view is that cohesion between all three statements is not necessary – cohesiveness between the statement of comprehensive income and cash flows is sufficient. As noted in the AASB's covering letter, prior to implementing the proposals, the AASB thinks more research needs to be undertaken to understand the needs of users. The AASB expects that management of an entity is in the best position to classify items into the sections proposed by the new presentation format.

In addition, the AASB notes that the benefits of the management approach in terms of decision-useful information is dependant on the definitions of categories and sections. If those definitions do not give the flexibility required for the management approach to be effective (see responses to questions 9 and 10), it is unlikely that the management approach can achieve the professed benefits for decision making.

- (b) The AASB acknowledges that relying on management's judgement may reduce comparability. However, the AASB thinks that the management approach has the greatest potential to meet the needs of users. Furthermore, as noted in the AASB's response to question 1, treating changes in classifications as a change in accounting policy is critical to maximise the benefits of the management approach in the context of comparability. As also noted in the AASB's response to question 1, the AASB acknowledges that while inter-entity comparability is desirable, it could result in less useful information being provided to users to the extent comparability is achieved at the expense of providing entity-specific information.

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 AASB does not agree that the statement of financial position should be presented in the manner proposed in the Discussion Paper. The AASB thinks that the format adopted today for the statement of financial position is simpler and therefore more understandable and better satisfies the liquidity and financial flexibility objective by following a liquidity or current/non-current split, whichever is appropriate in the circumstances. Accordingly, the AASB thinks that the cohesiveness objective should not be pursued for the statement of

financial position. (However, the Board agrees that it is useful to apply the business/financing split in the statement of comprehensive income and cash flows). The AASB is of the view that an objective of providing information about liquidity should override the cohesiveness objective for the statement of financial position.

If the Boards decide to adopt the proposal to split both assets and liabilities into business and financing sections, the AASB thinks that such information would best be presented in the notes.

In response to the key financial ratios aspect of the question, the AASB acknowledges that the proposed format would make it easier for users to calculate some key ratios, because the format would provide a cohesive disaggregated picture of the entity. Users could more readily link the financial information between the financial statements. For example, using consistent sub-headings amongst the statements of financial position, comprehensive income, and cash flows might be useful in calculating ratios that use inputs from different statements. However, there would be certain asset and liability ratios that may not be facilitated by the proposed presentation format. For instance, calculating a current ratio would be more time consuming for a user under the proposed model compared to the calculation under the model used today.

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.

No, because, as noted in response to question 6, the AASB fundamentally disagrees with the proposals to classify the statement of financial position. If the Boards decide to proceed with their proposals, the AASB considers it would be inappropriate to effectively introduce segment reporting requirements for entities that are not presently subject to IFRS 8 *Operating Segments* without carefully assessing the costs and benefits of doing so. Instead, consistent with the management approach (and the principles in IFRS 8), guidance should be provided to make it clear that assets within a class of assets may be classified across different sections (and, if the Boards proceed with their proposals, across different categories) within the statement of financial position.

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.

Although both IFRS 8 (regarding segment information) and the proposals in the Discussion Paper (regarding whole-of-entity information) have their foundation in a through-the-eyes-of-management approach, the AASB notes the bases for the two sets of information differ.

Segment information is based on a more ‘pure’ through-the-eyes-of-management approach (involving the use of information actually reported to senior management) whereas the proposed presentation model is only partially a management approach.

Accordingly, the AASB thinks there is probably limited benefit in trying to align the way segment and whole-of-entity information is reported without adopting the same through-the-eyes-of-management approach (see also the AASB’s response to question 5) in both cases.

Furthermore, the AASB notes that, at this stage, there has been limited experience with reporting under IFRS 8. Accordingly, it may be premature for the Boards to consider consequential amendments to existing segment disclosure requirements arising from the proposed presentation model. The Boards should consider such amendments once there is sufficient experience with IFRS 8.

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?

In relation to the definition of business section, the AASB suggests that, for clarity, the definition explicitly note that it excludes transactions with owners in their capacity as owners.

The AASB does not regard the distinction between operating and investing categories within the business section as useful. Accordingly, the AASB thinks that the business section should not have those categories. The categories are difficult to implement in practice, particularly for diversified entities, as explained in the following.

It is not clear whether the characteristic underlying the distinction between operating and investing is intended to be persistence or something else. This lack of an underlying principle could lead to inconsistencies in practice. It is also not clear from the definition of investing category in paragraph 2.33 of the Discussion Paper, given the reference to ‘if any’, the circumstances under which the definition would be satisfied. Furthermore, the definition of business section includes a reference to ‘continuing business activities’, which therefore applies to its subcomponent of the ‘investing category’. The reference is awkward because, for example, an entity may invest surplus funds temporarily until those funds are required for operating activities.

Paragraphs 2.31-2.33 and 2.63-2.67 of the Discussion Paper provide the Boards’ proposed definitions of the section and categories, but they do not make reference to users’ comments on those definitions. Decision-usefulness is one of the cornerstones of the proposed presentation model, and therefore the Boards need to have assurance that the definitions are aligned with users’ understanding. Otherwise, the Boards are risking providing information in the business section and operating and investing categories that will be then regrouped by users for analysing information.

More fundamentally, the AASB is concerned the proposed definitions result in classifications that do not necessarily reflect the underlying use of a recognised asset. This issue arises due to the fact that classification is driven off the statement of financial position, which results in most items being classified as ‘operating’. For example, under the proposals, miners with exploration activities or pharmaceutical companies with drug development activities would presumably classify those activities as ‘operating’ in the statements of comprehensive income

and cash flows because the related recognised property, plant and equipment or intangible assets would be classified as ‘operating’ in the statement of financial position. The AASB is concerned such classification is not useful because it implies that many of the items that users currently consider to be investing will be shown as operating.

Furthermore, the AASB notes there are other complexities with the proposed definitions. The AASB is concerned about the consequences of, for example, an asset’s use changing over time, and the implications that would have for comparative information. The AASB notes from paragraph 2.42 that the issue has not been addressed in the Discussion Paper. However, the AASB considers it to be an important issue. The AASB’s view is comparative information should not be changed if the way an asset is used changes. That is, its classification in comparative information should reflect its use at that time. If comparative information were changed in these circumstances, users would not be provided with an accurate picture of the entity over time. (The AASB distinguishes a change in use of an asset from a change in classification policy. The AASB’s view on a change in classification policy is noted under question 5.)

If despite the comments above the Boards decide to proceed with their proposals, the AASB suggests more generic terminology could be used. For example, the distinction between operating and investing could be better and arguably more precisely termed ‘core’ and ‘non-core’ activities or ‘active’ and ‘passive’ activities. In relation to the term ‘investing’, if the statement of financial position is retained as the driver of classifications in the other financial statements, the AASB thinks a more descriptive term would be ‘strategic investing’. The definition of ‘operating’ could perhaps be improved if it were to focus on the notion of ‘pursuing objectives’, although that would not overcome the AASB’s concerns noted above. In addition, the guidance accompanying the definitions needs to make it clearer that it is acceptable for entities to classify what might otherwise be thought of as investing and financing activities in operating activities, if that is the entity’s main activity (eg an investment fund would have all its investing in operating). If the guidance incorporates such situations more explicitly, it would be easier for entities to apply the definitions in practice.

In relation to an asset used for more than one function (see paragraph 2.43), the AASB thinks the asset should be allocated to its predominant function. The alternative of allocating the asset and its associated income and expenses, and cash flows, between functions is likely to be arbitrary for many assets, and therefore result in unreliable measurements.

Consistent with the AASB’s comment in response to question 1, the AASB thinks that the difficulties it has identified above highlight the benefits of taking a more generic approach to addressing the issues in this project. Looking at the classification of a statement of financial position from a broader perspective (for example, from both a for-profit and a not-for-profit context) would result in a more robust universal principle (for example, a management approach). This would also be of assistance in those jurisdictions who have elected to apply IFRSs to a broad range of entities.

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?

If the proposals for classifying the statement of financial position are retained, the AASB does not think that the financing section should be limited to financial assets and financial liabilities as defined. The AASB thinks the definitions of the financing section and the financing assets and financing liabilities categories are too rules-based and too restrictive. In particular, the AASB is concerned the financing section definition takes a form-over-substance approach. Further consideration needs to be given to broadening the financing definition to a more principles-based level to incorporate items that many users consider to be financing in their nature and function. These include finance lease liabilities and their associated finance costs, which are generally considered to be interchangeable with a bank loan.

Also, the impact of the unwinding of a discount on various present valued amounts is generally considered to be financing in nature, but under the proposed model there is potential that it will be classified to the 'operating' section. This again brings into question the merits of the fundamental proposal to adopt the same classifications across all financial statements, driven off the statement of financial position.

Furthermore, it is unclear why the Discussion Paper treats financing assets and financing liabilities as two separate groups, whilst it treats operating assets and liabilities as one group (as it does investing assets and liabilities). The AASB thinks the reason for this approach should be explained.

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?
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- (a) The AASB would expect financial institutions to present assets and liabilities in order of liquidity rather than a classified statement of financial position, for the same reasons as given in paragraph 3.6 of the Discussion Paper.
 - (b) The AASB is concerned further guidance would be too restrictive/rules-based in defining which entities should present a statement of financial position in order of liquidity. The AASB thinks the current proposed guidance is adequate in deciding whether an entity should present a classified statement of financial position or a

statement of financial position in order of liquidity. However, the AASB thinks an entity that chooses the order-of-liquidity format should be required to disclose its reasons for the choice as part of its accounting policy disclosures.

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?

Consistent with its support for the management approach, the AASB does not think that an entity should be prevented from presenting and classifying cash equivalents with cash. However, in light of issues arising in the context of the current global financial crisis, the AASB thinks that the existing definition of 'cash equivalents' in IAS 7 *Statement of Cash Flows* should be reviewed.

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 statements 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?

The AASB is concerned presenting similar assets and liabilities that are measured on different bases on separate lines based on the measurement model applied for them would provide too much disaggregation and thereby lengthen the statement of financial position, and detract from the decision-usefulness of the information. The AASB thinks disclosure of this disaggregated information in the notes would be sufficient and would satisfy the needs of users who are interested in such information. However, line-item descriptions where those lines comprise similar assets and liabilities measured on different bases should include an indication that different measurement bases have been adopted (in addition to the greater details that would be provided in the accounting policy note).

The AASB acknowledges the Boards think providing such information on the face allows users to access necessary information without reviewing the note disclosures, but the level of disaggregation on the face would make the statement of financial position too long.

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?

The AASB thinks a single statement of comprehensive income is the preferred approach, for the same reasons as given in paragraphs 3.29 and 3.30 of the Discussion Paper. That approach would improve comparability and enhance consistency, because each entity would present a single statement rather than choosing between a single statement and two separate statements.

However, the AASB questions the ongoing need for the term 'comprehensive' in the title of the statement if a single statement approach is adopted.

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?

The AASB questions whether presentation issues can be effectively separated from recognition and measurement issues. Accordingly, the AASB is of the view that the project on Financial Statement Presentation should address the basis for what is included or excluded from other comprehensive income.

Until the Boards thoroughly address the classification of other comprehensive income items, some items of remeasurement will continue to be included in profit while others will be in other comprehensive income. The consistent separation of remeasurement gains and losses from income and expenses from operations is often cited by users as important for analysis purposes. Accordingly, until the issues are addressed, the presentation of the income statement will be confusing and not adequately or completely cover all aspects of presentation.

Although the AASB understands the Boards' reasons for not wishing to address the recycling issue as part of this Financial Statement Presentation project, the AASB strongly encourages them to do so because the issue is closely connected to the presentation of a single statement of comprehensive income that is discussed as part of question 14. This is because recycling involves inappropriately showing the same item more than once in the same statement in different reporting periods, which may be a source of confusion for users. If comprehensive income as a concept is worth pursuing, then the issue of recycling in the statement of comprehensive income needs to be addressed.

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?

The AASB is again significantly concerned the proposals addressed in this question are inconsistent with the management approach, because often entities manage some revenues and expenses on the basis of their function and others on the basis of their nature. Furthermore, the AASB notes significant debates arise in practice about nature versus function, and therefore the costs of implementing the proposals are likely to outweigh the benefits. In addition, the AASB notes the information would be of limited use in predicting future cash flows unless the information is provided at a segment level for diversified entities.

Although the AASB thinks that a mixed presentation would be acceptable, if the Boards proceed along the lines of the proposals, the AASB thinks only function or nature should be required on the face of the statement of comprehensive income, and the alternative (within the disaggregations provided on the face) should be disclosed in the notes, to avoid there being too many line items on the face of the statement of comprehensive income.

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.

At this stage, the AASB thinks an entity should not be required to present income tax information on the face of the statement of comprehensive income other than in relation to continuing operations separately from discontinued operations and other comprehensive income. That is, existing requirements should be retained.

The AASB thinks this issue should be reconsidered more fully in the context of the Boards' separate Income Tax project, rather than as part of the current Financial Statement Presentation project.

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?**

- (a) The AASB acknowledges that allocating foreign currency gains and losses on assets and liabilities into the related sections and categories achieves cohesiveness. However, it is questionable that such information enhances decision-usefulness. Instead, the information should be presented as a single line item – preferably as part of other comprehensive income (which is preferable to classifying it as 'operating', and thereby distorting that section with items that are difficult to classify).

Also, the AASB believes users want to see the impact of how a business operates along with the overall impact of foreign currency. If foreign currency is disaggregated into single line items, users may not be able to readily see the overall impact.

- (b) Costs associated with providing such disaggregation will be circumstantial. In some cases (eg where one business has foreign exchange dealings), it will be clearly operating. In other cases, an allocation will be necessary. There might be significant costs associated with allocation and the resulting information may not be reliable. Allocation difficulties arise because foreign exchange deals are often made at the group level on behalf of subsidiaries.

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) The direct method provides decision useful information because it clearly displays disaggregated cash flows. If an indirect method is used, users only see the end result, which is of limited use.
- (b) The direct method is more consistent with the cohesiveness and disaggregation objectives. Accordingly, the direct method:
- (i) allows users to link information included in the statement of cash flows to the statements of financial position and comprehensive income; and
 - (ii) achieves the disaggregation objective better than the indirect method.
- However, the AASB is concerned that the level of disaggregation proposed in applying the direct method is too onerous (see the AASB’s response to question 20).
- (c) The AASB notes information equivalent to that provided by the indirect method would seem to be provided in the proposed reconciliation schedule.

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?

Australian entities preparing direct cash flow statements generally do so at a high level of aggregation and are not presently set up to provide direct method cash flows at a highly disaggregated level.

The AASB is aware many Australian entities have sophisticated systems to capture information on an accrual basis and that there would be considerable initial costs involved in overhauling those systems if a more detailed direct method of presenting operating cash flows were prescribed. There will also be increased on-going costs, to ensure transactions are captured with the required level of detail to enable classification and incremental costs of verification and audit. The AASB has not investigated the precise amounts that would be involved.

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 AASB acknowledges allocating the effects of basket transactions achieves cohesiveness and increases the level of disaggregated information. However, the AASB expects that users are more likely to be interested in the overall effect of an acquisition or disposal of a subsidiary rather than the related disaggregated information. Considering users' needs, the AASB thinks presenting the effects of basket transactions in a single category is more cost-effective and relevant to the users. Furthermore, the AASB thinks presenting the effects of basket transactions under 'investing' would be the most appropriate category considering the definitions provided in the Discussion Paper.

However, disaggregated information related to the effects of such transactions should be included as note disclosures. In doing so, users interested in such detailed information can readily access the information.

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?

The AASB notes an entity already presents that type of information in accordance with IFRS 7 *Financial Instruments: Disclosures*. The AASB thinks the requirements of paragraphs 37 and 39 (as amended by the IASB in March 2009) of IFRS 7 about the maturities of financial assets and liabilities are sufficient to provide the relevant information for users. Disclosing more information than required can lead to unnecessarily lengthy financial statements, which may detract from the usefulness of the information.

Question 23

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

- (a) Would the proposed reconciliation schedule increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.
 - (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.
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- (a) Although the proposed reconciliation schedule has the potential to increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows, the AASB has a significant concern that, as proposed, it provides too much detail and appears to be complex for entities to prepare. Providing such a detailed reconciliation schedule would make it more difficult for users to read and understand the financial statements. The cost of preparing such a reconciliation schedule would be both one-off and ongoing, including extra time spent by management, the costs of implementing new information systems or modifying existing information systems to extract the needed information, and additional audit costs.
 - (b) Changes in assets and liabilities should not be disaggregated into the components described in paragraph 4.19 because it would result in too much detail. As noted in (a) immediately above, there is a possibility that the users are not interested in such information and the benefit of providing it is uncertain. The AASB thinks that it would be sufficient to distinguish remeasurements (whether recurring or non-recurring) from other changes, and to distinguish acquisitions/disposals from depreciation and impairments.
 - (c) If the Boards decide to proceed with the schedule, the AASB thinks the guidance provided in the Discussion Paper is sufficient to prepare the proposed reconciliation schedule.

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?

The AASB does not think it is a priority at this stage to address this issue in detail. However, the AASB thinks it would be useful for the Boards to consider, as part of the Fair Value Measurement project, issuing general guidance at a principle level that requires disclosure in the notes of components of changes in fair value where management considers that disclosure would be useful to users.

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?

The AASB is concerned that, like the proposed reconciliation format, the alternatives are complex, overly detailed and would be costly to prepare.

The AASB understands that many analysts think reconciling operating profit to operating cash is sufficient and there is no need to reconcile investing and financing components.

Accordingly, the AASB thinks the reconciliation formats contemplated in the Discussion Paper are not the most effective way of conveying information in the financial statements. However, if the Boards proceed with their proposals for a reconciliation, consistent with the management approach principle, the AASB would support management making a choice about the most appropriate format in the circumstances.

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) The AASB thinks that the relevant principle in this context is that disclosure should be made of information that assists users to understand the financial statements. Those disclosures should only be made if they add to that understanding. The AASB thinks that it is unnecessary to identify a separate category of items. The AASB particularly notes that the FASB's preliminary view may raise concerns in practice. For example, many Australian constituents think this would be a return to past practices where 'extraordinary' and 'abnormal' items were presented within the financial statements. This was difficult to regulate, a source of significant debate between auditors and clients and was found to detract from the usefulness of the financial statements. Furthermore, the AASB thinks the Boards should avoid

information overload in the reconciliation schedule, and to add a memo column would add to the complexity/clutter. The AASB thinks the existing approach in IAS 1 *Presentation of Financial Statements* [whereby additional line items, headings, and subtotals in the statement of comprehensive income are presented on the face, when such presentation is relevant to an understanding of the entity's financial performance] has merit in the context of the financial statements themselves. However, the AASB acknowledges that given the nature/function requirements in IAS 1, presentation of significant items on the face of the statement of comprehensive income can often be difficult. As noted in (c) below, the AASB thinks that there is value in disclosing the information in a narrative form in the notes.

- (b) If the FASB proceeds with the proposal and the IASB follows, the AASB thinks the definitions are probably satisfactory, but the Boards should consider extending the definitions to restrict unusual/infrequent events that can be presented in the reconciliation schedule. Unless the definitions are restricted in their scope, they may lead to too many events being disclosed in the reconciliation schedule. Thus, the Boards should consider adding 'low possibility to occur' in defining unusual/infrequent events. In its current form, the definitions leave room for preparers to disclose events that may have 'high possibility to occur'.
- (c) Information about significant items that assists users' understanding of the financial statements should only be presented in a narrative format to avoid detracting from the overall usefulness of the financial statements. A disclosure approach would overcome some of the difficulties of otherwise presenting the information on the face of the statements if, for example, the proposals relating to nature and function are retained.

Whatever the decisions the Boards make on this issue, the AASB strongly encourages the Boards to arrive at a common decision, to facilitate truly global financial reporting standards.

Questions specific to 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 AASB thinks expectations of users (as capital providers) of financial statements for a non-public entity would be broadly the same as for a public entity. Thus, the proposed presentation model would have the same benefits for non-public entities. Indeed, the AASB thinks that the robustness of the model being developed under the Discussion Paper would benefit from the Boards considering the issues from a broad perspective, by having regard to issues pertinent to both public and non-public entities.

The AASB thinks the FASB should not only consider if the proposed presentation model is beneficial for capital providers. It should also consider whether it is beneficial to users other than capital providers. (See also the AASB's comments below under the subheading 'Entities referred to in paragraph 1.18(b) of the Discussion Paper'.)

Other Comments

The AASB also provides the following comments that were not specifically addressed by the questions in the Discussion Paper.

Fixed and Variable Expenses

Paragraph 2.9 of the Discussion Paper refers to fixed and variable expenses as part of the disaggregation objective. However, the Discussion Paper does not help identify such expenses. The AASB thinks further guidance should be provided on the definitions and distinction between fixed and variable expenses.

The relationship between Disaggregation and Management Approach

Paragraph 2.10 comments:

“In applying the disaggregation objective, an entity should include, as appropriate, additional line items in its financial statements to explain the components of its financial position, performance and cash flows. The Boards acknowledge that there is a delicate balance between having too much information and having too little information. Thus, it is important that application of the disaggregation objective should lead to sufficient but not excessive disaggregation.”

It is unclear to the AASB how a preparer is meant to apply the sentiment in this paragraph to determine the balance between too much and too little information.

Cohesiveness

Paragraph 2.16 would require an entity to comply with the spirit of a goal. Such vague language is not conducive to enforceable standards. Furthermore, explicitly referring to this requirement only in one context raises the possibility of an obtuse interpretation that an entity is not required to comply with the spirit of other goals.

Classification of Dividend Payments

Paragraph 2.48 of the Discussion Paper mentions that dividend payments would be classified as a financing liability in the statement of financial position and in the financing liability category in the statement of cash flows, not the equity section. Some Australian constituents think the dividend payments should be classified as equity cash flows.

Consideration of implications of XBRL

Some Australian constituents commented on the implications of the proposals in the context of work that is progressing on the IFRS eXtensible Business Reporting Language (XBRL) taxonomy. Considering the developments in XBRL, it would be appropriate for the Boards to consider how the proposals would interact with the IFRS and US GAAP XBRL taxonomies. For example, consideration could be given to whether XBRL provides an opportunity for reducing the level of detail required to be presented on the face of financial statements, given that XBRL can facilitate a user-driven extraction of relevant information from a data set.

Entities referred to in paragraph 1.18(b) of the Discussion Paper

The AASB acknowledges that the Boards intend that the proposals in the Discussion Paper would not apply to “entities within the scope of the IASB’s forthcoming IFRS for Private Entities”. The AASB thinks that the Boards should clarify the process they will adopt for considering financial statement presentation issues for such entities, and explain why the decisions the Boards will make in relation to the Discussion Paper would not be relevant to such entities.