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

April 16, 2009

Dear Sirs,

Re: Discussion Paper – Preliminary Views on Financial Statement Presentation

The Swedish Financial Reporting Board, The Norwegian Accounting Standards Board and The Danish Accounting Standards Committee are pleased to respond to your invitation to comment on the above Discussion Paper (DP).

General observations

We appreciate the opportunity to respond to the discussion paper and that the IASB has issued a DP regarding financial statement presentation. Financial statement presentation is an issue of fundamental importance, and we are pleased that the IASB has decided to address this issue and to do it as a convergence project with the FASB.

In our response the more general issues are focussed. We also answer the specific questions, but it should be noted that even if we agree with some individual parts of the proposal, this should not be taken as a support for the DP in general. On balance, we think that the disadvantages of the DP, in its present form, outweigh its advantages. We believe the following comments are essential to the development of a financial statement presentation model that provides useful information for users and can be practically implemented by preparers:

Management approach

We are supportive of the overall management approach to classification of the present proposal even if there are certain practical concerns with such an approach including a potential reduction in comparability of financial information among entities with similar operations. But it provides management with the ability to classify an entity's financial information based on the manner in which the underlying assets and liabilities are used and managed. We consider that more attention should be given to management's role in the corporate reporting supply chain. The management approach has implications for various issues in the DP, e.g. we believe that the financing section should not be restricted to financial assets and financial liabilities as defined in IFRS (as long management clearly describes their basis for classification), and that a choice between presentation by either function or nature should be at management's discretion.

Cohesiveness, disaggregation and reconciliation schedule

Our concerns are primarily related to the extensive application of the cohesiveness principle and the combined effect of 1) the proposed cohesiveness principle, 2) further disaggregation and 3) the suggested reconciliation schedule. In a situation where many territories are in transition to IFRS and where work on recognition and measurement is intense it is not ideal to make additional changes to the basic presentation model. This is particularly true about introductions of changes, where the system requirements for the registering and processing of data will be substantially increased.

Cohesiveness
This project has been on the standard-setters' agenda for a long time. Two of the most controversial issues have been whether there is a need for a summary measurement of income (and in that case which metric to use e.g. net income, comprehensive income) and the presentation format for the cash flow statement. We note that this Discussion Paper is largely built upon the application of the cohesiveness principle, which in itself doesn't answer any of the issues mentioned above. Furthermore, cohesiveness is not an established accounting concept and the focus on cohesiveness came rather late in the process. We believe that the consequences on a detailed level from the extensive proposed application of this principle have not been sufficiently investigated.

We don't think that the classification into business and financing in the balance sheet should necessarily and at any cost be applied to other statements in the financial statements if the result is a decrease in faithful presentation.

The issue of a summary measurement of income was addressed in IAS 1 revised 2007 (IAS 1). In IAS 1 some changes to traditional financial statement presentation have been introduced, most notably to include in the income statement items traditionally taken directly to equity. In IAS 1 these other comprehensive items are still clearly separated (either presenting them in a separate section within one single statement or in an additional income statement). We support this separation because we think that it is necessary to have a summary measurement of income and we don't think that comprehensive income could fulfil that role. Our comments are to be understood against that background.

The issue of the presentation format of the cash flow statement almost becomes a non-issue in the DP, since the cohesiveness principle (at least the way it is applied in the DP) indicates a direct cash flow statement. However, we believe that the issue is important and should be considered on its own, not only in relation to the principle of cohesiveness.

Disaggregation
We also think that the extensive application of the disaggregation principle could be challenged. We are concerned that too much ***disaggregation*** *may distract users from information that is relevant and create a burden for preparers that may outweigh the potential benefits. There is a limit to when increased disaggregation is decision-useful. In the individual case one could always argue that an additional item is justified, because it could be useful to some parties and is not opposed by anybody. However, on a global level the aggregate amount of these requirements make the information less useful due to information overload and diminished clarity. In general the proposed changes should be compared to present practice, where accounting practice has developed in an interaction between preparers and users.*

We believe that the IASB should consider additional analysis to determine the level of disaggregation users actually utilize and fully understand why such information is necessary prior to requiring it in an entity's financial statements. This would also provide useful information in assessing the costs and benefits of the principles established to meet this objective. Actually, we encourage the IASB to develop a framework or a set of principles to guide them when requiring notes disclosure, to mitigate the flow of disclosure requirements stemming from individual standards.

Reconciliation
Furthermore, we are not convinced that a reconciliation schedule will always be a good way to solve a difficult accounting issue. While we understand that the schedule supports the cohesiveness objective we urge the IASB to consider whether this information is relevant to a degree that justifies its additional cost. In addition, the proposed reconciliation schedule may

distract users from relevant information and will create a significant additional burden for preparers. It seems to us that the indirect method of presenting cash flows combined with some additional note disclosures would cover, in all material respects, what the DP suggests when the reconciliation schedule and the direct method of presenting cash flows are taken together. The IASB therefore should consider whether the benefits associated with requiring the proposed reconciliation schedule outweigh the costs.

We think that the focus should be on high quality financial statements. If this is the case, the benefit of extensive reconciliations is doubtful. The quality of the original information will set the limit, however many reconciliations may be supplied.

Cost consequences
Accounting standards are meant to produce benefits – in the form of high quality financial information requested by financial statement users – that exceed the costs of producing and assembling this information. Whereas the benefits of a new reporting format may be difficult to quantify, an assessment of the costs is feasible. We notice that the Board is aware of reporting costs with respect to the direct method of the cash flow statement, but this is a very limited view on the relevant costs. In our view the entire reporting matrix that is suggested is an important challenge for the preparers. It will also entail huge transition and learning costs for analysts, producers of financial statistics, educational institutions on all levels, and all other users. Making the cost benefit assessment, it should also be recognized that some of the proposals most likely will support the internal control for a number of entities. In our view the Board should consider the costs consequences in a broad sense before pursuing this proposal further. We are looking forward to the results of the field tests that the IASB is carrying out.

Kind regards,

The Danish Accounting Standards Committee

Eskild Nørregaard Jakobsen
Chairman

Norsk RegnskapsStiftelse

Erlend Kvaal
Chairman of the Technical Committee on IFRS

The Swedish Financial Reporting Board

Anders Ullberg
Chairman

Answers to specific questions

Chapter 2: Objectives and principles of financial statement presentation

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

We think that, in general, the objectives (cohesiveness, disaggregation, liquidity and financial flexibility) might be the right objectives for financial statement presentation and that they are useful in helping users understand the relationship across the statements and whether an item is employed for operating or investing purposes. However we would like to see the IASB elaborate more on how the qualitative characteristics of the conceptual framework are related to the selected detailed objectives for financial statement presentation. We believe that a solid understanding of this relationship is needed before implications based on the objectives are made related to financial statement presentation, e.g. in our view disaggregation is a mean to fulfil an objective rather than an objective in itself. We also would like to see clearer how the objective of cohesiveness, which has not received much attention in prior IFRS literature, derives as a most prominent objective of financial statement reporting from the objectives of financial reporting stated in the IFRS framework.

Regarding ***cohesiveness*** we believe that financial statements in their traditional state already are cohesive on a higher level of abstraction: An indirect cash flow statement starts from a profit concept in the income statement. The cash flow statement then ends with a cash flow that reconciles the opening and closing balances of cash in the balance sheet. Finally, the net profit in the balance sheet equals the net profit in the income statement. The crucial issue then is whether it is possible to achieve even more cohesiveness in a reasonable way without sacrificing too much on other desirable characteristics or introducing to high costs.

We see the proposal as an extensive application of the objective of cohesiveness, where this principle is applied to the extent that it might become detrimental to other objectives higher in the hierarchy, e.g. faithful presentation. All other things being equal, even if increased cohesiveness is preferable it will come at a cost. The discussion in section 2.6 of the DP is too brief. We had expected the extensive application of cohesiveness to warrant an extended discussion of the merits of this, also including the costs.

Regarding disaggregation we think that in general users would benefit from more information about the business activities of entities. Nevertheless, we think that the supply of information should be selective, e.g. we don't think that the present requirements related to expenses by both function and nature is well-founded. The more disaggregation, the more work is passed on to users to interpret the operations. In determining how much disaggregation is needed prepares will need more guidelines to determine the appropriate levels of disaggregation (i.e., information that most users find beneficial). In line with our suggestion in the cover letter for the IASB to develop a framework or a set of principles guiding them on notes disclosure, we would like to see this formed as a principle-based approach, including if possible illustrative examples of appropriate levels of disaggregation.

Regarding ***liquidity*** and ***financial flexibility***, we are not sure that the DP is adding something to the present format.

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?

Basically, we think that the distinction between business and financing is a good thing because we believe that separating presentation of business activities from presentation of financing activities provides more decision-useful information. Of course, this distinction is already made in a traditional income statement and cash flow statement. The most substantial changes will appear in the balance sheet. We would like to have more evidence in the DP and/or Basis for Conclusion that the changes from the proposed extensive application of the principle of cohesiveness are justified by improvements compared to present practice.

Having considered issues such as general or specific (e.g. lease) financing, post-employment obligations and potential impacts of a full blown management approach to the definition of financing, we do see a clear need for an extended discussion before conclusions are drawn on the classification of liabilities as business or financing.

Furthermore, we don't think that the classification into business and financing in that statement should necessarily and at any cost be applied to other statements in the financial statements if the result is a decrease in faithful presentation.

One example where we see a potential for less decision-useful information compared to today is related to post-employment benefits. Paragraph 2.46 of the DP states the following: "*Following the cohesiveness principle, an entity should classify the related post-employment benefit expenses, including items such as service cost, interest cost and return on plan assets, and cash flows in the same category as its net post-employment benefit asset or liability.*" This will cause a major change to companies practice in some countries, for example in Sweden, where almost all companies allocate interest cost and return on plan assets to the financing section and where service cost is allocated to the operating section. We believe that the current practice provides a more faithful presentation of the post-employement plans and believe that the cohesiveness principle have embedded problems if it does not allow allocations between financing and operating activities under such circumstances. We have to accept that some assets and liabilities are used in the entity´s activities for more than one function.

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, equity is a fundamental concept. It represents the residual interest and is the balance between assets and liabilities. It should be clearly separated in the presentation so that transactions with owners and non-owners are separately highlighted in the entity's financial statements.

As a consequence of presenting equity as a separate section, we think that in the financing section the term "financing" should be further specified.

This is an example of where there is a link from this project to another project (Financial Liabilities with Characteristics of Equity). The presentation of equity is in principle dependent upon the outcome of that project. In a claims approach it would be more natural to include equity within the financing section. We don't support that approach and we realise the

necessity of going forward with parallel projects, but nevertheless believe that such links should be acknowledged.

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?

Yes, we find that this provides decision-useful information and we support the IASB's proposal of separately presenting discontinued operations. The most important thing is to get information about the amount of assets and liabilities, revenues and expenses and cash flows that are no longer relevant for predicting the future of the entity. That will be easier to see when the presentation is in a separate section.

On a detailed level we are not fully clear about the treatment of taxes on discontinued operations in the cash flow statement. In the exhibit presenting the proposed format[1] there are no taxes in the section for discontinued operations.

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?

We don't think that it is possible to specify classes of assets and liabilities that will work for all entities. Furthermore, the management approach provides management of the entity with the leeway necessary to shape the financial statement in line with the unique aspects of its underlying business model. Properly used, we therefore believe that the management approach would result in financial statements which, compared to a more standardized model, would provide the most useful view of an entity to the end user of the financial statements. Of course it will be necessary to present the deliberations management has made in the accounting policies section.

The management approach is also present in other recent standards, e.g. IFRS 7, IFRS 8, and it makes sense to build on that.

(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?

The management approach if adequately applied will lead to comparability on a higher level. With alternative approaches there is a risk of just having uniformity, i.e. the same presentation for different circumstances.

6 Paragraph 2.27 proposes that both assets and liabilities should be

[1] p. 15

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?

We think that in some respects this is the natural way to present the information, e.g. working capital is the net of short-tem operating assets and liabilities. Obviously, the calculation of some ratios will be less evident with this presentation, e.g. the equity-to-assets ratio. In general, one should look at which adjustments that are made, by users and preparers, today. The trend in the Scandinavian countries is to use debt-to-equity ratio to a larger extent as a metric for long-term financial strength, using interest-bearing liabilities as numerator. This is an indication that such a presentation in the statement of financial position should be considered. However, we think that entities, in addition to the subtotals presented according to the proposal, should present total assets and total liabilities on the face of the balance sheet.

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.

For those entities that have more than one reportable segment we think that a classification at the reportable segment level is most consistent with the objectives of the proposal because segments are also determined based on information that management uses and therefore consistent with the management approach proposed in the DP. However, we think that the issue of intersegment transactions have to be addressed.

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.

Basically, we think that the existing disclosure requirements are sufficient. We realise that this means that users outside the entity will not be able to fully link the information at group level to the information at the reportable segment level. We do however accept this, since we don't think increased requirements for segment reporting are justified at this time.

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

The definition of the business section is appropriate. However we have concerns related to the splitting of the business section into an operating and an investing category. We call into

question, whether the investing category is needed. We think that the items currently in that category could be classified as either operating or financing. We note that the illustrative examples of items in this category are few, and we think that in general a classification scheme that results in relatively few objects in a specific category should be reconsidered. For example, we think that an associated company most often belongs in the operating category.

The chosen terminology is also quite confusing, since "investing" has an established meaning in general and in the cash flow statement. In the current proposal, capital expenditures will not be classified as "investing". However, this will not be a problem if there is only the operating category.

The definition of the term investing in the proposal is that it should include "...business assets and liabilities, **if any** (our emphasis), that management views as unrelated to the central purpose...". In our opinion this comes quite close to core-non core, a distinction that has been much discussed related to the reporting of entity performance. This discussion has not resulted in any robust conclusions. If investing is abandoned, then operating might be used instead of business as the overall heading.

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

We support the boards' initial preference for a functional approach to the definition of the financing section. We are not convinced that The IASB has provided compelling arguments to over-ride the management approach by limiting the financing section to financial liabilities (or financial assets).

However to the extent that The IASB proceeds as proposed in the discussion paper, we think that the interchangeability criterion is potentially a good basis for classification of financing liabilities, but the concept of interchangeability has to be further developed. We realise that this means that the operating section will include more heterogeneous activities, but on balance we think this is acceptable.

Of course, making the distinction between the sections is not without problems. Some of them are related to the proposed extensive application of the principle of cohesiveness. Consider e.g. pensions classified as financing liabilities. Part of the costs related to this item, such as service costs, would normally be considered operating.

Furthermore, we are concerned that dividends paid to shareholders will be in the financing section, rather than in the equity section i.e. where new issues of shares as well as repurchases of shares will be. We are aware of the fact that the classification in the statement of financial position is applied to the other statements, and if declared dividends are classified as liabilities, this will be a consequence. However, in a case like this we think that an inconsistence should be accepted on the grounds that the overall representation will be better.

It is proposed that all cash should be presented in a single category, established by the management. If cash is strictly defined, separated from short-term investments, we think that in general cash is an operating asset to manage current transactions.

We believe in the management approach. Consequently, we believe that the financing section should not be restricted to financial assets and financial liabilities as defined in IFRS, as long as management clearly describes their basis for classification. For example, pension provisions should be possible to classify in the financing section but such employer rights and obligations under employee benefit plans, to which IAS 19 applies are scoped out of IAS 39.

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

11 Paragraph 3.2 proposes that an entity should present a *classified statement of financial position* (short-term and long-term subcategories for assets and liabilities) except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant.
(a) What types of entities would you expect *not* to present a classified statement of financial position? Why?
(b) Should there be more guidance for distinguishing which entities should present a *statement of financial position in order of liquidity*? If so, what additional guidance is needed?

We think that a presentation of assets and liabilities in order of liquidity provides information that is more relevant to users/readers of financial statements issued by financial companies. We further believe that the question of which companies that will do this is covered by the management approach.

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?

This is yet another example where making the decisive classification in the statement of financial position may result in questionable outcomes in other statements. We think that the argument that no short-term investment could have all the characteristics of currency on hand and on-demand deposits has merits. We also think that the fact that cash is legal tender and has a nominal value is important. Even though we are concerned about drawing the line between cash and cash equivalents in practice in some cases, we think that this would be acceptable for the statement of financial position. However, a consequence for the statement of cash flows would be that the change of cash alone would be of little informative value. There is also already today a requirement to disclose information about the composition of cash and cash equivalents in the respective categories.

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

We think that information about measurement bases for items in the statement of financial position is important, but that this could be done in the notes and not by introducing additional lines.

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?

Given IAS 1, we think that comprehensive income should be presented in a single statement. Since other comprehensive income is clearly presented in a separate section there is no need for an additional statement. We don't think it is a good idea to allow alternatives in an issue like this one.

However, it would be reasonable for the IASB to observe what entities actually will do under IAS 1. We note that this is not a cohesiveness issue in the sense that the OCI-section only appears in the statement of 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?

We do not really see the need for this because of the different nature of these items.

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?

We think that the proposal is not sufficiently precise, it could be interpreted as all entities having to disclose all items by function and by nature. If this is the way the proposal should be interpreted we are against it. We believe that a choice between either function or nature, should be decided by managements consideration of which presentation that provides the most useful basis for predicting the entity's future cash flows.

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

We think that the proposal to have all tax items related to business and finance in the same category is workable. It is often not possible to establish causal links from specific transactions to taxes, and trying to do that will only result in arbitrary allocations. However, due to the specific nature of discontinued operations and other comprehensive income, which in some cases will result in external parties wanting to exclude them, a presentation net of tax is preferable, and allocations would be acceptable.

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?

We think that foreign currency transaction gains and losses from operating and financing activities should be allocated to the respective sections the way it is done today. We are not sure of the value to users of having additional allocations to the respective sections and categories. We expect that the costs of providing this information will exceed the benefits.

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?

Obviously, a direct method, by definition, is more consistent with the cohesiveness principle. However, this is not the point. The point is whether the direct method or the indirect method (combined with some note disclosures) provides the most decision-useful information (including cost/benefit considerations). In making that assessment a (small) part would be to establish the possible advantage of the proposed applications of the principle of cohesiveness compared to the traditional formats of the financial statements, where there is articulation between all of the statements although on a higher level, as explained in the introductory general remarks of this comment letter.

In our experience, users are divided in their opinion of whether a direct presentation of the cash flow statement is more useful than an indirect one. We do not think that the IASB have produced sufficient convincing evidence that this is the case. Therefore, we don't see sufficient reasons to change the present system, allowing both methods.

Finally, we are not clear whether the users who prefer the direct presentation are of the opinion that the items must be collected directly from the transaction system (cash ledger method) or if an indirect determination would be acceptable. It is observed in paragraph 3.82 that it is the reconciliation between the statement of cash flows and the statement of comprehensive income that would be problematic for an indirect approach. Since we are opposed to such a reconciliation in the first place (cf our answer to Q23 below), we think that if a direct presentation of the statement of cash flows is required, an indirect determination should be an allowed 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?

A prerequisite for a direct collection of data for the statement of cash flows would be for an entity to have a single, global transaction system. Even in that case, mergers and acquisitions would present problems, because the systems could be expected to differ for a considerable period of time.

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?

In section 3.88 of the DP it says that a typical basket transaction is a business combination in which the acquirer acquires 100 % of the equity instruments of the acquiree for cash and the assets and liabilities are then consolidated. In 3.92 it further says that most entities are unlikely to engage in this in each reporting period and many entities may engage in them only rarely. We think that business combinations are much more common for listed firms and that this is an important issue.

Given that both indirect purchases and sales must be treated we think that an allocation would be too arbitrary, and would prefer to present the total amount in the operating category because this would be the most likely category.

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?

Yes.

Should all entities present this information? Why or why not?

No, only the entities that present assets and liabilities in order of liquidity. We note that IFRS 7.39(a) already require a maturity analysis for non-derivative financial liabilities and that IFRS 7.39(b) requires a maturity analysis for derivative financial liabilities. Therefore, we don't believe the IASB should extend this disclosure requirement to short-term contractual assets other than where this will enhance the usefulness of the information in predicting the entity's future cash flows.

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.

As noted in the introduction, we think that the focus should be on high quality financial statements. If this is the case, the benefit of extensive reconciliations is doubtful. The quality of the original information will set the limit, however many reconciliations may be supplied.

We think that the argument (see 4.22), that increased disaggregation (reconciliation) is necessary because users have asked for information to help them to understand the relation of accrual accounting and future cash flows, is weak. Preparers should not be asked to educate users of principal characteristics of accrual accounting. It is only if relevant and reliable information could be supplied that this should be done.

We appreciate the clarification in the discussion paper making the distinction between "recurring fair value changes" i.e. changes in items that are always measured at fair value (e.g. a change in the value of trading securities or derivatives, a fair value change in a financial asset/liability using the fair value option, a gain/loss on revaluation of PPE) and "all other changes from remeasurement" (e.g. goodwill and inventory impairments, foreign currency translation adjustments, gain/loss on asset held for sale). However, as is pointed out in 4.40, this is not the meaning that is attached to the "recurring" concept by many users, who would interpret a "recurring" change to be persistent. Against this background, we are not sure of the benefits of this allocation.

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?

In our view it is important to consider that there is a limit to when increased disaggregation is decision-useful and the costs (to providers) to collect and costs (to users) to disseminate the information exceeds the potential benefits.

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?

We note that the alternative formats, as presented in this Discussion Paper, are not very different to each other (in earlier versions the differences were more substantial). Thus, we think that the issue of whether there should be a reconciliation or not, by far outweighs the issue of what it should look like. Having said that, we do not think that any of the alternatives is superior to the proposed format.

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) No. Our experience is that none of the approaches tried to separate out unusual or infrequent (or extraordinary) items have succeeded in producing robust information.

b) See answer to a) above.

c) We think that this kind of information, in a narrative format, could be included in the management discussion and analysis.