DUTCH ACCOUNTING STANDARDS BOARD (DASB)

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Our ref : AdK
Date : Amsterdam, 23 March 2009
Direct dial : Tel.: (+31) 20 301 0391 / Fax: (+31) 20 301 0302
Re : Comment on your letter regarding the Discussion Paper "Preliminary views on financial statements presentation"

Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond on your draft comment letter regarding the IASB/FASB Phase B financial statement presentation project Discussion Paper "Preliminary views on financial statements presentation".

Your draft comment letter is an excellent summary of the comments on the main changes proposed and we concur with most of your comments. Therefore we have decided to refer to your draft comment letter in our comment letter to the IASB. We described in our comment letter to the IASB, any additional arguments to your comments as well as where we have a different view. Thereby this letter can effectively also be regarded as our comments to your draft comment letter. For that reason we have attached our comment letter to the IASB to this letter in appendix A. In addition thereto we have included our key comments on your draft comment letter to the IASB below.

General

- Appendix 2 of the EFRAG letter summarizes all key comments to the DP. To highlight the importance, we would recommend moving these to appendix 1 of the letter to the IASB and moving the comments on the detailed questions to appendix 2.
- EFRAG has used very polite words in explaining the disagreement with some of the proposals and consequently the message might not come across. We would recommend wording your objections stronger, as we have done in our comment letter to the IASB.
- Based on all the comments made, we have serious doubts regarding the proposals in the DP and recommend a more pragmatic and principle based application of the cohesiveness principle. If certain (minor) changes are necessary to improve the cash flow statement (e.g. certain reconciliations) we would suggest to amend IAS 7 Cash Flow Statements in those respects instead of the current proposals in the DP. We believe that EFRAG should clearly give this message as well.

Additional comments

- The IASB has not sufficiently substantiated the need for the proposed changes in presentation and disclosure. We would have expected that the field tests would have been done prior to the issuance of the DP.
- In many European countries, based on the EU legislation, the statement of financial position is presented in a horizontal format (all assets are presented on the left and equity and liabilities on the right). Users are used to such presentation and therefore we recommend not to eliminate the horizontal format for the statement of financial position.
- We are convinced that the costs of providing the proposed presentation and reconciliation will exceed the benefits for the users. Unfortunately, the field and user test had not been finalized prior to issuance of the DP.
- In addition to your comment regarding the management approach, we believe that the classification will cause huge pragmatic issues for certain transactions and companies, such as:
    - The DP proposes the management approach to the classification of items. The DP assumes that companies manage its activities within these 3 categories. We do not believe that all companies applying IFRS manage their activities in this way; such companies may have difficulties in applying this approach, as well as that this information may therefore not be beneficial to the users.
    - The DP does not address how changes in the management's view should be accounted for. As a change in accounting policy with changes in the comparatives or as a change in circumstances and therefore prospectively? The accounting for such changes and reclassifications is expected to be complicated.

  The DP does not provide principles or guidance how these issues should be addressed.
- In addition to your comment on the classification into business and financing and the sub-division of business into operating and investing, we do not agree that the sub-division of the business section into operating and investing categories, as defined in the DP, provides the best information. The proposed presentation presents the net cash from operating activities including investments in these operating assets (i.e. purchases of property, plant & equipment), which is currently presented as investing activities. For many companies the investments in operating assets are significant compared to other cash flows from operations. As a result the cash flow from operations could become negative in the year of such investments. We believe that such investment activities (the acquisition of assets used for multiple years) should be clearly presented separately from or within cash from operating activities.
- Regarding your comment on the direct method of presenting cash flows. We strongly disagree with the proposal that all entities should be required to use the direct method in presenting cash flows from operating activities in their statements of cash flows. Based on our experience, entity's presenting a statement of cash flows via the indirect method, with sufficient disclosure of the main reconciling items to the statement of financial position, provide appropriate and sufficient information to users of the financial statements. We believe that this can be achieved through some (minor) changes in IAS 7 Cash Flow Statements instead of the current proposals in the DP.

Difference of opinion

- Regarding the disaggregation, we strongly disagree with the disaggregation in the primary financial statements. Too much disaggregation results in too many lines in the primary financial statements and distorts the understandability and accessibility of the information. We favour disaggregation in the notes to the financial statements.

- EFRAG is supportive of the presentation of assets and liabilities by the respective categories on the face of the statement of financial position, as long as the total of all assets and liabilities are also shown on the face of the statement of financial position. We believe that the presentation of subtotals of assets and liabilities by category will be less relevant than total assets (split into current and non-current) and total equity and liabilities (split in current and non-current) in most situations.
- Regarding question 12 on cash and cash equivalents, the DASB does not agree with the exclusion of cash equivalents within cash. We believe that the inclusion of cash equivalents could reflect the management approach and the economic substance of these assets. Under the condition that cash equivalents could be converted into cash on a short notice and without loss of value, classification as one category ‘cash and cash equivalents’ is appropriate. Due to the proposed conditions, it is likely that entities will convert their cash equivalents to cash prior to year-end and transfer to cash equivalents immediately after year-end.

Specific question EFRAG

Questions for constituents:
The DP is suggesting that, even with the changes to the presentation of the primary financial statements being proposed, something is missing and that, as a result, some sort of reconciliation (of either statement of cash flows to statement of comprehensive income or opening statement of financial position to closing statement of financial position) or breakdown (of the statement of comprehensive income) is needed to provide more information about the transactions, accruals and remeasurements that have taken place. Do you agree that there is a need for such information that should be met in the financial statements?

If you do, what exactly is that need and in your opinion which of the proposals in the paper best meets that need? Does some other form of disclosure meet the need even better? Does the type of disclosure needed vary depending on the type of entity involved? For example, should entities that primarily manage assets and liabilities rather than cash flows be required to use the statement of financial position reconciliation format rather than the proposed format that reconciles cash flows to comprehensive income?

Answer DASB

We believe that the usefulness to users of the financial statements should be the primary driver of the information that is provided by entities. In determining the requirement of additional disclosure, the benefit versus cost analyses should be considered. The level of detail and the format of presenting the reconciliation will vary from year to year and between entities. We are therefore not in favour of a rigid prescriptive format of presentation of such reconciliation. We favour a general requirement that reconciliation is required if it can not be derived directly from the primary statements in the financial statements, and that the company can choose how the reconciliation is provided. Information regarding the main reconciling items could be provided in the notes.

Yours sincerely,

Hans de Munnik
Chairman Dutch Accounting Standards Board

Appendix A
Draft comment letter EFRAG regarding “Preliminary views on financial statements presentation”

<u>Comment letter to IASB regarding “Preliminary views on financial statements presentation”</u>

DUTCH ACCOUNTING STANDARDS BOARD (DASB)

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Our ref : AdK
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Re : Comment on the Discussion Paper "Preliminary views on financial statements presentation"

Dear members of the International Accounting Standards Board,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to comment on the IASB/FASB Phase B financial statement presentation project discussion paper "Preliminary views on financial statements presentation".

In the discussion paper ("DP"), the IASB proposes changes in the presentation in the primary statements and additional disclosure based on the cohesiveness principle. Although we support the cohesiveness principle and believe some improvements in presentation and disclosure could be made, we disagree with most of the proposed changes, and generally believe the proposal will not enhance the quality of financial reporting in a cost-efficient manner.
Our main comments are:

- The IASB has not sufficiently substantiated the need for the proposed changes in presentation and disclosure. We would have expected that the field tests would have been done prior to the issuance of the DP.
- The presentation in the respective categories in all primary financial statements is too rigid and prescriptive. We furthermore do not support combining the cash flow from investments in operational activities (e.g. additions to non-current assets) with the other operational cash flows.
- The disaggregation on the face of the primary financial statements distorts the understandability and accessibility of the information. We are in favour of the disaggregation in the notes to the financial statements.
- The direct method of presenting operating cash flows does not provide more useful information than the indirect method with disclosure of the main reconciling items.
- The proposed reconciliation schedule of statement of cash flow to statement of financial position is too detailed. The benefits of the reconciliation schedule do not exceed the costs.

EFRAG has issued a draft comment letter, which provides an excellent summary of the main comments. We agree with most of the comments and refer to these in our letter, which is attached as appendix B. Our comments as well as additional comments, additional arguments or difference of opinion with EFRAG are described in appendix A of this letter.

Based on the comments above, we have serious doubts regarding the proposals in the DP and recommend a more pragmatic and principle based application of the cohesiveness principle. If certain (minor) changes are necessary to improve the cash flow statement (e.g. certain reconciliations) we would suggest to amend IAS 7 Cash Flow Statements in those respects instead of the current proposals in the DP.

Yours sincerely,

Hans de Munnik
Chairman Dutch Accounting Standards Board

Appendix A
Comment letter IASB regarding "Preliminary views on financial statements presentation"

<u>DASB responses to the questions asked in the discussion paper</u>

1 Introduction

EFRAG has issued a draft comment letter, which provides an excellent summary of the main comments. We agree with most of the comments and refer to these in our letter. We have summarized additional comments, additional arguments or difference of opinion with EFRAG based on their draft comment letter. The letter of EFRAG is attached as appendix B. In paragraph 2 we address the general comments on the DP, which have been summarized in EFRAG's draft comment letter in appendix 2. In paragraph 3 we provide additional comments to the answers of the specific questions in the DP as commented upon in EFRAG's comment letter in appendix 1.

2 General comments

The DP does not sufficiently describe the need for the proposed changes in presentation and disclosure. Based on our experience, we expect that the costs of compliance with the proposed requirements will exceed the benefits. In addition, we are of the opinion that with appropriate disclosure of for example the main reconciling items between the statement of cash flow and the statement of financial position, the users of the financial statements would receive the information they require, in a cost-efficient manner.
We would have expected that the field tests would have been done prior to the issuance of the DP, so that they could have formed a proper basis for any proposals in the DP.

Overall this means that as set out in our cover letter, we are more critical of the proposals than EFRAG, and believe there is no basis for making the changes as currently proposed in the DP.

2.1 The presentation objective

We agree with and refer to the comment of EFRAG, included in paragraph 2 of Appendix 2 of the draft comment letter. We reject a very rigid and mechanical way of presentation.

In many European countries, based on the EU legislation, the statement of financial position is presented in a horizontal format (all assets are presented on the left and equity and liabilities on the right). Users are used to such presentation and therefore we recommend not to eliminate the horizontal format for the statement of financial position.
Restrictive formats of presentation will not always provide the information in the best way. Based on our experience with restrictive models of presentation in Dutch Law, based on the EU-directive, we favour some flexibility for companies in the presentation of the primary financial statements.

Too much disaggregation results in too many lines in the primary financial statements and distorts the understandability and accessibility of the information. As a result users might get lost in details. We favour disaggregation in the notes to the financial statements.

We are convinced that the costs of providing the proposed presentation and reconciliation will exceed the benefits for the users. Unfortunately, the field and user test had not been finalized prior to issuance of the DP.

2.2 The management approach to the classification of items

We agree with and refer to the comment of EFRAG, included in paragraph 3 of Appendix 2 of the draft comment letter. The classification of the assets and liabilities should reflect how each of these assets and liabilities are used in the business.

In addition we believe that the classification will cause huge pragmatic issues for certain transactions and companies, such as:

- The DP proposes the management approach to the classification of items. The DP assumes that companies manage its activities within these 3 categories. We do not believe that all companies applying IFRS manage their activities in this way; such companies may have difficulties in applying this approach, as well as that this information may therefore not be beneficial to the users.
- The DP does not address how changes in the management's view should be accounted for. As a change in accounting policy with changes in the comparatives or as a change in circumstances and therefore prospectively? The accounting for such changes and reclassifications is expected to be complicated.

The DP does not provide principles or guidance how these issues should be addressed.

2.3 Classification into business and financing and the sub-division of business into operating and investing

We agree with and refer to the comment of EFRAG, included in paragraphs 4 to 6 of Appendix 2 of the draft comment letter.

We support the proposal to separate business activities from financing activities, and to show discontinued operations separately. We however do not agree that the sub-division of the business section into operating and investing categories, as defined in the DP, provides the best information. The proposed presentation presents the net cash from operating activities including investments in these operating assets (i.e. purchases of property, plant & equipment), which is currently presented as investing activities. For many companies the investments in operating assets are significant compared to other cash flows from operations. As a result the cash flow from operations could become negative in the year of such investments. We believe that such investment activities (the acquisition of assets used for multiple years) should be clearly presented separately from or within cash from operating activities.

Based on the DP the definition of the investing category seems to limit the number of transactions and positions that meet the definition. Companies that have temporarily excess cash might meet the definition, but if the company has excess cash on a more continuous basis, it is not expected to meet the investing category, but may have to be included in operations as it has become part of the primary activities.

As a consequence we believe that such split would become very arbitrary and most likely not very useful. It may even be considered whether for example the investments of (temporary) excess cash should be part of the overall financing activities and included (as a deduction) in the financing category. Overall we believe that the use as well as the definition of the investment category, as defined in the DP, should be reconsidered.

2.4 Disaggregation by function and/ or by nature

We agree with EFRAG (reference is made to paragraph 7 of Appendix 2 of the draft comment letter) that disaggregation might be required to enhance the usefulness of the information in predicting the entity's future cash flows.
We however strongly disagree with the (required) disaggregation in the primary financial statements. Too much disaggregation results in too many lines in the primary financial statements and distorts the understandability and accessibility of the information. We favour disaggregation in the notes to the financial statements.

2.5 Allocation of tax amounts

Like EFRAG (reference is made to paragraph 8 and 9 of Appendix 2 of the draft comment letter), we strongly disagree with any further allocation of tax expenses/ benefits to categories.

2.6 A single statement of comprehensive income

Like EFRAG (reference is made to paragraph 10 and 11 of Appendix 2 of the draft comment letter) the DASB is divided on the proposal in the DP to eliminate the option in existing IFRS to present an income statement and a statement of other recognized income and expenses; in other words to require the presentation of one statement of comprehensive income.

The presentation of other comprehensive income in a single statement brings up the discussion of recycling of other comprehensive income within the statement, which is currently not addressed. We believe that no decision can be made on this topic, until clarity exists about this item.

2.7 The direct method of presenting operating cash flows

We agree with the comment of EFRAG, included in paragraph 12-13 of Appendix 2 of the draft comment letter.
We believe there is no warrant for change and therefore strongly disagree with the proposal that all entities should be required to use the direct method in presenting cash flows from operating activities in their statements of cash flows. Based on our experience, entities presenting a statement of cash flows via the indirect method, with sufficient disclosure of the main reconciling items to the statement of financial position, provide appropriate and sufficient information to users of the financial statements. We believe that this can be achieved through some (minor) changes in IAS 7 Cash Flow Statements instead of the current proposals in the DP.

2.8 Reconciliation schedule

We concur with the comment made by EFRAG, included in paragraph 14-15 of Appendix 2 of the draft comment letter.

We believe that disclosure of the main reconciling items between the statement of cash flows and the statement of financial position provides the information the investors and other users of the financial statements would be interested in. We are of the opinion that the company should not be restricted to a specific format of presenting this information.

2.9 Memo Column of unusual items

We concur with the comment of EFRAG (reference is made to paragraph 16 of Appendix 2 of the draft comment letter) that the reconciliation schedule should not include a memo column. The resolution of disclosure of unusual items, if significant, should be done in another manner.

3 Responses to the questions asked in the discussion paper

We agree with most comments of EFRAG, as included in appendix 1 of their draft comment letter attached as appendix B. With the exception of the comments below we refer to the draft comment letter of EFRAG.

3.1 Question 5 – management approach

Based on the DP we understand that classification of assets and liabilities should reflect how each of these assets and liabilities are used by the company.

We believe that the classification will cause huge pragmatic issues for certain transactions and companies, such as:

- The DP proposes the management approach to the classification of items. The DP assumes that companies manage its activities within these 3 categories. We do not believe that all companies applying IFRS manage their activities in this way; such companies may have difficulties in applying this approach, as well as that this information may therefore not be beneficial to the users.
- The DP does not address how changes in the management's view should be accounted for. As a change in accounting policy with changes in the comparatives or as a change in circumstances and therefore prospectively? The accounting for such changes and reclassifications is expected to be difficult.

The DP does not provide principles or guidance how these issues should be addressed.

3.2 Question 6 – presentation of assets and liabilities in the statement of financial position

EFRAG is supportive of the presentation of assets and liabilities in the respective categories on the face of the statement of financial position, as long as the total of all assets and liabilities are also shown on the face of the statement of financial position.

We disagree with this and favour the presentation of assets and liabilities as current and non-current on the face of the statement of financial position provide the information about liquidity and solvency, which are important to the users of financial statements. A breakdown into categories could be provided, if regarded as relevant information, in the notes to the financial statements.

3.3 Question 9 – definition of business section and the operating and investing categories

In addition to the comment of EFRAG, we do not agree that the sub-division of the business section into operating and investing categories, as defined in the DP, provides the best information. The proposed presentation presents the net cash from operating activities including investments in these operating assets (i.e. purchases of property, plant & equipment), which is currently presented as investing activities. For many companies the investments in operating assets are significant compared to the other cash flows from operations. As a result the cash flow from operations could become negative in the year of such investments. We believe that such investment activities (the acquisition of assets that are being used for multiple years) should be clearly presented separately from or within cash from operating activities.

Based on the DP the definition of the investing category seems to limit the number of transactions and positions that meet the definition. The investing category within the business section should include business assets and business liabilities, if any, that management views as unrelated to the central purpose for which the entity is in business. An entity may use its investing assets and liabilities to generate a return in the form of interest, dividends or increased market prices but does not use them in its primary revenue- and expense-generating activities. Companies that have temporarily excess cash might meet the definition, but if the company has excess cash on a more continuous basis, it is not expected to meet the investing category, but may have to be included in operations as it has become part of the primary activities.

As a consequence we believe that such split would become very arbitrary and most likely not very useful. It may even be considered whether for example the investments of (temporary) excess cash should be part of the overall financing activities and included (as a deduction) in the financing category. Overall we believe that the use as well as the definition of the investment category, as defined in the DP, should be reconsidered.

We disagree with the comment of EFRAG in paragraph 50, that research costs might have to be classified within the investment category. Many other activities relate to the future performance of the company (marketing, training of employees etc.), which should also not be included in investing category. If the investing category is not limited to capitalized assets, the distinction would be very subjective.

3.4 Question 12 – cash and cash equivalents

The DASB does not agree that cash equivalents could not be classified as part of one category ‘cash and cash equivalents’. We believe that the inclusion of cash equivalents could reflect the management approach and the economic substance of these assets. Under the condition that cash equivalents could be converted into cash on a short notice and without loss of value, classification as one category ‘cash and cash equivalents’ is appropriate.

Due to the proposed conditions, it is likely that entities will convert their cash equivalents to cash prior to year-end and transfer to cash equivalents immediately after year-end.

Appendix B
Comment letter IASB regarding "Preliminary views on financial statements presentation"

<u>Comment letter to EFRAG regarding "Preliminary views on financial statements presentation"</u>

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