ED of revised IAS 1 Presentation of financial statements

Dear IAS Board Members,

I would like to respond to your invitation for comments on this Exposure Draft.

My comment concerns the treatment of extraordinary items. Extraordinary items are currently defined as income or expenses that arise from transactions that are clearly distinct from the ordinary activities of the enterprise and therefore are not expected to recur frequently or regularly. The Exposure Draft prohibits the presentation of any income or expense item as extraordinary. This prohibition restricts both presentation on the face of the income statement and in the notes.

In the Basis for Conclusions this change is motivated by:

* The nature of a transaction or other event, rather than its frequency, should determine its presentation in the financial statements
* Items currently classified as 'extraordinary' are only a subset of the items of income and expense that may warrant disclosure to assist users in predicting an entity's future performance
* Eliminating the category of extraordinary items should eliminate the need for arbitrary segregation of the effects of related external events - whether recurring or not - on the profit and loss of an entity for a period
* I do not agree with your conclusions for several reasons:
* I agree with your conclusion that the nature of a transaction or event should determine its presentation in the financial statements. However, in my opinion the nature and frequency of a transaction are interrelated. For example, in some regions you can expect flooding every year and in other regions only once a century.

* Extraordinary items warrant disclosure to assist users in predicting an entity's future performance. Disclosure only in the notes is not sufficient. First, recognition of items in the notes inherently does not communicate the same level of importance as the face of a statement. Second, adjustment of the company's financial statements by the users is necessary to distinguish between the core operating activities and nonrecurring. This adjustment is vital to users of the financial statements in evaluating the entity's future prospects and its valuation.
* Eliminating the category of extraordinary items will shift the segregation judgement from an entity's management and auditor to the users of the financial statements. The quality of this segregation depends on the disclosures made. The assumption that the user will make a better segregation decision than the management and auditor is inappropriate.
* Reducing disclosure also inhibits the usefulness of the statements.

So, investors and creditors must pursue other information channels from management to determine recurring core operating results. This restricts information only to those that have strong ties to management and thus shifts power from small investors and creditors to large and powerful institutions.

* I agree with your conclusion that the classification as extraordinary may seem to be an arbitrary decision. However, you should also weigh the importance of this disclosure for the users of financial statements despite the judgement factor. Therefore, your solution - eliminating this category - is no solution and will limit the usefulness of financial statements.

I believe recognition of extraordinary items should remain on the face of the income statement. Also, I propose presentation of these items be segregated according to their nature. For example instead of recognising extraordinary items as a single line item below profit from ordinary activities net of tax, these items should be shown according to their corresponding result within the profit and loss statement (Extraordinary item EBIT, Extraordinary item financial result, Extraordinary item income taxes, etc.). Finally, a more clear and narrow definition of extraordinary items would help restrict arbitrary segregation.

I hope you will consider my comment in the new Standard.

Please contact me for any further questions.

Best Regards,

Bas Kleine

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