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Mr Robert Garnett, Chairman
International Financial Reporting Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Email: ifric@iasb.org

Dear Mr Garnett,

Tentative Agenda Decision: IAS 7 *Statement of Cash Flows*—Classification of expenditures

Deloitte Touche Tohmatsu is pleased to respond to the IFRIC's publication in the January 2008 *IFRIC Update* of the tentative decision not to take onto the IFRIC's agenda a request for an Interpretation of IAS 7 *Statement of Cash Flows* regarding the classification of certain expenditures as 'cash flows from operating activities' or 'cash flows from investing activities'.

We support the IFRIC's decision not to take this item to its agenda but for reasons different from those expressed in the tentative agenda decision. Furthermore, we disagree with the conclusion of the IFRIC that the issue could be resolved by referring it to the Board with the recommendation that IAS 7 should be amended to state that only expenditures resulting in the recognition of an asset qualify for classification as 'cash flows from investing activities'.

Statements of cash flows are considered useful from the perspective of users of financial statements as they enable users to assess the ability of an entity to generate cash and cash equivalents. The recommendation proposes to amend IAS 7 to require that only expenditures qualifying for recognition as an asset under IFRS to be classified as 'cash flows from investing activities'.

Rather than explicitly excluding such expenditure from being able to be classified as an investing activity, we believe that the definition of investing activities should be followed. To the extent that such expenditure qualifies as an investing activity we believe that the expenditure should be classified as an investing activity in the statement of cash flows; regardless of whether an asset is able to be recognised or not. We understand that this will require judgement in many cases.

We acknowledge that in many instances recognition of an asset is a good indicator for classifying the expenditure as investing cash flows. However, we believe requiring classification of all cash flows that do not result in asset recognition as operating cash flows has the potential to mislead users and possibly misrepresent the statement of cash flows. Furthermore, as a result of changes in IFRSs, if certain expenditures are recognised as an asset or no longer qualify for recognition, this will lead to changes in the allocation within the statement of cash flows without changing the economic substance of the underlying transactions.

Examples of expenditures generally made for investing purposes that, under the IFRIC's proposal, we believe would be classified as part of 'cash flows from operating activities' include:

- Exploration expenditures where an entity has an accounting policy of non-capitalisation of such expenditures
- Initial expenditures on development cost that do not qualify for recognition as an asset
- Acquisition-related expenditures in a business combination that are expensed immediately under the revised version of IFRS 3 *Business Combinations*

Therefore, we propose amending the recommendation to the Board to clarify the wording in IAS 7 to explain that, in determining the classification of expenditures that do not qualify for asset recognition, judgement needs to be applied.

Within Deloitte all parties involved in drafting the response to IFRIC are opposed to the IFRIC tentative agenda decision. The majority view is that this is a matter to be left to judgement. There is minority support for the IFRIC view that the cash flow treatment of direct expenditures directly related to the acquisition of an asset should be consistent with the financial statement treatment of the item (that is, consistent with its treatment as a capitalized asset or as an expense). However, even those favouring this approach disagree with the IFRIC's proposal as an oversimplification of the principle, believing that, although it might solve one issue raised to the IFRIC, it would create difficulties in other areas.

If you have any questions concerning our comments, please contact Ken Wild in London at +44 (0)20 7007 0907.

Sincerely,

Ken Wild

Global IFRS Leader