Project **Financial Statement Presentation**

Topic **Overview of Comment Letters and Proposed Presentation Objectives**

Introduction

1. This paper provides a brief overview of the comment letters received on the October 2008 discussion paper *Preliminary Views on Financial Statement Presentation* (discussion paper). The appendix to this paper includes the comment letter summary prepared for the July 2009 meeting of the IASB and the FASB (joint board meeting). That joint board meeting will be held a few days **before** the financial statement presentation (FSP) working group[1] (WG) meeting.

2. This paper also summarizes the staff recommendations on the proposed presentation objectives that will be discussed at the joint board meeting. The staff will share the results of the joint board meeting at the WG meeting.

3. At the WG meeting we will discuss any questions or observations members may have on the comment letter summary and the proposed presentation objectives. The purpose of this paper and related discussion is to provide a general overview of the comment letters responses and the presumptions on which the WG papers were prepared. The discussion of WG papers 3-6 will include the issues raised in the comment letters.

[1] The FSP "working group" encompasses both the Joint International Group and Financial Institution Advisory Group.

Application of presentation model to financial services entities

4. At the joint board meeting, the staff will ask the boards their initial leaning on whether the presentation model should apply to all business entities, including financial services entities[2]. The staff is raising that issue at this time because the boards' leanings on the scope of the presentation model will affect the approach to deliberations.

5. As noted in paragraph A73 of the comment letter summary (see the appendix to this paper), most financial services entities are of the view that the proposed financial statement presentation model does not accurately portray their business. Consequently, financial statements prepared in accordance with that model might not provide decision-useful information for users of a financial services entity's financial statements.

6. **The staff is of the view that**, if the boards retain a principles-based approach to financial statement presentation in the exposure draft, **the presentation model should accommodate all business models, including those of financial services entities**.

7. WG paper 8 briefly summarizes the issues that financial services entities raise in their comment letters. During the time allotted to address that paper, Financial Institution Advisory Group (FIAG) members can share their views and suggestions for the boards. However, during the discussion of the topics addressed in WG papers 3-7, we would like WG members to consider the topics from the perspective of a broad range of entities, rather than focusing on any one specific type of entity.

Overview of comment letter responses

8. The staff believe the majority of those responding to the discussion paper support the basic principles proposed in the paper. Overall, respondents generally agree with:
   (a) linking information in the primary financial statements

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[2] A *financial services entity* is an entity that provides primarily financial services, such as a bank, an asset management firm, and an insurer.

(b) providing more detail in the financial statements than may be provided today

(c) separating business and financing activities (with the exception of financial services entities)

(d) classifying items for presentation in specific sections and categories on the basis of how those items are used by management.

9. However, most respondents are concerned with the application of the basic principles to the financial statements. Respondents are consistent in the message that "rigid" application of the cohesiveness and disaggregation objectives will result in financial statements that are complex and not understandable.

10. When it comes to application of the cohesiveness and disaggregation objectives to the individual financial statements, the majority of respondents disagree with:

(a) presentation of operating cash flows using a direct method (a few respondents classified as "users of financial statements" [user respondents] voiced support for requiring the direct method)

(b) disaggregation on the face of the statement of comprehensive income by both function and nature (user respondents' views are mixed)

(c) the reconciliation schedule as a whole (user respondents are generally supportive of the reconciliation schedule or one of the alternate formats).

Proposed presentation objectives

11. The staff believe it is critical to confirm board support for the overall presentation framework (and the principles that underpin that framework) before deliberating the application of those principles and the specific aspects of the presentation model. At the July joint board meeting, the staff will ask the boards whether they continue to support the objectives of financial statement presentation proposed in the discussion paper and what modifications, if any, should be made to those objectives.

Summary of staff recommendations

12. In the July 2009 joint board meeting paper (17E/63E), the staff recommend that the boards:

(a) **Rewrite the objectives of financial statement presentation as *core presentation principles*** that should be used in applying the financial reporting objectives and qualitative characteristics of the conceptual framework to the form and content of individual financial statements.

(b) In the FSP Exposure Draft, **explain how the core presentation principles relate to the objectives of financial reporting** and the qualitative characteristics and constraints of decision-useful information in the boards' joint work on developing a conceptual framework for financial reporting (Framework).

(c) Keep in mind that the **primary users of financial reports** (as defined in the Phase A Framework ED[3]) **include a broad range of capital providers,** including but not limited to "sophisticated analysts," when deliberating the aspects of the proposed presentation model that respondents view as aimed at sophisticated analysts.

(d) **Retain cohesiveness as one of the core presentation principles** but modify application of that principle to focus on cohesiveness at a higher level than the line-item level.

(e) **Retain disaggregation as one of the core presentation principles** and reword the principle to be clear that **only** decision-useful information should be presented in the financial statements.

(f) Not repeat any aspect of the financial reporting objectives or qualitative characteristics as financial statement presentation principles, particularly those related to **liquidity and financial flexibility**, and **stewardship**. That means liquidity and financial flexibility would **not be included in the FSP Exposure Draft as a core presentation principle**.

(g) **Provide guidance to help an entity assess when disaggregated information is more effectively presented in the notes** to the financial statements rather than on the face of the financial statements.

Discussion questions
Question 1: Do WG members have any questions on the comment letter summary?
Question 2: Do WG members have any questions on the staff recommendations on the proposed presentation objectives?

[3] *An improved Conceptual Framework for Financial Reporting: Chapter 1: The Objective of Financial Reporting and Chapter 2: Qualitative Characteristics and Constraints of Decision–useful Financial Reporting Information,* IASB (May 2008) [hereafter **Phase A Framework ED**].

Appendix—Comment Letter Summary

Introduction

A1. In October 2008, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) [collectively, boards] published the discussion paper *Preliminary Views on Financial Statement Presentation*. The comment period ended April 14, 2009. A total of 227 comment letters were received, as summarized below[4]:

	Total	IFRS	U.S. GAAP
Preparers	98	73	25
Auditors	38	29	9
Users	24	17	7
Standard setters/Regulators	22	22	0
Academics	18	7	11
Others	27	22	5
Total	227	170	57

General comments

A2. **More than half of all respondents support** the principles and objectives set out in the discussion paper. However, many have reservations about different aspects of the discussion paper, most notably the proposals on presenting by-nature and by-function information on the statement of comprehensive income, the direct method statement of cash flows, and the reconciliation schedule. A summary of comment letter responses for each question asked in the discussion paper is provided in paragraphs 4–72. Additional feedback regarding the application of the boards' proposals to financial services entities and the possible effective date and transition provisions is included in paragraphs 73–75.

A3. This paper does not include a comprehensive analysis of the comment letters. The staff will address fully the responses to each discussion paper question in the relevant papers for board deliberations. Because not all respondents

[4] The staff made the simplifying assumption that a) U.S. respondents follow U.S. GAAP and b) non-US respondents follow IFRS.

addressed every question posed, the respondents referred to in this summary are those that answered the specific question.

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

A4. Overall, there was **general support** for the objectives of cohesiveness, disaggregation, and liquidity and financial flexibility. Respondents think that the three objectives would, among other things, help users better understand the relationships between the financial statements. Also, the additional disaggregation might help users to more fully understand the information provided in the financial statements and make better decisions in their capacity as capital providers.

A5. Although a strong majority of respondents support the three objectives, most respondents think that the objectives should not be applied stringently. One concern is that application of the objectives might result in financial statements that are too cluttered and too complex to provide decision-useful information. Respondents urge the boards to focus on 'ease of use' and 'understandability' in developing further the presentation model.

A6. Most respondents do not agree with the notion of line-item cohesiveness, suggesting that it may be more appropriate to apply the cohesiveness principle at a higher level. A number of respondents mention the cohesiveness principle as it relates to the presentation of pensions and dividends payable. Those respondents disagree with the proposal to present service costs, interest costs and return on plan assets in the same category (i.e. operating) and think that dividends payable should be presented as an equity item (not a financing liability) because dividends are transactions with owners.

A7. Respondents think it may be more prudent to provide disaggregated information in the notes to financial statements rather than on the face of the financial statements. Many respondents ask the boards to provide additional guidance for determining how much disaggregated information companies should include within their financial statements.

A8. The objective of liquidity and financial flexibility was not mentioned as frequently by respondents as the other two proposed objectives. Respondents that do not support that objective note that some information about liquidity and financial flexibility is already presented in the financial statements and that liquidity and financial flexibility is not adequately defined in the conceptual framework. Those respondents who agree with the liquidity and financial flexibility objective indicate that type of information should be provided in the notes to financial statements.

A9. Over a quarter of the respondents who suggested additional objectives stressed that a 'stewardship' objective should be added to the presentation model. A stewardship objective would help to ensure that information is provided within the financial statements to aid users in determining whether management has effectively deployed the entity's resources. Those suggesting a stewardship objective were almost exclusively IFRS respondents.

A10. Finally, many respondents observe that the changes proposed in the discussion paper are not designed to meet the needs of a wide range of financial statement users. Rather, the proposals are aimed at analysts and are structured to provide a better starting point for the valuation process.

Separation of business activities from financing activities

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? Why or why not?

A11. **The majority of respondents support** the separation of business activities (what an entity does to create value) from financing activities (how an entity funds its value creating activities) in the financial statements. Respondents think that such a distinction provides decision-useful information for users of the financial statements. Additionally, that distinction may make it easier for users of the financial statement to assess the quality of an entity's operating activities independent of its capital structure.

A12. Several respondents think that separating business activities from financing activities may prove difficult in practice. Consequently, that distinction may be arbitrary, thereby reducing the usefulness (and, potentially, the comparability) of that information. Other respondents observe that all entities do not segregate or view their activities in the manner suggested in the discussion paper. Therefore, presenting information using the proposed sections will not give an accurate depiction of how those entities operate.

A separate equity section

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? Why or why not?

A13. A clear **majority of respondents support** having a separate equity section in the financial statements. Those respondents think it is important to separate owner transactions from non-owner transactions because those types of transactions are fundamentally different in nature. Consequently, owner transactions should be distinguished from non-owner transactions for the benefit of users of financial statements.

A14. A small minority of respondents suggest that equity be reported within the financing section. Those respondents think that equity is a form of financing and there is no benefit to making a distinction between different types of financing (ie owner versus non-owner).

Maintaining a discontinued operations section

Question 4
In the proposed presentation model, an entity would present its **discontinued operations** in a separate section. 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 relevant categories (operating, investing, financing assets, and financing liabilities)? Why or why not?

A15. **Respondents almost unanimously support** presenting information about discontinued operations in a section separate from continuing operations within the financial statements. Respondents state that such a separation provides decision-useful information because it allows a user of those financial statements to better assess an entity's ongoing operations. Overall, respondents think that a presentation of discontinued operations in a separate section will allow users to better predict the future cash flows of an entity.

A16. Only a few respondents are in favor of presenting information about discontinued operations **within** the other categories in the financial statements. Respondents that do not support that approach to presentation of discontinued operations think that presentation within other categories would add unnecessary complexity for users of financial statements, which would hinder effective analysis. Likewise, some respondents state that such a presentation would be meaningless and irrelevant for users of financial statements because discontinued operations have limited bearing on the expected future cash flows of an entity. Consequently, information about discontinued operations does not aid users of financial statements in their efforts to ascertain an entity's possible future performance.

A17. However, several respondents that support separately presenting discontinued operations information within the other categories of the financial statements suggest providing that information in the notes to financial statements. Other respondents state that information about discontinued operations should be presented **only** in the notes to financial statements.

Management approach to classification

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. 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?

A18. **Respondents' views are mixed** on the role a management approach to classification of assets and liabilities should have in financial statement presentation. Respondents that **support** a management approach to classification think that classifying assets and liabilities in a manner that best reflects the way the asset or liability is used within the entity provides relevant information for users of the financial statements. Those respondents think that the management approach will emphasise the differences between entities and provide users with a better foundation on which to make comparisons between entities and assessments of their relative performance.

A19. Several respondents think that the value of the information provided by the management approach to classification outweighs any potential reduction in comparability that might result from its use. Those respondents support the proposal that management be required to disclose its rationale for classifying assets and liabilities within each section and category.

A20. Respondents that **do not support** the management approach to classification think it will result in reduced comparability amongst entities over time. Those respondents prefer an approach to classification that results in consistent and uniform financial statement presentation across entities. Potential difficulties in auditing management's classification of assets and liabilities within the different sections and categories, as well as concerns about retrospective application of the management approach, were raised.

A21. Many respondents observe that the management approach described in the discussion paper does not have the same meaning as the management approach that is described in IFRS 8 *Operating Segments* and SFAS No. 131 *Disclosures about Segments of an Enterprise and Related Information*. Those respondents interpret the management approach (as it is defined in the discussion paper) to have a stricter meaning than the management approach that is described in IFRS 8 and SFAS 131.

A22. Several respondents are concerned that the management approach to classification begins with classifying assets and liabilities. Those respondents think that classification decisions should begin with the statement of comprehensive income (ie classification should be concerned primarily with 'flows' as opposed to assets and liabilities) to provide decision-useful information.

Effect of the boards' proposals on ratio calculation

Question 6
Paragraph 2.27 proposed 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?

A23. A slight **majority of respondents agree** that the proposed financial statement presentation model will facilitate easier financial ratio calculation. Those respondents state that more information would be made available on the face of the financial statements, thereby making it easier for users to find the information. However, some respondents state that users will have an easier time calculating some ratios, such as return on net operating assets, but a harder time calculating others, such as those that include items from working capital (because all working capital items may not be presented in the same category).

A24. Those respondents who state that the proposed presentation model will not facilitate easier calculation of ratios cite several reasons, including:

(a) The management approach and the variability in categorization of assets and liabilities will decrease the comparability between ratios

(b) The proposed presentation model will obscure both valuable information and the relationships between that information

(c) The proposed presentation model will make the financial statements too complex, thereby making it difficult to sift out the appropriate information.

Classification: reportable segment level or entity level?

Question 7
Paragraph 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.

A25. **About two-thirds of respondents favor** the classification of assets and liabilities at the reportable segment level. Those respondents state that classification at the reportable segment level is more consistent with the management approach outlined in the discussion paper. Additionally, classification at that lower level is consistent with the cohesiveness and disaggregation objectives. However, many respondents state that classifying assets and liabilities at the reportable segment level may lead to financial statements that are complex and confusing.

Segment disclosures

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.

A26. The majority of responses to this question are from IFRS respondents. **Respondents' views are mixed**, with slightly more than half of the respondents **not opposed** to the boards making changes to segment disclosures—as long as any new disclosure requirements are consistent with the management approach as it is described in IFRS 8 and SFAS 131. That is, an entity should not be required to disclose segment information if it is not reported internally to the

Chief Operating Decision Maker. The remainder of respondents think **no change** should be made to the current segment disclosures required by IFRS 8 and SFAS 131.

Definitions: business section and the operating and investing categories

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?

A27. **Respondents' views are mixed** as to whether the operating and investing categories are defined so that their meanings are both understandable and operational. In particular, the majority of respondents request another label for the investing category**.** Those respondents note that the term *investing* has a variety of meanings and is currently used in the statement of cash flows in a way that differs from its usage in the discussion paper.

A28. Some respondents do not support the proposal that assets and liabilities (and therefore items of income and expense) that cannot be clearly distinguished as operating, financing or investing to be classified as operating. Those respondents consider the operating income subtotal to be one of the more useful subtotals in the proposed financial statements formats. Consequently, those respondents are concerned that the operating income subtotal may be made less useful if the operating category is used as a default category for items that are difficult to classify.

A29. Several respondents suggest that instead of splitting the business section into operating and investing categories, the business section should instead be separated into core and non-core business categories. Those respondents think a core/non-core distinction within the business section provides more decision-useful information than that which is proposed in the discussion paper.

A30. Some respondents note that the subjectivity involved in determining the appropriate classification (ie operating, investing or financing) of particular items may lead to inconsistent classification amongst similar entities (or for similar items within the same entity). Consequently, those respondents request more detailed descriptions of the classification categories and further clarity regarding the parameters to be used in determining the appropriate classification of financial statement items.

Definitions: financing section and the financing assets and financing liabilities categories

Question 10
Are the **financing section** and the **financing assets and financing liabilities categories** within that section defined appropriately? Should the financing section be restricted to *financial assets* and *financial liabilities* as defined in IFRSs and U.S. GAAP as proposed? Why or why not?

A31. **The majority of respondents** think that the financing section **should not** be limited to financial assets and financial liabilities as defined in International Financial Reporting Standards (IFRS) and U.S. Generally Accepted Accounting Principles (GAAP). Those respondents indicate that management may view some non-financial assets and non-financial liabilities (eg government grants, pensions, and some leases) as being part of the entity's financing activities. Consequently, those non-financial assets and non-financial liabilities should be presented in the financing section.

A32. Some respondents request that the financing section be explicitly tied to the concept of net debt. In that context, net debt is described as the sum of externally provided non-equity financing (including derivatives) less cash, cash equivalents and marketable securities.

A33. Other respondents think that the financing section should be limited to third-party providers of funding that have no other relationships with the entity. That approach to classification excludes from the financing section any transactions with customers, employees, vendors, lessors and other related parties.

Statement of financial position: classified or order of liquidity?

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?

A34. Overall, **respondents agree** that not all entities should present a classified statement of financial position. Most respondents state that they would not expect financial services entities (eg banks and insurance companies) to present a classified statement of financial position because those entities typically have a broad range of assets and liabilities with different maturity dates. Respondents state that a split between short-term and long-term will be an arbitrary process for those entities and that making the distinction would not result in any corresponding information benefit for users of their financial statements. Instead, a presentation in order of liquidity provides information that better reflects the economic reality of a financial services entity and, subsequently, provides for better analysis of a financial services entity's liquidity risk.

A35. Most respondents think there is no need for additional guidance to help an entity determine whether it should present its statement of financial position in order of liquidity. Respondents note it is already current practice for financial services entities to present their statements of financial position in order of liquidity. Additionally, other respondents think that management should decide which form of presentation is best rather than it being prescribed by the boards.

Cash equivalents

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?

A36. Of those respondents who addressed the question about separating cash and cash equivalents, **about two-thirds agree** that cash equivalents should be presented and classified in a manner similar to other short-term investments. Those respondents note that cash equivalents do not possess the same characteristics as cash and have risks that are different than cash. Presenting cash equivalents separately from cash avoids grouping dissimilar assets in the same line item. Additionally, that presentation better reflects liquidity in the statement of financial position. Some respondents state that there is a lack of consistency in practice in distinguishing between a cash equivalent and a short-term investment and that the discussion paper proposal would help to minimize that diversity in practice.

A37. Respondents that disagree with separating cash and cash equivalents state that those items are usually managed together, as cash equivalents are a key component of an entity's cash management operations. Therefore, the discussion paper proposal for the presentation of cash and cash equivalents does not reflect how a business is managed (ie the management approach). Those respondents also agree with the current definition of cash equivalents. Consequently, those respondents do not see a reason to move away from the status quo.

Presentation of assets and liabilities with differing measurement bases

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 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?

A38. **Over three-fourths of respondents support** the concept of separately presenting similar assets and liabilities that are measured on different bases in the statement of financial position. However, many of those respondents think that separately presenting similar assets and liabilities that are measured on different bases will result in too much information on the face of the statement of financial position. Those respondents suggest that the information about measurement bases be presented in the notes to financial statements.

Single statement of comprehensive income

Question 14
Should an entity present comprehensive income and its components in a **single statement of comprehensive income** as proposed? Why or why not? If not, how should they be presented?

A39. Overall, **respondents are split** on whether an entity should present comprehensive income and its components in a single statement of comprehensive income or in two separate statements. In general, respondents that **support** a single statement of comprehensive income think that greater transparency, consistency, and comparability would result. Further, the process of calculating financial ratios may be made easier.

A40. Respondents that **disagree** with presenting a single statement of comprehensive income think that the primary focus of entities and their investors is operating income and net income. Respondents state that including other comprehensive items, which do not relate to the core business results of an entity, within a single statement along with operating income and net income may confuse users of financial statements and lead to significant misinterpretations of an entity's performance.

A41. Respondents that disagree with the proposal for a single statement of comprehensive income are consistent in indicating that they would prefer to either keep the income statement and the statement of comprehensive income separate or allow management the option of choosing either a single statement or a two statement approach to presentation.

Categories within other comprehensive income

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). Would that information be decision useful? Why or why not?

A42. **The majority of respondents agree** that indicating the category that an item of other comprehensive income is related to provides decision-useful information. Respondents indicate that information provides users with a view of where and how those elements either are affecting or will eventually affect information presented in the operating and investing categories and the financing section. Some respondents state that providing that information is consistent with the cohesiveness objective because users of financial statements will be in a position to better understand the relationship between the statements of comprehensive income and financial position.

A43. Respondents that disagree with the proposal think that designating which category other comprehensive items are related to will not provide decision-useful information. Those respondents note that the designation process may be arbitrary at best, as particular items (for example, revaluations of available-for-sale securities and cash flow hedges) may affect more than one category. Furthermore, the increase in information would make financial statements more cluttered and, in those respondents' view, less transparent. Consequently, the ability of users to effectively utilize the financial statements would be hindered. Some respondents suggest that indicating the category to which items of other comprehensive income relate is information best included in the notes to financial statements.

Presentation: by function or by nature?

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?

A44. A little **over half of the respondents agree** that disaggregation by function, nature, or both increases the availability of decision-useful information that may enhance a financial statement user's ability to assess future earnings and cash flows. However, many respondents are concerned that disaggregation to such a detailed level would place too much information on the statement of comprehensive income. Those respondents think that the level of disaggregation proposed in the discussion paper may make the financial statements less understandable and could overwhelm users of the financial statements with information. To reduce the amount of information on the statement of comprehensive income, respondents suggest several alternatives, including:

(a) Only information disaggregated by function should be provided on the statement of comprehensive income; information disaggregated by nature should be provided in the notes.

(b) An entity should have the option to present information disaggregated by nature or function, but **not both**, on the statement of comprehensive income with the other disaggregated information presented in the notes.

(c) An entity should only focus on presenting information disaggregated by nature or by function, but not both.

A45. To determine the appropriate level of disaggregation on the statement of comprehensive income, many respondents suggest that a management approach to disaggregation should be followed. Respondents state that management may not use by-function or by-nature information when managing their business and, as a result, should not be required to provide disaggregated information in the financial statements if that disaggregation is not relevant for their organizational structure, industry type, and so forth. In addition, respondents note that their current reporting systems do not capture information at the by-nature level.

Presentation: income taxes

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. 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.

A46. The **majority of respondents agree** with retaining existing requirements for allocating and presenting income taxes in the statement of comprehensive income. Those respondents note that a subtotal of continuing operations before and after tax is important and that separate income tax information about discontinued operations and other comprehensive income items is also useful. Respondents state that allocating income taxes to the business and financing section or to categories within those sections would prove to be an arbitrary and difficult process that would not provide useful information.

Presentation: foreign currency transaction gains and losses

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?

A47. **Respondents are evenly split** as to whether foreign currency transaction gains and losses should be presented in the same section and category as the assets and liabilities that gave rise to those gains and losses. Those respondents that **agree** with the proposed presentation state that it reflects the economic substance of the complete transaction better than presenting the aggregate foreign currency transaction gains and losses as a separate line item. Likewise, many respondents state that presentation is more consistent with the cohesiveness objective.

A48. The majority of those who **disagree** with the proposal to present foreign currency transaction gains and losses in the same section and category as the assets and liabilities that gave rise to those gains and losses are preparers of financial statements. Those respondents are concerned primarily that the cost will outweigh the benefits (see paragraph A50). Other respondents, including preparers, think that presenting foreign currency transaction gains and losses in the same section and category as the assets and liabilities that gave rise to the gains or losses may prove to be an impractical exercise. That presentation requirement could lead to an arbitrary allocation of the gains and losses, resulting in less useful information. For example, foreign currency exchange hedges cover exposures for assets and liabilities that may be in more than one category and it may be impractical and/or costly to appropriately assign the related gains and losses to each asset or liability.

A49. Respondents suggest a number of alternatives, including presenting foreign currency transaction gains and losses in:

(a) the category management thinks best reflects the underlying activities being translated

(b) a single category designated by the boards

(c) the operating category

(d) the category that is most appropriate for the majority of the gains and losses.

A50. Although respondents did not give cost estimates for presenting the components of net foreign currency transaction gains and losses within different sections and categories, respondents did state that significant one-time implementation costs would be incurred to develop and implement systems to track the gains and losses as well as provide training for employees. Likewise, ongoing costs would be incurred for general maintenance of those systems and to audit the information.

Direct method statement of cash flows

Questions 19 and 20
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? 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?

A51. About **two-thirds of respondents do not agree** that a direct method of presenting operating cash flow information will provide more decision-useful information than an indirect method. Thus, many respondents (the majority of which are classified as preparers) disagree with the proposal to require all entities to present a direct method statement of cash flows. Those respondents state that management does not currently use information about operating cash receipts and payments to manage its business and users of their financial statements are not asking for that information. Respondents that disagree with the proposed changes are content with the information provided in an indirect method statement of cash flows and, in fact, many think that it provides better information than a statement of cash flows presented using a direct method.

A52. The respondents who agree with requiring a direct method statement of cash flows (mostly auditors and users) state that a statement of cash flows presented using a direct method provides information about operating cash flows not available in an indirect method statement, such as:

(a) the sources and uses of cash (which have predictive value)

(b) insight into the ability of an entity to convert revenues and earnings, as well as the characteristics of the cash conversion cycle

(c) a format that is intuitive and thus easier for users to understand.

A53. Respondents were split as to whether a statement of cash flows prepared using either the direct method or an indirect method is more consistent with the proposed objectives of cohesiveness and disaggregation. Those respondents that think the direct method is more consistent with the objectives of cohesiveness and disaggregation focus on cohesiveness, stating that a direct method statement of cash flows allows users of financial statements to better understand the relationship between individual income and expense items and their associated cash flows. Some respondents think the indirect method can adequately fulfil the objectives of cohesiveness and disaggregation if additional disclosures and/or disaggregation in key line items is provided.

A54. Many respondents agree that the reconciliation schedule provides information similar to that provided in an indirect method statement of cash flows. Those respondents view the reconciliation schedule as a more detailed (line-by-line) reconciliation of income to operating cash flows.

A55. Respondents state that cost is the largest barrier for preparers in presenting direct operating cash flow information, as entities may need to completely retool their accounting (and financial reporting) systems to track cash flows at a sufficient level of detail. Along with one-time implementation costs, respondents state there would be ongoing costs to operate and maintain those accounting systems and a significant increase in costs to review and audit (both internally and externally) that information. To reduce those costs, respondents recommended several approaches, including:

(a) Determining whether backing into the cash flow information (an "indirect-direct" method) would be sufficient, and

(b) Requiring a minimum amount of line items within a direct method statement of cash flows and allowing management to decide which additional line items to include.

Presentation: effects of basket transactions

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?

A56. About two-thirds of respondents think that the effects of basket transactions **should not be allocated** to related sections and categories. Respondents view allocation of the effects as arbitrary, noting that it would reduce the decision-usefulness of such information. Instead, most respondents think that the effects of basket transactions should be presented either in the category that reflects the activity that was the predominant source of those effects or in a separate section.

Disclosure: information about short-term contractual maturities

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?

A57. **Most respondents agree** that an entity that presents its assets and liabilities in order of liquidity in its statement of financial position should also disclose information about the maturities of its short-term contractual assets and liabilities in the notes. Respondents agree that information may help in assessing an entity's liquidity, how an entity's liquidity risk is managed, and in predicting an entity's future cash flows.

A58. Many respondents (primarily financial services entities) note that the proposed disclosure overlaps with the requirements found in IFRS 7 *Financial Instruments: Disclosures*. Those respondents recommend that disclosures of this type not be included in the financial statement presentation standard or that any disclosures of this type complement the requirements in IFRS 7.

A59. A slight majority of respondents think it would be beneficial for all entities—regardless of how they present their statement of financial position—to present short-term contractual maturity information in the notes to financial statements.

Disclosure: reconciliation schedule

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.

A60. The **majority of respondents disagree** that the proposed reconciliation schedule will increase users' understanding of the amount, timing, and uncertainty of future cash flows. Those respondents think that any additional benefit the reconciliation schedule may bring would not be justified by the cost of producing that data. Furthermore, respondents observe that the schedule is very long and may be too complex and onerous for users of financial statements to digest and process.

A61. Many respondents do not agree with the reconciliation schedule on the basis that they do not support the direct method statement of cash flows, which is a key component of the schedule. Several respondents observe that most items would be aggregated in the "Accruals, Allocations, and Other" column, which would reduce the usefulness of the schedule. Other respondents state that the disaggregation of comprehensive income into the four columns may not be done in a consistent manner from entity to entity. Respondents also note that IFRS and U.S. GAAP already require disclosure of information about fair value changes.

A62. The majority of user respondents that answered this question agree with the idea of providing a reconciliation that explains the changes in assets and liabilities in terms of persistence. Respondents that support the reconciliation schedule think that it will increase the transparency of the numbers within the financial statements (for example, explain the volatility attributable to fair value remeasurements) and could significantly increase financial statement users' understanding of an entity's cash flows and earnings potential.

A63. Some respondents that support the concept behind the reconciliation schedule acknowledge that the reconciliation schedule is lengthy and that it may include some information that is unnecessary. Those respondents recommend that the schedule not reconcile every line on the statement of cash flows or that it be replaced with a disclosure that reconciles key line items in the statement of financial position. See also the responses to question 25 on alternative reconciliation formats.

Disaggregation of changes in fair value

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?

A64. A slight **majority of respondents** state the boards **should** address further disaggregation of changes in fair value in a future project. Respondents state that further disaggregation is needed to improve financial statement users' understanding of the effects of fair value and to provide more decision-useful information. Respondents also observe that additional disaggregation guidance may lead to more consistent and comparable disclosures about changes in fair values.

A65. Those respondents that are not in favor of further disaggregation of changes in fair value state that current standards are adequate and that the costs of further disaggregation may not outweigh the benefits.

Disclosure: alternative reconciliation formats

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 B.10–B.22? 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?

A66. **Most respondents think the boards should not** consider alternative reconciliation formats. Those respondents do not think there is a need for that type of additional information. Other respondents asked the boards to determine the purpose of a reconciliation disclosure before determining which format would best serve users of financial statements.

A67. Respondents that support the alternative reconciliation formats described in Appendix 2 of the discussion paper offer the following:

(a) a balance-sheet-to-balance-sheet reconciliation would, among other things, allow users to have information they sometimes struggle to extract from current financial statements, such as the reconciliation of working capital items and net debt, which provides information on an entity's ability to service its debts and obligations.

(b) a statement of comprehensive income matrix would provide information that may help users of financial statements to better assess the subjectivity and persistence of income and expenses items. As a result, users would have information that may help them to better predict future cash flows.

Presentation: unusual or infrequent events or transactions

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?

A68. **Most respondents do not agree** with adding a memo column in the reconciliation schedule to provide information on unusual or infrequent events. Those respondents think that information would add more complexity to a reconciliation schedule that is already complicated. The majority of those respondents use IFRS—presentation of unusual or infrequent items is not permitted under IFRS and those respondents do not want to reintroduce that concept. Respondents that use US GAAP think that the current requirements to present unusual or infrequent items in the statement of comprehensive income are sufficient.

A69. If the boards decide that information about unusual or infrequent events or transactions should be presented in the financial statements, respondents think it should be presented either in the management commentary that accompanies the financial statements or in the notes to financial statements.

A70. Most respondents that answered this question think that the definitions of *unusual* and *infrequent* in Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations*, are not too restrictive. Respondents think that if the boards decide to retain those items as part of the reconciliation schedule, an entity should have the option of presenting the information in a narrative format.

Application of the boards' preliminary views to nonpublic entities

Question 27
As noted in paragraph 1.18(c), the FASB has not yet considered the **application of the proposed presentation model to nonpublic entities.** What issues should the FASB consider about the application of the proposed presentation model to nonpublic entities? If you are a user of financial statements for a nonpublic 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.

A71. Approximately ten percent of the comment letter respondents address this question; their responses focus on whether non-public entities should apply the proposed presentation model. **Respondents' views are mixed** on that issue. Those in favor of **including** nonpublic entities in the project scope observe that if the proposed presentation model will be useful for users of public entity financial statements, it should also be useful for users of nonpublic entity financial statements. Those respondents note that having two separate presentation models may generate confusion among users and reduce comparability between otherwise similar entities.

A72. Respondents in favor of **excluding** nonpublic entities from the scope of the project think that the cost of producing that information for users of nonpublic entity financial statements would outweigh the benefit of providing that information. Those respondents also think that users of nonpublic entity financial statements typically have access to more information than users of public entity financial statements. Consequently, users of nonpublic entity financial statements do not need more detailed financial statements. Additionally, several respondents observe that the proposed presentation model may be too complex for smaller nonpublic entities.

Application of the boards' preliminary views to financial services entities

A73. Respondents from financial services entities state that the proposed presentation model does not accurately portray their business and may not provide decision-useful information for users of their financial statements. Their responses include the following reasons:

(a) the statement of cash flows is not useful for banks—whether operating cash flows are presented directly or indirectly—because banks manage their liquidity risk on a daily basis, not from year to year.

(b) the concept of cash and cash equivalents is not useful for a bank because liquidity management focuses on a wider range of instruments and the actual cash balance is minimal.

(c) most, if not all, items would fall within the operating category because of the nature of the business.

(d) relevant ratios for banks are usually based on regulatory data, therefore, the ratios used for banks would not be influenced by the proposed categories.

Effective date and transition

A74. A number of respondents ask the boards to allow for a reasonable transition period and effective date for the standard. Several respondents state that it will take a lot of time and effort to create and implement the systems necessary for a standard of this magnitude. Respondents think that it will take at least two years to set up and test the systems and internal controls necessary to capture the type of information and level of detail required by the proposed presentation model. Furthermore, many entities around the world are transitioning to IFRS, a process that involves a substantive amount of resources on its own. Respondents ask the boards not to put undue burden on entities by requiring them to adopt the presentation standard while they are transitioning to IFRSs.

A75. Several respondents request that the boards allow adequate lead time for educational efforts before the standard is effective. Respondents observe that the standard will result in significant changes to the way financial statements are currently presented; preparers, users, auditors, and academics will need time to familiarize themselves with the presentation model and the new information it produces. Extended educational outreach may help to minimize misapplication and misinterpretation of the presentation standard.