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EFRAG
Stig Enevoldsen
35 Square Meeûs
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Berlin, 07 April 2009

Dear Stig,

Discussion Paper 'Preliminary Views on Financial Statement Presentation'

On behalf of the German Accounting Standards Board (GASB) I am writing to comment on EFRAG's draft comment letter on the International Accounting Standards Board's (IASB) Discussion Paper 'Preliminary Views on Financial Statement Presentation'. We appreciate the opportunity to comment on EFRAG's draft comment letter.

For the detailed comments we refer to our comment letter to the IASB, which we attach to this letter. Regarding your question in paragraph 155 of your draft comment letter we especially refer to our responses to IASB's questions 23 and 25.

If you would like to discuss any aspects of this comment letter in more detail, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President

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Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Berlin, 7 April 2009

Dear David,

Discussion Paper 'Preliminary Views on Financial Statement Presentation'

On behalf of the German Accounting Standards Board (GASB) I am writing to comment on the IASB Discussion Paper *'Preliminary Views on Financial Statement Presentation'* (herein referred to as 'the DP'). We appreciate the opportunity to comment on the DP.

We welcome the publication of the DP and in general support the IASB's goal of improving the decision-usefulness of the presentation of information provided in the entities primary financial statements. However, we have various concerns with the approach of the DP in general and with several proposals in particular. Our main concerns are the following:

- The proposed cohesiveness objective seems to be an interesting and conceptually consistent approach. However, the DP does not make a good enough case for the consequences and implications of that approach. We are not convinced, that applying the cohesiveness objective results in a presentation of information that is more decision-useful.
- We are not convinced that the direct cash flow method does provide information that is more decision-useful than the indirect method of presentation. Again, the DP does not make a good enough case for the direct method being superior to the indirect method and the benefits of that method justifying the cost of preparation.

- We disagree with requiring a reconciliation schedule as proposed (based on the examples provided in the appendix in the DP), because we doubt that the proposed line-by-line reconciliation is decision-useful and, because we have concerns that the benefits will not justify the cost of providing that information. In our view, reconciliation should focus on specific line items where the information on reconciling items is useful.

Please find our detailed comments on the questions raised in the DP in the appendix to this letter.

If you would like to discuss our comments further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President

APPENDIX

Objectives and principles 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.

The objective of general purpose financial reporting as proposed in the IASB Exposure Draft '*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'* is to provide financial information about the entity that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers. Based on that, we think that the objectives of financial statement presentation should be to provide information in a manner that meets the fundamental objective of financial reporting.

We are concerned that the DP does not give stringent arguments nor does it provide evidence why the proposed objectives for financial statement presentation (cohesiveness, disaggregation, liquidity) are appropriate to meet the most important objective of providing decision-useful information. In addition, we miss compelling arguments or evidence why a certain requirement proposed in the DP meets the objectives for financial statement presentation best. For example, why does the proposed disaggregation level best meet the disaggregation objective?

Cohesiveness

The DP states in paragraph 2.6 *'the cohesiveness objective responds to the existing lack of consistency in the way information is presented in an entity's financial statements'*. In general, we support considerations of the IASB to link the single financial statements and make them more consistent than the financial statements are today as long as linking results in information that is more decision-useful. Overall, the proposed cohesiveness objective seems to be an interesting and conceptually consistent approach to a solution. However, the DP does not make a good enough case for the consequences of that approach. We are not convinced, that applying the cohesiveness objective results in a presentation of information that is more decision-useful.

It seems that cohesiveness is taken too far in the DP, in parts to a line item level. We have concerns that taking cohesiveness that far increases the complexity of financial statements and fails to achieve the goal of the financial statement presentation project of improving the decision-usefulness of the presentation of information.

In addition, the IASB's tentative decisions in the projects *'Financial Statement Presentation'* and *'Post-employment Benefits'* contradict each other. Paragraph 2.45 of the DP states that as long as entities are required to *'present plan assets and benefit liabilities on a net basis in its statement of financial position, the proposed presentation model requires an entity to classify its net post-employment benefit asset or liability in a single category in the statement of financial position'*. Paragraph 2.46 of the DP states further: *'Following the cohesiveness principle, an entity should classify the related post-employment benefit expenses, including items such as service cost, interest cost and return on plan assets, and cash flows in the same category as its net post-employment benefit asset or liability.'* Contrary to the proposals in the DP, the IASB tentatively decided in the project on *'Post-employment Benefits'* that *'entities should disaggregate changes in the defined benefit obligation and in plan assets into employment, financing and remeasurement components, and recognise the components in the income statement'* (IASB Update, January 2009). We urge the IASB to bring the outcomes of the projects in line.

Disaggregation

We agree that entities should disaggregate the information in their financial statements in a manner that the disaggregated information is decision-useful. However, we have concerns that, in some instances, the proposed disaggregation could result in a lot of lines that reduce the usefulness of information. One example is the proposed disaggregation of assets and liabilities into short-term and long-term within the categories in the statement of financial position. Instead of providing this information on the face of the primary financial statements, it could be provided in the notes alternatively to achieve a balance between too much and too little information.

In addition, the DP does not make a good enough case why the proposed disaggregation level meets the fundamental objective of providing decision-useful information better than the current disaggregation level.

Liquidity and financial flexibility

We note, that the IASB's Exposure Draft '*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' (herein referred to as 'the ED') implicitly already includes the objective of liquidity as paragraph OB 9 in the ED states: *"Capital providers are interested in financial reporting because it provides information that is useful for making decisions … When making those decisions, capital providers are interested in assessing the entity's ability to generate net cash inflows …"*. Paragraph OB 10 in the ED further explains what assessing cash flows means, namely *'the prospects for those cash flows depend on the entity's existing cash resources and, of more importance, on its ability to generate enough cash to pay its employees and suppliers and satisfy its other operating needs, to meet its obligations when due, and to reinvest in operations.'*

We support the objective of liquidity being included in the framework as well as in the standard being developed from this DP as it will underline its importance for presentation purposes.

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 (see paragraph 2.19)? Why or why not?

We believe that separating business activities from financing activities generally provides information that is decision-useful. But we do not think that the proposed separation of business activities from financing activities provides information that is more decision-useful than that provided in the financial statement formats used in practice today, i.e. the presentation of operating and financing income in the statement of comprehensive income as well as operating and financing cash flows in the statement of cash flows and the separate presentation of financial assets and liabilities in the notes.

Furthermore, we have concerns regarding the definition of the financing section that are discussed in our response to question 10 below.

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 (see paragraphs 2.19(b), 2.36 and 2.52–2.55)? Why or why not?

We do not support the proposed presentation of equity as a section separate from the financing section. We believe that equity should be presented in a separate line within the financing section, because equity is part of an entity's overall financing.

The same argument is also stated in paragraph 2.53 of the DP as one reason for presenting equity in the same section as financing assets and liabilities.

Question 4

In the proposed presentation model, an entity would present its **discontinued operations** in a separate section (see paragraphs 2.20, 2.37 and 2.71–2.73). Does this presentation provide decision-useful information? Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets and financing liabilities)? Why or why not?

We agree with the proposed presentation of discontinued operations in a separate section and the reasoning set out in paragraph 2.71 in the DP.

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 (see paragraphs 2.27, 2.34 and 2.39–2.41).

a) Would a management approach provide the most useful view of an entity to users of its financial statements?

b) Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach? Why or why not?

The answer to the question whether the management approach provides the most useful view of an entity to users of its financial statements depends on what the term management approach exactly means. In case the management approach means that management is fully free in classifying assets and liabilities in their financial statements we would not support that approach because it would reduce the comparability of financial statements between different entities. Another concern about the management approach relates to the consistency of the financial statements of an entity from period to period.

Currently, the term management approach is used in IFRS 8 *‘Segment Reporting’*. Referring to ‘management approach’ in the DP first of all suggests that the same is meant as under IFRS 8. Having a closer look at the DP the meaning of ‘management approach’ in the DP seems to be quite different from the meaning in IFRS 8. Related to the DP the notion ‘management approach’ means that although the management would usually have substantial discretion how assets and liabilities are used, it would have only little flexibility in classifying these assets and liabilities, because they have to be classified by management just as they are used. We would support such an understanding of 'management approach' for purposes of meeting the objectives the DP is directed to. To avoid misunderstanding and confusion with IFRS 8 the IASB should change the term 'management approach' in the DP and clarify its approach to be introduced for presentation purposes.

Furthermore, we believe that several proposals in the DP are requirements which conflict with the management approach in the meaning of the DP, for example the requirement to disaggregate income and expenses in the statement of comprehensive income by function and by nature. We agree that there is a need for some guidance for classification in order to achieve a certain level of comparability of financial statements between different entities. However, we do not support tight, detailed requirements as long as it is not clear whether they make the information provided in the financial statements more decision-useful. For example, as discussed with regard to question 16 below, we doubt that a disaggregation by function for external purposes in the statement of comprehensive income results in decision-useful information as long as the entity uses a disaggregation by nature for internal purposes and the other way round.

Question 6

Paragraph 2.27 proposes 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?

We think that a separate presentation of assets and liabilities in a business and financing section could make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities. However, as already mentioned in our responses to questions 2 and 10, we have significant concerns regarding the proposed definition of the business and financing section.

In addition, we note that a meaningful analysis of financial ratios is not just based on the presentation of the individual underlying items or components concerned. To achieve such an analysis the application of the same or at least similar accounting policies by the entities compared is required.

Question 7

Paragraphs 2.27, 2.76 and 2.77 discuss classification of assets and liabilities by entities that have **more than one reportable segment** for segment reporting purposes. Should those entities classify assets and liabilities (and related changes) at the reportable segment level as proposed instead of at the entity level? Please explain.

We agree with the proposed classification of assets and liabilities at the reportable segment level (instead of at the entity level), because this is consistent with how the entity uses those assets and liabilities in the respective reportable segment. An entity should classify only those assets and liabilities at the entity level that do not have to be allocated to reportable segments for IFRS 8 purposes.

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.

From our point of view, there is no need for considering any changes in segment disclosures to make segment information more useful in light of the proposed presentation model, because, as already mentioned in our response to question 5, the meaning of 'management approach' in the DP is and should be quite different from the meaning in IFRS 8.

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?

We do not support that the operating and investing activities within the business section are based on a notion of 'core' and 'non-core' as proposed in the DP. We have concerns that assets and liabilities would be classified as investing, although those assets and liabilities actually relate to the entities' ongoing business. We therefore prefer a classification into “operating activities” and “non-operating activities”.

In addition, we note that the term “investing” is commonly understood to mean something different from the discussion in the DP which could result in significant misunderstandings and inappropriate application respectively.

Question 10

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

We do not support the DP’s proposal that the financing section should be restricted to financial assets and financial liabilities as defined in IFRSs and US GAAP. We do not see why non-financial assets and non-financial liabilities should be excluded from the financing section when they form part of the financing of the entity’s business and other activities. The justification for this exclusion given in paragraph 2.62 of the DP is to *‘add objectivity to the classification process’*. We deem this argument unconvincing. We think that excluding non-financial assets/liabilities from the financing section is in conflict with the proposed management approach. Further, it is inconsistent that the DP restricts management to include non-financial assets/liabilities on the one hand but allow management to exclude financial assets/liabilities from the financing section on the other hand. Either the management approach has to be applied for classification consistently or not.

Furthermore, paragraph 2.59 appears to contradict paragraph 2.62 in the DP: paragraph 2.62 states that an entity cannot include a non-financial asset or a non-financial liability while paragraph 2.59 states that management should have flexibility in determining which liabilities (without a restriction to financial liabilities) to classify in the financing section.

However, the most problematic aspect of classifying is not the decision whether a non-financial asset/liability could be viewed as business or financing, but the decision whether a financial asset/liability is business or financing. In our view, post-employment assets/liabilities are one prominent example for the latter case. In addition, we think that this issue is underpinned by the more fundamental discussion whether liabilities, including equity, understood as “funding” of an entity’s operations can be at all appropriately separated in business and financing sections.

Implications of the objectives and principles for each financial statement

> **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?

We generally support the proposed classified statement of financial position, because we believe that the information about short-term and long-term subcategories for assets and liabilities is decision-useful with respect to the assessment of the liquidity of an entity. However, we note that the requirements, in particular those for the related note disclosures, are partially redundant as they are already form part of IFRS 7.

Question 11 (a)
We expect that in particular financial institutions or other entities with a large number of financial instruments will not present a classified statement of financial position. Instead they probably present their statement of financial position based on an assessment of the liquidity of assets and liabilities because liquidity information of those entities is often more relevant for users. In this respect we agree with the reasoning outlined in paragraph 3.6 in the DP.

Question 11 (b)
We think that the guidance for distinguishing which entities should present a statement of financial position in order of liquidity given in the DP is not sufficient. We therefore propose that guidance along the line of the current IAS 1 would be given.

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?

We agree with the proposed presentation and classification of cash equivalents in a manner similar to other short-term investments, separately from cash. Some may appropriately question whether in the case of cash excess that is invested in an extremely short-term investment that investment is really different from cash. On the other hand, we doubt whether it is possible to provide a clear definition which cash equivalents should be treated as cash component. Any remaining ambiguity would affect the decision-usefulness of the information for assessing liquidity. We therefore agree with the proposed guidance of separating cash and cash equivalents as a convention to ensure consistency.

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?

In principle, we agree that a separate presentation of similar assets and liabilities that are measured on different bases provides information that is more decision-useful than a presentation that permits line items to include similar assets and liabilities measured on different bases.

However, we do not agree that the disaggregation should be presented on the face of the statement of financial position and believe that a summarised presentation in the notes to the financial statements would be more appropriate. Disaggregation in the notes avoids that the statement of financial position will be overloaded with too many detailed information that could make that statement less understandable.

Question 14

Should an entity present comprehensive income and its components in a **single statement of comprehensive income** as proposed (see paragraphs 3.24–3.33)? Why or why not? If not, how should they be presented?

As net income is an important measure of performance, we strongly support a separate presentation of net income and other comprehensive income. The question whether separate presentation of the above-mentioned two components of comprehensive income should be made in one or two statements is from our point of view not a key issue.

More important than a discussion about one or two statements is a clear guidance which items should be presented in other comprehensive income. Currently, the IFRSs do neither contain a definition of other comprehensive income nor any guidance which items should be included; instead, the individual standards determine the items of other comprehensive income for the respective issues. We think that other comprehensive income should be defined in the framework and therefore urge the IASB to address this issue in its *'Conceptual Framework'* project.

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) (see paragraphs 3.37–3.41). Would that information be decision-useful? Why or why not?

We wonder why the IASB is asking that question, because we think that an indication of the category to which items of other comprehensive income relate results from the proposed cohesiveness objective.

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?

We think that the crucial factor in deciding whether an entity should disaggregate the statement of comprehensive income by nature and/or by function is the decision-usefulness of the information provided. We doubt that a disaggregation by function for external purposes results in decision-useful information if the entity uses a disaggregation by nature for internal purposes and vice versa. In this context, we ask the IASB to explain what the phrase 'to the extent that this will enhance the usefulness of the information' means and, in addition, to give practical guidance regarding the application of that phrase. In addition, we have concerns that the requirement in the DP could lead to situations where an entity that disaggregates by nature internally has to present a disaggregation by function externally even if the entity does not have the information by function available. Furthermore, it seems to us that the proposed mandatory disaggregation is in conflict with the proposed management approach within the meaning of the DP.

For the reasons listed above we disagree with the required disaggregation by function and nature and, in particular, the required disaggregation in form of a matrix, i.e. a disaggregation by nature within each function. Instead we support a disaggregation based on the management approach within the meaning of the DP, i.e. entities should report disaggregated information in the statement of comprehensive income in the same way as they disaggregate their income and expenses for internal purposes, since this seems to meet the superior decision-usefulness objective best. However, in cases where entities use both disaggregation methods (by function and by nature) internally, the external reporting of both in the statement of comprehensive income might result in too much and partially redundant data that could make the statement of comprehensive income less clear and understandable. In these particular cases we deem a presentation of the financial information to be more useful, if management chose one of the disaggregation methods that best reflects management's internal control.

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 (see paragraphs 3.56–3.62). To which sections and categories, if any, should an entity allocate income taxes in order to provide information that is decision-useful to users? Please explain.

In principle, we agree with the proposed allocation and presentation of income taxes within the statement of comprehensive income in accordance with existing requirements. However, we question the relevance of the information given by allocating income taxes to each item of other comprehensive income. We doubt the usefulness of that information not least because income taxes related to continuing operations (business and financing) are presented in one line. We therefore propose a presentation of pre-tax items of other comprehensive income followed by a subtotal of those and after that showing the income taxes related to other comprehensive income in one line.

In addition, we note that not all income and expense items in the lines above the income tax line are pre-tax items. For example, income and expense items that are based on valuations including post-tax cash flows and post-tax discount rates might be post-tax numbers. Insofar, it seems to be inconsistent to present an income tax line after post-tax items. We therefore ask the IASB to address that inconsistency in future projects in general.

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?

We note that the proposed approach of 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 is consistent with the proposed cohesiveness objective.

However, applying the cohesiveness objective at this point might not result in information that is decision useful and moreover causes practical problems and additional costs. This is the case when, for example, foreign exchange hedges cover exposures in more than one category.

Question 19

Paragraph 3.75 proposes that an entity should use **a direct method of presenting cash flows** in the statement of cash flows.

a) Would a direct method of presenting operating cash flows provide information that is decision-useful?

b) Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method? Why or why not?

c) Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?

Question 19 (a)

We believe that the direct method of presenting operating cash flows provides information that is decision-useful. In particular, analysing changes in operating cash flows might be easier on the basis of the direct method. However, we are not convinced that this method of presentation does provide information that is overall more decision-useful than the indirect method of presentation. Moreover, the DP does not give any compelling evidence showing that the direct method is superior to the indirect method with respect to the decision-usefulness of the information provided. We ask the IASB to provide a comparison of both methods regarding their benefits and cost.

Furthermore, we note that only a few companies apply the direct method today. Even companies that are required to present the direct method in their financial statements, e.g. companies in Australia, often show only key lines like ‘customer receipts’ and ‘payments to suppliers’ as direct numbers and calculate the other lines of direct cash flows indirectly. At the end this results in a mixed presentation of the direct and the indirect method. From our point of view, any argument for a change in the current presentation in practice needs to provide evidence that the direct presentation will improve the usefulness of the information and that the improvement will justify the associated costs.

Question 19 (b)

It might be that the direct method is more consistent with the proposed cohesiveness objectives than an indirect method. However, as already discussed regarding question 1, we do not accept a cohesiveness principle applied to the extreme as proposed in some instances in the DP, because it would increase the complexity of the financial statements and fail the objective of providing decision-useful information. Insofar, as the cohesiveness objective would be applied to classify assets and liabilities (and the related income, expenses and cash flows) in sections and categories, we do not see why the direct method is more consistent with the cohesiveness objectives than an indirect method.

Regarding the disaggregation objective, we do not understand why a direct method should be more consistent with this objective than an indirect method.

Question 19 (c)
The information currently provided using an indirect method to present operating cash flows are similar but not identical to the information provided in the proposed reconciliation schedule. One example for a difference is: The indirect method refers to the statement of financial position by calculating changes in net working capital, while the reconciliation schedule does not contain any link to the statement of financial position.

Question 20

What **costs** should the boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81–3.83)? Please distinguish between one-off or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?

The costs of using a direct method to present operating cash flows are dependent on whether cash flows are captured directly or calculated on the basis of the movements in assets and liabilities. In the latter case of calculation we would not expect significant one-off or ongoing costs. But capturing cash flows directly could require significant costs; in particular when groups consist of many subsidiaries with various accounting systems. Under the assumption that most entities will not have available the information required for the application of the direct method, switching from applying the indirect cash flow method to the direct method would require system changes that go hand in hand with one-off costs (e.g. implementation and training costs) and ongoing costs (e.g. costs of collecting information in complex groups). In addition, the amount of costs resulting from applying the direct method finally depends on the level of disaggregation within the statement of cash flows.

Finally, the most important issue is whether the benefits will justify the costs of applying the direct method. As mentioned above, we urge the IASB to provide a comparison of both methods regarding their benefits and costs and note that only a few companies apply the direct method today.

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?

We support an allocation of the effects of basket transactions to the related sections and categories in the statement of comprehensive income and the statement of cash flows, because this approach would be consistent with the cohesiveness objective. In this connection we refer to the analogous treatment of multi-elements arrangements.

Notes to financial statements

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?

We note that the terms contractual asset and contractual liability are neither defined in the current IFRSs nor in the DP. As long as it is unclear what assets and liabilities the IASB has in mind, it is difficult to answer the question. In addition, as already mentioned in our response to question 11, we see a substantial overlap between the proposals in the DP and the requirements in IFRS 7.

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.

Question 23(a)

In principle, we support the idea of providing information in the notes to financial statements that links the statement of cash flows with the statement of comprehensive income, because it may improve the understandability of the financial statements overall and the decision usefulness of the information provided.

However, we disagree with the procedural method as proposed in the DP. The proposed reconciliation schedule (based on the examples provided in the appendix in the DP) will result in lengthy note disclosure with much detailed information. Preparers will probably be required to provide significant input and resources to provide this information and users will be faced with too many numbers that could make the financial statement less understandable. In addition, we doubt that the proposed line-by-line reconciliation is really decision-useful. For some line items reconciliation actually provides information that is decision useful, but for other line items it does not. Overall, we have concerns that the benefits will not justify the cost of providing that information. In our view, reconciliation should focus on specific line items where reconciliation is really useful.

Question 23(b)

We believe that the proposed disaggregation of assets and liabilities into the components described in paragraph 4.19 is not useful for all items. For example, the disclosure of the component ‘accruals’ in the line ‘cash received from wholesale customers’ on page 118 in the DP does not provide any meaningful information unless the underlying circumstances for the accruals established are explained, e.g. allowance for doubtful accounts. We do not want to argue for any more disclosures, but we urge the Board to focus on meaningful disclosures that provide information that is decision useful. The proposed reconciliation schedule seems to be driven by disclosure requirements for financial instruments. The resulting information might be useful in case of financial instruments but not necessarily in all other cases. Therefore, reconciling all items might lead to information rather cluttering than enlightening.

Question 23(c)

As we do not support reconciliation in the proposed form of a uniform schedule for all items, the guidance given is deemed redundant.

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?

In principle, we agree with the proposal to address further disaggregation of changes in fair value in a future project. However, we urge the IASB to analyse the usefulness of that disaggregation within the scope of such a project.

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 B10–B22? For example, should entities that primarily manage assets and liabilities rather than cash flows (for example, entities in the financial services industries) be required to use the statement of financial position reconciliation format rather than the proposed format that reconciles cash flows to comprehensive income? Why or why not?

As already mentioned in our response to question 23, we do not support the proposed reconciliation schedule that is uniform for all items and propose that reconciliation should focus on specific line items where reconciliation is really useful.

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?

Question 26 (a)

As we do not support the proposed reconciliation schedule we do not support that information about unusual or infrequent events or transactions is provided in a memo column in the reconciliation schedule as proposed.

Nevertheless, we believe that this information itself may be useful for users of the financial statements, because it helps users to identify recurring numbers when assessing future cash flows. However, we note that this information should better be given in the management commentary than in the financial statements.

Question 26 (b)

The definitions of the terms 'unusual' and 'infrequent' in APB 30 are generic, but we deem these sufficient. However, we wonder, why a distinction between unusual and infrequent is made and whether it is really necessary. In our view, each unusual event or transaction is infrequent by definition.

Question 26 (c)

We think that an entity should not only have the option of presenting the information in narrative format, because we believe that presenting numbers in a column without any explanation would not be sufficient. Instead, we propose that the narrative format should be the preferred alternative.