

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

14 April 2009

Dear Sir David,

Re: Discussion Paper, Preliminary Views on Financial Statement Presentation

Deloitte Touche Tohmatsu is pleased to respond to the Discussion Paper, *Preliminary Views on Financial Statement Presentation* (the "Discussion Paper").

We support the Board's efforts to improve the usefulness of the information provided in an entity's financial statements and help users make decisions in their capacity as capital providers. While we agree with many of the proposals in the Discussion Paper, we consider the comments following below essential to the development of a financial statement presentation model that provides useful information for users and can be practically implemented by preparers.

Objective and Principles of Financial Statement Presentation

The objectives and principles described in the discussion paper, if implemented appropriately, should benefit users by providing a clear understanding of the relationship across the three financial statements and the nature of information reported in financial statements. However, while we support the cohesiveness objective, the subjectivity involved in determining the appropriate classification (i.e., operating, investing and financing) of certain items may lead to inconsistent practices among similar entities (or for similar items within the same entity). Therefore, 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 would be beneficial for preparers and users. Further, the Boards need to address and potentially develop specific requirements and disclosures in accounting for changes in the category classification of items from one period to another.

We also support the idea that information in an entity's financial statements should be disaggregated in a manner that provides users with enough detail to be decision useful and value-added. In addition to providing information that is useful in assessing future cash flows as mentioned in the discussion paper, certain disaggregation of information may also be useful in assessing past performance of management (i.e., management stewardship) and this notion should be incorporated into the objective. However, because financial statements are prepared to provide a summarized view of an entity's financial position and performance, we are concerned that too much disaggregation may distract users from information that is relevant and create a burden for preparers that may outweigh the potential benefits. The Boards should consider additional analysis to determine the level of disaggregation users actually need and fully understand why such information is necessary prior to requiring it in entity's financial statements. This analysis would also provide useful information in assessing the costs and benefits of the principles established to meet this objective.

An alternative to the current proposal may be to consider including additional parameters around the appropriate levels of disaggregation (i.e., information that most users find beneficial) to assist preparers in determining how much disaggregation is appropriate. Such an approach could be principle-based and include various examples illustrating appropriate levels of disaggregation. This would allow for a certain level of comparability among similar entities while also maintaining the management approach.

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its Member Firms."

Management Approach to Classification

The management approach to classification of financial information is appropriate because it provides management the ability to classify an entity's financial information based on the manner in which the underlying assets and liabilities are used, rather than specific rules dictating the presentation. However, there are certain practical concerns with such an approach including a potential reduction in comparability of financial information among entities with similar operations and potential difficulties in determining classification due to the subjective nature of such an approach (i.e., two prudent individuals within the same entity looking at the same information could conclude differently). For example, when using the management approach some may disaggregate changes in a hedging instrument between the effective and ineffective portion and present each component in separate line items or even separate categories while others may present such changes in a single line item. The subjective nature of the approach also may lead to inappropriate financial statement manipulation. These concerns should be evaluated by the Boards and appropriate parameters developed to provide a level of consistency in the application of the management approach to classification.

Direct Method to Present Cash Flows

The Boards' proposal requiring the direct method to present cash flows appears to provide useful information to users of financial statements (e.g., operating cash receipts and payments). However, we understand the costs to changing from the indirect method to the direct method of presenting cash flows may be significant. While entities may use the direct method in cash flows currently the vast majority of companies do not due to the significant costs of implementation and market forces have not provided clear evidence of the benefit. The Boards should consider additional analysis to understand the benefits to users of presenting cash flows using the direct method and such benefits outweigh the cost.

Proposed Reconciliation Schedule

The Boards' proposal requiring entities to provide a schedule that depicts non-cash items (e.g., fair value movements) provides information that allows users to analyse cash flows in relation to comprehensive income. While we understand this requirement supports the cohesiveness objective, the Boards should consider whether the information requested by users is necessary and whether it really provides information that is useful in assessing the future cash flows of an entity. We are concerned the proposed reconciliation schedule may distract users from information that is relevant and create an unnecessary burden for preparers. Further, we are concerned this information, in addition to the information provided in the statement of cash flows under the direct method, is no different than the information presented under the indirect method of presenting cash flows. Therefore, in evaluating the benefits and costs associated with requiring the direct method of presenting cash flows, the Boards should also consider whether the benefits associated with requiring the proposed reconciliation schedule outweigh the costs.

Our detailed responses to the specific questions included in the Discussion Paper are provided in Appendix A.

If you have any questions concerning our comments, please contact me at +44 (0) 207 007 0907.

Yours sincerely,



Ken Wild
Global IFRS Leader

Appendix A: Invitation to Comment

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 DP? If so, please describe and explain.*

Please refer to our previous discussion on this topic in the body of this letter.

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 agree with the Boards’ proposal requiring entities to separate business activities from financing activities as this presentation provides more decision-useful information. As previously discussed, we support the management approach to classification and this approach allows an entity to separately present information about the way it creates value (business activities) from the manner in which it funds those activities (financing activities).

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 support presenting equity in a section separate from the financing section. In portraying a cohesiveness financial picture, it is important for transactions with owners and non-owners to be separately highlighted in the entity’s financial statements.

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 support the Boards’ proposal of separately presenting discontinued operations. This maintains consistency with the current presentation and because the Boards have recently introduced a common definition of discontinued operations within U.S. GAAP and IFRSs, the proposed presentation should not create additional burden on preparers.

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?*

Please refer to our previous discussion on this topic in the body of this letter.

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 agree with the Boards' proposal that assets and liabilities should be presented in the business section and in the financing section of the statement of financial position. As noted in the Discussion Paper, financial statement users will benefit from this classification through the availability of financial information that allows users to calculate additional key financial ratios for an entity's business or financing activities.

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.*

For those entities that have more than one reportable segment, we support the Boards' proposal that assets and liabilities (and related changes) be classified at the reportable segment level as it is consistent with the objectives of having a cohesive financial picture of an entities activities and disaggregating information so that it is useful in assessing future cash flows. Further, as segments are reported based on information that management uses to make decisions about operating matters, classifying assets and liabilities in a similar manners is consistent with the management approach proposed in the Discussion Paper.

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.*

Consistent with classifying assets and liabilities at the reportable segment level as discussed in Question 7, the presentation of segment disclosures should be consistent with the proposed presentation in the statements of financial position, comprehensive income, and cash flows. The segment disclosure requirements in IFRS 8, *Operating Segments*, are based on the measure reported to the chief operating decision maker for the purposes of making decisions about allocating resources to the segment and assessing its performance, while the proposed model classifies information in the manner that best reflects the way an entity's assets and liabilities are used. While both presentations are based on a management approach, the guidance should be aligned to avoid inconsistencies in presenting the financial information. For example, profit may be classified within each category in the financial statements based on the proposed management approach and then combined in the required segment disclosure as the single measure reported to the chief operating decision maker under IFRS 8.

Since the proposed presentation model would require entities to present financial information using sections and categories, the existing segment disclosure requirements should be amended to provide for similar presentation.

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?*

The definitions of the business section and the operating and investing categories are appropriate. However, to allow for consistent application of the guidance, the Boards should consider providing additional illustrative examples of the appropriate classification of an entity's assets and liabilities under the proposed definitions.

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 U.S. GAAP as proposed? Why or why not?*

The definitions of the financing section and the financing assets and financing liabilities categories are appropriate. However, restricting the financing section to only financial assets and financial liabilities (as those terms are defined in IFRSs and U.S. GAAP), seems to be inconsistent with the management approach to classification. Further, to allow for consistent application of the guidance, the Boards should consider providing additional illustrative examples of the appropriate classification of an entity's assets and liabilities under the proposed definitions.

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 would expect financial institutions to present a statement of financial position in order of liquidity as the presentation would provide information that is more relevant to the users of those financial statements.

While additional guidance may not be necessary, it may be helpful to provide circumstances under which presentation based on liquidity would provide more relevant information and perhaps examples of entities that may consider presenting on such a basis. The Boards should also consider providing for this presentation based on the manner that best reflects the way the assets and liabilities are used within the entity (consistent with the management approach to classification).

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 support the Boards' proposal to present cash equivalents in a manner similar to other short-term investments. Such classification is consistent with the disaggregation objective in the Discussion Paper.

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?*

We support the Boards' proposal 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.

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?*

We support the Boards' proposal that an entity present comprehensive income and its components in a single statement of 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) (see paragraphs 3.37–3.41). Would that information be decision useful? Why or why not?

Providing the category to which items of other comprehensive income relate provides information that is useful in predicting the future cash flows for each of the entity's categories and portraying a cohesive picture of an entity's activities. Therefore, the proposal seems to be consistent with the objectives in the Discussion Paper.

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 support in concept the proposal that an entity should further disaggregate within each category in the statement of comprehensive income by function, nature, or both because this level of disaggregation provides additional decision-useful information to users. However, additional guidance and examples are needed to illustrate the principles underlying function and nature. In addition, it is unclear whether an entity must maintain the disaggregation method (i.e., function or nature) across all categories of a single financial statement (or set of financial statements) or can disaggregate based on various methods throughout a single financial statement (or a set of financial statements).

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.

We support the Boards' proposal to require an entity to allocate and present income taxes within the statement of comprehensive income in accordance with existing standards. Requiring an entity to present and allocate income taxes within specific sections and categories may not be consistent with the overall management approach to classification. In addition, allocation of income taxes to sections and categories in certain circumstances may be arbitrary and provide less decision-useful information to users.

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 decisions-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 support the Boards' proposal 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. As this presentation aligns financial information within the related sections and categories, it should provide information that is useful in assessing future cash flows based on the related activity.

We encourage the Boards to seek input from financial statement preparers regarding the costs related to presenting this information in different sections and categories.

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?*

Please refer to our previous discussion on this topic in the body of this letter.

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?

We encourage the Boards to seek input from financial statement preparers regarding the costs related to using a direct method to present cash flows.

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?

The appropriate presentation of the effects of basket transactions should be consistent with the principles established for using the management approach to classification. We do not support requiring entities to present the effects of basket transactions in a specific section or category of the financial statements as it seems to be inconsistent with the objectives in the Discussion Paper.

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?

Because a statement of financial position presented on the basis of liquidity typically will not provide sufficient information about the maturities of contractual assets and liabilities, this information should be disclosed in the notes to the financial statements.

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.*

Please refer to our previous discussion on this topic in the body of this letter.

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?*

Due to the limited guidance on classifying changes in fair value, such changes are often displayed on a single line item on a financial statement. As a result, different components of changes in fair value are often insufficiently disaggregated in financial statements. We have historically held that additional guidance on classification of changes in fair value is necessary.

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?*

We recommend the Boards fully consider whether the benefits offset the complexity created and additional costs associated with directing entities to present reconciliations.

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?*

Without clear parameters defining unusual or infrequent events or transaction, we do not support entities presenting such information as part of the reconciliation schedule. Even then and under any definition, determining events or transactions that qualify as unusual or infrequent would likely be subject to a significant degree of subjectivity. As a result, there is a significant risk that the information would be provided on an inconsistent or arbitrary basis. Further, entities may have a propensity under certain circumstances to highlight only certain events and transactions in a manner that provides an unbalanced financial picture. While allowing entities to highlight unusual or infrequent events or transactions may provide decision-useful information in certain instances, the potential for inconsistent, arbitrary, unbalanced, or misleading information due to the subjective nature of determining the information seems to outweigh the benefit.