Asian-Oceanian Standard-Setters Group (AOSSG)

Discussion Report

Working Group

FINANCIAL STATEMENT PRESENTATION

5 November 2009

AOSSG Working Group on Financial Statement Presentation

- WG FSP Members:
  ·Australian Accounting Standards Board (AASB)
  ·Hong Kong Institute of Certified Public Accountants, Hong Kong SAR (HKICPA)
  ·Accounting Standards Board of Japan (ASBJ)
  ·Committee for Registry of Auditors and Accountants, Macao SAR (CRAC)
  ·Malaysian Accounting Standards Board (MASB)
  ·Financial Reporting Standards Board, NZ Institute of Chartered Accountants (FRSB)

- Co-lead country: Accounting Regulatory Department of MOF, China (ARD)

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Purpose of the WG FSP Discussion Report

This discussion report assists the AOSSG in preparing improvement proposals to the IASB regarding the Discussion Paper Preliminary Views on Financial Statement Presentation(hereafter referred as "the DP").

The discussion report agrees with the DP's proposal in general that the proposed new format provides useful information pertaining to management performance and financial conditions.

The discussion report suggests improvements and solutions related to the following six debatable issues:

- Suggesting a short-cut direct method for operating cash flows
- Additional guidance for a management judgement
- Presentation of dividends payable
- Classification of a post-employment benefit asset or liability
- Additional guidance about the definition of the operating category
- Disclosure Standard

The appendices summarise the comments from the members of the Working Group on Financial Statement Presentation (hereafter referred to as "the WG FSP") on the initial proposal, Questions of the DP, and IASB Updates(July and September 2009) for the further understanding the discussion report.

History of the WG FSP Discussion Report

Initial Discussion Report issued: September 2, 2009

WG FSP members comment on the initial discussion report: October 7, 2009

(Countries that commented: Australia, China, Hong Kong, Japan, Macao, Malaysia, New Zealand)

Revised Discussion Report issued: October 19, 2009

All AOSSG members comment on the discussion report: October 22, 2009

(Countries that commented: Hong Kong, Malaysia, New Zealand)

1st AOSSG meeting: November 4, 5 2009

FINANCIAL STATEMENT PRESENTATION

CONTENTS **Paragraphs**

Discussion Question 1 **Suggesting a short-cut direct method for operating cash flows** (with reference to the DP's questions 19, 20)
The WG FSP proposes "a short-cut" direct method as a resonable alternative for the direct method for operating cash flows. A short-cut direct method can reduce the cost of preparing the statement of cash flows by a direct method. Do you agree with the proposal? Why or why not? If not, please provide specific reasons and alternative approaches.

The DP's proposal

1.1 The DP proposes that operating cash flows be prepared only by a direct method(Paragraph 3.75 of the DP).

The WG FSP's initial proposal

1.2 The WG FSP initially proposed ‘a short-cut’ direct method that could reduce significant costs of system development or modification.

1.3 It is very burdensome for an entity to develop(or modify) an accounting system which is capable of identifying, tracing, and summarizing the transactional level factors of cash flows. However a traditional method exists which converts operating cash flows by an indirect method into operating cash flows by a direct method, without incurring significant system development or modification costs.

1.4 The cash flows by an indirect method can be converted to the cash flows by a direct method, by reconciling profit or loss adjustment items of an indirect method to the relevant items of the operating category in the Statement of Comprehensive Income(hereafter referred as "the SCI"). The revenues/expenses not accompanied by cash outflows or inflows can be added to(or deducted from) the relevant items in the SCI. Also, the increases or decreases of current assets/liabilities related to operating activities can be added to(or deducted from) the relevant items in the SCI.

1.5 The WG FSP thought the short-cut direct method, such as the above traditional method, could reduce the cost of preparing the Statement of Cash Flows(hereafter referred as "the SCF") without hampering the value of information significantly.

The WG FSP's comments on the initial proposal

1.6 Almost all WG FSP members disagreed with the initial proposal mainly because they believe that the short-cut direct method would neither provide sufficiently accurate information nor be consistent with the objective of cohesiveness and disaggregation. Some WG FSP members also pointed out that it is not appropriate to provide guidance or to require a specific method which is just a way of preparing information. Some other WG FSP members acknowledged that the short-cut direct method could be one of the possible ways of mitigating the difficulties of preparing the SCF using the direct method, although there it is limited in that it could render oversimplified information.

1.7 As for the DP's proposal to require an entity to present the SCF by a direct method, many WG FSP members disagreed with it because they doubted that the direct method would provide more useful information than the indirect method, and the costs of preparing the information using the direct method is onerous to preparers.

The WG FSP's suggestion

1.8 The WG FSP decided to drop the initial proposal. However, The WG FSP believes that the short-cut direct method as in the initial proposal may be a reasonable alternative for the direct method.

Discussion Question 2 **Additional guidance for a management judgement** (with reference to the DP's questions 16)
The WG FSP proposes that when the IASB develops the application guidance for disaggregation of information, it address the issue of oversimplification or excessive disaggregation in the financial statements. Do you agree with the proposal? Why or why not? If not, please provide specific reasons and alternative approaches.

The DP's proposal

2.1 The DP supports a management approach to classification rather than a prescriptive approach because they believe it will result in financial statements that reflect how management views and manages the entity and its resources(Paragraph S6 of the DP).

The WG FSP's initial proposal

2.2 Despite the advantages of the management approach, the WG FSP was concerned about the information loss due to the oversimplification of classification by management. For example, in order to hide competitive information, a management may disclose sales expenses only as a total amount without presenting the components of them. In such cases, not only is the comparability between companies and the representational faithfulness compromised but also users would not be provided with appropriate information.

2.3 Therefore, the WG FSP proposed that additional guidance be provided in using materiality judgement or numerical limitation on aggregation(or disaggregation) with regard to classification under the management approach.

The WG FSP's comments on the initial proposal

2.4 All WG FSP members disagreed with the initial proposal citing that materiality is subject to management's judgement and numerical limitation would be overly rule-based.

2.5 Some WG FSP members also showed concerns that the level of disaggregation in applying the direct method as proposed by the DP could be too onerous.

The WG FSP's suggestion

2.6 According to the IASB Update(September 2009), the IASB tentatively decided to retain an approach to classification within the business section, that is based on how a reporting entity organises its activities and how it uses its assets and liabilities. Application guidance would be developed to help management determine meaningful groupings of information within an entity's business section.

2.7 Therefore, despite the strong disagreement of all WG FSP members to developing application guidance, considering the above discussion at the IASB, the WG FSP came to conclusion that it would also be necessary to provide additional guidance with regard to classification under the management approach so as to prevent oversimplification or excessive disaggregation.

2.8 Hence the WG FSP proposes that when the IASB develops application guidance, it address the issue of oversimplification or excessive disaggregation in the financial statements.

Discussion Question 3 **Presentation of dividends payable** (with reference to the DP's question 3)
Some WG FSP members propose that an exception to the cohesiveness objective in which dividends payable are presented in the financing section is not allowed. Do you agree with the proposal? Why or why not? If not, please provide specific reasons and alternative approaches.

The DP's proposal

3.1 The DP proposes that dividends payable be presented as liabilities under the financing section and acknowledges that it is an exception to the cohesiveness objective(Paragraph 2.48, 2.55 of the DP[1)]).

The WG FSP's initial proposal

3.2 Contrary to the proposal in the DP, the WG FSP asserted that dividends payable need to be presented under the equity section on the grounds that the presentation of dividends payable under the equity section is more consistent with the purpose of the DP, which is to separate the financing section and the equity section, and when doing so would enhance cohesiveness of financial statements. Paragraph 2.54 of the DP also mentions that because comprehensive income reflects only transactions with non-owners, one way to satisfy the cohesiveness objective is to separate owner and non-owner financing. Therefore, the WG FSP was opposed to the exception where dividends payable are presented under the financing section. In this case it may be necessary to change the definition of liabilities under Framework.

The WG FSP's comments on the initial proposal

3.3 Most WG FSP members disagreed with the initial proposal because dividends payable are financial liabilities in substance. Some WG FSP members agreed with the proposal because the presentation of dividends payable in the equity section is in line with the cohesiveness objective and it is appropriate to present owner source of financing separately from non-owner source of financing.

1) It is uncertain whether the IASB acknowledges it as an exception to the cohesiveness objective. This discussion report is prepared under the assumption that the IASB acknowledges it as an exception.

The WG FSP's suggestion

3.4 The presentation of dividends payable depends on which one is emphasized both under the Framework definition of liabilities and the presenting owner source of financing separately from non-owner source of financing.

3.5 According to the IASB Update(September 2009), the IASB tentatively decided to define the financing section as financial liabilities used as part of an entity's capital raising activities that have an agreed-upon schedule of repayments with an interest component(and that interest component is either explicit or implicit). Items directly related to those financial liabilities, such as fees, would also be classified in the financing section. A derivative held as part of an entity's non-equity sources of funding, regardless of whether it is an asset or a liability at the reporting date, would also be presented in this section.

3.6 Some WG FSP members think that dividends payable are not financial liabilities that have an agreed-upon schedule of repayments with an interest component. Therefore the presentation of dividends payable in the equity section is consistent with the IASB's tentative decision and it is appropriate to present owner source of financing separately from non-owner source of financing.

3.7 As also mentioned by one of the WG FSP's comments on the discussion question 3 of the DP, the WG FSP thinks this issue is related to the fundamental issue, ‘entity view’ versus ‘proprietary view’ pertinent to financial reporting. It will be more worthwhile to discuss the dividends payable in conjunction with an exceptional presentation of the fundamental issue.

3.8 Thus some WG FSP members suggest that until the fundamental issue is addressed, the exception to dividends payable should be removed and it is presented under the equity section.

Discussion Question 4 **Classification of a post-employment benefit asset or liability** (with reference to the DP's question 5)
Some WG FSP members propose that an entity present a net post-employment benefit asset or liability in the operating category of the business section. Do you agree with the proposal? Why or why not? If not, please provide the specific reasons and alternative approaches.

The DP's proposal

4.1 The DP proposes that a net post-employment benefit asset or liability should be presented in a single category(most likely operating category) in the statement of financial position. Also, the DP allows the presentation of a net post-employment benefit asset or liability in the financing section under a management approach(Paragraphs 2.45-2.47 of the DP).

The WG FSP's initial proposal

4.2 The WG FSP proposed that an entity should present net post-employment benefit asset or liability in the operating category of the business section.

4.3 The net assets/liabilities arising from post-employment benefits are not related to the substance of financing activities, and should be treated in a manner similar to that of the prepaid/unpaid employee compensations (salaries or wages) that arise from business operations, which are classified in the operating category.

4.4 Furthermore, if the net assets/liabilities from post-employment benefits are presented in the financing section because of interest costs accrued on present value, then the long-term payable from installment purchase of inventory should be presented in the financing section rather than operating section.

The WG FSP's comments on the initial proposal

4.5 Some WG FSP members agreed with the proposal generally because an entity would classify the net post-employment benefit asset or liability in the operating category. Some WG FSP members disagreed with the proposal because it is inappropriate to restrict the classification of the items and the classification of an asset or liability should be a matter of professional judgement.

The WG FSP suggestion

4.6 As explained in paragraph 2.6, the IASB may revisit the decision not to require specific categories in the business section once it has reviewed the application guidance and will develop application guidance for the business section.

4.7 Thus the FSG WG suggests that this issue needs to be considered for developing application guidance for the business section.

Discussion Question 5 **Additional guidance about the definition of the operating category** (with reference to the DP's question 5)
The WG FSP proposes that additional guidance about the operating category identify that it will include assets and liabilities related to the central purpose of "current business". Do you agree with the proposal? Why or why not? If not, please provide specific reasons and alternative approaches.

The DP's proposal

5.1 The DP defines that the operating(investing) category within the business section should include assets and liabilities that management views as related(unrelated) to the central purposes for which the entity is in business(Paragraphs 2.32, 33 of the DP).

The WG FSP's initial proposal

5.2 The operating category is presumed to be defined as value creating activities that provide goods and services encompassing both 'current' and 'future' operations. However, the value creating activities in the future involve too much uncertainty in estimating sustainable underlying earnings and cash flow from continuing operations, potentially distorting the operating performance. Hence, activities related to future business(such as business acquisition or R&D investment for future business) should be presented in the investing category because they are consistent with the traditional concept of investment.

5.3 The WG FSP initially proposed an additional guidance(principle) to the central purpose criterion by which an entity should classify the value creating activities of providing goods and services related to current business, excluding future business, into the operating category. By excluding items related to the future business from the operating category, the financial statements(position) provide decision-useful information as to the projection of sustainable underlying earnings(operational performance) and cash flows from continuing operations, which enhances comparability across entities.

The WG FSP's comments on the initial proposal

5.4 Some WG FSP members disagreed with the proposal because classifying only the activities related to current operation into the operating category is too restrictive and is not consistent with the management approach to classification. Some WG FSP members agreed with the proposal in order to improve comparability between financial statements.

5.5 Further, some WG FSP members basically objected the DP's proposal to separate the operating category and the investing category within the business section.

The WG FSP's suggestion

5.6 The WG FSP decided to drop the initial proposal. The reason is that the IASB will develop application guidance for the business section and may revisit the decision not to require specific categories in the business section according to the IASB Update(September 2009).

5.7 Instead, the WG FSP suggests that the initial proposal be considered as one of the examples in the application guidance on the operating category within the business section.

Discussion Question 6 **Disclosure Standard**
The WG FSP proposes that a disclosure should not be reflected merely in the Conceptual Framework but as a significant part of the Financial Statement Presentation projects, and further to be formulated as standards. Do you agree with the proposal? Why or why not? If not, please provide specific reasons and alternative approaches.

Background

6.1 According to the paper prepared by the AcSB in relation to the Disclosure Framework at the Meeting of National Standard-setters in September 2009, it has been constantly pointed out the defects of financial statements caused due to the absence of Disclosure Framework by several related bodies.

6.2 According to the paper, the Investors Technical Advisory Committee(ITAC) has developed a proposal for a standardized framework for disclosure as follows:

Level 1: General accounting policies underlying a particular financial statement line item
Level 2: General account composition and changes year over year
Level 3: Details of estimates, assumptions, and other forward-looking information

The WG FSP's suggestion

6.3 The development of the Conceptual Framework for disclosure so that all disclosure requirements in standards reflect the principles of the Framework. is ideal.

6.4 The IASB will address disclosure as Phase E of the Conceptual Framework project. However, Phase E of that project has not yet begun and its timing is uncertain.

6.5 Some conceptual issues are addressed as part of an individual standard project and the Conceptual Framework project simultaneously. For examples, the concept of liability and equity is being discussed under the project of 'Financial Instruments with Characteristics of Equity' as well as under the Conceptual Framework project and reporting entity issue which is dealt under the Conceptual Framework project is also addressed under the project of 'Consolidated Financial Statements'.

6.6 IAS 1 *Presentation of Financial Statements* is best relevant standard that addresses disclosure.

6.7 The WG FSP proposes that disclosure such as that discussed above should not be reflected merely in the Conceptual Framework but as a significant part of the Financial Statement Presentation projects, and further to be formulated as standards.

Appendix A. The WG FSP's comments on the initial proposal

Discussion Question 1
The KASB proposes a method of converting the cash flows by an indirect method to the cash flows by a direct method. Do you agree with this proposal? Why or why not? If not, please provide specific reasons and alternative approaches or methods. Appendix A shows that an entity prepares a reconciliation schedule presenting the process of converting the operating cash flows by an indirect method to the operating cash flows by a direct method without additional costs. Namely, an entity may classify the non-cash revenues/expenses and the increases/decreases in current assets/liabilities resulting from operation into one of following three categories; accruals other than remeasurement, recurring fair value changes, and all others. Do you agree that the reconciliation schedule in Appendix A can be prepared without incurring significant costs, and provides decision-useful information. Why or why not? If not, please provide specific reasons and alternative approaches.

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
Australia(*) (?)	The direct method provides decision useful information because it clearly displays disaggrgated cash flows. If an indirect method is used, users only see the end result, which is of limited use. The direct method is more consistent with the cohesiveness and disaggregation objectives. Accordingly, the direct method: (i) allows users to link information included in the statement of cash flows to the statements of financial position and comprehensive income; and (ii) achieves the disaggregation objective better than the indirect method. However, the AASB is concerned that the level of disaggregation proposed in applying the direct method is too onerous (see the AASB's response to question 20). The AASB notes information equivalent to that provided by the indirect method would seem to be provided in the proposed reconciliation schedule_(The AASB's comment on the DP's Question 19) Australian entities preparing direct cash flow statements generally

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
	do so at a high level of aggregation and are not presently set up to provide direct method cash flows at a highly disaggregated level. The AASB is aware many Australian entities have sophisticated systems to capture information on an accrual basis and that there would be considerable initial costs involved in overhauling those systems if a more detailed direct method of presenting operating cash flows were prescribed. There will also be increased on-going costs, to ensure transactions are captured with the required level of detail to enable classification and incremental costs of verification and audit. The AASB has not investigated the precise amounts that would be involved_(The AASB's comment on the DP's Question 20) Although the proposed reconciliation schedule has the potential to increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows, the AASB has a significant concern that, as the proposed reconciliation schedule, it provides too much detail and appears to be complex for entities to prepare. Providing such a detailed reconciliation schedule would make it more difficult for users to read and understand the financial statements. The cost of preparing such a reconciliation schedule would be both one-off and ongoing, including extra time spent by management, the costs of implementing new information systems or modifying existing information systems to extract the needed information, and additional audit costs. Changes in assets and liabilities should not be disaggregated into the components described in paragraph 4.19 because it would result in too much detail. There is a possibility that the users are not interested in such information and the benefit of providing it is uncertain. The AASB thinks that it would be sufficient to distinguish remeasurements (whether recurring or non-recurring) from other changes, and to distinguish acquisitions/disposals from depreciation and impairments. If the Boards decide to proceed with the schedule, the AASB thinks the guidance provided in the Discussion Paper is sufficient to prepare the proposed reconciliation schedule_(The AASB's comment on the DP's Question 23).
China (disagree)	We believe that compared with the indirect method, the direct method is more consistent with objectives of cohesiveness and disaggregation and is competent to provide a lot of information

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
	not covered by the indirect method, while reconciliation information produced through the indirect method can be covered in the reconciliation schedule as the DP has proposed. Therefore, we support the adoption of the direct method to present cash flows in operating activities. China's current ASBE spells out that an entity shall prepare cash flow statements using the direct method, and shall provide in the notes the information cash flows from operating activities reconciled on the basis of net profit (indirect method), which runs in good shape in practice. Therefore, we believe that the cost incurred through using the direct method to present cash flow statements is not a serious problem. We do not agree to the converting method proposed by KASB; we are more inclined to adopt the direct method for the following reasons: First, China's practice shows that the cost of direct method compared with the benefits generated thereby is moderate and acceptable. Second, KASB's converting method leaves unclassified sections that can not be reconciled as gains or losses in the comprehensive income statement, and these sections do not meet the cohesive and disaggregated objectives. Different from the view of KASB, we decide this will affect the initial purpose of using the direct method and result in the absence of information, thus affecting the user's understanding of the statement.
Hong Kong (disagree)	We consider that both the direct and indirect method of presenting operating cash flows would provide decision-useful information and can meet the proposed cohesiveness and disaggregation objectives. However, as mentioned in paragraph 3.79 of the DP, some users prefer an indirect method because it provides a helpful link between income from continuing operations, changes in some line items in the statement of financial position and net operating cash flows. Therefore, we believe that the DP has not made a sufficiently persuasive argument that the direct method of presenting operating cash flow provides information that is more decision-useful than an indirect method. We acknowledge that the proposed method of converting the cash flows by indirect method to the cash flows by direct method is

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
	less costly because when using this proposed method, preparers actually do not need to go all the way back to original transactions to trace the individual cash flows, but can indirectly obtain them by adjusting individual profit or loss items for the noncash changes in underlying individual assets and liabilities (in other words, by 'backing out' the direct cash flows from the accruals-based information in the other statements). We understand that many preparers have attempted to construct a direct method cash flow statement from other information available in the financial statements, similar to the proposed method. However, in certain occasions, even such a collection of information would often not be practically achievable at a reasonable cost and preparation is time consuming. This is particularly true for complex entities as most of their systems may provide insufficient information to permit them to decompose the entries affecting accounts receivable and to determine the amounts of cash collected from customers, which is perhaps the single most important direct operating cash flow number and a primary indicator of the company's cash-generating ability. Gross estimates must thus be made, greatly reducing the reliability and usefulness of the information generated by the exercise. The same is true to a greater or lesser extent for all of the other numbers which are otherwise produced by a direct method of presenting operating cash flows. We believe that, whatever the costs, they would be purely compliance costs without any benefit for internal planning and control purposes. Regarding the reconciliation schedule in Appendix A, we agree that it provides a better and direct link into the statement of financial position and the statement of comprehensive income. Nevertheless, we consider the reconciliation schedule will result in lengthy note disclosure and that users will be faced with too many numbers that could make the financial statements less understandable. It is unclear whether users would find some of the reconciling items, especially those line items where there have been no adjustments, useful in decision-making. We believe that a reconciliation showing how each of the 'material' items on the operating cash flows is reconciled the items in the statement of

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
	comprehensive income is sufficient. To conclude, with definitely increasing cost to compile the operating cash flows using the direct method (whether this proposed method or other direct methods), we urged that an understanding should be obtained of how this information would be used by financial statement users and how this approach would provide useful information that could not be obtained through the indirect method.
Japan (?)	We disagree with the DP's proposal to require the direct method, because of doubts about whether the direct method provides more useful information than the indirect method, as well as the problem of too much costs to preparers. The DP's proposal to require reconciliation demonstrates the usefulness of the information provided by the statement of cash flows by the indirect method. We agree that the KASB's suggestion is a possible way of mitigating the difficulties in preparing the cash flow statements by the direct method, in spite of inaccuracy due to some oversimplification. However, as mentioned above, we have doubts about whether the direct method is more useful.
Macao (disagree)	Generally, we have great reservation for the conversion method proposed, as we doubt that the resulting Consolidated Cash Flow Statement – Direct Method can present a meaningful picture of the entity's cash flows. First, we note that the amounts of many items in the Consolidated Cash Flow Statement – Direct Method are equal to those amounts in the Consolidated Income Statement, such as Commission Paid (Code: 124224, $106,442,000), Transportation (Code: 124316, $318,063,000) and Gain on Foreign Currency Transactions (Code: 125109, $427,894,000). In addition, the Consolidated Income Statement and the Consolidated Cash Flow Statement – Direct Method share the same captions for many items. The use of such captions as 'gain' and 'income', which are the products of accrual basis accounting, in the cash flow statement will cause confusion to the readers. Second, there are several conversion steps done without supporting information. For example, we note that the difference, between the amounts of amortization of intangible assets in the Consolidated Income Statement and the Consolidated Cash Flows Statement – Indirect

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
	Method, is reflected to cost of sales in the Consolidated Cash Flow Statement – Direct Method. However, we can' find any rationale for this conversion in the proposal. This is the case for gain & loss on foreign exchange translations as well. For another example, we further note that the difference, between the amounts of gain & loss disposition of tangible, intangible and lease assets in the Consolidated Income Statement and the Consolidated Cash Flow Statement – Indirect Method, are reflected to discontinued operation income in the Consolidated Cash Flow Statement – Direct Method. However, as proposed in the Discussion paper (IASB), if the gain or loss on disposition relates to operating, non-operating, investing or discontinued operations, it should be presented separately which requires the accounting system to capture additional data. We propose that an entity should be required to prepare the Cash Flow Statement using Indirect Method, with additional information to be disclosed in notes to financial statements. IASB might provide guidance as to what additional information is to be disclosed.
Malaysia (disagree)	Whilst we note that in practice there exists a traditional method of converting cash flows presentation by the indirect method into cash flows presentation by the direct method, we do not believe it is appropriate for the revised Standard to prescribe such a method to support the preparation of direct method cash flow statement. We are concerned the prescriptive approach may unintentionally take away other methods available to entities in preparing the direct method cash flow statement. Therefore, we are of the view the revised Standard as well as consequential amendment to IAS 7, if any, should be principles-based, and not extend to a prescribed method. Further, prescribed methods of conversion could be subject to varying degrees of estimation or even inaccuracy, and that too suggests we should not be prescriptive about a method. Although we note that the direct method cash flow statement could be prepared as recommended in Appendix A, we are apprehensive whether the information derived indirectly would

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
	reliably portray a cohesive financial picture of its activities. In addition, Para 3.82 noted that indirectly deriving detailed items would be more difficult.
New Zealand (disagree)	As noted in the FRSB's submission to the IASB in relation to questions 19 and 20, New Zealand has required the direct method of presenting cash flows for over twenty years without significant difficulty. We note that the cost of presenting cash flows using the direct method depends upon (i) how that information is prepared and (ii) the level of detail proposed. Information on direct cash flows may be prepared (i) directly, or (ii) indirectly, by reversing the effect of accruals from the income statement using information on the changes in assets and liabilities. We agree that the second method is the most efficient method and believe that it is the most commonly used. KASB's proposal relate to how the information is prepared, and presume that the proposals are to provide guidance similar to Appendix A. Despite our agreement that this is probably the most efficient approach and will not lead to the excessive costs suggested by many submitters we do not consider it appropriate to provide guidance or to specify the method of preparation of information. We do not believe that an accounting standard that specifies a requirement is the correct place to suggest how such a requirement is met. We do believe that there may be some merit in member of AOSSG seeking to undertake field tests or a survey as you have suggested, to see how practical constituents perceive the preparation of the direct method using your suggested approach. In its submission to the IASB the FRSB stated that the proposed reconciliation schedule should not be a mandatory component of financial statements for all entities. The level of detail proposed in the IASB Discussion Paper(including the reconciliation) is excessive and would involve significant additional preparation costs.

(*) We interpreted Australia's opinion analogically based on the comment letter to the IASB's DP

Discussion Question 2
The KASB proposes that there should be an additional guidance of using materiality judgement or numerical limitation on aggregation(or disaggregation) with regard to the classification under a management approach. Do you agree with this proposal? Why or why not? If not, please provide the specific reasons and alternative approaches.

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
Australia(*) (disagree)	Yes, in principle, but the AASB is significantly concerned that the principle is not applied in a consistent way throughout the Discussion Paper. For example, the proposals relating to classifications being driven off the statement of financial position and the proposals relating to classification of expenses by nature or function are inconsistent with the principle. Whilst understanding the need for some constraints, this lack of adherence to the principle detracts from the potential benefits to be derived from a management approach. One possible approach would be to require management to identify its own starting point – whether that be the statement of financial position, statement of financial performance or statement of cash flows, based on the circumstances of its business. Another approach, if it is considered critical to specify a starting point, would be to drive the classification off the statement of financial performance or statement of cash flows, because the AASB understands most businesses would be managed by reference to operating income or cash flows rather than the statement of financial position. Either of these approaches would seem to have the potential to be a better basis for producing information of greater relevance to users than the existing proposals. Although either approach would not necessarily fully satisfy the cohesiveness objective, the AASB thinks that cohesiveness is worth sacrificing in the interest of satisfying user needs. The AASB's view is that cohesion between all three statements is not necessary – cohesiveness between the statement of comprehensive income and cash flows is sufficient. As noted in the AASB's covering letter, prior to implementing the proposals, the AASB thinks more research needs to be undertaken to understand the needs of users. The AASB expects that management of an entity is in the best position to classify items

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
	into the sections proposed by the new presentation format. In addition, the AASB notes that the benefits of the management approach in terms of decision-useful information is dependant on the definitions of categories and sections. If those definitions do not give the flexibility required for the management approach to be effective (see responses to questions 9 and 10), it is unlikely that the management approach can achieve the professed benefits for decision making. The AASB acknowledges that relying on management's judgement may reduce comparability. However, the AASB thinks that the management approach has the greatest potential to meet the needs of users. Furthermore, as noted in the AASB's response to question 1, treating changes in classifications as a change in accounting policy is critical to maximise the benefits of the management approach in the context of comparability. As also noted in the AASB's response to question 1, the AASB acknowledges that while inter-entity comparability is desirable, it could result in less useful information being provided to users to the extent comparability is achieved at the expense of providing entity-specific information_(The AASB's comment on the DP's Question 5) The AASB is again significantly concerned the proposals addressed in this question are inconsistent with the management approach, because often entities manage some revenues and expenses on the basis of their function and others on the basis of their nature. Furthermore, the AASB notes significant debates arise in practice about nature versus function, and therefore the costs of implementing the proposals are likely to outweigh the benefits. In addition, the AASB notes the information would be of limited use in predicting future cash flows unless the information is provided at a segment level for diversified entities. Although the AASB thinks that a mixed presentation would be acceptable, if the Boards proceed along the lines of the proposals, the AASB thinks only function or nature should be required on the face of the statement of comprehensive income, and the

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
	alternative (within the disaggregations provided on the face) should be disclosed in the notes, to avoid there being too many line items on the face of the statement of comprehensive income. _(The AASB's comment on the DP's Question 16)
China (disagree)	Based on the above attitude towards converting method, we believe it unnecessary to further develop additional guidance of using materiality(or numerical limitation) judgment on aggregation(or disaggregation) with regard to the classification under a management approach. In fact, if we adopt the converting method, the sacrifice of cohesiveness as well as the consequences of the over-simplification of the management sections and categories should be carefully considered. Moreover, the cost of preparing the guidance can not be ignored.
Hong Kong (disagree)	We do not agree that additional guidance of materiality(or numerical limitation) of judgement on aggregation(or disaggregation) with regard to the classification under a management approach. We opined that 'materiality' is a fundamental principle in the preparation of financial statements and should be left to management's judgement and if a numerical limitation is set, it would render the standard too rule-based.
Japan (?)	In our opinion, information of expenses by nature only need be disclosed in the notes and separate line items by nature in the statement of comprehensive income and the statement of cash flows are unnecessary.
Macao (disagree)	We agree that materiality is a very critical consideration in the classification(including aggregation and disaggregation) in the financial statement. As stated in the Framework for the Preparation and Presentation of Financial statements (IASB, 2009), information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. We think it is not an easy task for IASB to set additional guidance of using materiality for entities in different industries. Instead, it is the responsibility of management to make such judgement and thus no additional guidance is needed.
Malaysia (disagree)	We are apprehensive with the proposal to provide additional guidance on materiality based on quantitative threshold ie items exceeding 50% or 60% as recommended. In our view, materiality

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
	depends on the size as well as the nature of the items, judged in the surrounding of the circumstances. Hence, we do not support a prescriptive approach on materiality.
New Zealand (disagree)	We do not support this proposal. If the IASB adopts a management approach to the classification of items within the financial statements we consider that the classification of cash flows should be a matter of professional judgement. We note that materiality is a concept that is dealt with as a whole in accounting standards. We do not believe it is appropriate to specify a level of materiality for individual requirements; this moves towards creating very specific rules rather than the principles approach espoused by the IASB and certainly supported by the FRSB

(*) We interpreted Australia's opinion analogically based on the comment letter to the IASB's DP

Discussion Question 3
The KASB proposes that an entity should present dividends payable in the equity section. Do you agree with this proposal? Why or why not? If not, please provide the specific reasons and alternative approaches.

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
Australia(*) (?)	Paragraph 2.48 of the Discussion Paper mentions that dividend payments would be classified as a financing liability in the statement of financial position and in the financing liability category in the statement of cash flows, not the equity section. Some Australian constituents think the dividend payments should be classified as equity cash flows. _(The AASB's other comment on the DP) The AASB notes some users want to know how an entity is financed, and they regard financing as including equity. The primary funding purpose of equity, debt and hybrids means that, in concept, equity should be presented within the financing section. Users typically want to know the level of debt relative to equity, and therefore separating debt from equity within the financing section would provide useful information. Furthermore, keeping the distinction between debt and equity would align with other standards, including IAS 39 Financial Instruments: Recognition and Measurement. The AASB notes this issue is related to the more fundamental 'entity view' versus 'proprietary view' pertinent to financial reporting. The AASB also notes that the view currently adopted by the Boards in their existing frameworks is mixed, and in the current environment it would be difficult for the Boards to agree on a single model. Retaining a separate equity section is consistent with a proprietary view, as is the retention of a separate 'other comprehensive income' section. If the Boards proceed with their proposal to separate business from financing activities in the statement of financial position, until issues relating to 'other comprehensive income' (see the AASB's response to question 15) and the proprietary view are resolved, the AASB can accept maintaining an equity section separate from the financing section. The AASB notes the proposed approach for equity to be in a

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
	separate section facilitates greater cohesion with the statement of comprehensive income, which only presents transactions with non-owners. It is also consistent with the Boards' proposals in the Discussion Paper Financial Instruments with the Characteristics of Equity to retain the separation of liabilities and equity_(The AASB's comment on the DP's Question 3)
China (disagree)	We consider that the dividends payable as an economic outflow paid to equity investors are essentially fund-raising costs rather than rights illustrated in the proposal. Therefore, we agree the DP approach to presentation of dividends payable as liabilities in financing section.
Hong Kong (agree)	The DP proposed that dividend payments on equity shares should be classified as a financing liability in the statement of financial position and in the financing liability category in the statement of cash flows, not the equity section. However, under IFRSs, distributions to owners are not depicted in comprehensive income and therefore such dividend payments are not even included in the financing section of the statement of comprehensive income. Instead, this is dealt with in the statement of changes in equity because it represents repayment to owners, i.e. a transaction with the owners. We found the above a bit confusing, particularly as some companies might not actually report dividends payable in their financial statements (because the liability does not arise until after year-end) and thus noting that there are limits to cohesiveness set also by other than the presentation principles. We think what is needed is a thoughtful, pragmatic approach that will result in as little confusion as possible and some classifications that will not make it difficult for users to understand the relationships between the numbers. We believe that presenting dividends payments in the equity section of the statement of financial position would be more related to the nature of the transaction, i.e. a transaction with the owners.
Japan (disagree)	We believe that dividends paid should be presented in the equity section of the statement of cash flows. However, we consider the equity section of the statement of financial position should include only equity items. If the dividends are already declared, the

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
	dividends payable are liabilities and therefore should not be included in the equity section in the statement of financial position. Right issues addressed in the IASB's exposure draft obviously differ from dividends payable, because dividends payable involve outflows of resources from the issuer whereas right issues do not.
Macao (disagree)	In our opinion, dividends payable is liability in substance once it is declared, while the equity, such as capital paid by owners, is equity in substance. They are different elements of financial statements. Therefore, the dividend payable shouldn' be presented in the equity section.
Malaysia (disagree)	We have concerns with the proposal to present dividends payable in the equity section. We note that equity is defined as the residual interest in the assets of the entity after deducting all its liabilities. On the other hand, we believe dividends payable is an obligation, ie a financing liability albeit with its shareholders, that the entity has little or no discretion to avoid. Although we concur that dividends payable are transactions with owners, we do not believe it negates the fact that dividends payable is a liability of the entity. Hence we believe it is more appropriate to classify dividends payable as a liability. We note that our view may not be in line with the cohesiveness objective of the DP, however we believe it is important to achieve a balance between presentation of financial statements that faithfully portrays the elements according with their economic characteristics vis-à-vis a presentation that portrays the relationship between items across financial statements.
New Zealand (disagree)	We do not agree with the KASB proposal. We also note the tentative decisions made by the IASB at its meeting on 18 September on the financing section. In the FRSB's submission to the IASB the FRSB supported the presentation of equity as a category within the financing section on the ground that the distinction between debt and equity instruments has become increasingly blurred, leading to a spectrum of financing instruments.

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
	The FRSB noted that if equity and debt are regarded as interchangeable, this could have a number of implications for other statements, including; - dividends and interest would both be regarded as financing expenses in the statement of comprehensive income; - the usefulness of the statement of movements in equity would diminish - note disclosure of movements in capital would suffice; and - dividends and interest paid would both be classified in the financing section of the statement of cash flows.

(*) We interpreted Australia's opinion analogically based on the comment letter to the IASB's DP

Discussion Question 4
The KASB proposes that an entity should present net post-employment benefit asset or liability in a operating category of business section in the same manner that an entity presents the prepaid/unpaid employ compensations in the operating category. Do you agree with this proposal? Why or why not? If not, please provide the specific reasons and alternative approaches.

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
Australia(*) (disagree)	Yes, in principle, but the AASB is significantly concerned that the principle is not applied in a consistent way throughout the Discussion Paper. For example, the proposals relating to classifications being driven off the statement of financial position and the proposals relating to classification of expenses by nature or function are inconsistent with the principle. Whilst understanding the need for some constraints, this lack of adherence to the principle detracts from the potential benefits to be derived from a management approach. One possible approach would be to require management to identify its own starting point – whether that be the statement of financial position, statement of financial performance or statement of cash flows, based on the circumstances of its business. Another approach, if it is considered critical to specify a starting point, would be to drive the classification off the statement of financial performance or statement of cash flows, because the AASB understands most businesses would be managed by reference to operating income or cash flows rather than the statement of financial position. Either of these approaches would seem to have the potential to be a better basis for producing information of greater relevance to users than the existing proposals. Although either approach would not necessarily fully satisfy the cohesiveness objective, the AASB thinks that cohesiveness is worth sacrificing in the interest of satisfying user needs. The AASB's view is that cohesion between all three statements is not necessary – cohesiveness between the statement of comprehensive income and cash flows is sufficient. As noted in the AASB's covering letter, prior to implementing the proposals, the AASB thinks more research needs to be undertaken to understand the needs of users. The AASB expects that management of an entity is in the best position to classify items

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
	into the sections proposed by the new presentation format. In addition, the AASB notes that the benefits of the management approach in terms of decision-useful information is dependant on the definitions of categories and sections. If those definitions do not give the flexibility required for the management approach to be effective (see responses to questions 9 and 10), it is unlikely that the management approach can achieve the professed benefits for decision making. The AASB acknowledges that relying on management's judgement may reduce comparability. However, the AASB thinks that the management approach has the greatest potential to meet the needs of users. Furthermore, as noted in the AASB's response to question 1, treating changes in classifications as a change in accounting policy is critical to maximise the benefits of the management approach in the context of comparability. As also noted in the AASB's response to question 1, the AASB acknowledges that while inter-entity comparability is desirable, it could result in less useful information being provided to users to the extent comparability is achieved at the expense of providing entity-specific information_(The AASB's comment on the DP's Question 5)
China (agree)	We basically agree with KASB's proposal to divide post-employment benefits into an operating category of the business section rather than the financing section.
Hong Kong (disgreee)	Currently under IFRSs an entity is required to present its post-employment defined benefit plan assets and obligations as a net asset or net liability That net asset or net liability would be classified, in the proposed presentational model, in the operating category rather than the financing section (because the net post-employment asset or liability relates to employee remuneration or compensation and because it is not always a financial asset or a financial liability). Following the cohesiveness principle, an entity should then 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－in other words, operating. Yet the extent to which an entity chooses to fund its

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
	post-retirement benefit obligations is clearly a financing decision and the interest cost and return on plan assets would appear to be more in the nature of investing or financing items rather than operating items. As such, we think that the DP should allow (at least in this case) the flows deriving from a single statement of financial position item to be classified in different categories.
Japan (disagree)	To include service cost and interest cost in the operating category is acceptable to us. However, we believe that classification of post-employment benefits expenses should be considered in conjunction with the treatment of actuarial gains and losses. If immediate recognition of all actuarial gains and losses in profit or loss would be required in the revision of IAS 19, we would not support the inclusion of actuarial gains and losses in the operating category, because inclusion of such highly volatile items might damage the usefulness of operating income in predicting future cash flows. In addition, matching between interest cost and return on plan assets should be taken into account. It would be inappropriate to classify all the amount of return on plan assets in a section or category different from interest cost.
Macao (agree)	We basically agree with the proposal that a firm should present net post-employment benefit asset or liability in an operating category of business section.
Malaysia (agree)	In line with the cohesiveness principle, we agree with the proposal to present net post-employment benefit asset or liability in the operating category of the business section.
New Zealand (disagree)	We do not support this proposal. If the IASB adopts a management approach to the classification of items within the financial statements we consider that the classification of asset or liability should be a matter of professional judgement. We agree that an entity would most likely classify the net post-employment benefit asset or liability in the operating category but do not believe that it is appropriate to restrict the classification of this item.

(*) We interpreted Australia's opinion analogically based on the comment letter to the IASB's DP

Discussion Question 5
The KASB proposes that an entity should use the central purpose criterion with further detailed guidance of relation to present business activities. Do you agree with this proposal? Why or why not? If not, please provide the specific reasons and alternative approaches.

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
Australia(*) (disagree)	In relation to the definition of business section, the AASB suggests that, for clarity, the definition explicitly note that it excludes transactions with owners in their capacity as owners. The AASB does not regard the distinction between operating and investing categories within the business section as useful. Accordingly, the AASB thinks that the business section should not have those categories. The categories are difficult to implement in practice, particularly for diversified entities, as explained in the following. It is not clear whether the characteristic underlying the distinction between operating and investing is intended to be persistence or something else. This lack of an underlying principle could lead to inconsistencies in practice. It is also not clear from the definition of investing category in paragraph 2.33 of the Discussion Paper, given the reference to 'if any', the circumstances under which the definition would be satisfied. Furthermore, the definition of business section includes a reference to 'continuing business activities', which therefore applies to its subcomponent of the 'investing category'. The reference is awkward because, for example, an entity may invest surplus funds temporarily until those funds are required for operating activities. Paragraphs 2.31-2.33 and 2.63-2.67 of the Discussion Paper provide the Boards' proposed definitions of the section and categories, but they do not make reference to users' comments on those definitions. Decision-usefulness is one of the cornerstones of the proposed presentation model, and therefore the Boards need to have assurance that the definitions are aligned with users' understanding. Otherwise, the Boards are risking providing

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
	information in the business section and operating and investing categories that will be then regrouped by users for analysing information_(The AASB's comment on the DP's Question 9)
China (?)	We believe that in theory the classification of assets and liabilities under management approach helps to provide users with more useful financial statement information of an entity, while in practice problems may emerge in the following aspects. First, management approach is based on the entity's own realities, which will lead similar entities classified into different categories, reducing the comparability of financial statements. Second, management approach actually calls for qualified management and accounting personnel: on the one hand, the professional competence of managers will determine whether they can classify assets and liabilities appropriately; on the other hand, whether managers are ready to be objective and impartial in the classification still depends. As for developing countries, these issues need special attention. Taking China as a case, whose market is not yet well-established, adding the large number of managers and accounting personnel at uneven level in qualifications, it may fail to meet the management's expectations in practice. Third, part of assets and liabilities have different purposes at the same time or see frequent changes in their purposes through the duration of the entity (such as cash), which makes it difficult for the management to classify them and leads to the failure of classification in reflecting the true situation of the entity. Based on our understanding of the feedbacks, currently there is a wide divergence of views concerning the division of operating category and investing category, and the consequences of such division are also difficult to predict. Therefore, we believe it better to avoid unnecessary changes in the original system of presentation, and we propose that financial position statements still be presented in the sequence of liquidity without further classification. If the Board insists on retaining the division of operating category and investing category in the business section, then a detailed guidance should be provided so as to avoid the diversity in

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
	practice. KASB has recommended the central purpose criterion with further detailed guidance, which is a way worthy of consideration.
Hong Kong (disagree)	We generally agree with the proposed definition of the business section as the entity's value-creating activities and the further split into operating category on the basis of "central" value creating activities and investing category as "non-central" value creating activities. We also support the use of terms such as 'core and non-core activities' to align with operating and investing activities, respectively, as noted in paragraph 2.64 of the DP. However, these terms may be difficult to apply as currently used. We recommend providing a definition of core and non-core activities supplemented with examples and such definition should be principles-based. We agree that one of the examples and guidance could be related to 'present business activities'. However, we believe that this is not a conclusive one as long as the examples and guidance reflects the classification of operating and investing that follow management's view of the central operations of the entity.
Japan (disagree)	In our comment letter to IASB, we disagreed with the core/non-core criterion for separating operating and investing categories because of potential abuse for the purpose of excluding non-profitable segments from the operating category and the concern that the range of the investing category could become too wide by arbitrary interpretations.
Macao (agree)	We agree with the proposal that an entity should use the central purpose criterion to present business activities for providing relevant information to decision-making users.
Malaysia (agree)	As stated in our comment letter to the IASB, we are concerned about the inherent weakness of variability that can detract from the perceived value anticipated from the DP's proposal to use a presentation model that relies on a management approach. Comparability between financial statements would also be affected. In this regard we are agreeable with the KASB's proposal for further guidance in the application of the central purpose criterion to mitigate our concerns mentioned above.
New Zealand (disagree)	We note that the IASB made some tentative decisions in respect of the business section at its meeting on 18 September. It appears

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
	that the IASB has reconfirmed its approach allowing management discretion. It may be appropriate to consider this tentative decision before expanding further on this matter in the report. We note that we do not support your proposal. We consider that it is too restrictive and is not consistent with the management approach to classification.

(*) We interpreted Australia's opinion analogically based on the comment letter to the IASB's DP

Discussion Question 6(*)
The KASB proposes a format in which asset/liabilities in operating category should be presented in the order of short-term assets/liabilities and long-term assets/liabilities to provide better decision-useful information. Do you agree with this proposal? Why or why not? If not, please provide the specific reasons and alternative formats to the DP's proposal.

(*) The WG FSP initially proposed this question but decided to drop it in the final question. Many WG FSP members disagreed with the initial proposal because an entity should be allowed to have the flexibility to determine a format which best presents decision useful information. Also the initial proposal can be suggested as one of the examples under management judgement.

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
Australia(*) (disagree)	The AASB would expect financial institutions to present assets and liabilities in order of liquidity rather than a classified statement of financial position, for the same reasons as given in paragraph 3.6 of the Discussion Paper. The AASB is concerned further guidance would be too restrictive/rules-based in defining which entities should present a statement of financial position in order of liquidity. The AASB thinks the current proposed guidance is adequate in deciding whether an entity should present a classified statement of financial position or a statement of financial position in order of liquidity. However, the AASB thinks an entity that chooses the order-of-liquidity format should be required to disclose its reasons for the choice as part of its accounting policy disclosures_(The AASB's comment on the DP's Question 11)
China (disagree)	KASB's proposal provides a new idea, while we prefer the formats proposed in DP, which present assets/liabilities in the sequence of short-term/long-term assets and short-term/long-term liabilities, mainly based on the following grounds: Above all, given the conventional account formats, people are used to present assets and liabilities separately; if assets and liabilities are presented together based on liquidity, it will not only increase the cost of accounting staff but also make the presentation less user-friendly. Next, the presentation formats recommended by KASB, while better presenting certain information, concurrently reduces the presentation of the rest (such as total assets and total liabilities). In addition,

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
	the basic information that the KASB-proposed formats attempt to present has been exhibited in statement of cash flows as well as other statements, and therefore such a change in the financial position statement seems unnecessary. Third, compared to the clear distinction between assets and liabilities, the division of long-term and short-term is relatively vague. Although there is a more common practice (such as divided by one year), disputes remain on this issue. Therefore, we decide that the formats recommended by KASB in practice may fail to achieve the desired results, while DP's approach is more appropriate and acceptable.
Hong Kong (disagree)	We support the DP proposes keeping the existing option to present assets and liabilities in order of liquidity, rather than just on a current/non-current or short/long-term basis. It is because for some entities, for example financial institutions, that typically have financial assets and financial liabilities with a wide range of maturity dates within a short time period, it would be arbitrary to specify any particular maturity date to distinguish two maturity sub-categories. As a result, for those entities, the proposed short-term and long-term sub-categories will generally be too broad to provide useful information to users. In addition, it often is not feasible to provide more granular short-term maturity information in the statement of financial position. Moreover, for those entities, liquidity information is often more important than an arbitrary split between short-term and long-term. For these reasons, the users might derive more benefit from a presentation of assets or liabilities based more around liquidity. If the option of a presentation based on liquidity has been used, we consider that note information about maturity must be provided, and that information should cover both short- and long-term contractual assets and liabilities. However, we acknowledge that there will be an overlapping between this proposal and the latest amendments to IFRS 7 – Improve Disclosures about Financial Instruments. We recommend that an integrated approach should be adopted when considering the future development of these requirements.
Japan (agree)	We have no particular objection to KASB's suggestion.
Macao	As stated in Para. 35 of comment Letter Summary in FASB/IASB

Comments on the initial proposal	
WG (agree/disagree)	**Comments**
(disagree)	staff paper that most respondents note it is already current practice for financial services entities to present their statements of financial position in order of liquidity, we agree with them that there is no need for additional guidance.
Malaysia (agree)	We are supportive of the proposal to present the order of short-term assets/liabilities and long-term assets/liabilities as the proposed format provides a direct information regarding the entity's net working capital.
New Zealand (disagree)	We agree that entities should have some flexibility in how they choose to present assets and liabilities, and that the format as set out in the DP appendix should not be a mandated format.. However, consistent with this view we would not support making any other form of presentation mandatory. We are of the view that the entity should be allowed the flexibility to determine which format presents the most decision useful information. The FRSB received strong feedback from New Zealand constituents that many users are likely to prefer a simpler layout which highlights total current and non-current assets and liabilities, with more detailed information such as the classification into business and financing sections being provided in the notes.

(*) We interpreted Australia's opinion analogically based on the comment letter to the IASB's DP

Appendix B. Questions of the DP and IASB Updates(July and September 2009)

Questions of the DP

Chapter 2: Objectives and principles of financial statement presentation

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.

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?

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 – .55)? Why or why not?

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 – .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?

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 – .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?

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?

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.

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.

9 Are the business section and the operating and investing categories within that section defined appropriately (see paragraphs 2.31 – .33 and 2.63 – .67)? Why or why not?

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 – .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?

Chapter 3: Implications of the objectives and principles for each financial statement

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?

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?

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?

14 Should an entity present comprehensive income and its components in a single statement of comprehensive income as proposed (see paragraphs 3.24 – .33)? Why or why not? If not, how should they be presented?

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

16 Paragraphs 3.42 – .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?

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 – .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.

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?

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 cohensiveness and disaggregation objectives (see paragraphs 3.75 – .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?

20 What costs should the boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81 – .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?

21 On the basis of the discussion in paragraphs 3.88 – .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?

Chapter 4: Notes to financial statements

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?

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–.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.

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?

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 B10–22? 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?

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–.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—eporting 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 specific to the FASB

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

IASB Updates(July and September 2009)

IASB Update(July 2009)

Financial statement presentation

The boards considered a summary of the responses to the discussion paper Preliminary Views on Financial Statement Presentation. After reviewing those responses, the boards affirmed the objective of the project to develop a single presentation model for IFRSs and US GAAP that can be applied consistently across all types of business entities.
The boards decided tentatively:

- to rewrite the objectives of financial statement presentation as core presentation principles.
- to explain how the core presentation principles relate to the conceptual framework for financial reporting.
- to retain cohesiveness as one of the core presentation principles and modify its application so that cohesiveness is not necessarily required at the line-item level.
- to retain disaggregation as one of the core presentation principles and provide guidance on when an entity may present disaggregated information in the notes to the financial statements rather than in those financial statements.
- to consider liquidity and financial flexibility in the context of the disaggregation principle, rather than as a separate core presentation principle.

The boards also noted that the FASB had decided tentatively in its recent work on financial instruments to require a single statement of comprehensive income. The IASB plans to consider that issue in September.

IASB Update(September 2009)

Financial statement presentation

The discussion paper *Preliminary Views on Financial Statement Presentation* proposes that an entity should present information about the way it creates value (its business activities) separately from information about the way it funds those business activities (its financing activities). The discussion paper proposes that an entity should:

- further separate information about its business activities by presenting information about its operating activities separately from information about its investing activities.
- further separate information about its financing activities so that non-owner sources of finance (and related charges) should be presented separately from owner sources of finance (and related charges).
- present information about its discontinued operations separately from its continuing business and financing activities.

The Board tentatively decided:

- to retain the requirement to distinguish between business activities (value creating activities) and financing activities (funding of that value creation) in each of the financial statements.
- to define the financing section as financial liabilities used as part of an entity's capital raising activities that have an agreed-upon schedule of repayments with an interest component (and that interest component is either explicit or implicit). Items directly related to those financial liabilities, such as fees, would also be classified in the financing section. A derivative held as part of an entity's non-equity sources of funding, regardless of whether it is an asset or a liability at the reporting date, would also be presented in this section.
- to retain an approach to classification within the business section that is based on how a reporting entity organises its activities and how it uses its assets and liabilities. Consequently, additional groupings of information within the business section (ie categories) would reflect the facts and circumstances of that entity and would be left to the discretion of management. Application guidance would be developed to help management determine meaningful groupings of information within an entity's business section. The Board may revisit the decision not to require specific categories in the business section once it has reviewed the application guidance.
- to retain the requirement to present information about discontinued operations in a separate section in each of its primary financial statements (except the statement of

changes in equity). However, the Board decided not to prescribe how information about discontinued operations should be disaggregated, nor whether that disaggregation should appear on the face of financial statements or be disclosed in the notes.

The Board also considered whether an entity should present information about net debt in its financial statements. The discussion paper did not address presentation of net debt information. Respondents to the discussion paper note that information that would be useful in assessing an entity's liquidity, solvency and financial flexibility is missing from the presentation model proposed in the discussion paper. Moreover, some respondents are concerned that the financial statements do not necessarily include all the information that users need to either reconcile net debt or to analyse the components of net debt.

The Board tentatively decided:

- to require information about net debt to be presented in the financial statements; and
- to define net debt to be the financial liabilities that an entity classifies in the financing section together with the resources available to service those financial liabilities.

The Board also considered different ways to present net debt information in the financial statements. The presentation of net debt information will be reconsidered at the October joint meeting with the FASB as part of the discussion on the Statement of Cash Flows.

Field tests and FASRI study

As part of an education session, the Board discussed the findings of two research projects designed to test the proposals in the October 2008 discussion paper *Preliminary Views on Financial Statement Presentation*.

- **FASRI experiment.** FASB's Financial Accounting Standards Research Initiative (FASRI) conducted an experiment designed to examine how changes proposed in the discussion paper affect user judgments and decisions. The FASRI experimental study and the findings from that study are described in agenda paper 9A.

- **Analyst portion of the field test.** The staff completed the field test on the proposals in the discussion paper. Agenda paper 9B summarises the results of the analyst portion of the field test. No decisions were made as a result of this meeting.