



European Financial Reporting Advisory Group ■

# Financial Statement Presentation

EFRAG – ASCG outreach

30 November 2010

# Agenda

- Welcome and introduction
- IASB tentative decisions and EFRAG tentative views combined with discussion
- Closing

# Objectives of the outreach event



- European view on the IASB staff draft ED *Financial Statement Presentation*
- EFRAG and ASCG input
  - IASB tentative decisions
  - EFRAG tentative views
- Constituents input
  - Whether proposals can be improved and how this could be done



# IASB tentative decisions and EFRAG tentative views

# Why a new presentation model?

## Current concerns

- No common format for financial statements
- Relationships between individual statements unclear
- Dissimilar items are aggregated into highly simplified, condensed amounts

## Proposed solutions

**Cohesiveness** at a category level and common sections and categories

**Disaggregation** by function, nature and measurement bases

**Cost and benefits of a new model?  
One model for all industries? Special model for FI?**

# Scope of the joint FSP project

- Joint convergence project with the FASB
- Improving comparability and understandability of information
- Some degree of standardisation
- Format but not the content of financial statements

**Issue:**  
**Fundamental issues related to performance reporting are NOT addressed!**

# Scope - discussion

## Questionnaire

Q 2.1 Proper  
debate needed?

14 “Yes”

2 “No”

Q 2.2 Other issues  
to be considered?

11 “Yes”

5 “No”

Need for a proper debate on  
fundamental issues  
underlying performance  
reporting:

- Notion of performance
- Content of performance  
statements, including *principles*  
for OCI
- Recycling

# Proposed structure

Statement of Financial Position	Statement of Comprehensive Income	Statement of Cash Flows
Business section	Business section	Business section
Operating category	Operating category	Operating category
Operating finance subcategory	Operating finance subcategory	
Investing category	Investing category	Investing category
Financing section	Financing section	Financing section
Debt category	Debt category	Debt and equity
Equity category	Equity category	
	Multi-category transaction	Multi-category transaction
Income tax section	Income tax section	Income tax section
Discontinued operations	Discontinued operations	Discontinued operations
	OCI	

# Challenges of cohesiveness

Statement of Financial Position	Statement of Comprehensive Income
Business section	Business section
Operating category	Operating category
Operating finance subcategory	Operating finance subcategory
Investing category	Investing category
Financing section	Financing section
Debt category	Debt category
Equity category	Equity category
	Multi-category transaction
Income tax section	Income tax section
Discontinued operations	Discontinued operations
	OCI



- Post-employment benefits
- Share-based payments
- Other?

# Classification based on function

- Business section – income generating
  - Operating – together generate revenue
  - Operating finance – long-term financing directly related to operating activity
  - Investing – individually yield a return
- Financing section – capital raising
  - Equity – as defined under IFRS
  - Debt – all other capital raising

## Issues:

- Financing  $\neq$  Net debt
- Financial assets NOT in financing section
- Cash in operating
- Different sources of financing in different sections and categories

# Financing section – discussion

## Questionnaire

**Q 3.5 Exclude operational treasury assets from the financing section?**

**8 “Yes”**

**8 “No”**

**Q 3.6 Equity a separate section?**

**8 “Yes”**

**2 “No, part of financing”**

**6 “Both are fine”**

- Definition and content of financing section
  - Cash in operating category
  - Other assets used in entity’s treasury activities also excluded
- Equity as a category within financing section
- Classification of different sources of finance

# Disaggregation on the face

- Principle: consider *relevance* and usefulness
- Factors
  - Function
  - Nature
  - Measurement bases
- **BUT:** *Required* level of detail on the face is also specified
- Disaggregated information on the face or in notes?

## Issues:

- Too much detail to obscure key messages?
- Principle or rule based?

# Disaggregation on the face - discussion

## Questionnaire

Q 3.1 Proposed  
disaggregation  
appropriate?

7 “Yes”

9 “No”

- Overly detailed primary statements?
- Principles or rules for disaggregation?
- Alternatives to avoid primary statements becoming overly detailed

# Major changes from current practice

- Statement of Financial Position
  - Assets and liabilities grouped by function NOT by elements
  - Total assets and liabilities at the bottom
  - Cash in operating category
- Statement of Comprehensive Income
  - Income and expenses grouped by function
  - More disaggregation by function and nature
  - OCI items identified as operating, investing or financing activities
- Statement of Cash Flows
  - Direct method for operating cash flows AND indirect reconciliation of operating income to operating cash flows
  - Definitions of operating, investing and financing are different

**Cost and benefit?**

# Statement of Cash Flows - discussion

## Questionnaire

**Q 4.1 Agree with the removal of indirect option?**

**2** "Yes"

**14** "No"

- Removal of an option to present operating cash flows using indirect method
- Shortcomings of indirect method and ways to overcome them
- Accuracy of indirect-direct method
- Level of disaggregation for operating cash outflows
- Usefulness of the statement for banking and insurance industry
- Change in cash or change in "net debt"?

# Major changes from current practice (2)

- Analysis of changes in select assets and liabilities:
  - Cash inflows and outflows
  - Non-cash recurring and routine (credit sales and interest expense)
  - Non-cash and neither recurring nor routine (business combination)
  - Accounting allocation (depreciation)
  - Write-down or impairment
  - Other remeasurements (fair value and exchange differences)

# Major changes from current practice (3)

- Separate note on remeasurements:
  - Income or expense that increases or decreases an asset or a liability and is a result of
    - Change in current price or value
    - Change in estimate of current price or value
    - Change in estimate of method used to measure carrying amount of asset or liability

## Issues:

- Definition as a list appropriate?
- Principle underlying the definition
- Objective of the disclosure

# Remeasurements – discussion

## Questionnaire

**Q 5.1 Do you support the objective?**

**11 “Yes”**

**5 “No”**

- Definition as a list of items related to various changes in assets and liabilities
- Objective of the disclosure
  - Recurring versus non-recurring items?
- Principle underlying the definition
  - Items with different predictive value?
- Location of disclosure

# □ Presentation of remeasurement - illustration

Example from the Staff Draft ED – Implementation guidance, Note 2

<b>Operating</b>	20X1	20X0
<i>Write-down of loan balances for credit losses</i>		
<i>Loss on sale of loans</i>		
Change in fair value – futures contract		
Impairment loss on goodwill		
Change in fair value – securities at fair value		
Change in fair value of share-based remuneration awards		
Change in litigation accrual		
<b>Investing</b>		
Change in fair value of private equity investment		
Foreign currency translation adjustment		

# □ Analysis of changes – Loans - illustration

Example from the Staff Draft ED – Implementation guidance, Note 2 - Loans

<b>Opening balance, 1 January 20X0</b>	Loans and leases, net of unearned interest and write-downs	Interest receivables on loans and leases
Cash received		
Issue of loans		
Interest accrued		
<i>Remeasurement - loss on sale of loans</i>		
<i>Remeasurement - write-down of loan balances for credit losses</i>		
Write-off of loan balances		
<b>Closing balance, 31 December 20X0</b>		
Cash received		
.....		

# Costs and benefits of the new model

Q 6.4 Do you think that the benefits of the new model would outweigh the costs of implementing and maintaining it ?

- **2** “Yes”
- **11** “No”
- **3** “Do not know”

## Comments:

- “Yes”, provided that the model is based on the management approach and the required level of information is significantly reduced (compared to the current draft)”