

EFRAG-ASCG outreach event

IASB ED staff draft Financial Statement Presentation

– Minutes –

Date and venue:

30 November 2010, Sheraton Airport Hotel, Frankfurt

Participants on the panel:

Liesel Knorr (GASB, president)
Dr. Carsten Zielke (EFRAG, TEG member)
Ales Novak (EFRAG, project manager)
Stephen Cooper (IASB, Board member)
Holger Obst (IASB, project manager)

Below is a draft note on the discussion about the IASB's staff draft of the Exposure Draft Financial Statement Presentation (the Draft ED) held at the outreach event organised jointly by EFRAG and the Accounting Standards Committee of Germany (ASCG) on 30 November 2010 in Frankfurt.

Scope of the FSP project

Majority of participants thought that there is a need for a proper debate on fundamental issues underlying performance reporting, especially on the content of the income statement and other comprehensive income (OCI), and on the dividing line between these two. In their view, this debate should take place prior to further discussions about the format and presentation of financial statements.

Carsten Zielke representing EFRAG noted that under IFRS 9 entities may make an election to present in the OCI subsequent changes in the fair value of an equity instrument that is not held for trading. In this case there is no impairment or recycling and only dividends are recognised in the income statement.

Liesel Knorr from the German Accounting Standards Board (GASB) said that these debates remind her of the 1990s. At that time many were of the opinion that the traditional income statement should contain only the items of income and expense which can be "influenced" by the management and noted that it is difficult to find a good principle for the dividing line between the OCI and the income statement. She also commented that under IFRS 9 it is also prohibited to recycle own credit amounts from the OCI to the income statement when the financial liability is settled or extinguished.

Subsequently the discussion touched the issue of volatility. A preliminary straw poll indicated that a little less than the half of the participants thought that volatility is bad. A participant from insurance industry found the "artificial volatility", i.e. volatility deriving from unrealised events in the income statement problematic. The volatility debate later focused on pensions, i.e. pension provisions. A participant from manufacturing industry found the pension related vola-

tility in the balance sheet less problematic than the pension related volatility in the income statement. He thought the quarterly pension related income statement volatility does not properly reflect the long term nature of the pension obligation. Carsten Zielke also expressed the view that due to the similar nature of obligations pension and insurance provisions should have coherent accounting requirements and regulation.

Proposed structure and challenges of cohesiveness

Liesel Knorr commented that fundamental question related to cohesiveness is where should be the starting point – the balance sheet or the income statement. If in the case of defined benefit pensions the starting point would be the income statement, than on the liabilities side the obligation would turn out to be partly operating and partly financing.

The IASB project manager noted that cohesiveness maybe looks complicated but in his opinion that once the assets and liabilities are properly classified the rest should not be that difficult.

A participant from the services sector on the other hand thought that with this model of presentation the financial statements will be because of its complexity less understandable to the general public and that a fundamental discussion should be held on what information should be given to whom.

Financing section

A participant from the banking industry thought that splitting items between financing section and operating finance subcategory for the bank would not be very meaningful.

A straw poll indicated that only a clear minority of the participants supported (the majority actually abstained) the EFRAG's preliminary view that the financing section should be based on the notion of net debt.

A clear majority of the participants supported equity being a separate section.

Other issues related to financing section did not raise a debate.

One model for all or industry-specific models?

Participants from the financial services sector favoured industry-specific models because they thought that the proposed presentation model does not provide very useful information. On the other hand Carsten Zielke argued that sometimes it would be quite hard to identify to which industry certain entity belongs.

Disaggregation on the face

Overall, there was an agreement that the proposals would result in overly detailed primary statements. Too much detail would not allow seeing a "big picture" and could obscure key messages. One participant even thought that the current proposals could result in primary financial statements first starting with the condensed versions of the statements. A clear majority of the participants also supported disaggregation requirements on the standard-by-standard basis.

A participant expressed the need for the disclosure framework as a tool of coping with the increased volume of disclosure in the notes to the primary financial statements, which make annual reports too long. The EFRAG project manager then provided an update on the EFRAG's Disclosure Framework proactive project. Liesel Knorr noted that for the disclosure framework development she would have preferred the approach based on the complete financial reporting package, where some of the current note disclosure requirements could have been placed elsewhere, for example, in the management commentary.

Statement of cash flows

Direct method

Overall, the majority of participants disagreed with the proposal to eliminate the option to present operating cash flows using the indirect method.

The IASB project manager said that under the proposals the investing cash flows would not include plant, property and equipment (PPE) related cash flows, which would be according to the analysts' feedback a substantial improvement.

On the other hand a participant thought that with this model of presentation the capital expenditure cash flows would be "hidden" in the operating section.

The participants also did not express any inclination for the concept of cash flow statement portraying movements of net debt instead of cash.

Usefulness for financial institutions

A participant from the banking industry noted that cash flow statements do not present relevant information for banks and that the indirect method is much less cost intensive than the direct method.

Analysis of changes of assets and liabilities and note on remeasurements

Overall, the majority of participants shared EFRAG's concern that the proposals might result in a requirement to present an analysis of changes for nearly all items displayed on the face of the statement of financial position. A participant from the banking industry also noted that the reconciliation. i. e. analysis of loans is closely related to the direct method of presenting cash flows.

Overall, the majority of participants agreed that a principle underlying the definition of remeasurements should be developed and clearly articulated.

Cost and benefits of a new model

Participants were generally concerned about the costs required to implement and maintain the new presentation model. A participant wondered whether the IASB has an idea how costly it is for a group of 600 subsidiaries to change their systems. Another participant said that in addition there is no guarantee that the proposed model would not "be rolled down" also to the SME level.

Majority of participants thought that there is rather a need for an “evolution” of the existing model than the proposed “revolution”. They were in favour of more standardisation in the financial statement presentation, which would improve comparability, but not in the proposed way, which is too costly and too radical.

The IASB project manager explained that since the Draft ED was issued, the IASB staff visited companies from different sectors and found out that the most costly parts of the proposed model would be disaggregation and cash flow requirements. So at the moment IASB is trying to disaggregate the total costs of the proposals on the main segments of the proposals such as cohesiveness, mandatory direct method for the statement of cash flows etc. and is in the most critical areas in the process of searching for the less cost intensive alternatives.

A participant from the manufacturing industry noted that the main cost driver of the proposals for his company would be disaggregating the costs also “by nature” within the primary “by function” disaggregation.

Quite some time towards the end was also devoted to XBRL. A participant wondered what implications on the project would have the future more extensive use of XBRL. Another participant thought that for more extensive use XBRL would need to be required, because at present hardly any company listed only in Europe uses it.

The IASB project manager said that XBRL could make financial information more transparent and that in his opinion the Financial Statement Presentation project could enhance the usefulness of the XBRL by providing more standardisation.

Berlin, 30 November 2010