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Sir David Tweedie  
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30 Cannon Street  
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Dear Sir David,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organized standard-setting body for financial reporting and auditing standards in Austria, I appreciate the opportunity to comment on the Discussion Paper *Preliminary Views of Financial Statement Presentation* (October 2008). Principal authors of this comment letter were Werner Fleischer, Peter Geyer, Helmut Kerschbaumer, Stefan Maxian, Roland Nessmann and Andreas Rauter.

**Q1.** *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.*

Adhering to the principles of cohesiveness and disaggregation will in our opinion improve the usefulness of the information provided in financial statements. The challenge for individual entities will be to find a feasible way of doing this in practice. The Boards should however bear in mind that any changes will lead to substantial additional costs for reporting entities, and that standard software for such requirements has not yet been developed. Thus, all changes need to be thoroughly justified.

**Q2.** *Would the separation of business activities from financing activities provide information that is more decision-useful than that provided in the financial statement formats used today (see paragraph 2.19)? Why or why not?*

We think that for many industries the separation of business activities from financing activities provides information that is more decision-useful than the current financial statement formats. However, in industries such as the financial services industry, where financing activities cannot clearly be separated from operating activities, the separation may be difficult and not lead to more decision-usefulness.

**Q3.** *Should equity be presented as a section separate from the financing section or should it be included as a category in the financing section (see paragraphs 2.19(b), 2.36 and 2.52–2.55)? Why or why not?*

For practical reasons a separation between equity and liabilities would appear to be preferable. An important issue nonetheless is that the classes of financial instruments in both the financing section and the equity section need to be appropriately disclosed.

**Q4.** *In the proposed presentation model, an entity would present its discontinued operations in a separate section (see paragraphs 2.20, 2.37 and 2.71–2.73). Does this presentation provide decision-useful information? Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets and financing liabilities)? Why or why not?*

Presenting discontinued operations in the relevant categories (operating, investing, financing assets and financing liabilities) may lead to an information overload and less clarity, and thus may outweigh the benefits of the additional information.

**Q5.** *The proposed presentation model relies on a management approach to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment (see paragraphs 2.27, 2.34 and 2.39–2.41).*

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

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

(a) Classification of assets and liabilities requires guidance for the allocation of assets and liabilities to the relevant sections and categories. While the management approach may establish a good basis for such allocation and provide additional insight into the entity as seen through management's eyes, we think that additional guidance should be provided in the standard to avoid excess reduction in comparability.

(b) In our opinion, the reduced comparability as a result of the management approach is likely to outweigh the benefits. We think that the standard should provide general principles for the classification of allocating assets and liabilities, and that the management approach should be used to apply such principles to the individual entity in practice.

**Q6.** *Paragraph 2.27 proposes that both assets and liabilities should be presented in the business section and in the financing section of the statement of financial position. Would this change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities? Why or why not?*

We think that both methods are adequate. Although our preference in general is for separation, we do see certain problems in applying separation in industries such as the financial services industry, where financing activities cannot be clearly separated from operating activities. So it would appear that additional analysis is necessary.

**Q7.** *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.*

Classifying assets and liabilities (and related changes) at the reporting segment level would provide additional information within the main primary statements. However, clarity of primary statements might be impaired as a result of information overload. Therefore, we think that classification at the entity level in the primary statements, with additional disclosures in the notes, should be sufficient.

**Q8.** *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.*

Bearing in mind the operational issues which entities will face when applying this proposed presentation model and the recent changes in IFRS 8, we suggest not making such amendments at this time, but considering them at a later date, together with other potential amendments to IFRS 8.

**Q9.** *Are the business section and the operating and investing categories within that section defined appropriately (see paragraphs 2.31–2.33 and 2.63–2.67)? Why or why not?*

Before this question can be answered, the definitions have to be improved in a way that takes into consideration our concerns expressed above, and which solves the problems for certain financial services industries.

**Q10.** *Are the financing section and the financing assets and financing liabilities categories within that section defined appropriately (see paragraphs 2.34 and 2.56–2.62)? Should the financing section be restricted to financial assets and financial liabilities as defined in IFRSs and US GAAP as proposed? Why or why not?*

The financing section should include assets and liabilities outside the scope of IAS 39, e.g., leases and some insurance contracts. Additional research appears to be necessary here.

**Q11.** *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?*

(a) We see no reason to change the current guidance on presenting a classified statement of financial position. Such guidance has been used for several years, and practice in using either classified or unclassified financial statements for particular entities (e.g., in the financial services sector) has been developed.

(b) No.

**Q12.** *Paragraph 3.14 proposes that cash equivalents should be presented and classified in a manner similar to other short-term investments, not as part of cash. Do you agree? Why or why not?*

We disagree, because management of cash equivalents is part of the cash management of an entity, and therefore a separate classification would not provide additional relevant information.

**Q13.** *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?*

While the disaggregation might provide information that is more decision-useful, we do not support this proposal, because we think that disaggregation would lead to information overload and thus less clarity. Such information should be presented in the notes to the financial statements.

**Q14.** *Should an entity present comprehensive income and its components in a single statement of comprehensive income as proposed (see paragraphs 3.24–3.33)? Why or why not? If not, how should they be presented?*

From a practical point of view, the presentation of the statement of comprehensive income on one page will in most cases not be feasible; presenting the information in either one or two statements will thus not lead to a significant difference in practice. Consequently, we do not see a need for a change in the current rules.

**Q15.** *Paragraph 3.25 proposes that an entity should indicate the category to which items of other comprehensive income relate (except some foreign currency translation adjustments) (see paragraphs 3.37–3.41). Would that information be decision-useful? Why or why not?*

While such information might be decision-useful, we think that the additional cost of preparing such information and the complexity it adds to the statement of comprehensive income mean that provision of such information would not be justified.

**Q16.** *Paragraphs 3.42–3.48 propose that an entity should further disaggregate within each section and category in the statement of comprehensive income its revenues, expenses, gains and losses by their function, by their nature, or both if doing so will enhance the usefulness of the information in predicting the entity's future cash flows. Would this level of disaggregation pro-*

*vide information that is decision-useful to users in their capacity as capital providers? Why or why not?*

We agree that further disaggregating income and expense items by their function, by their nature or both in the statement of comprehensive income will provide decision-useful information. However, the Boards have to bear in mind that different industries have different presentation needs. Therefore, we strongly recommend that the current option to choose between disaggregating income and expense items either by function or by nature be retained, with additional by-nature or by-function information being provided in the notes to the financial statements.

**Q17.** *Paragraph 3.55 proposes that an entity should allocate and present income taxes within the statement of comprehensive income in accordance with existing requirements (see paragraphs 3.56–3.62). To which sections and categories, if any, should an entity allocate income taxes in order to provide information that is decision-useful to users? Please explain.*

We agree with the Boards' proposal to allocate and present income taxes within the statement of comprehensive income in accordance with existing requirements and therefore do not support the allocation of income taxes to the business or financing section or to categories within those sections.

**Q18.** *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?*

(a) We agree with the Boards' proposal that foreign currency transaction gains and losses should be presented in the same section and category as the assets and liabilities that gave rise to the gains or losses. However, we believe that special attention should be given by the Boards to hedge situations (e.g., natural hedge situations) where presentation mismatches could occur where some parts of the income and expense items (e.g., income or expense from exchange rate fluctuations) were allocated to the operating category and others to the financing section.

(b) Costs will mainly relate to one-time costs to establish or update the system to capture the relevant transactions.

**Q19.** *Paragraph 3.75 proposes that an entity should use a direct method of presenting cash flows in the statement of cash flows.*

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

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

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

(a) We agree that the direct method of presenting operating cash flows would provide information that is decision-useful. However, we do not see a significant advantage of the direct method over the indirect method, i.e., we do not see why the direct method should provide information that is significantly more useful in predicting the entity's future cash flows. Therefore, we believe that the current option of choosing between the direct and indirect method should be retained.

(b) In principle we support the cohesiveness objective, but we question the reasonableness (especially in the light of cost/benefit considerations) of this objective in relation to the statement of cash flows.

(c) We think that such a detailed reconciliation of the line items in the statement of cash flows to the line items in the statement of comprehensive income is not needed if entities apply the indirect method, which clearly presents the reconciling information.

Moreover, we believe that the Boards should further discuss the changes to the categories in the statement of cash flows. Cash flows that are classified as investing cash flows in existing standards would be classified as operating cash flows in the proposed presentation model. This is a major change, which needs to be further discussed, since items such as capital expenditures and investments in fixed assets would be allocated to – and disappear in – different lines in the operating category, instead of being presented in a separate category. We think that further research on this issue is needed.

**Q20.** *What costs should the boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81–3.83)? Please distinguish between one-off or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?*

We believe that the Boards should consider one-time costs (such as the cost of changing the accounting system, and implementation and training costs) as well as ongoing costs for collecting information relating to cash receipts and payments with each accounting record. We suggest performing further research and field tests in order to obtain a better picture of the potential cost reductions.

**Q21.** *On the basis of the discussion in paragraphs 3.88–3.95, should the effects of basket transactions be allocated to the related sections and categories in the statement of comprehensive income and the statement of cash flows to achieve cohesiveness? If not, in which section or category should those effects be presented?*

We believe that the current requirements concerning basket transactions should be retained. In particular, we think that there should be no arbitrary allocation of the total effect of basket transactions. For example, if an entity acquires a business, the effects of this basket transaction should be presented together in the category that reflects the activity that was the predominant source of those effects (Alternative B). Furthermore, we believe that the existing disclosure requirements in IFRS 3 already result in decision-useful information.

**Q22.** *Should an entity that presents assets and liabilities in order of liquidity in its statement of financial position disclose information about the maturities of its short-term contractual assets and liabilities in the notes to financial statements as proposed in paragraph 4.7? Should all entities present this information? Why or why not?*

We believe that the disclosure of information about the maturities of an entity's short-term contractual assets and liabilities in the notes will provide meaningful and decision-useful information which is vital for risk/revenue assessments (e.g., for entities in the financial services industries), especially if an entity presents assets and liabilities in the statement of financial position in order of liquidity. However, we wish to draw attention to potential overlapping with IFRS 7, which already requires the disclosure of information about the maturities of financial assets and financial liabilities.

**Q23.** *Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components: (a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments.*

*(a) Would the proposed reconciliation schedule increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.*

*(b) Should changes in assets and liabilities be disaggregated into the components described in paragraph 4.19? Please explain your rationale for any component you would either add or omit.*

*(c) Is the guidance provided in paragraphs 4.31, 4.41 and 4.44–4.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.*

(a) We believe that the proposed reconciliation schedule will result in meaningful information which helps to understand an entity's value creation chain and business model better. However, we think that the proposal in paragraph 4.19 cannot at present be applied in practice, since collecting the data is problematic and accounting systems currently available on the market do not provide the information needed. Furthermore, for entities in the financial services industries we doubt that such a reconciliation schedule will provide decision-useful information to users. Considering all things, we believe that the Boards should carry out cost/benefit analysis (focusing especially on the financial services industry) and field tests prior to introducing the reconciliation schedule.

(b) The additional disaggregation of information into various components may lead to increases in costs for the reporting entities outweighing the potential benefits to financial statement users. Therefore, as recommended above, we suggest that the Boards carry out further research and field tests before deciding on this schedule.

(c) It appears to us that the guidance is clear and sufficient, but we think that a final evaluation will only be possible after the results of the field tests are available.

**Q24.** *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?*

No. We think that the Boards should first complete the financial statements project. Furthermore, a clear definition of fair value is needed before any future project on the further disaggregation of changes in fair value is initiated. The Boards should therefore first complete the current project on fair value measurement.

**Q25.** *Should the boards consider other alternative reconciliation formats for disaggregating information in the financial statements, such as the statement of financial position reconciliation and the statement of comprehensive income matrix described in Appendix B, paragraphs B10–B22? For example, should entities that primarily manage assets and liabilities rather than cash flows (for example, entities in the financial services industries) be required to use the statement of financial position reconciliation format rather than the proposed format that reconciles cash flows to comprehensive income? Why or why not?*

We believe that the requirement to provide additional reconciliation formats for disaggregating information in the financial statements will potentially lead to an information overload. And we do not support the Boards' changing the provisions governing reporting formats every few years. We believe that the Boards should field test the proposals in the Discussion Paper before imposing new reporting formats.

**Q26.** *The FASB's preliminary view is that a memo column in the reconciliation schedule could provide a way for management to draw users' attention to unusual or infrequent events or transactions that are often presented as special items in earnings reports (see paragraphs 4.48–4.52). As noted in paragraph 4.53, the IASB is not supportive of including information in the reconciliation schedule about unusual or infrequent events or transactions.*

*(a) Would this information be decision-useful to users in their capacity as capital providers? Why or why not?*

*(b) APB Opinion No. 30 Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, contains definitions of unusual and infrequent (repeated in paragraph 4.51). Are those definitions too restrictive? If so, what type of restrictions, if any, should be placed on information presented in this column?*

*(c) Should an entity have the option of presenting the information in narrative format only?*

(a) We do not think that this information will be decision-useful, because it allows management too much discretion in classifying items as unusual or infrequent events or transactions. Therefore, we do not support the presentation of a memo column in the reconciliation schedule.

(b) The definitions provided by APB Opinion No. 30 appear to be too subjective and vague, giving management excessive discretion.

(c) Entities already have the obligation and option to disclose information on infrequent or unusual events or transactions in the management report and the Management Discussion & Analysis (MD&A) respectively.

Please do not hesitate to contact me if you wish to discuss any aspect of our comment letter in more detail.

Kind regards,

Romuald Bertl  
Chairman