July 2006

AFRAC

AUSTRIAN FINANCIAL REPORTING AND AUDITING COMMITTEE

Comment Letter

"Exposure Draft of Proposed Amendments to IAS 1 Presentation of Financial Statements – A Revised Presentation"

AFRAC
AUSTRIAN FINANCIAL REPORTING AND AUDITING COMMITTEE

The Austrian Financial Reporting and Auditing Committee (AFRAC) is the privately organised standard-setting body for financial reporting and auditing standards in Austria, and is supported by the competent Austrian authorities. The members of the Austrian Financial Reporting and Auditing Association, AFRAC's parent organisation, are several Austrian Federal Ministries and a number of public institutions. The members of AFRAC represent preparers of financial statements, certified accountants, academics, investors, analysts, and oversight bodies of capital markets and regulated industries.

The AFRAC International Financial Reporting Standards Working Group prepares comment letters on recent IASB publications for final approval by AFRAC. Principal authors of this comment letter were Dieter Nefischer, Gerhard Prachner and Alfred Wagenhofer. More information about the Working Group and AFRAC is available under www.afrac.at.

AFRAC is available for further questions, which should preferably be sent by email to office@afrac.at or addressed to Austrian Financial Reporting and Auditing Committee (AFRAC), Schönbrunner Strasse 222–228/1/6, A-1120 Vienna, Austria.

Austrian Financial Reporting and Auditing Committee – AFRAC
Schönbrunner Strasse 222–228/1/6
A-1120 Vienna
Austria

Tel: +43 (1) 811 73 228
Fax: +43 (1) 811 73 100
E-mail: office@afrac.at
Web: http://www.afrac.at

AFRAC
AUSTRIAN FINANCIAL REPORTING AND AUDITING COMMITTEE

Outline

1. General comments

The Austrian Financial Reporting and Auditing Committee (AFRAC) welcomes the opportunity to comment on the Exposure Draft of Proposed Amendments to IAS 1 Presentation of Financial Statements: *A Revised Presentation* issued by the IASB in March 2006.

The main proposal in the exposure draft is a revised presentation for the income statement and the statement of changes in equity. While we view the basic objective of the exposure draft favourably, it is clearly only a first step towards a more generally useful presentation of financial performance. As long as the current inconsistencies deriving from the use of different measurement bases persist, they prevent a conceptually satisfactory approach that would result in the presentation of more useful financial information.

One general concern is the lack of a consistent underlying concept for the items that are included in other recognised income and expense rather than in profit or loss for the period. Paragraph 7 gives an apparently comprehensive list of these items, suggesting there are no more to come in the future (we currently see no justification for this suggestion). These items are based on different conceptual or even political considerations and are, on the face of it, arbitrary. It is therefore difficult to see why the income statement should be segregated on this basis. We earnestly hope that Segment B of the project will not only discuss further subtotals, but also tackle the fundamental inconsistencies currently embodied in the IFRSs.

A second general concern is the presentation of other recognised income and expense, which we believe includes too much detail to be shown on the face of the statement of recognised income and expense. While some of the items may be of greater importance in certain entities or industries, materiality should guide the presentation. The detail of these disclosures is enormous compared to that of other items, e.g.,, cost of goods sold, which often accounts for 80 percent of sales. It appears as though the IASB, conscious of the theoretical limitations and the dissimilarity of the

items, wants to justify them by requiring over-transparency on the face of the statements. We suggest that most of these disclosures should be relegated to the notes.

For this reason, we find it difficult to endorse this exposure draft: as the discussion of performance reporting currently stands, the major presentation issues are still open. Our overall conclusion is somewhat similar to that of the four board members with alternative views to the exposure draft.

2. Specific questions

Q1. *Do you agree with the proposed titles of the financial statements (bearing in mind that an entity is not required to use those titles in its financial statements)? If not, why?*

We do not agree. The terms balance sheet and cash flow statement are well known and well understood by the whole of IASB's constituency, and we see no reason to eliminate them in the Standards. It would simply contribute to confusion of the users, since they would be unable to find standards referring to the balance sheet, and would be faced with a wide range of different terminology, since entities would be entitled to use the titles they preferred.

The IASB justifies the proposed change in terminology on the grounds that the Framework refers to financial position, performance and changes in financial position in describing the functions of financial statements. This does not, however imply that financial statements should necessarily have the same titles as the functions they serve. Were one to follow that logic, one would also expect proposals for a "statement of financial performance" and a "statement of changes in financial position". In the absence of these, the proposed change in the title of some of the statements is not even consistently applied, and should be dropped.

Q2. *Do you agree that a statement of financial position as at the beginning of the period should be part of a complete set of financial statements, and that an entity presenting comparative information should therefore be required to pre-*

sent three statements of financial position in its financial statements? If not, why?

We do not agree with the proposal that the balance sheet should include the numbers for three balance sheet dates. We see some merits from a consistency point of view, in that a presentation of two "flow" statements (statement of recognised income and expense and cash flow statement) implies three dates. However, the information conveyed by the opening balance sheet of the previous period is not very great. If the Board wants to increase the number of periods presented, it should instead follow the U.S. practice of presenting three "flow" statements.

If, however, the Board still wishes to go forward with the proposal, we suggest that this requirement should at least be expressed otherwise than in paragraph 31 of the Exposure Draft, which describes (a) a statement of financial position as at the beginning of the period, and (b) a statement of financial position as at the end of the period. This standard might be misread as requiring the presentation of two separate statements. In our view, a better way to present this information is in three columns in one balance sheet, rather than in two separate balance sheets. Indeed, this appears to be what the IASB has in mind, as paragraph IG5 illustrates . This example is also entitled "Statement of financial position as at 31 December 20X7", which seems to contradict the requirement in paragraph 31 that there should be two different statements of financial position.

Q3. *Do you agree that non-owner changes in equity should be referred to as 'recognised income and expense' (bearing in mind that an entity is not required to use the term in its financial statements)? If not, why?*
Is the terminology used in the Standard important if entities are permitted to use other terms in their financial statements? If so, what term would you propose instead of 'recognised income and expense'?

We see no reason to introduce new terminology. In particular, we are not convinced by the IASB's arguments for rejecting the term "comprehensive income" (paragraph BC18).

One might consider using the term "income statement" or "statement of performance".

Q4. *Do you agree that all non-owner changes in equity (ie components of recognised income and expense) should be presented separately from owner changes in equity? If not, why?*

We agree. Owner changes in equity have nothing to do with the entity's performance and should be presented separately.

We do not agree, however, with the presentation of changes in accounting policies and corrections of errors (IAS 8) in the statement of changes in equity but not in the statement of recognised income and expense. They are definitely non-owner changes in equity and should, therefore, be included in the statement of other recognised income and expense.

Q5. *Do you agree that entities should be permitted to present components of recognised income and expense either in a single statement or in two statements?*
If so, why is it important to present two statements rather than a single statement?
If you do not agree, why? What presentation would you propose for components of recognised income and expense that are not included in profit or loss?

We agree with this compromise solution although, in principle, we are not in favour of options in standards. Given the different, perhaps even arbitrary, concepts that currently underlie components of other recognised income and expense, profit or loss of the period is not a conceptually well-defined subtotal and is hard to support from a

theoretical view as the bottom line of a separate statement. On the other hand, the inclusion of certain items of recognised income and expense (resulting from, e.g., fair value measurement) with different meanings in a number of respects makes total recognised income and expense also vulnerable to criticism on the grounds of inconsistent recognition and measurement standards.

We do not concur with a notion that a single statement would put "undue focus on the bottom line" (paragraph BC 14).

Q6. and Q7. *Do you agree with this proposal? If not, why?*

We do not agree with the presentation format for reclassifications and taxes related to other recognised income and expense. As we state in the general comments above, we believe the presentation is much too detailed to be included in the statement of other recognised income and expense. We support the single statement presentation of other recognised income and expense, with more detailed disclosures in the notes.

Given the different nature of the various items, reclassifications (recycling) occur in respect of some items but not others. We do not see that this information is so important as to require presentation separately on the face of the statement of recognised income and expense. Where it is important, entities should present it separately anyway; otherwise, it should be netted, with further information disclosed in the notes if material (the usual treatment for disclosures, in fact).

For the single statement format, we acknowledge a preference for the before-tax presentation, as it is consistent with the presentation of most of the lines in the profit or loss of the period. We do not see a reason why preparers of financial statements should be offered two different formats for tax effects.

Q8. *Do you agree that earnings per share should be the only per-share measure that is required or permitted to be presented on the face of the statement of recognised income and expense? If not, which other per-share measures*

should be required or permitted to be presented on the face of a statement and why?

We note a potential confusion in the illustrative single statement (IG5) with respect to the presentation of earnings per share. Earnings per share are calculated based on profit or loss of the period, but disclosing this number below the single statement seems to obscure this relationship. Therefore, we propose also the inclusion of an earnings per share measure based on total recognised income and expense. And since it is important in the single statement of recognised income and expense, it should for the sake of consistency be required in both formats.

We note that the presentation of changes in equity in the Exposure Draft is not consistent with the current requirements in IAS 8 (example with correction of errors). This should be adjusted.