EFRAG

European Financial Reporting Advisory Group

Outreach on Financial Statement Presentation

Feedback report on meetings with European constituents

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EFRAG Outreach on Financial Statement Presentation – Feedback report on meetings with European constituents

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Summary of feedback received

Scope and objective of the outreach

1 In 2010, EFRAG and the European National Standard Setters jointly organised meetings in ten European cities, the purpose of which was to assist the IASB in gathering views of European constituents on the tentative decisions included in the IASB staff draft of the Exposure Draft *Financial Statement Presentation* (the Draft ED). Locations included Amsterdam, Helsinki, Oslo, Stockholm, Madrid, Rome, Warsaw, Frankfurt, London and Paris. A separate meeting was also held with SwissHoldings in Basel. Meetings were held from September to early December 2010. Overall, 484 constituents participated in these meetings. IASB staff participated in each outreach meeting and in the majority of meetings, one IASB Board member participated (with different members participating in the various events).

2 The discussion at the meetings with constituents focused on the issues identified by EFRAG in analysing the tentative decisions included in the Draft ED:

(a) *Scope of the joint Financial Statement Presentation project* – the need for a debate on fundamental issues underlying performance reporting;

(b) *Financing section* – the definition and the content;

(c) *Disaggregation proposals* – the principle and application issues;

(d) *Statement of cash flows* – mandating the direct method for presenting operating cash flows;

(e) *Remeasurements* – objective of the separate note and the principle underlying the definition; and

(f) *Costs and benefits of the new presentation model* – would benefits outweigh costs?

3 European constituents were also invited to provide their feedback on the Draft ED using an online questionnaire. Overall, 133 constituents completed the questionnaire, including 24 constituents who did not participate in the meetings.

4 This feedback report summarises views of the European constituents on the issues outlined in paragraph 2. The section with the overall feedback received from constituents in Europe is based solely on the feedback provided by constituents during the meetings and *does not* include views expressed by EFRAG or IASB members and staff. The feedback received from the European constituents on individual issues was generally consistent with EFRAG's preliminary views, which are included for reference in Appendix 1. Appendix 1 provides detailed notes on each meeting with European constituents, outlined by topic. The detailed results of the questionnaire are included in Appendix 2.

Overall feedback received from constituents in Europe

New model needed?

5 The European constituents in all locations consistently questioned whether a new presentation model was really needed, especially considering the costs involved. The majority favoured an "evolution" of presentation requirements rather than a "revolution." The European constituents generally believe that the major concerns about the current presentation model could be addressed through amendments or improvements to the existing IAS 1 *Presentation of Financial Statements* and IAS 7 *Statement of Cash Flows*, rather than by introducing a new presentation model, which would involve substantial implementation and maintenance costs.

6 The European constituents in several locations mentioned that their preliminary assessment of costs to implement certain aspects of the proposals and the costs to maintain the new presentation model would be comparable to the effort associated with the initial adoption of IFRSs in Europe.

7 Another argument for keeping the current IAS 1 and IAS 7 used by the European constituents is that these standards are sufficiently flexible to allow an entity to present its financial position and financial performance, in the way that the management manages that entity, and to ensure consistency between internal and external reporting. The European constituents generally believe that consistency between internal and external reporting is vital for effective communication between an entity and its stakeholders. In that respect, in some locations, the European constituents expressed their concerns that the "management approach," originally proposed in the Discussion Paper *Preliminary Views on Financial Statement Presentation* was not carried forward to the Draft ED. Under that approach, entities would be allowed to classify and disaggregate information on the face of the primary statements based on the business model employed by an entity.

Scope of the joint project – performance reporting issues

8 European constituents in all locations consistently expressed a very strong view that, *prior to* proceeding with the presentation matters, the IASB should address the fundamental issues related to performance reporting, namely, what constitutes performance and what is the impact of the business model on it; where and how should the line be drawn between profit and other comprehensive income (OCI), and whether reclassification of OCI items (recycling) is needed.

One model fits all?

9 The European constituents were generally split in views as to whether or not the IASB should develop one generic presentation model for all industries or consider developing industry-specific models. Constituents from the financial institutions, including the banking and the insurance industry, generally favoured industry-specific models, whilst representatives of large groups that include entities from different industries (for example, conglomerates), were in favour of a single model that would ensure consistency of presentation between different entities in the group.

Most contentious proposals

10 The most contentious proposals of the Draft ED, which appear also to be the most cost intensive, included disaggregation requirements and mandating the direct method for presenting operating cash flows.

Disaggregation

11 The European constituents generally believed that the proposals in the Draft ED would result in too much detail on the face of primary statements. This would obscure key messages and would complicate rather than improve the communication between an entity and its stakeholders. The general opinion was that proposals could be improved by specifying principles for disaggregation, rather than by being too prescriptive. In general, participants favoured a level of detail on the face of the primary statements that would highlight key messages, with additional disaggregation presented in the notes. However, the question remained open as to what information should be presented on the face of the primary statements and what should be presented in the notes.

12 In addition, the practice of disaggregating income and expense on the face of an income statement, either by function or by nature, varies in Europe. Historically, this practice was influenced by the requirements of individual local GAAPs, which also affected the way that management manages an entity and communicates with the stakeholders. In some locations, European constituents argued that the removal of an option to disaggregate income and expenses, either by function or by nature, and the introduction of the *requirement* to disaggregate income and expense by nature within disaggregation by function will be rather difficult if not impossible to implement. This was especially noted for companies that currently disaggregate their income and expense by function. This would require significant changes to systems in order to capture additional information. In some instances certain information might be available at the subsidiary level, but it might not be reported to the parent for consolidation purposes. Some constituents noted that, in certain instances information "by nature" would be impossible to derive regardless of the systems installed, for example, when internal departments cross-charge each other for services performed at fixed rates,

Direct method for operating cash flows

13 The majority of European constituents participating in the outreach meetings were against mandating the direct method for presenting operating cash flows. They argued that this method is used by very few companies at present, and users in Europe seemed to be satisfied with the information presented using the indirect method, provided that it is improved. In addition, constituents who oppose the direct method expressed the view that those who promote the direct method for presenting operating cash flows, had failed to provide compelling arguments supporting its supremacy. In order to produce an accurate direct operating cash flow statement, companies would be required to capture additional information at an individual transaction component level. In several locations, constituents argued that this would involve significant system changes comparable with the effort undertaken in

implementing IFRSs in Europe in the first place. Participants generally questioned the quality and the usefulness of cash flow information derived using the indirect-direct approach, especially for large groups of companies.

14 The European constituents representing financial institution issuers or analysts generally agreed on the point that cash flow statements prepared by either method do not result in useful information about a financial institution. Instead, participants from the banking industry urged the IASB to consider strengthening liquidity disclosures in IFRS 7 *Financial Instruments: Disclosures*.

15 Notwithstanding the above, the proposal to mandate the direct method for presenting operating cash flows is largely supported by academics throughout Europe. Referring to the results of academic research, European academics argued that the direct method for presenting operating cash flows is more intuitive, easier to understand and to teach. Additionally, they do not perceive any difficulties in producing it using the indirect-direct approach.

Areas of support as potential improvements to current IAS 1 and IAS 7

16 Some tentative decisions included in the Draft ED were generally supported by European constituents. Those included defining the starting point for the indirect reconciliation of operating income to operating cash flow, and cohesiveness (in general) as a principle for achieving greater consistency and transparency between the primary statements, subject to addressing some application issues. However, these tentative decisions were viewed as independent of the overall new presentation model and the majority favoured considering them as improvements to IAS 1 and IAS 7.

Areas of divergence

17 In general, the views of European constituents on the definition and content of the financing section varied. In some countries, especially those with an established practice of using "net debt" in managing an entity's treasury function and in communication with the stakeholders, constituents had strong preferences for aligning the definition of the financing section with the notion of net debt. However, this view was not universally shared. In some countries, participants supported disclosure of information about net debt, but not necessarily on the face of primary statements.

Areas for further work

18 Some tentative decisions included in the Draft ED raised concerns and were identified as requiring further work. One such area related to the proposed disclosure about remeasurements in a separate note. European constituents generally agreed with the proposed objective of the disclosure about remeasurements. However, the definition of a remeasurement, in their view, seemed to lack an underlying principle. This could lead to inconsistent application and a lack of comparability between entities. Therefore, the constituents generally argued that the objective of the disclosure and the definition of remeasurements

should be clarified and articulated in the exposure draft. Some constituents questioned the need for a separate disclosure considering that the information that would form part of it is already required by other standards and is already provided in the financial statements.

Next steps

19 As part of the outreach activities on this project, EFRAG also issued a consultation paper outlining its preliminary views on the tentative decisions included in the Draft ED. Comments on the paper are invited by 30 April 2011. EFRAG will issue a separate feedback report summarising the comments received on the paper once the comment period is closed.

Appendix 1 – Feedback received at outreach meetings

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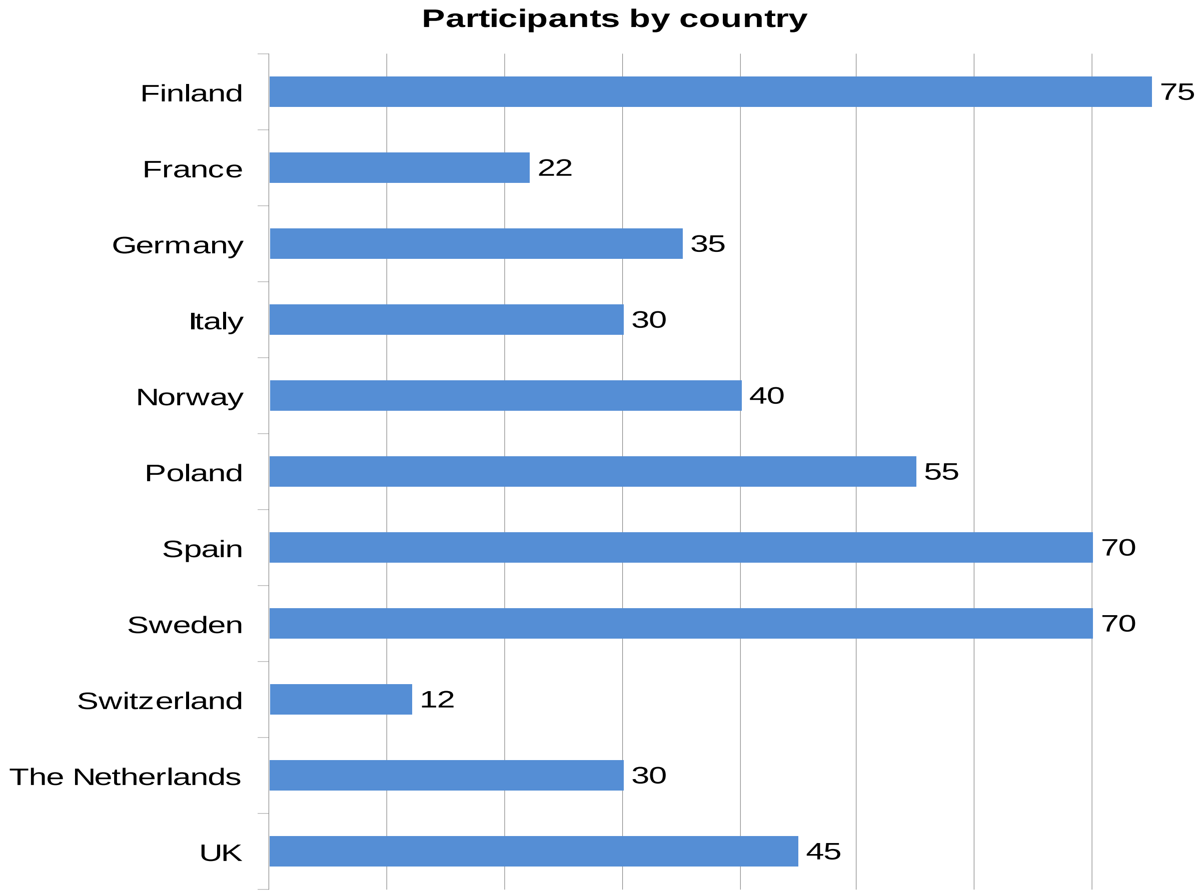

Participants by country
Finland
75
France
22
Germany
35
Italy
30
Norway
40
Poland
55
Spain
70
Sweden
70
Switzerland
12
The Netherlands
30
UK
45

Scope of the joint project

EFRAG believes that fundamental issues related to performance reporting should be given a higher priority by the IASB.

Feedback received in meetings

Location	**Consistent with EFRAG?**	**Note**
Basel	Yes	Some participants questioned the scope of the Financial Statement Presentation (FSP) project, noting that it does not address fundamental issues underlying performance reporting (for example, the definition of performance), which require due consideration by the IASB. It was also noted that the Draft ED introduces a requirement to classify deferred taxes into short-term and long-term groups, which is not envisaged in IAS 12 and which was not held to be appropriate.
Amsterdam	Yes	Overall, there was agreement that prior to proceeding with the presentation matters, there is a need for a debate on some fundamental issues. Some participants raised concerns about the balance sheet being the *starting point* for classification of items into sections and categories on the face of primary statements as proposed in the Draft ED. In response to this concern, the IASB member noted that one of the reasons for the balance sheet being the starting point for classification is that the *Conceptual Framework* is based on the definition of assets and liabilities, and that income and expenses are defined as changes in assets and liabilities. One participant noted that the starting point for classification "should be a matter of utility rather than a conceptual framework dogma," and that in each particular case one should begin the classification exercise with a the question, "What is the best place to start?" One participant from the financial sector noted that the proposed model would result in the majority of items in the primary statements being classified in the operating category. He was not persuaded that this would result in the most useful

		information for users. However, the classification could be different if one started from the income statement. This would require defining the notion of performance first.
Helsinki	Yes	Overall, there was agreement that prior to proceeding with the presentation matters, there is a need for a debate on some fundamental issues. The participants generally shared EFRAG's view that there is a need to address fundamental issues underlying performance reporting, including the content of performance statements, and the principle that underpins the presentation of other comprehensive income (OCI). Some participants also noted that the nature of the profit and loss items is different from OCI items, and therefore argued for retaining the option to present performance in two statements.
Oslo	Yes	Overall, there was agreement that prior to proceeding with the presentation matters, there is a need for debate on some fundamental issues underlying performance reporting. Some participants noted that there is a particular need for a debate on the content of the income statement and 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. Some participants noted that OCI "has gotten out of control" and has little economic substance– "it looks like it is following the route towards extraordinary items." One participant with an analyst background noted that users in their analyses are usually interested in arriving at a figure of "long-term normalised earnings," and therefore would exclude volatile items from their analysis. He also suggested that volatile items could be presented in detail in notes rather than on the face of the income statement (this participant did not specify *which items* of income and expense are considered to be "volatile").
Stockholm	Yes	Overall, there was agreement that prior to proceeding with the presentation matters, there is a need for a debate on some fundamental issues underlying performance reporting, including the definition of net earnings and the principle underlying OCI. The Swedish Financial Reporting Board (SFRB) noted that they were not supportive of the proposal to remove the option to present performance in two statements prior to the debate on fundamental issues underlying performance reporting (i.e.,

		allocation of items between income statement and OCI, recycling). The IASB member participating in the event noted that the IASB analysed comments received in response to the proposal to present performance in a single statement and decided during its November 2010 meeting to retain the current option to present performance in two statements.
Madrid	Yes	Overall, there was agreement that prior to proceeding with the presentation matters, there is a need for a debate on some fundamental issues underlying performance reporting. Those issues include the definition of performance, the content of the income statement and OCI (including the principle that underpins OCI items) and recycling.
Rome	Yes	Overall, there was agreement that prior to proceeding with the presentation matters, there is a need for a debate on some fundamental issues underlying performance reporting, including the notion of performance, the content of performance statements (including the principle that underpins OCI) and recycling. One participant noted that historically a balance sheet was the starting point for an analyst's analysis, and later the starting point moved to the income statement, however a fundamental debate on the conceptual issues underlying performance has never taken place. In addition, a mixed measurement model creates issues in discussing performance.
Warsaw	Yes	Overall, there was agreement that prior to proceeding with the presentation matters, there is a need for debate on some fundamental issues. The participants generally shared EFRAG's view that there is a need to address fundamental issues underlying performance reporting, including the notion of performance, the content of performance statements, and the principle that underpins OCI, including recycling. One participant from the financial services sector noted that the IASB and FASB are taking different directions in respect of accounting for financial instruments, and the expected loss model is likely to reduce the comparability between entities. Therefore, he questioned whether one can achieve comparable presentation of incomparable measurements. A participant from academia raised concerns about the variability of the income statement. In his view, the "hard core result," components of which would be classified in different sections and categories (including the discontinued

		operations) would need to be shown separately from the "soft result." The "soft result" would consist of various restatements (remeasurements), which would on the other hand need to be "clustered" on the basis of clear criteria.
Frankfurt	Yes	The majority of participants agreed 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. The President of the German Accounting Standards Board (DRSC) referred to the debates in the 1990s, when 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 OCI and the income statement.
Paris	Yes	Overall the participants agreed that there was a need for a proper debate on fundamental issues underlying performance reporting, including the notion of performance and its relationship with business models, the content of performance statements (including the principle that underpins OCI) and recycling. In their view, this debate should take place *prior* to further discussions about the format and presentation of financial statements.
London	Yes	*ASB preliminary view* In the ASB's view, presentation should be secondary to a fundamental consideration of what constitutes performance, and any split between profit and other comprehensive income (OCI). These fundamental issues should be resolved before progressing with the project as currently scoped. *Other* Overall, there was agreement that prior to proceeding with the presentation matters, there is a need for a debate on some fundamental issues underlying performance reporting, including the notion of performance and the impact of the business model on it, the content of performance statements and the principle that underpins OCI, and interaction with the segment reporting. One participant referred to the history of the Financial

		Statement Presentation project (i.e., performance reporting project) and noted that in the past the IASB could not agree on a principle for OCI, because historically OCI has been a matter of accounting compromise. Therefore, he suggested not losing time on searching for the principle that history has proved is impossible to find. However, this view was not shared by the rest of the participants who supported the need for a proper debate on conceptual issues underlying performance reporting.

Disaggregation on the face of primary statements

EFRAG broadly supports the disaggregation principle, but remains concerned about the level of detail *required* on the face of primary statements. This can obscure key messages and could complicate rather than improve the communication between preparers and users of financial statements.

Feedback received in meetings

Location	Consistent with EFRAG?	Note
Basel	Yes	Some participants noted that the Draft ED was not clear as to whether disaggregation on the face of primary statements would be based on principles or on rules. On the one hand it suggested that management would have flexibility in determining the level of detail on the face of primary statements, but on the other hand it was deemed rather prescriptive. It was also noted that it would be difficult, or even impossible in some cases, to provide information about income and expenses disaggregated by both "function" and "nature" at the level proposed by the Draft ED, unless using approximations. The participants noted that in order to produce accurate and auditable data, information would need to be captured at the individual transaction level, and this would require significant system changes. As an alternative, one could consider approximations, but this could result in the accuracy and audit issues. It was also noted that for some companies (for example, those using the standard costing system for their production process), it would be *impossible* to trace "by nature" information beyond the "input into the production process" stage, even if information is traced at the individual transaction level regardless of the systems implemented. Another practical difficulty might be that some information could exist at the individual subsidiary level, but it is not reported in that format to the HQ and therefore is not captured on consolidation. Producing information of the proposed level of detail at the consolidated level would also require system changes.

		The following areas were also mentioned as potentially causing practical issues in provided disaggregated information at the level of detail required by the Draft ED: • Service cost centres, • Transactions and balances in foreign currency, • Different stages of production, • Consolidating adjustments (e.g., elimination of unrealised profit in inventories). Some participants advocated the retention of the current option in IAS 1 to disaggregate income and expense either by nature or by function, but not to require both. In respect of the requirement to disaggregate by measurement basis, it was noted that the Draft ED is not clear about the level of disaggregation required, for example, whether it is just historic cost versus fair / current value or more granular, such as impaired PPE.
Amsterdam	Yes	Overall, there was agreement that the proposals would result in overly detailed primary statements, and that too much detail could obscure key messages. Some participants noted that, in general, they support the proposed principle for disaggregation (i.e., relevance to users for their decision-making process). However, some participants raised concerns that it is not clear from the Draft ED as to what level of detail is considered to be "useful" and how much disaggregation is *required*. A number of participants noted that there should be flexibility in deciding whether some disaggregated information is presented on the face of primary statements or in the notes. One participant suggested that the purpose of the primary statements is to provide a "quick overview" of a company, whilst a detailed picture should be presented in the notes. Some also noted that presenting *all* disaggregated information on the face of primary statements would not be useful, and that the basis for disaggregation should be at the discretion of an entity, and should be determined based on the nature of the entity. Some participants suggested that external reporting of an entity should be aligned with its internal reporting, as this would allow users to look at the entity "through the eyes of management" (similar to IFRS 8 *Operating Segments*). In fact, the participating preparers mentioned that current IAS 1 allows them sufficient flexibility to ensure that external reporting reflects internal reporting to the

		management. However, one of the participants did not agree with the view that the issue of disaggregation should be solely at an entity's discretion, as this potentially would reduce comparability between entities. He suggested that in determining the level of disaggregation one needed to consider how an investor would assess the company.
Helsinki	Yes	*Disaggregation on the face* Overall, there was agreement that the proposals would result in overly detailed primary statements, and that too much detail could obscure key messages. In addition, the participants seemed to prefer *retaining* the current disaggregation requirements in IAS 1, including the minimum line item requirements for comparability purposes, and the option to choose to present items of income and expense either by function or by nature. One participant with an academic background noted that an income statement should be brief and to the point and suggested that the OCI section could be disclosed in detail in the notes, rather than on the face of primary statements. One participant noted that the proposal to require disaggregation of items of income and expense by both function and nature is not justified, as companies usually disaggregate their income and expenses using only one of those attributes. It was also not clear why this information would be relevant to users if management did not consider it for the purposes of running the company. Some participants expressed concerns that disclosure of too much detail might be prejudicial. Some participants believed that disaggregation by measurement basis should remain in the notes. *Disaggregation in the notes* The participants noted that the standard on presentation of financial statements should not be a checklist and it should not prescribe the level of detail as a rule, rather it should specify the principle and require judgement in determining the right level for each individual company. As an alternative, some participants noted that the required level of disaggregation could be addressed in the relevant

		standards on individual items rather than in one standard on financial statement presentation.
Oslo	Yes	Overall, there was agreement that the proposals would result in overly detailed primary statements. Too much detail would not allow the "big picture" to be discerned and could obscure key messages. In addition, the disaggregation proposals would require significant implementation and maintenance costs. Some participants questioned whether there was a need for "revolution" instead of "evolution" in the area of disaggregation. Some participants also questioned whether certain detailed information, which is not currently used by management in managing an entity, would be useful to the users of the financial statements of the entity. There was a shared view that disaggregation on the face of primary statements and in the notes should reflect an entity's business model and the way that management manages the entity (i.e., similar to IFRS 8 *Operating Segments*). On the issue of how to determine which information should be presented on the face and which in the notes, one participant suggested that information on the face should be disaggregated based on only one factor (for example, function or nature) and the rest should be disclosed in the notes. One participant noted that the increased level of detail would also increase the risk of error, not only in the financial statements, but also at the individual component of a transaction level. Participants noted that the majority of companies in Norway currently disaggregate income and expense *by nature* on the face of income statement, which is consistent with the Norwegian GAAP requirements [note: disaggregation "by function" has been allowed in Norwegian GAAP from 2006].
Stockholm	Yes	*SFRB view* SFRB believes that the combined effect of the extensive disaggregation and reconciliation is information overload and that this is not justified from a cost-benefit perspective. The requirement for companies to report their expense both by function and nature (with one small exception) is one important example.

		Other Overall, there was agreement that the proposals would result in overly detailed primary statements. The IASB member noted that it was not intended that all disaggregation factors (i.e., function, nature and measurement basis) should be applied to the disaggregation on the face of primary statements. However, this message was not shared by the participants, who referred to the wording of the Draft ED. An analyst noted that he would not support more detail on the face of primary statements compared to the current reporting, as this would complicate the analysis. On the requirement to disaggregate income and expense by both function and nature, the general response was that it would be difficult if not impossible to produce, although a preparer from a telecom operation company noted that such disaggregated information is currently used by that company internally for management purposes.
Madrid	Yes	Overall, there was agreement that the proposals would result in overly detailed primary statements. Too much detail would obscure key messages. In addition, the disaggregation proposals would require significant implementation and maintenance costs. Some participants mentioned that it would not be possible to produce information about income and expenses disaggregated by both function and nature. On the issue of whether disaggregation on the face of primary statements should be based on principles or on rules, participants were split in views.
Rome	Yes	Overall, there was agreement that the proposals would result in overly detailed primary statements. Too much detail would not allow the “big picture” to be discerned and could obscure key messages. In addition, the disaggregation proposals would require significant implementation and maintenance costs. Some participants favoured disaggregation based on a principle, which would allow for the reflection of an entity’s business model.

		It was noted that the majority of companies in Italy currently disaggregate income and expense *by nature* on the face of the income statement, which was consistent with the Italian GAAP requirements. Although some information about income and expense could be available by function for internal purposes, it would be costly if not impossible to disaggregate the *full* list of income and expense by both function and nature.
Warsaw	Yes	Overall, there was agreement that the proposals would result in overly detailed primary statements, especially the statement of financial position, and that too much detail could obscure key messages.
Frankfurt	Yes	Overall, there was agreement that the proposals would result in overly detailed primary statements. Too much detail would not allow the "big picture" to be discerned and could obscure key messages. One participant suggested that the current proposals could result in primary financial statements first starting with the condensed versions of the statements. The participants in general argued for an approach under which disaggregation requirements for individual items would be addressed in the relevant standards. One participant highlighted the need for the disclosure framework as a tool for coping with the increased volume of disclosure in the notes to the primary financial statements, which make annual reports too long. The President of the DRSC 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.
Paris	Yes	An analyst noted that among the (European) analyst community there is a preference for the disaggregation of the income statement items based on nature, because the "by function" disaggregation simply does not work for them and may allow "margin-gaming." He emphasised that at the last IASB's Analyst Representative Group (ARG) meeting there was a sentiment that most of the analysts were comfortable with the current format of presentation and that the single real issue with it was the disaggregation. The Chairman of the ANC wondered whether the issue that the analysts had about the disaggregation is about a higher level of detail (i.e. "quantitative") or about disaggregation being more suitable and more in line with the substance (i.e. "qualitative"). An analyst confirmed that it is both and noted

		that under disaggregation "by function" there are cases where the "cost of sales" item contains 90 % of all the operating costs. He found this "block" of costs without any additional information rather useless. In addition, he noted that the "cost of sale" notion is not defined and thus quite subjective and found the "by nature" disaggregation less subjective and thus less flexible. A participant with an audit background noted that the problem of IAS 1 is the inability to "mix" the "by function" and "by nature" disaggregation of the income statement items, which prevents giving more details about the large "block" of costs, such as "cost of sales" and thought that a "mixed" model would make a lot of sense. An analyst added that this would also need to be required for the quarterly reporting to be useful. The Chairman of the ANC noted that for the principle-based standards such as IFRS, the implementation is critical and that there are limits to standardisation that can be achieved at the accounting standard level. In his opinion, the standards need to contain the right principles, while for proper implementation enforcement is essential. A participant from the securities market regulator said that there are two levels of accounting standard implementation supervision: the first level is the auditors and audit committee of the entity and the second level, the securities market regulator. He noted that it is difficult to enforce accounting standards when they are based, for example, on the principle of "through the eyes of the management." Overall, there seemed to be agreement that the proposals would result in overly detailed primary statements. Too much detail would not allow the "big picture" to emerge and could obscure key messages.
London	Yes	*ASB preliminary view* The ASB believes that financial reporting is more effective as a communication tool when the key messages are not obscured by "clutter." The FRC has a current project which aims to help preparers cut the clutter in their financial statements. In this sense clutter is regarded as including disclosures that are immaterial, excessive or boilerplate. The ASB agrees with EFRAG that the proposals, as currently expressed, do appear to run the risk of creating clutter, not only in the notes to the financial statements but also on the face of primary statements. The ASB agreed that the proposals would be improved by specifying principles for disaggregation, rather than by being

		too prescriptive. Another improvement might be to reiterate that the requirements only apply to material items, and therefore disaggregation need not always be provided. The ASB also raised concerns about the interaction of the proposals with IFRS 8 *Operating Segments*. The proposals require disaggregation by function and nature, and then in addition IFRS 8 requires disaggregation by segment, consistently with the way financial information is reported internally to the Chief Operating Decision Maker. If IFRS 8 provides users with information they requested, disaggregated in the way management manages the business, it is not clear how useful further functional disaggregation may be. The ASB considers the primary financial statements, as a representation of very many transactions and events taking place in a reporting period, to involve a substantial degree of aggregation. As a result, the notes to the financial statements provide some disaggregation to help users understand the differing characteristics of individual transactions. It is clear from feedback about other comprehensive income that many users of financial statements regard certain totals in the performance statement as significant. Although the ASB believes that a holistic view of performance is necessary for a full understanding, certain key totals should not be obscured by excessive disaggregation in a primary statement. *Other* Overall, there was 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. In addition, the disaggregation proposals would require significant implementation and maintenance costs. The participants suggested that the standard should aim at achieving the right balance between information on the face and in the notes. The primary statements should focus on key messages, and the details should be disclosed in the notes. However, too much detail and clutter should be avoided in both.

Definition of the financing section and the "net debt" notion[1]

EFRAG believes that equity should be a separate, standalone section, rather than a category within the financing section.

EFRAG supports the classification approach, which reflects the function of assets and liabilities within the business. EFRAG believes that the definition of the financing section should reflect the treasury function of an entity, and therefore include both assets and liabilities used in managing this function. The key figure, which is most commonly used in Europe to manage the treasury function, is net debt. Therefore, EFRAG believes that the definition of the financing section should be based on the notion of net debt.[2]

EFRAG disagrees with the proposal that all cash should be classified in the operating category. Consistent with its view on the definition of the financing section, EFRAG believes that cash should be classified together with all other assets and liabilities used in the treasury function.

Feedback received in meetings

Location	Consistent with EFRAG?	Note
Basel	Yes	All participants disagreed with the definition of the financing category proposed in the Draft ED and were in favour of aligning the financing category with the notion of net debt, even if "net debt" is not defined at a standard level. The definition of net debt could reflect the business model of an individual entity and it could be disclosed in the notes. Consistent with this view, all participants disagreed with the proposed classification of cash within the operating category and advocated classification of cash in the financing category.
Amsterdam	N/A	Not discussed at the meeting.
Helsinki	Split views	As a key message, the participants generally expressed support for the current requirements in relation to the content and the structure of the financing section, and did

1 EFRAG's views on the definition and content of the financing section expressed below do not consider financial institutions.

2 EFRAG's views on the Draft ED are expressed in the Paper on Financial Statement Presentation (the Paper) published for comments in October 2010. The wording of EFRAG's views in this document is consistent with the Paper, except that the wording of this paragraph was amended based on the feedback received during the meetings with constituents to clarify EFRAG's view.

		not welcome the proposed change. One participant questioned the need for separating items related to the treasury function in two different sections/categories: operating and financing. He argued that this proposed split was artificial as an entity usually has one cash flow, which cannot and should not be separated. Therefore, he saw little value in splitting items of a financing nature. *Net debt* The participants generally supported a separate disclosure about net debt in the notes, but not necessarily on the face of financial statements. On the definition of "net debt," participants seemed to agree that it should include interest-bearing assets and liabilities. *Equity as a section on its own* One participant questioned why EFRAG was not supportive of the proposal to classify equity within the financing section. This view was not shared by others. Françoise Flores explained that EFRAG argued for the definition of the financing section being based on the notion of net debt, and therefore equity should be a separate section on its own.
Oslo	Split views	The views on whether cash should be presented in the operating of the financing section were split. Other issues related to the financing section did not raise a debate.
Stockholm	Split views	Some participants questioned the reason for different sources of finance being classified in different sections and whether this would result in useful information. One analyst noted that the new presentation model is based on the "net" presentation, which is not very helpful to a user, as analysts need to see "gross" figures for their analysis. One participant stressed again that prior to defining the financing section there is a need to define performance as a starting point. On the net debt, it was mentioned that there is no unified definition of net debt in Sweden; however analysts usually include pensions in calculating net debt.

Madrid	Split views	Participants from the banking sector noted that the definition of the financing section would not represent an issue for them, as almost all assets and liabilities would be classified in the operating category, following the proposals in the Draft ED. On the net debt issue, one participant noted that their company already presents this information in press releases and in the notes. Net debt is not a local requirement in Spain, but some companies use this information for internal purposes and also report it externally. Other issues related to the financing section did not raise a debate.
Rome	Split views	Overall, participants noted that further work was needed to ensure that the classification principle is operational and that the dividing line between the operating category and financing section is clear. The views on whether cash should be presented in one section (operating or financing) or whether the presentation of cash should follow its function were split. Some participants noted that it could be difficult to apply principle-based classification to cash and other financial assets in Italy, and therefore they would prefer rules. The IASB member noted that a principle-based standard gives a better answer; conversely rules give a quicker answer, which sometimes doesn't make sense. On the issue of the classification of equity, the participants favoured classification in a separate section, as this would provide a clear picture of how much shareholders invested in a company. It was also noted that equity is not clearly defined in IFRSs, and that creates an issue in Italy because taxation and some legal requirements in respect of equity are based on IFRS figures.
Warsaw	Yes – equity as a separate section No – financing	Some participants from the financial services sector noted that the financing section is the matter of industry and noted that in the banking industry treasury assets and hedging instruments are clearly part of operating activities.

	section based on net debt	It was mentioned that for the banking industry, one of the most relevant notions is the notion of liquidity surplus and it was not clear whether it is part of an operating or financing activity. Some participants noted that in the banking industry it is very difficult to define the borders of operating and financing activities. An academic noted that the proposals in respect of the financing section were inconsistent with the rest of the presentation model, as it is the only section which would exclude assets. He also noted that under the proposed presentation model, liabilities would be scattered all over the statement of financial position. Some other academics disagreed with this view on the basis that the financing section should explain the origin of resources and thus assets should not be part of the financing section. The participants were generally in favour of having equity as a section on its own and another separate financing section containing only long-term debt. The participants in Poland were not generally familiar with the notion of net debt.
Frankfurt	Yes – equity as a separate section No – financing section based on net debt	A participant from the banking industry noted that splitting items between the financing section and the operating finance subcategory would not be very meaningful for the bank. A straw poll indicated that only a minority of the participants supported EFRAG's preliminary view that the financing section should be based on the notion of net debt (the majority of participants abstained). A majority of participants supported equity being classified as a separate section. Other issues related to the financing section did not raise a debate.
Paris	Yes	An analyst noted that, in his view, the proposals in the Draft ED did not represent an improvement compared to the DP, and that he preferred the financing section being based on the notion of "net debt," which is familiar to users and the preparers albeit not being universally defined. A participant from the banking industry noted that the net debt does not provide meaningful information for a financial institution and that the notion of "net debt" in general remains unclear.

		Overall, the majority of the participants supported EFRAG's preliminary view that the financing section should be based on the notion of net debt.
London	Yes	*ASB preliminary view* On the classification of equity, the ASB agrees with EFRAG that equity has characteristics that are distinct from those of debt. However, it is not clear that this distinction is adequately reflected in the financial statements by debt and equity both being categories within the financing section. For example, dividends paid on equity are not recognised in the performance statement, unlike the cost of financing. On the issue of "net debt," UK accounting standards have long included the notion of net debt, which can often be used by current and potential lenders as a reference for indebtedness. In practice, what is regarded as debt depends on the substance of the transactions – whether a transaction (or specific terms of it) was entered into for the purposes of financing. This inevitably involves exercising judgement, and may not always be consistent from one entity to another. The ASB considers a principles-based definition should be provided for net debt. On the classification of cash, the ASB believes that the amount of cash on hand at any one time is a function of a number of different activities, including receipts from customers. However, cash can also be received from taking out debt instruments and issuing equity, neither of which would be classified in the operating category. For most entities cash management is an integral part of debt management. As a result, the ASB would support the disclosure of net debt/funds and that cash should be part of it. As a result, the ASB would categorise cash to financing. *Other* The views on the classification of cash where split. One participant noted that it is arbitrary to include cash in any section or category, as cash relates to business as a whole rather than to one particular function: if one looked from a cash flow statement back to a balance sheet rather than from a balance sheet to a cash flow statement, it could be noted that, following cohesiveness as a principle, and being at the bottom of the statement, cash penetrates each and every category and does not belong to any particular section or category. Another participant concurred with this

		view noting that purpose of a business, in general, is "to produce money." Some participants favoured classification of cash based on function; however, this view was not universally shared. On classification of equity, participants generally favoured the presentation of equity in a separate section, as debt and equity are different in nature. In addition, some argued that putting debt and equity together would also complicate the calculation of certain ratios (for example, gearing).

Statement of cash flows

EFRAG disagrees with the proposal to require the direct method for presenting operating cash flows accompanied with an indirect reconciliation of operating profit to operating cash flows, because the IASB has not provided compelling arguments explaining why the change is needed. **EFRAG believes that the statement of cash flows is of little value for users of financial services and insurance entities' financial statements.**

Feedback received in meetings

Location	**Consistent with EFRAG?**	**Note**
Basel	Yes	Overall, the participants disagreed with the proposal to eliminate the option to present operating cash flows using the indirect method. The majority of participants supported the proposal to define the starting point for the *indirect* operating cash flow reconciliation, as this would improve comparability between entities. Some participants questioned as to "which users were asking for the direct operating cash flow information" and referred to the CRUF's response to the DP. They also questioned the objective and the reason for this request from users (i.e., whether users were trying to audit financial statements). Overall, it was noted that to produce an accurate direct operating cash flow statement, information would need to be tracked at an individual transaction component level, and therefore necessitating significant system changes. Some participants questioned the quality and the usefulness of cash flow information derived using the indirect-direct approach. In addition, it was noted that even the amount of "cash received from customers" would cause some issues (beyond practical ones) because it was not defined and there was no agreement on what that amount should represent and which items should be included or excluded (for example, as with taxes).

		One of the practical difficulties mentioned by participants related to "bulk payments" received from customers, which could not be traced back to individual invoice components. Another practical difficulty related to construction contracts and the ability to split progress payments.
Amsterdam	Yes	*Direct method* Overall, the majority of participants disagreed with the proposal to eliminate the option to present operating cash flows using the indirect method. However, one participant argued that the direct method for presenting operating cash flows is superior to the indirect, as it results in much more understandable information, and that it should not be costly to produce using the indirect-direct approach, which is allowed by the Draft ED. One participant asked the IASB member whether the proposal to present operating cash flows using the direct method is a separate "standalone" proposal in the ED or whether it is interlinked with other proposals. The IASB member responded that the direct method for presenting operating cash flows is a separate proposal on its own and that the rest of the proposed presentation model would work without it. However, information about direct cash inflows and outflows would still be required to present roll-forwards in the analysis of changes in assets and liabilities. *Gross or net of tax?* Some participants raised concerns that it was not clear from the Draft ED whether direct operating cash flows should be presented net or gross of tax(es). For example, some argue that a cash flow statement should present *net* cash movements. However, accounts receivable are presented gross. Therefore in reconciling an opening balance of accounts receivable to their closing balance, cash inflows from customers would need to be shown gross for the roll-forward to reconcile. This was identified as an area for further work for the IASB staff. *Usefulness for financial institutions* The participant from the financial sector noted again that there is a need for different presentation models for different industries. He also noted that a cash flow statement, in general, is not used to run a bank, and it does not provide

		useful information. Conversely, IFRS 7 disclosures provide much more useful information about cash flows of a bank (for example, disclosures on liquidity). Therefore, that participant suggested that the IASB should focus on strengthening and extending IFRS 7 disclosures on liquidity. *Bottom line: cash or net debt* There was no extensive discussion on this issue. One participant noted that the bottom line of a cash flow statement should be cash.
Helsinki	Yes	*Direct method* Overall, the majority of participants disagreed with the proposal to eliminate the option to present operating cash flows using the indirect method. All participants confirmed that they currently use the indirect method for presenting operating cash flows. The participants overall argued for retaining the option to present cash flows using the indirect method, although they noted that improvements to the indirect method and disclosures of some supplementary information (e.g., cash received from customers) could be considered. The participants shared concern about the quality of information derived using the indirect-direct approach. They also shared concern about the effort and costs associated with the requirement to present operating cash flows using the direct method. Some participants noted that foreign exchange differences and hedge accounting would cause serious practical issues in preparing a cash flow statement using the direct method regardless of costs involved. *Usefulness for financial institutions* A participant from the financial sector noted that the direct method for presenting cash flows is not suitable for financial institutions. He mentioned that the direct method does not reflect the way that a financial institution runs its business, and that the direct method would result in transactions being duplicated in the statement of cash flows. *Bottom line: cash or net debt?* Overall, participants were in favour of “cash” being a bottom line of the flow statement. They noted that providing a reconciliation of net debt in the notes should be sufficient.

Oslo	Yes	*Direct method* Overall, the majority of participants disagreed with the proposal to eliminate the option to present operating cash flows using the indirect method, and argued for improving the indirect method instead. It was noted that based on the survey of 2008 and 2009 financial statements of Norwegian listed companies carried out by PwC, the direct method for presenting operating cash flows was used by 11% of surveyed companies in 2008 and by 13% of surveyed companies in 2009. Some participants noted that at the moment they prepare cash flow statements manually, as the systems that they use for preparing financial statements do not allow generating it automatically. One participant noted that the methodology for deriving cash flows should not be prescribed. *Usefulness for financial institutions* The participant from the banking sector noted that cash flow statement does not present relevant information for banks, and suggested that banks should be required to present a statement of liquidity position instead of the cash flow statement. However, this proposal was not shared by some other participants, who argued for a general presentation model for all industries. *Improvements to the current requirements* One participant noted that cash flow statements prepared by Norwegian companies are generally not "very strong". For example, a survey of 2008 and 2009 financial statements of Norwegian listed companies revealed that a great number of entities showed capital expenditure in the cash flow statement that equalled to the amount of additions to property, plant and equipment (i.e., not adjusted for the opening and closing balance of accounts payable). Another area for improvement of the current cash flow requirements is the definitions of categories, which are not sufficiently clear at the moment. It was noted that cohesiveness as a principle could improve the cash flow

		statement and make it more prominent; however it would be very costly to make it right. Participants were asked whether minimum line item requirements for the indirect reconciliation of operating income to operating cash flows would help in improving the indirect method. The majority did not support this suggestion, as it would follow a rules-based rather than a principles-based approach. Some participants suggested using "what's important for the business" as the underlying principle for selecting items to be presented separately in the indirect reconciliation.
Stockholm	Yes	*Direct method* Overall, the majority of participants disagreed with the proposal to eliminate the option to present operating cash flows using the indirect method, and argued for improving the indirect method instead. The participants questioned the need to mandate the direct method for presenting cash flows, because the option to present direct operating cash flows has always been available in current IAS 7, but it is hardly used by anybody and analysts seem to be comfortable with the indirect reconciliation. In addition, participants questioned the quality and accuracy of information, which would be produced using the indirect-direct approach. The participants noted that costs to implement and maintain the systems required to produce a direct operating cash flow would outweigh the benefits of it. As an alternative, it was suggested to focus on the *cash conversion cycle* and on the relevant disclosure. An analyst noted that he does not support two sets of figures (i.e., direct operating cash flow and indirect reconciliation), because they relate to *one* economic event, and it is not easy to handle. He also noted that all valuation models are built around the indirect reconciliation, therefore the direct method would cause a problem to analysts as they would need to rearrange their valuation models. *Usefulness for financial institutions* SFRB believes that the requirement to present a direct cash flow statement would lead to the presentation of totally irrelevant information and would require preparers to support an onerous administrative burden not justified from a cost-benefit perspective, as users utilise the cash flow statements of financial institutions to a very limited extent.

Madrid	Yes/No	*Direct method* The views of participants on the proposal to eliminate the option to present operating cash flows using the indirect method were split. The proposal to mandate direct operating cash flows seemed to be strongly supported by academics, who argued that it was more intuitive, easier to understand and to teach. To support their views they referred to the results of academic research. They also did not believe that it would be difficult to produce using the indirect-direct approach. Other participants (mainly prepares and auditors) strongly disagreed with this proposal. ICAC noted that they do not support the removal of the option to present operating cash flows using the indirect method. It was also noted that the Spanish GAAP allows the indirect method and that the majority of companies use the indirect method for reporting operating cash flows. Having said that, one preparer noted that their company (Telefonica) uses the direct method for reporting all cash flow information for internal management purposes. That company captures direct cash flow information at the individual component level of a transaction (i.e., uses the direct-direct method). *Usefulness for financial institutions* The participant from the banking sector noted that the cash flow statement does not present relevant information for banks, and that no single analyst looks at the cash flow statement of a bank.
Rome	Yes	*Direct method* Overall, the majority of participants disagreed with the proposal to eliminate the option to present operating cash flows using the indirect method, and argued for improving the indirect method instead. It was noted that a proper application of the direct method would require significant system changes and therefore significant implementation and maintenance costs. None of the participants present at the meeting used the direct method for presenting operating cash flows. Some participants noted that the choice to present operating cash flows using the direct method has been available under the current IAS 7, but it is hardly used by anybody, and

		analysts generally accept this. Therefore, it was not clear to them why the direct method was considered to be superior. Some participants noted that, in Italy, analysts usually focus on the balance sheet and income statement, and rarely use a cash flow statement for their analysis, because historically the cash flow statement has been too condensed and has not provided any meaningful information. Therefore, if the option to present operating cash flows were retained, the indirect cash flow would require some improvements.
Warsaw	Yes/No	*Direct method* The proposed requirement to present operating cash flows using the direct method was generally supported by academics, who believe that the direct method for presenting operating cash flows results in more useful information than the indirect method. A participant from the insurance industry noted that his company prepares the statement of cash flows using the direct method, and finds that information useful [note: direct method for operating cash flows is a requirement of Polish GAAP for insurance companies]. *Usefulness for financial services sector* Some participants from the banking industry noted that the cash flow statement is irrelevant for their industry and that its preparation is a waste of money no matter the method. As alternatives, it was suggested to consider a disclosure about "the new volume for the period," or strengthening disclosures about the risk analysis and liquidity of a bank.
Frankfurt	Yes	*Direct method* Overall, the majority of participants disagreed with the proposal to eliminate the option to present operating cash flows using the indirect method. One participant raised concerns that capital expenditure cash flows would be "hidden" in the operating section under the Draft ED. The participants generally agreed that the bottom line of the flow statement should be cash rather than "net debt."

		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.
Paris	Yes	*Direct method* Overall, the participants argued for retaining the option to present operating cash flows using the indirect method and thought that some improvements to the indirect method should be considered. An analyst noted that the current presentation model is far from being broken, including the statement of cash flows, however he was very frustrated about the level of detail in the statement of cash flows, which is currently provided. He also noted that it is not satisfactory to disclose in the indirect reconciliation only net income, depreciation and other non-cash items. He suggested that instead of mandating the direct method for operating cash flows, the indirect reconciliation need to be improved by ensuring the appropriate level of disaggregation, including a separate line item for provisions. Once this is achieved, an analyst would be able to find all the relevant information for the analysis A representative of ANC questioned as to why the new radical proposals in this field were needed if the users were generally satisfied with what they currently had. It was noted that many users, including CRUF, supported the indirect method in general, although proposed some improvements to it, for example, in defining the starting point as operating profit.
London	Yes	*ASB preliminary view* The ASB noted that the indirect method is usually preferred for reporting purposes. The current UK accounting standard FRS 1 (Revised 1996) "Cash flow statements" is generally regarded as striking a good balance between direct and indirect cash flows for different types of cash flow. It contains more categories of cash flow than IAS 7, responding to feedback following the issue of the original FRS 1 in 1991. It also requires disclosure of net debt. It is not clear that there has been a great call for cash flow information to be presented in an alternative way. The direct method does not appear to provide information that is more useful than the indirect method. As a result, the ASB sees this proposal as incurring

		additional cost to implement, for little, or no, benefit. This proposal appears to be driven by the desire to push the cohesiveness principle through all financial statements without sufficient regard to the usefulness of the information that will be produced. Another improvement that could be made to IAS 7 is to require a common starting point for the cash flow statement. At present there is diversity in the line item from the income statement that entities choose as the starting point for reconciling to operating cash flows. *Other* Overall, the majority of participants disagreed with the proposal to eliminate the option to present operating cash flows using the indirect method, and argued for improving the indirect method instead. Participants were generally supportive of the proposal to define the starting point for the indirect reconciliation of operating income to operating cash flows.

Information about remeasurements

EFRAG agrees with the overall objective of the disclosure on remeasurements, i.e. to help users of financial statements in assessing the extent to which the various components of comprehensive income for a period will recur in the future. EFRAG believes that this objective should be articulated clearly in the standard itself and not just in the Basis for Conclusions. However, EFRAG has concerns about the proposed approach to meet this objective, the proposed definition and the proposed location of the disclosure.

Feedback received in meetings

Location	**Consistent with EFRAG?**	**Note**
Basel	Yes	Overall, the participants questioned the objective of the disclosure and noted that it would duplicate information provided in the analysis of changes in assets and liabilities. They also questioned the usefulness of the disclosure, which does not tie in to any primary statement. Some participants raised concerns about the principle underlying the proposed definition of remeasurements and noted that further work by the IASB might be needed in that area.
Amsterdam	Yes	*Underlying principle* Overall, the majority of participants agreed that a principle underlying the definition of remeasurements should be developed and clearly articulated. This was identified as an area for further work for the IASB. Some participants suggested “persistence” or “explanatory power” of items as underlying principles, which are used in the academic literature. However they noted that these could be rather “fluid” and therefore could cause application issues. Some participants noted practical issues with “recurrence / non-recurrence” as an underlying principle, as it was not clear when an item becomes “recurring” and where to draw the line between recurring and non-recurring items. There was some sympathy for separating fair value changes from other income and expenses. There was also a suggestion to consider using a different term from

		remeasurements, as the term itself could cause confusion. *Location of disclosure* Some participants questioned the need for a separate disclosure on remeasurements, which does not add up and does not reconcile to any other statement / note in the financial statements. They also noted that, as the overarching principle was missing, the objective of this separate disclosure was not clear.
Helsinki	Yes	*Underlying principle* Overall, the majority of participants seemed to share EFRAG's view that a principle underlying the definition of remeasurements should be developed and clearly articulated. *Objective of the disclosure* Some participants questioned the objective of a separate disclosure. They also questioned whether there was a real need for disclosing anything in addition to what is being currently reported in Other Comprehensive Income.
Oslo	Yes	*Underlying principle* Overall, the majority of participants agreed that a principle underlying the definition of remeasurements should be developed and clearly articulated. This was identified as an area for further work for the IASB. As an example, one participant mentioned the fish farming industry – it was not clear what would be considered a remeasurement under IAS 41 *Agriculture*. One user participant noted that it could be helpful for a user analysis to distinguish between changes in measurement as a result of "objective" external factors (for example, being market-driven) and as a result of "subjective" factors (i.e., management estimates).
Stockholm	Yes	*SFRB view* SFRB believed that the requirement of an analysis of change in balances of important assets and liabilities is probably the best alternative presented for reconciliation [as proposed in the DP] so far, but it should not be restricted to the same components for all items, but allow for different components for different assets. Having chosen such a reconciliation to

		inform users of the changes in assets and liabilities in a period, SFRB does not believe that it is also justified to require structuring the income statement based on the remeasurement concept, even if it is confined to the notes. *Other* An analyst noted that information about remeasurements would be helpful in forecasting future cash flows, as analysts generally take out non-recurring items. He also noted that in his analysis he distinguishes between remeasurements related to monetary and non-monetary assets and liabilities. The remeasurements related to monetary items are usually not of interest for his analysis.
Madrid	Yes	*Underlying principle* Overall, the majority of participants shared EFRAG concerns and agreed that a principle underlying the definition of remeasurements should be developed and clearly articulated. This was identified as an area for further work for the IASB. One participating academic suggested that the principle underlying the definition of remeasurements should reflect the dividing line between permanent and transitory components of performance.
Rome	Yes	*Need a separate note?* Some participants questioned whether a separate note was really needed if all that information was already required by other standards and it was already generally available in the financial statements, although not in a separate note. There were no other major comments on remeasurements.
Warsaw	Yes	*Underlying principle* Overall, the majority of participants shared EFRAG's view that a principle underlying the definition of remeasurements should be developed and clearly articulated. One participant from academia commented that if the underlying principle would be to identify the items with different predictive value, then the preparers would actually provide subjective and judgemental information about the predictive values from their point of view. Users might have a different view on the same set of events; rendering it unlikely to result in relevant information.

		Objective of the disclosure One participant from the banking industry questioned the objective of a separate disclosure, because in his experience the analysts of the banking sector are looking at trends and are not interested in fair value changes on which this disclosure clearly concentrates.
Frankfurt	Yes	Overall, the majority of participants agreed that a principle underlying the definition of remeasurements should be developed and clearly articulated.
Paris	Yes	Overall, the majority of participants agreed that a principle underlying the definition of remeasurements should be developed and clearly articulated. A representative of ANC questioned the purpose of this separate note on the basis that the same information could be found in the proposed analysis of changes in assets and liabilities. In addition, it was not very clear what was actually meant by the remeasurements. The participants from the financial services sector expressed a view that remeasurement requirements would be very demanding for the sector and questioned the relevance of all these details.
London	Yes	*Underlying principle* Overall, the majority of participants agreed that a principle underlying the definition of remeasurements should be developed and clearly articulated. This was identified as an area for further work for the IASB. Some participants questioned the need for a separate note, as information about the items included in the list of "remeasurements" is already required by other standards and provided in the financial statement. One participant explained that the idea behind the disclosure is to enable analysts to derive a set of accounts based on realisation model and to take out items with the "multiple of one."

Overall costs and benefits of a new presentation model

EFRAG sought input from constituents on whether a new presentation model would result in significantly improved and more useful information, and whether benefits of the new model would outweigh the costs associated with implementing and maintaining it.

Feedback received in meetings

Location	Consistent with EFRAG?	Note
Basel	N/A	Overall, the participants noted that the proposals in the Draft ED would require *significant* system changes in order to track certain information at the individual transaction component level to comply with the proposed requirements. One participant noted that it took their company about 10 years to implement 95% of the computer system across the group, so any changes to that system would require a comparative period of time.
Amsterdam	N/A	*New model needed?* Some participants questioned the appropriateness of introducing a new presentation model, rather than improving the existing one. They also noted that a proper assessment of the incremental value of the new proposals should be carried out to justify the need for a change. *Costs* Preparers noted that costs of implementation would depend on the level of detail required under the new model. For example, implementing the proper direct method would require a similar effort to adopting IFRSs (for example, major system changes, an estimate of 2-3 years to implement and recurring costs to maintain going forward). On disaggregating “by nature” and “by function,” some mentioned that it would require introducing a new chart of accounts, and some mentioned that it would be virtually impossible as that information would not be available. Some participants noted that, in addition to the implementation costs associated with changes in systems, the new model

		would involve a huge educational effort, including not only accounting personnel but also the management (directors) of a company. The new model might require changes to the way the company communicates with its users (for example, changes to KPIs as a result of changes in the presentation. *Benefits* Some participants noted that when discussing the proposals in the Draft ED, people usually focus on costs but do not mention benefits. Some noted that the new model would result in greater comparability between entities and therefore would improve the usefulness of information for users. Some participants mentioned that the proposed principle of cohesiveness improves financial reporting, as it links information in financial statements and provides a clearer picture. Some participants suggested that analysts should be approached to explain the benefits of the proposed presentation model for their analyses.
Helsinki	N/A	*New model needed?* On a number of issues discussed during the meeting, the participants questioned whether a new presentation model was really needed and expressed their preference for retaining the current presentation model, although with some possible improvements. One participant, representing an issuer, noted that in this project the IASB seemed to be “trying to fix a wrong issue” by proposing a new presentation model in response to concerns of the user community. In his view, the problem with financial statement presentation seems to lie in the need to educate and train analysts, as a good analyst understands the current presentation model rather well. This participant also expressed frustration in respect of the current IASB consultation process and the ability of constituents to influence it; he compared it to a high-speed runway train, which is impossible to stop. He expressed support for high quality principles-based standards, and noted that this should not be sacrificed to achieve convergence. The views expressed by this participant were widely applauded by participants in the auditorium.

Oslo	N/A	*New model needed?* On a number of issues discussed during the meeting, the participants questioned whether a new presentation model was really needed, especially considering the costs involved, and expressed their preference for retaining the current presentation model, although with some possible improvements. It was also noted that the timing of this project was wrong. Some participants agreed that *a* project is needed, but it should be less ambitious and should focus on obvious weaknesses in the system. However, it should not be a "revolution." *Costs* Participants were generally concerned about the costs required to implement and maintain the new presentation model. Those costs will include system changes and the education of accountants and users. The IASB project manager asked participants to assess separately implementation and maintenance costs associated with cohesiveness and disaggregation proposals. Some participants noted that proposals related to "cohesiveness" might require some implementation costs, but would not involve maintenance costs. However, proposals related to "disaggregation" might require both significant implementation and maintenance costs.
Stockholm	N/A	*SFRB view* SFRB noted that it had significant concerns whether a fundamental change to the presentation model was really needed at this moment, and whether users of IFRS financial statements really see significant problems with the presentation of financial statements to undergo such a change. The timing of the change to the presentation model is wrong as there are a number of significant changes to other important standards to be implemented at the same time, and this is adding to the burden. SFRB is broadly supportive of structuring the financial statements along the business/finance distinction, as it is fundamental for capital providers in their assessment of the company's performance and for management in managing the company. However, since this is a very far-reaching change,

		SFRB believes that it is extremely important that the new model is well-developed and robust before final implementation. SFRB believes that some important issues, mainly classification and information overload, are still unresolved. *Other – Costs* Participants were generally concerned about the costs required to implement and maintain the new presentation model. Those costs will include system changes and education of accountants and users. Some participants compared the cost of implementing and maintaining the new presentation model with the costs of adopting IFRS in the first place, especially when large groups of companies were concerned. Some participants also noted that financial statement presentation is not the only IASB project requiring a significant change, and the overall effect of the different changes should be considered.
Madrid	N/A	The views of the participants were split. Academics were generally supportive of the new presentation model and believed that benefits would outweigh costs. Conversely, all other participants (mainly preparers and auditors) were concerned about the costs involved and urged the IASB to consider the costs of the new presentation model in the context of other current projects requiring significant implementation and maintenance costs.
Rome	N/A	*Costs* Participants were generally concerned about the costs required to implement and maintain the new presentation model. Those costs will include system changes and the education of accountants and users. The cost intensive proposals included the disaggregation requirements and the direct method for presenting operating cash flows. *Benefits* Some participants favoured the proposed principle of cohesiveness as it would provide greater clarity about interaction between primary statements and would enhance the user analysis.

Warsaw	N/A	*New model needed?* One participant from the auditing profession questioned the appropriateness of introducing a new costly presentation model rather than focusing on the content, which is far more important than the form. Many participants found the proposals revolutionary (compared to the current requirements in Polish law). One participant from academia thought that the proposed model undermines the fundamentals of accounting and warned about the possible future "bigamy" in accounting – listed companies using the proposed presentation model and the others the traditional presentation model, because especially in the SME environment he could not imagine the shift from the traditional balance sheet. Another participant from academia added that, for consolidation purposes, many SMEs which are subsidiaries of the listed parent companies would be obliged to prepare the financial statements according to the new presentation model. *Costs and benefits* The majority of participants expressed the view that the proposed new presentation model would involve substantial costs. The costs, which would be borne mainly by the preparers, would include not only implementation costs associated with changes in systems, but also educational and training costs, higher costs of auditing and even the indirect costs of disclosing sensitive information to competitors. A participant from academia also warned about substantial "social" costs, such as costs of new books and new curricula. One participating user noted that he was not sure whether the proposed increased level of detail is useful for the users and thought that there may be cheaper ways of overcoming the most critical deficiencies of the existing presentation model. Overall, the majority of participants shared the view that to understand better all the costs and benefits of the proposed new presentation model, it needs to be tested on a pilot group of users and preparers. A participant from academia noted that the new presentation model was supposed to address concerns of the user community – that the information in the financial statements is too aggregated and not consistently presented. He questioned

		whether the proposed presentation model has addressed these concerns or still needs further refinement. Overall, the majority of participants seemed to share the view that the proposed new presentation model would involve substantial implementation and maintenance costs, while benefits would be questionable and would be mainly shared by more sophisticated users.
Frankfurt	N/A	Participants were generally concerned about the costs required to implement and maintain the new presentation model. One participant wondered whether the IASB has an idea how costly it is for a group of 600 subsidiaries to change their systems. Another participant noted that there was no guarantee that the proposed model would not also “be pushed down” to the SME level. The majority of participants preferred an “evolution” of the existing model to the proposed “revolution.” They were in favour of more standardisation in the presentation of financial statements, as they believed that this could improve comparability. However they did not support the approach proposed in the Draft ED as too costly and too radical. A participant from the manufacturing industry noted that the main cost driver of the proposals for his company would be disaggregating the costs “by nature” within the primary “by function” disaggregation.
Paris	N/A	Overall, the message was that there is a need for an “evolution” of the existing presentation model rather than the proposed “revolution.” Participants were generally in favour of some improvements in the financial statement presentation, but not in the proposed way, which is too costly and too radical. The participants were generally concerned about the costs required to implement and maintain the new presentation model. One participant noted that there is no guarantee that the proposed model would not “be pushed down” to the SME level. She also emphasised that any change for SMEs is very costly and that complex presentation models simply do not work for other important stakeholders of the SMEs, such as employees. A representative of ANC noted that the illustrative examples in the Draft ED are based on rather simplistic assumptions and

		that it would be very useful if the recast financial statements would be available to the general public, so the proposed presentation model could be assessed on "real life" figures. The IASB project manager explained that there are legal issues with making recast financial statements available to the general public, but that they will soon be shared with some user groups.
London	N/A	Not discussed at the meeting.

One model fits all?

EFRAG sought input from constituents on whether separate proposals or special application guidance should be developed for the banking and insurance industry.

Feedback received in meetings

Location	**Consistent with EFRAG?**	**Note**
Basel	N/A	Not discussed at the meeting.
Amsterdam	N/A	A participant from the financial sector raised concerns about the "one-size-for-all" presentation model, and whether it would result in the most useful information in the financial sector. He questioned whether it would be more appropriate to develop different models for different industries and highlighted the need for addressing industry-specific issues.
Helsinki	N/A	It was noted that industry-specific guidance needs to be developed to address some industry-specific issues (for example, insurance).
Oslo	N/A	The views on this issue were split. Participants involved with financial institutions (preparers and users) favoured industry-specific models. However, the rest of the participants supported a general model, which could be applied to all industries. Those participants who supported one general model argued that it would be rather difficult if not impossible to prepare *consolidated* financial statements for a group, which includes different businesses (for example, manufacturing, banks, insurance et cetera), if those businesses used different industry-specific presentation models. One participant noted that some level of standardisation (i.e., having a common structure) for the financial statements is useful and provides a good starting point for analysis.
Stockholm	N/A	*SFRB view* SFRB has significant concerns about the application of the new presentation model in financial institutions. SFRB believes that a disaggregated presentation in the financial statements in banking institutions will increase complexity of

		the presentation. An attempt to introduce a common structure for all industries will provide poor information as the specific activities of each and every financial institution will not be reflected appropriately. For example, a split between business and financing is not relevant in a financial institution where business activities provide a large part of financing activities. The dividing line should rather provide for distinction between banking book business and trading or otherwise managing the financial instruments on a fair value basis. The *business model* should be the criterion for aggregation or disaggregation of assets and liabilities in the primary financial statements. In addition, SFRB believes that the requirement to present a direct cash flow statement would lead to the presentation of totally irrelevant information and would require preparers to support an onerous administrative burden not justified from a cost-benefit perspective as the users utilise cash flow statements of financial institutions only to a very limited extent. *Other* One participant from the banking industry noted that the new presentation model is not designed for a bank, and that it would not result in useful information.
Madrid	N/A	Some participants noted that there was a need to develop different presentation models for different sectors, especially banking and insurance.
Rome	N/A	Not discussed at the meeting.
Warsaw	N/A	A participant from the financial services sector raised concerns about the “one-size-fits-all” presentation model, and whether it would result in the most useful information in the financial services sector. He questioned whether it would be more appropriate to develop different models for different industries and highlighted the need for addressing industry-specific issues.
Frankfurt	N/A	Participants from the financial services sector favoured industry-specific models because they thought that the proposed presentation model does not provide very useful information. Conversely, some participants noted that sometimes it would be quite hard to identify to which industry certain entities belong.
Paris	N/A	Participants from the financial services sector questioned the suitability of the proposed presentation model for their sector. They could not see a clear dividing line between business and

		financing and thought that the proposed new presentation model would give rise to substantial costs whilst providing mainly doubtful benefits. A participant from the banking industry also questioned the purpose of this project since the financial crisis did not reveal any presentational problems, but rather problems in the field of financial instruments and consolidation. She found comparability important on the industry level and found the French recommendation on IAS 1 very useful for that purpose.
London	N/A	In general, the participants were supportive of developing one generic model and testing it in different industries to identify and address application issues.

Other

In a number of locations, constituents also provided their views on other issues related to the Draft ED. These are included below, organised by topic.

Cohesiveness

EFRAG is supportive overall of cohesiveness and disaggregation as core principles of financial statement presentation, but has concerns about the proposed application of these principles.

Feedback received in meetings

Location	Consistent with EFRAG?	Note
Basel	Yes	Some participants expressed overall support for the principle and noted that it could work on a higher level. Some participants questioned whether cohesiveness would be achieved at a category level, as suggested in the Draft ED, or it would in fact result in the line-by-line application in practice. This would require producing a trial balance of all assets and liabilities. One participant noted that it would be difficult to apply the proposed model for entities with a central treasury function, as all treasury assets and liabilities could end up in the operating category on the consolidated level. Some participants questioned the need for the operating finance subcategory, noting that these items should be classified either in operating or in finance.
Rome	Yes	Overall, participants supported the proposed principle of cohesiveness. However they noted that there are some practical application issues, which require further consideration. Those issues include, for example, classification of assets and liabilities of an insurer, and interaction of the proposals in the Draft ED with the presentation proposals included in the IASB Exposure Draft *Insurance Contracts*. Some participants noted that the principle of cohesiveness is fundamental and relevant for the presentation, and that it

		should be spelled out clearly in the standard, but should leave some room for judgement to address some practical application concerns.
Frankfurt	Yes	The President of the DRSC commented that the fundamental question related to cohesiveness is the starting point for classification – the balance sheet or the income statement. If in the case of defined benefit pensions the starting point would be the income statement, then on the liabilities side the obligation would turn out to be partly operating and partly financing. A participant from the services sector noted that, because of its complexity, the new presentation model would result in financial statements being less understandable to the general public and that a fundamental discussion should be held on what information should be given to whom.
Paris	Yes	An analyst found the cohesiveness principle useful and noted some disagreement between the UK and continental European users on the classification of some defined benefit pension plan income statement items. The IASB member raised the question about the starting point for the purpose of classification – whether it should be the balance sheet or the income statement. An analyst expressed a preference for the income statement. He explained that the majority of equity analysts find the income statement the most important primary financial statement because it is trying to reflect recurring items and provides a good link with other primary financial statements. Therefore, it is essential that the classification provides sensible information in the income statement. A participant with an audit background added that in France there is quite strong opposition to the "balance sheet-based" model of financial reporting, mainly because the majority do not agree that the performance is simply the difference between the two balance sheets. Therefore, he also supported the income statement as the starting point for classification. The IASB member noted that, in his view, for the purpose of classification, it would not be problematic to conceptually use another starting point than the balance sheet, except for financial institutions.
London	Yes	*ASB preliminary view* The ASB shared EFRAG's concerns about the proposed application of the cohesiveness principle. The ASB noted that there are likely to be examples where applying the cohesiveness principle leads to similar items being presented

		in dissimilar ways. For example, if an entity finances the purchase of an asset by taking out a loan, the loan would be recognised in financing, although the asset would likely be operating. If the same asset were financed using a finance lease, the liability would be recognised in operating finance. In both cases, the intention and economic reality is that there is an obligation to finance the use of the asset. Both obligations could even be due to the same counter-party, but the cohesiveness principle will require them to be reported differently. There may be some common cases, for example, in post-employment benefits, where it is appropriate for the standard to specify in which category different elements of the costs/balances should be recognised. However, in general the ASB believes it is better to provide a framework within which preparers can exercise their judgement about the most appropriate and informative presentation of their financial statements. *Other* Some participants noted that although cohesiveness may be a good idea, in pursuit of cohesiveness one may be in danger of achieving consistently wrong presentation. Some participants also noted that a balance sheet and flow statements (i.e., income statement and cash flow statement) are generally produced on different bases. Therefore, trying to achieve cohesiveness may lead to flow statements losing their usefulness, if they need to be prepared on the same basis as a balance sheet.

Classification into sections, categories and subcategory

EFRAG is pleased that the Draft ED clarifies that the overall classification approach based on *functional activities* is a requirement that is not at management's discretion.

EFRAG supports the principles underlying the classification of items into sections, categories and subcategories, but has concerns about the proposed application of these principles.

Feedback received in meetings

Location	Consistent with EFRAG?	Note
Basel	No	*Management approach* Some participants argued that financial statements could provide more useful information to users if they were prepared based overall on the management approach (similar to IFRS 8 *Operating Segments*), i.e., management has discretion to determine not only how to use assets and liabilities in its business, but also how to classify and how to disaggregate information on the face of primary statements, based on the business model employed by an entity. One of the arguments in favour of this approach is that if some information is not used by management of an entity, then its usefulness to the users is doubtful. The management approach to presentation of financial statements would align internal and external reporting. The presentation model proposed in the Draft ED does not allow for reflection on how management runs the business. In addition, too much information would clutter financial statements and would not improve communication between an entity and its users.
Stockholm	No	*Management approach – SFRB view* SFRB is concerned that the "management approach" is no longer a fundamental concept. SFRB supports an overall management approach to classification, since it provides management with the ability to classify an entity's financial information based on the manner in which the underlying assets and liabilities are used.

Paris	Yes/No	On proposals for presenting assets and liabilities together in different sections, an analyst noted that the proposed "mixed" presentation is not an improvement and that by preserving the current presentation format the transition for the users would be much easier. The majority of participants agreed that presentation should reflect the business model of the entity and thought that proper balance needs to be struck between standardisation and discretion in presentation.

Analysis of changes in assets and liabilities

EFRAG is concerned that the proposal might result in a requirement to present a reconciliation for most items displayed on the face of the statement of financial position.

Feedback received in meetings

Location	**Consistent with EFRAG?**	**Note**
Basel	Yes	Some participants noted practical difficulties in determining which items of assets and liabilities would require separate disclosures of analysis of changes. One of the reasons is that the term "significant" is not defined and it is not clear how it interacts with the term "material", which is defined in IFRSs. In relation to cash inflows and outflows related to assets and liabilities, which would be disclosed as part of the analysis in assets and liabilities, it was noted that it would be impracticable to provide accurate information about some assets and liabilities. Examples include, but are not limited to, self-constructed assets, the same suppliers for inventories and equipment (how to split them), a multi-step production process involving the movement of assets from country to country with different currencies. Some participants suggested that the standard should not prescribe the required level of detail in the analysis, but instead state a principle and provide some guidelines and examples.
Warsaw	Yes	A participant from the banking industry noted that although preparation of the remeasurement note is not an issue, as all the information is available, the duplication of information with an analysis of changes of assets and liabilities would make the financial statements even longer and more "unreadable" than at present. A representative of the preparers' association noted that the increased volume of disclosed information would lead to increased legal risks for the preparers. 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. That would lead to even longer financial statements, which were by the majority critiqued as already too voluminous and too complex.
Frankfurt	Yes	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 number of participants raised concerns about the proposed level of detail for movements and about costs and benefits of this approach. The participating preparers expressed doubts that the proposals will be operational, especially at the group level. A participant from the banking industry also noted that the reconciliation (for example, the analysis of loans) is closely related to the direct method of presenting cash flows.

Appendix 2 – Feedback received via an online questionnaire

Table of contents

Background and introduction

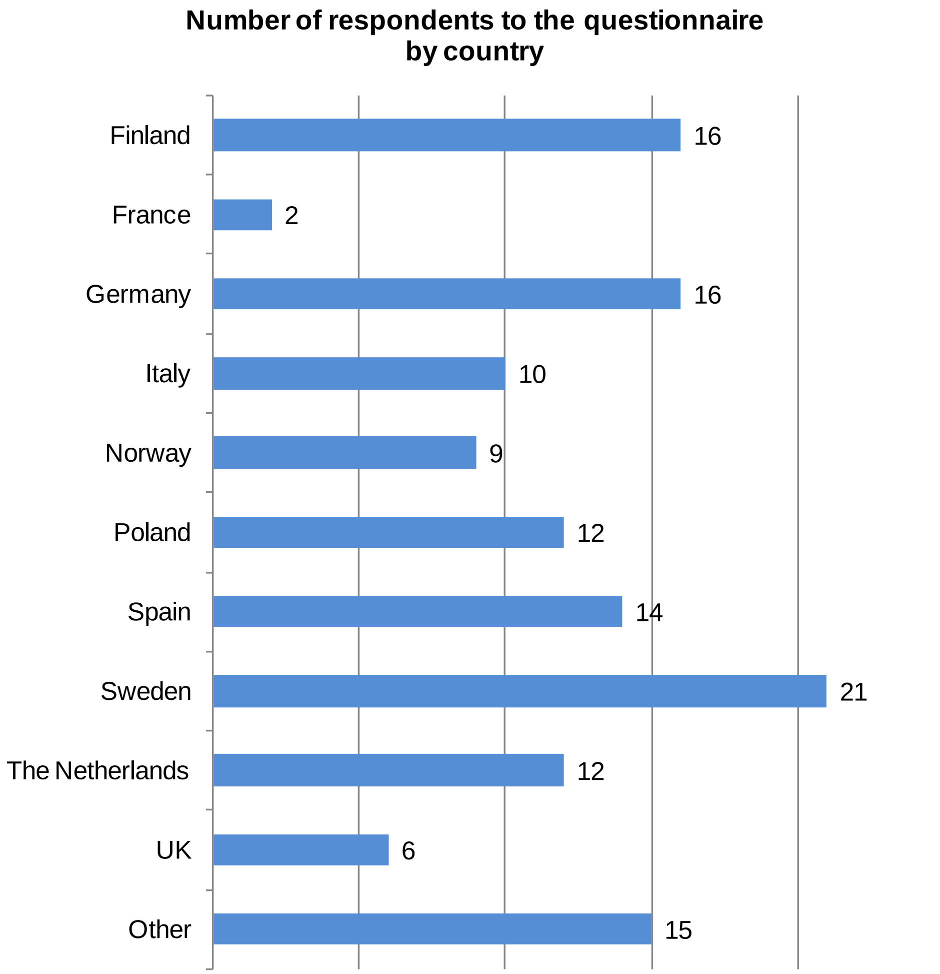
As part of the outreach activities on the Financial Statement Presentation project EFRAG invited constituents to provide their feedback on controversial issues included in the Draft ED via an online questionnaire. The scope of the questionnaire was aligned with the scope of the outreach meetings with constituents and focused on the following issues:

- *Scope of the joint Financial Statement Presentation project* – the need for a debate on fundamental issues underlying performance reporting;
- *Financing section* – the definition and the content;
- *Disaggregation proposals* – the principle and application issues;
- *Statement of cash flows* – mandating the direct method for presenting operating cash flows;
- *Remeasurements* – the objective of the separate note and the principle underlying the definition;
- *Costs and benefits of the new presentation model* – would benefits outweigh costs?

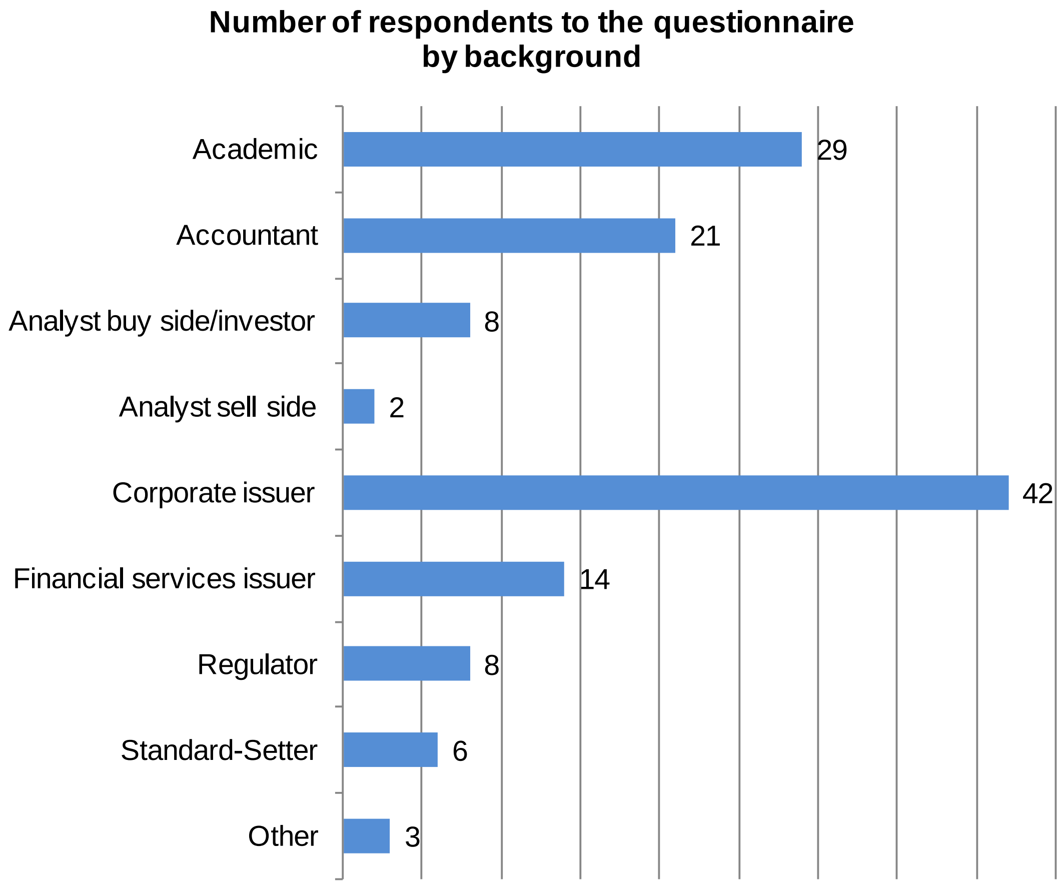
Overall, 133 constituents completed the questionnaire, including 24 constituents who did not participate in the meetings. The questionnaire was completed from October to early December 2010.

This appendix presents the results of the questionnaire organised by topic. The responses are presented by country and by the respondents' background.

Information about respondents



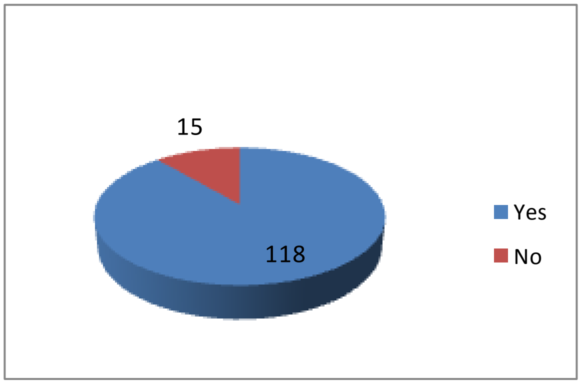
The group named “other” in the country chart includes individual respondents from Belgium, New Zealand, Albania, Serbia, Switzerland, Malta, Russia, Portugal and Romania, mainly from an academic background, as well as six anonymous respondents. Due to their small number, these respondents were grouped together.


Number of respondents to the questionnaire by background
Academic
29
Accountant
21
Analyst buy side/investor
8
Analyst sell side
2
Corporate issuer
42
Financial services issuer
14
Regulator
8
Standard-Setter
6
Other
3

Scope of the joint project

Question: Is there a need for proper debate on fundamental issues underlying performance reporting?

Overall response

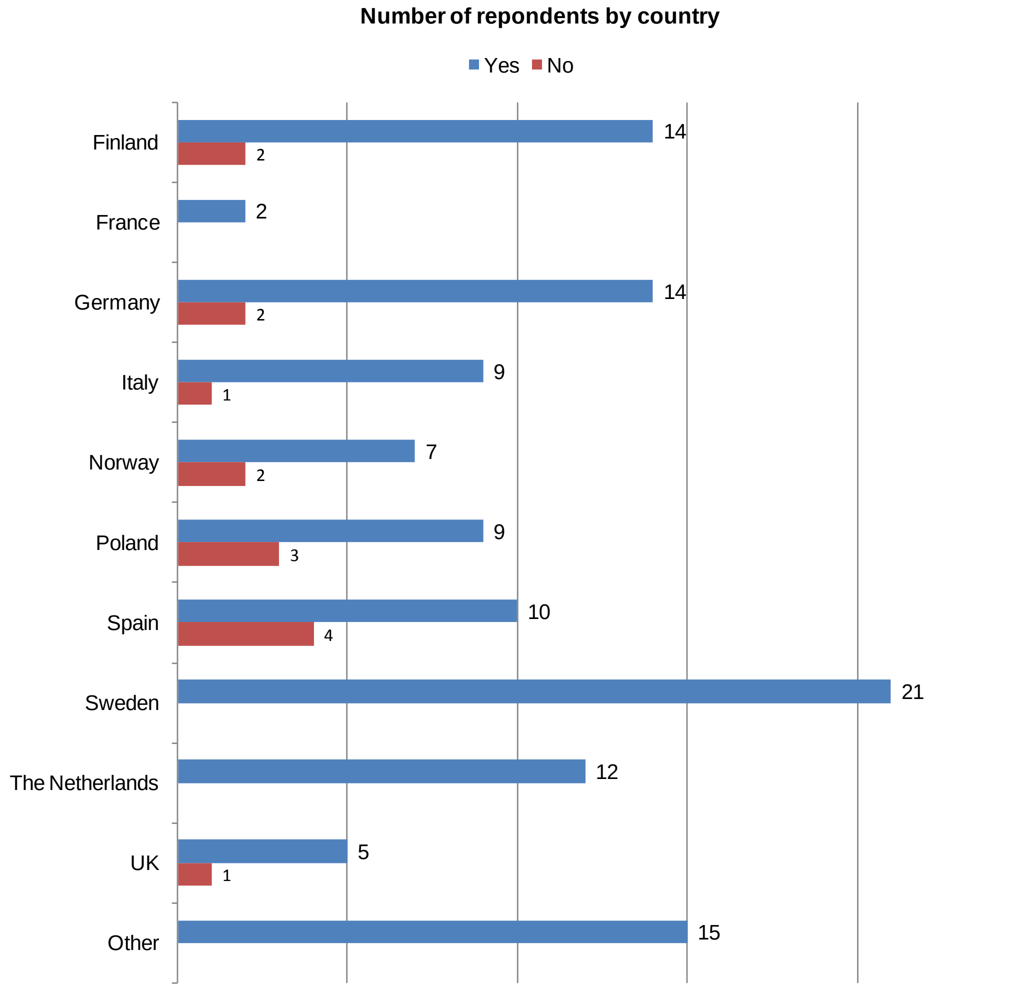


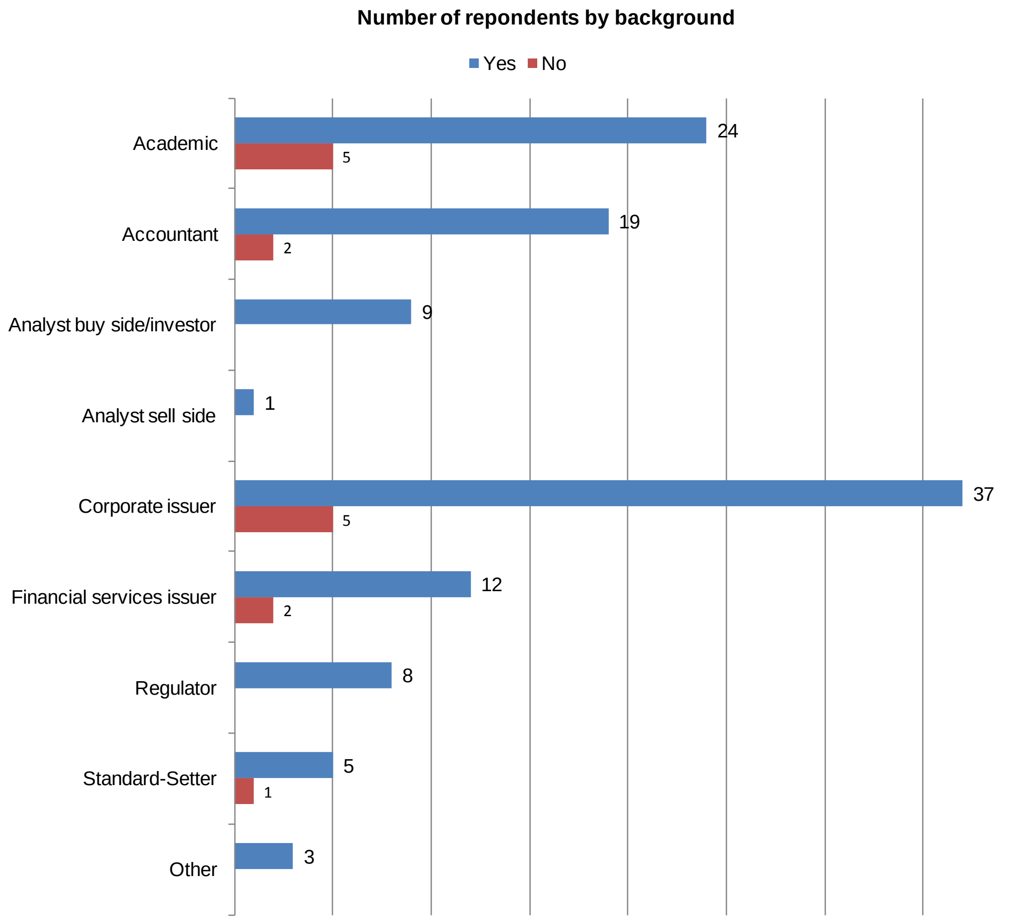
The majority of respondents shared EFRAG's view that *prior to* proceeding with the issues related to the presentation of financial statements, there is a need to address some fundamental issues related to performance.

The following issues were raised most frequently:

- What is the notion of performance and what is its interaction with business models?
- Income statement and OCI: what goes where and what are the principles for distinguishing between them?
- Recycling: is it needed or should it be prohibited?
- What is the starting point for classification and analysis – the balance sheet or income statement?

Question: Is there a need for proper debate on fundamental issues underlying performance reporting?

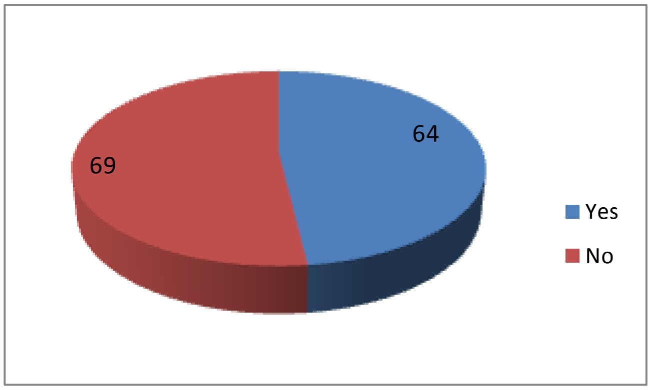



Number of repondents by background
Yes
No
Academic
24
5
Accountant
19
2
Analyst buy side/investor
9
Analyst sell side
1
Corporate issuer
37
5
Financial services issuer
12
2
Regulator
8
Standard-Setter
5
1
Other
3

Disaggregation

Question: Is the proposed disaggregation approach appropriate?

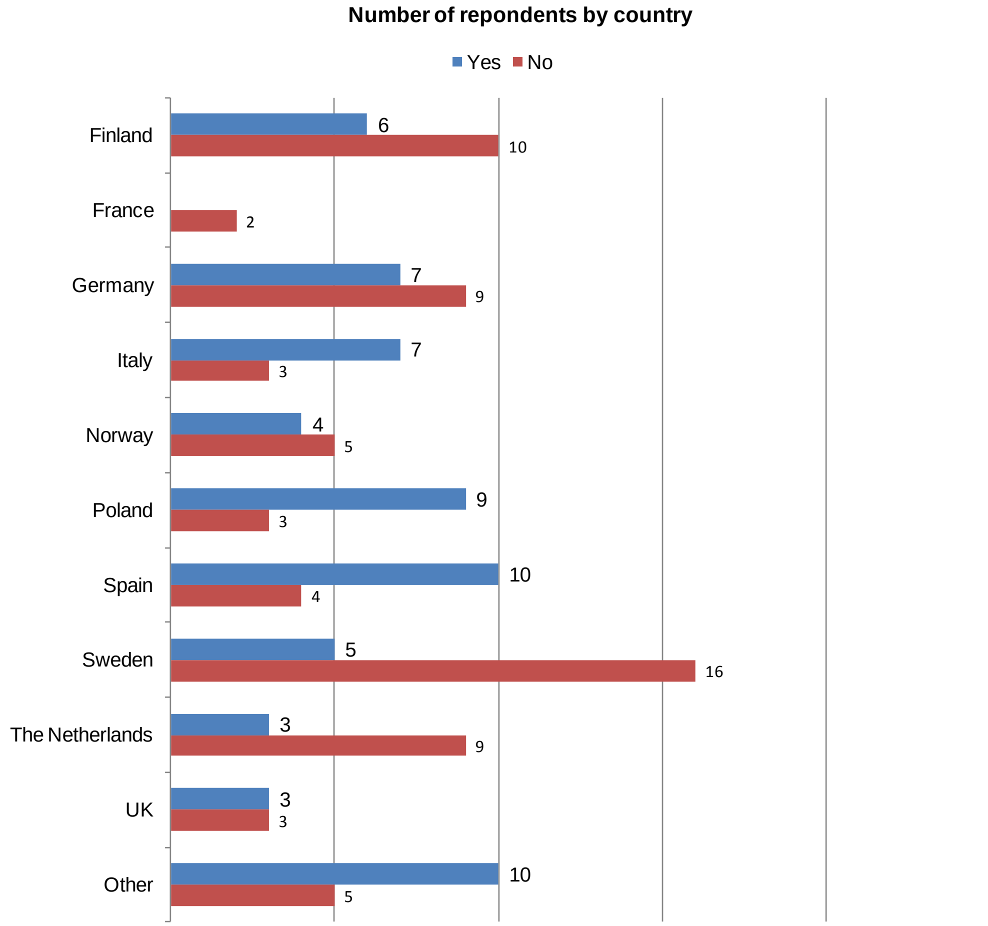
Overall response

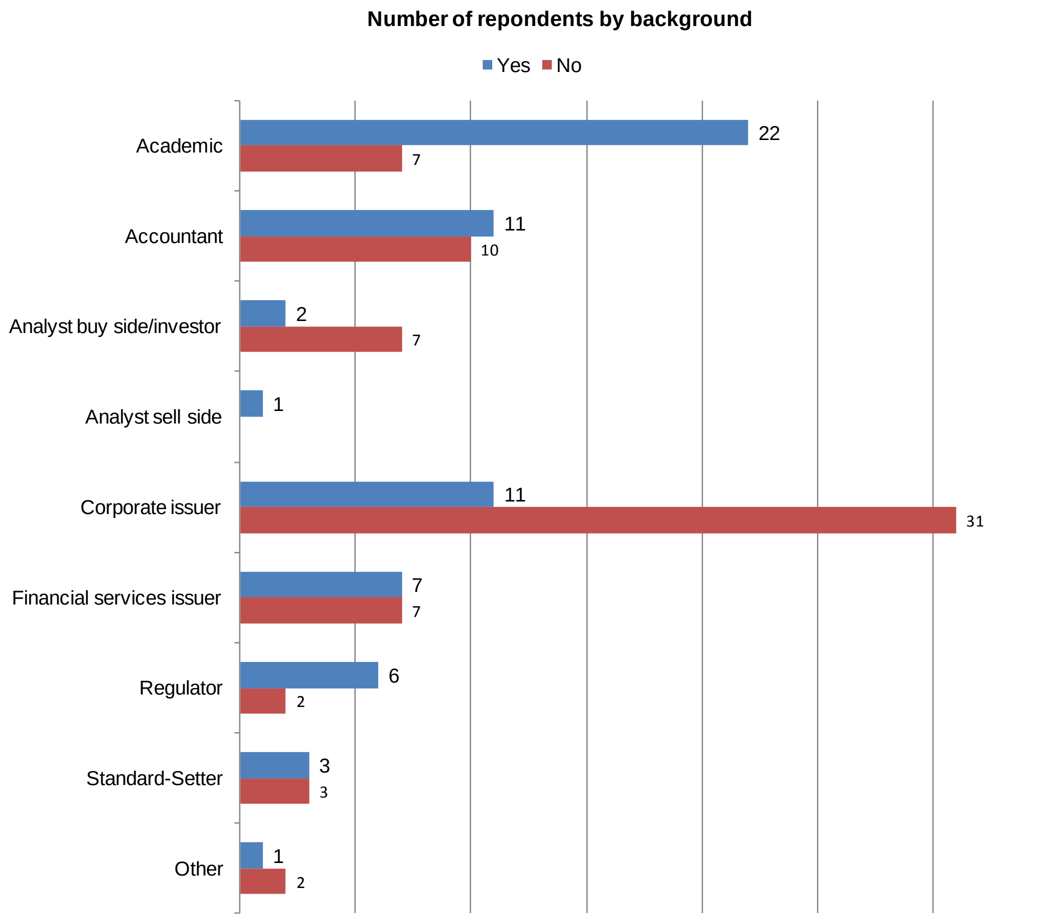


The views of respondents on the appropriateness of the proposed disaggregation approach were split. Although some respondents supported the proposed objective for disaggregation of information on the face of primary statements, they raised concerns about the "big picture" disappearing in the details. The majority of respondents shared EFRAG's concern about overly detailed primary statements, which are unlikely to improve the communication between an entity and its stakeholders. The other concern quite frequently mentioned by respondents was the cost to track and provide information at the proposed level of detail.

Some respondents suggested that the option to present income and expenses "by function" or "by nature" should be retained and that mandating both would be excessive.

Question: Is the proposed disaggregation approach appropriate?

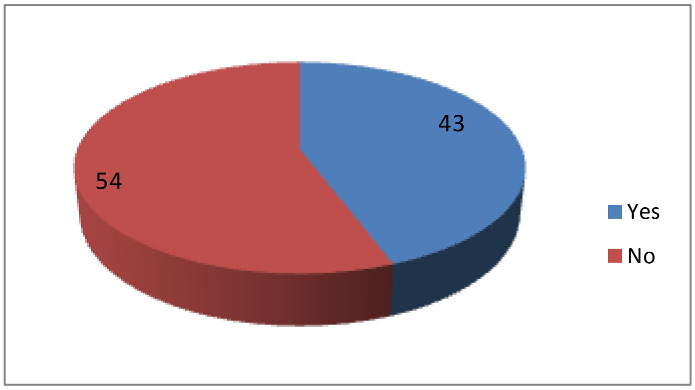



Number of repondents by background
Yes
No
Academic
22
7
Accountant
11
10
Analyst buy side/investor
2
7
Analyst sell side
1
Corporate issuer
11
31
Financial services issuer
7
7
Regulator
6
2
Standard-Setter
3
3
Other
1
2

Financing section

Question: Should operational treasury assets be excluded from the financing section?

Overall response

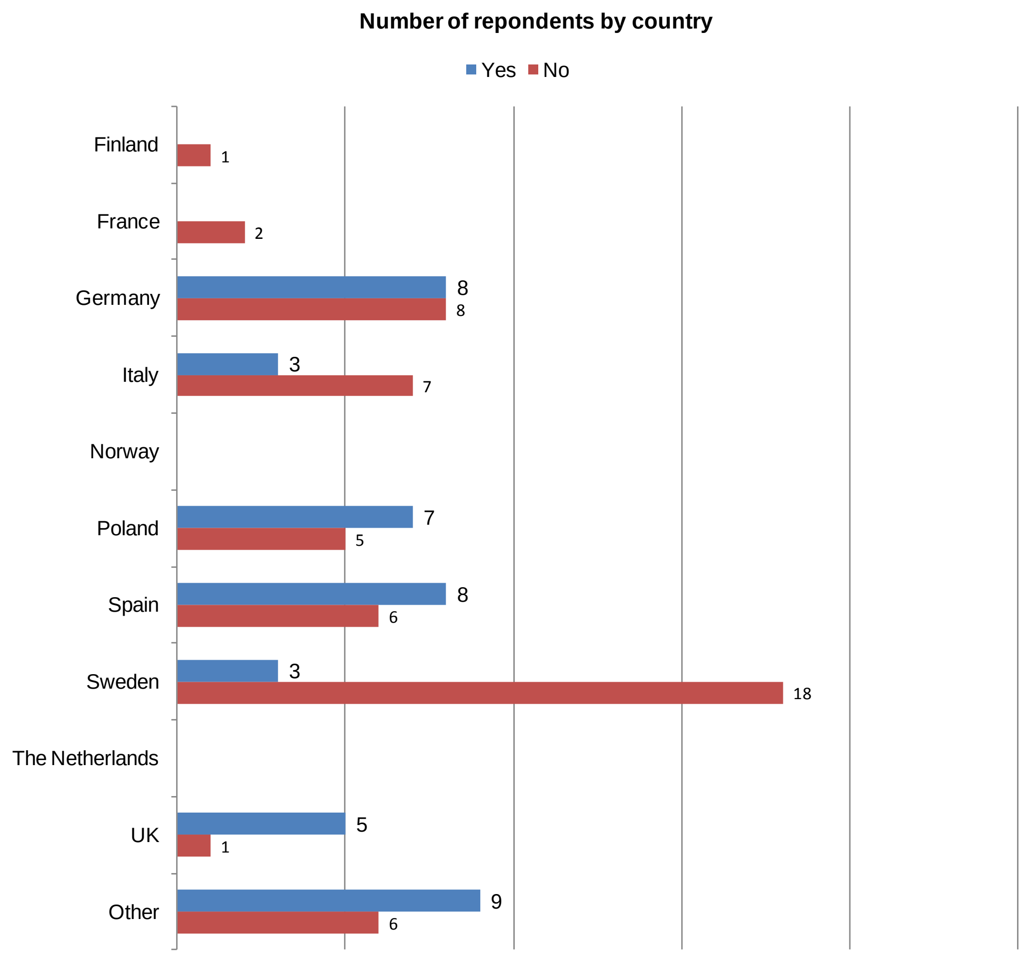


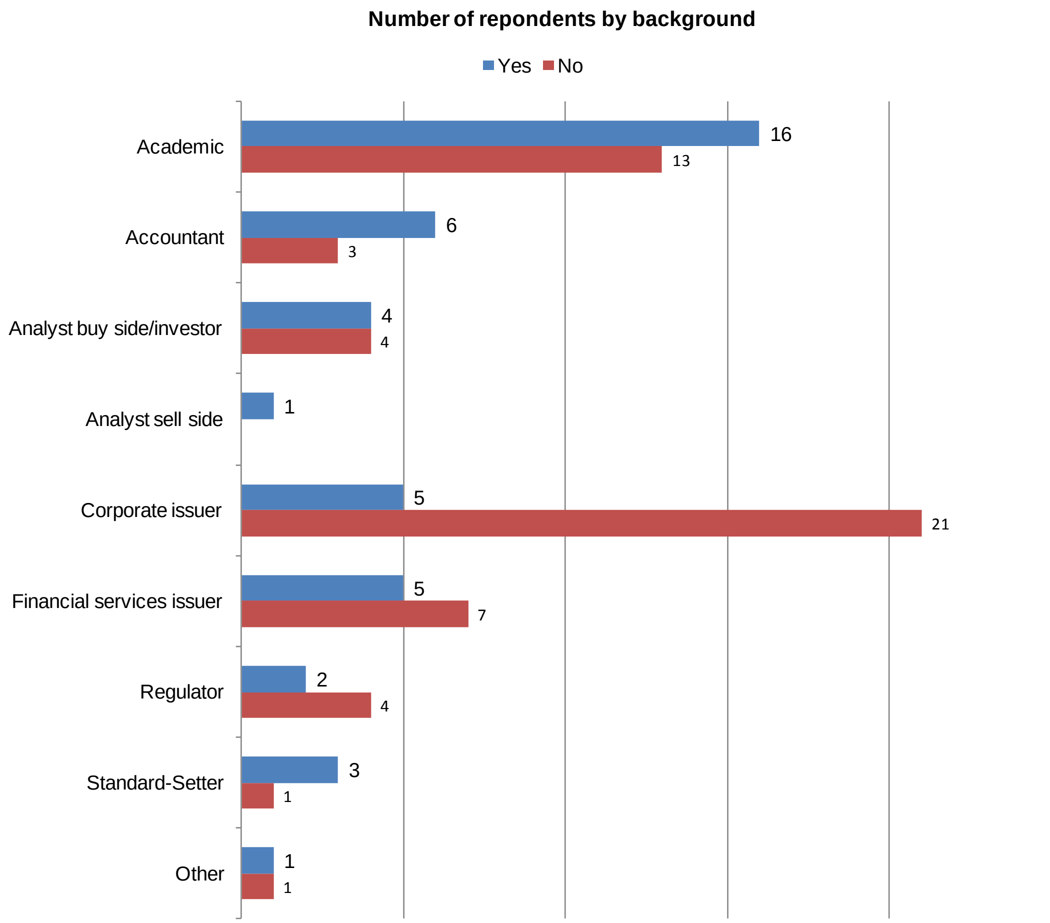
The views of respondents on where to present treasury assets were split. Some respondents supported EFRAG's view that the financing section should reflect an entity's treasury function, and therefore should include treasury liabilities *and* treasury assets, which an entity uses in managing its treasury activities. However, this view was not universally shared.

Whilst in Sweden the majority of respondents were against excluding operational treasury assets from the financing section, in other countries views varied. Based on the background of respondents, the majority of issuers (both corporate and financial services) favoured presentation of operational treasury assets within the financing section. The views of respondents in other groups were split.

Some respondents suggested that classification of assets and liabilities should reflect an entity's business model, while others proposed retaining the current balance sheet classification.

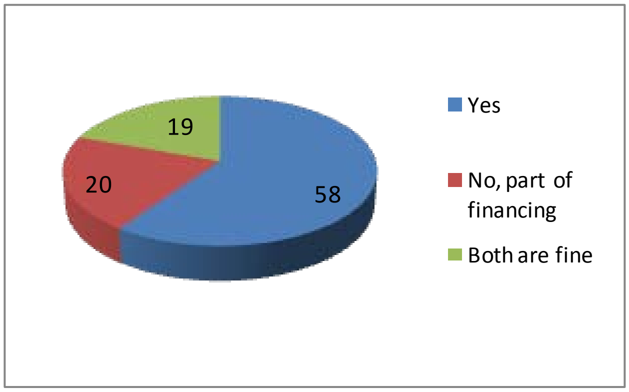
Question: Should operational treasury assets be excluded from the financing section?




Number of repondents by background
Yes
No
Academic
16
13
Accountant
6
3
Analyst buy side/investor
4
4
Analyst sell side
1
Corporate issuer
5
21
Financial services issuer
5
7
Regulator
2
4
Standard-Setter
3
1
Other
1
1

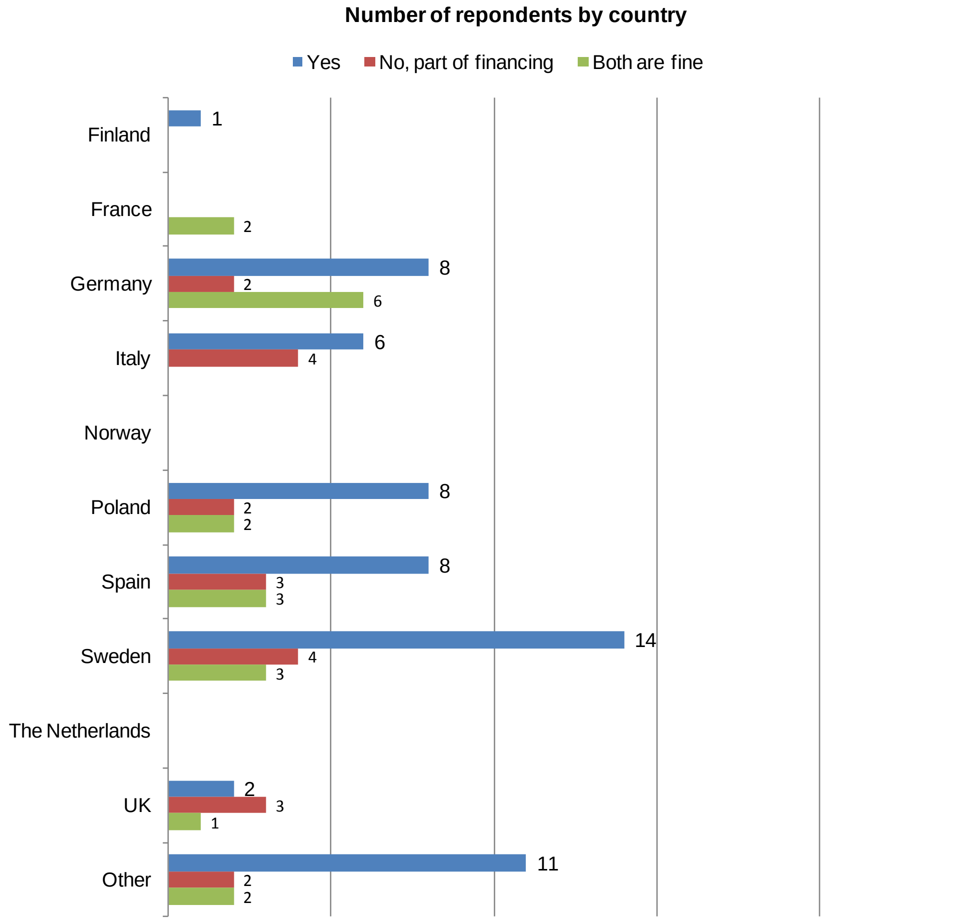
Question: Should equity be classified as a separate section?

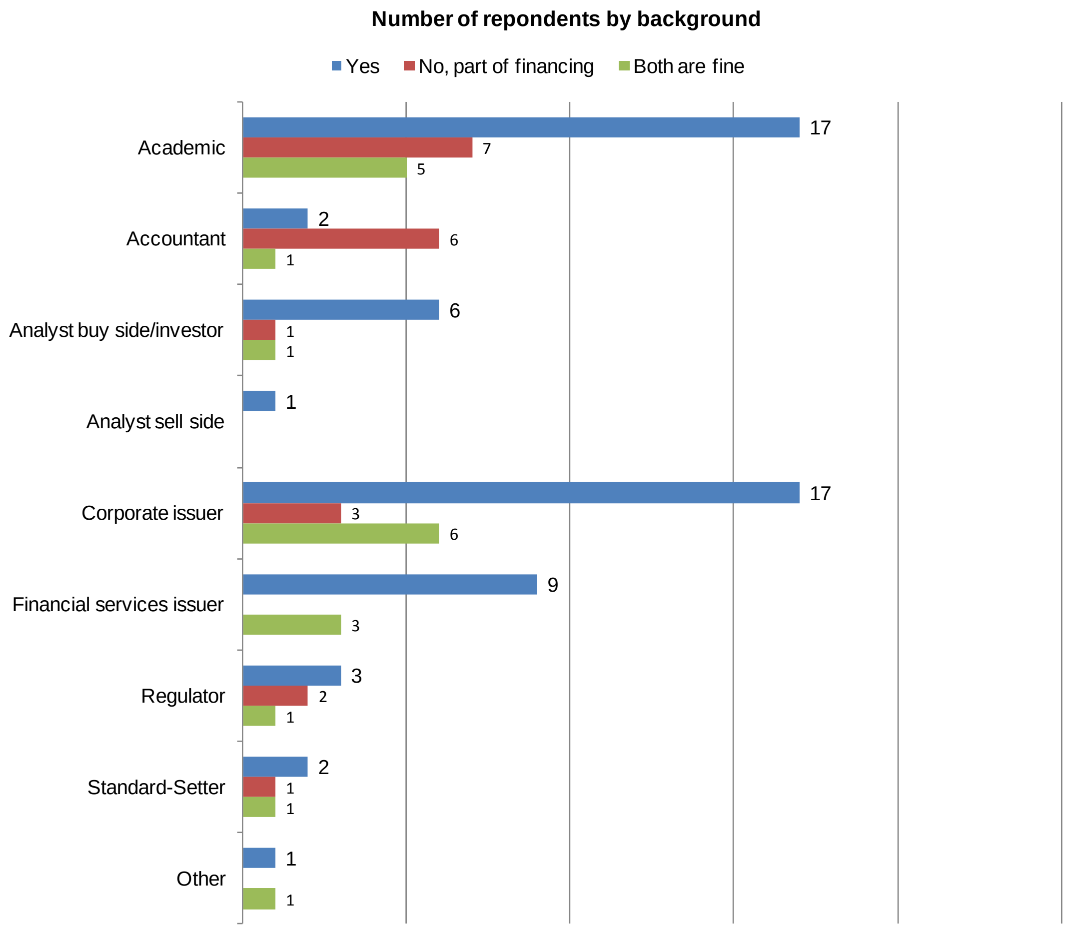
Overall response



The majority of respondents shared EFRAG's view that equity should be classified as a separate section on its own, rather than as part of the financing section, considering the differences of both sections. However, some respondents argued that equity is also a source of financing, just like debt, and therefore should be presented together with debt, within the financing section.

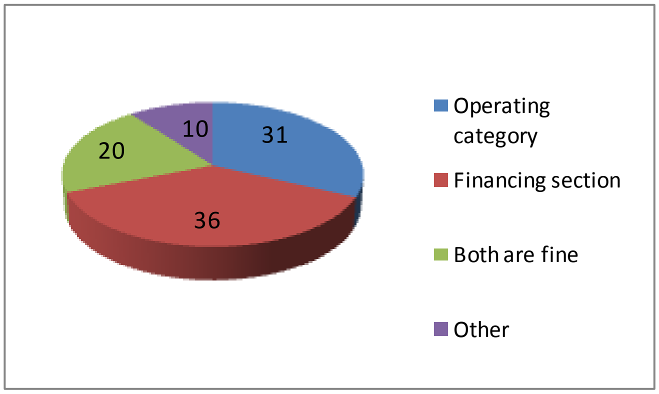
Question: Should equity be classified as a separate section?




Number of repondents by background
Yes
No, part of financing
Both are fine
Academic
17
7
5
Accountant
2
6
1
Analyst buy side/investor
6
1
1
Analyst sell side
1
Corporate issuer
17
3
6
Financial services issuer
9
3
Regulator
3
2
1
Standard-Setter
2
1
1
Other
1
1

Question: Where should cash be classified?

Overall response

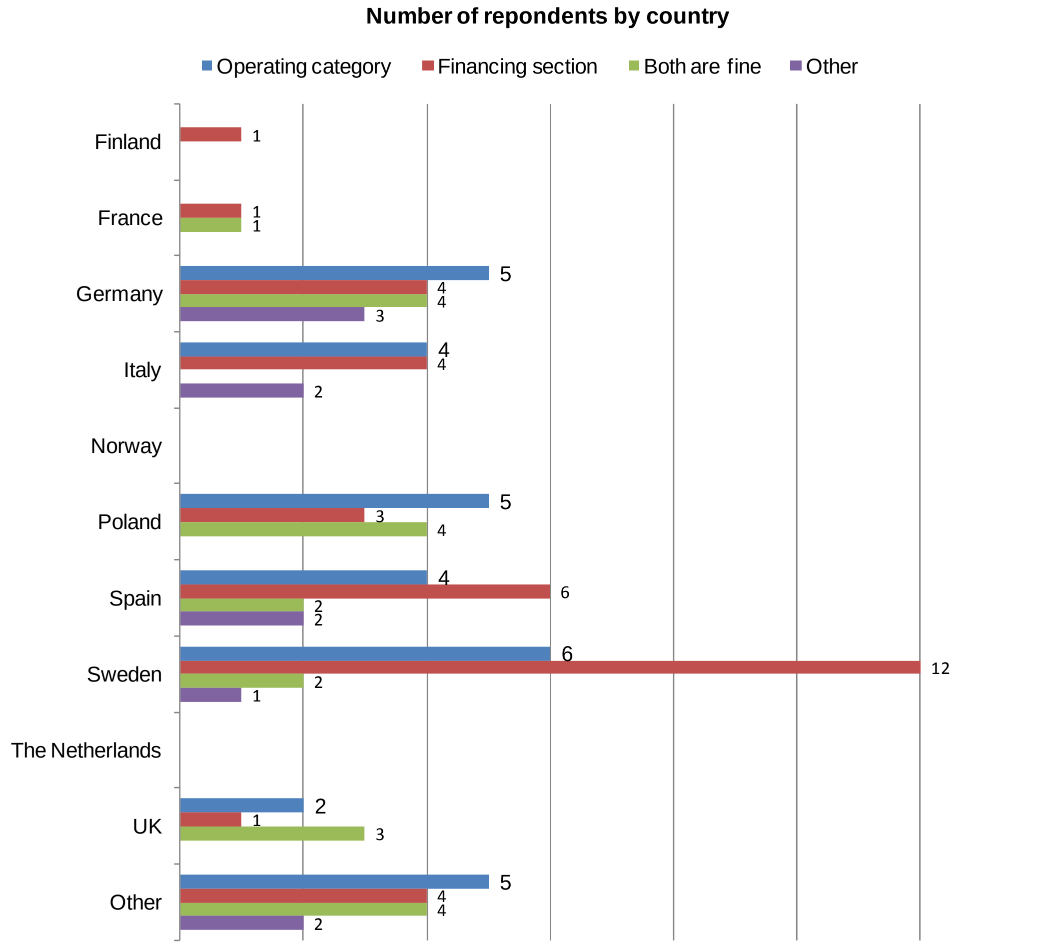


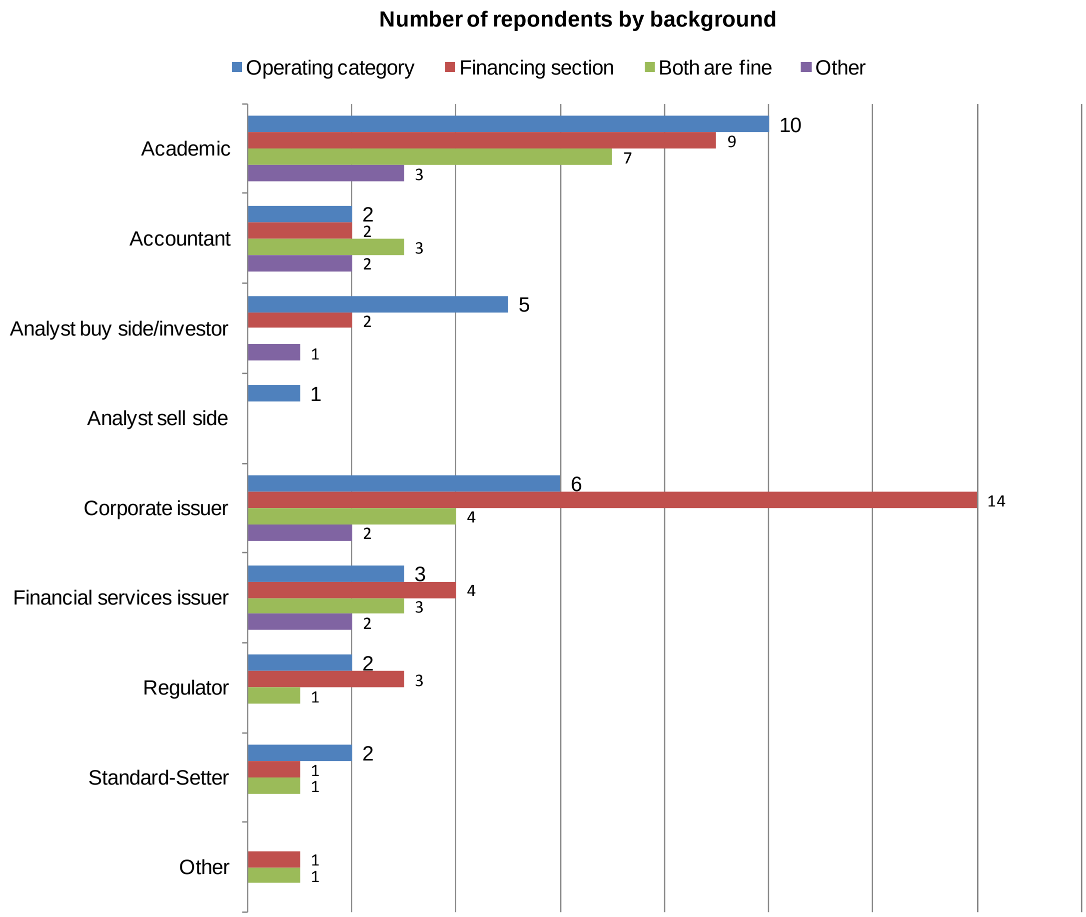
The views of respondents on the classification of cash were split. Some respondents shared EFRAG's view that cash should be classified together with all other assets and liabilities used in the treasury function within the financing section. However, this view was not universally shared.

Consistent with the views on the presentation of treasury assets overall, the majority of respondents from Sweden were in favour of including cash in the financing section, and in other countries views varied. The same applied to the background split: the majority of issuers (both corporate and financial services) favoured the inclusion of cash in the financing section, whilst the views of respondents in other groups were split.

Some respondents suggested the classification of cash based on its function within a business, and some argued for retaining the current balance sheet classification.

Question: Where should cash be classified?



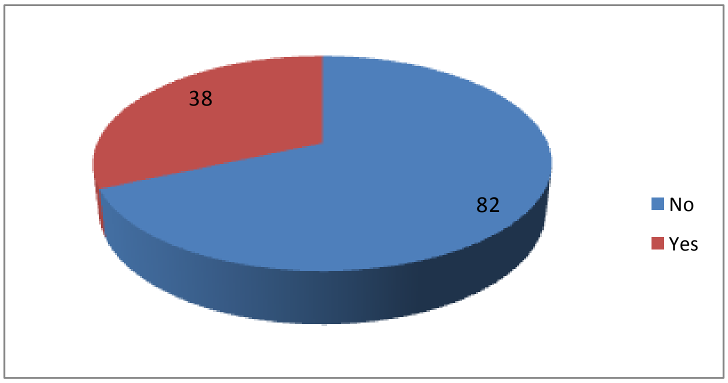


Number of repondents by background
Operating category
Financing section
Both are fine
Other
Academic
Accountant
Analyst buy side/investor
Analyst sell side
Corporate issuer
Financial services issuer
Regulator
Standard-Setter
Other
10
9
7
3
2
2
3
2
5
2
1
1
6
14
4
2
3
4
3
2
2
3
1
2
1
1
1
1

Statement of cash flows

Question: Do you agree with the removal of the indirect option?

Overall response



*The majority of respondents shared EFRAG's disa*greement with the proposal to *require* the direct method for presenting operating cash flows. However, this proposal was generally supported by academics.

Those in support of the removal of the indirect option, argued that:

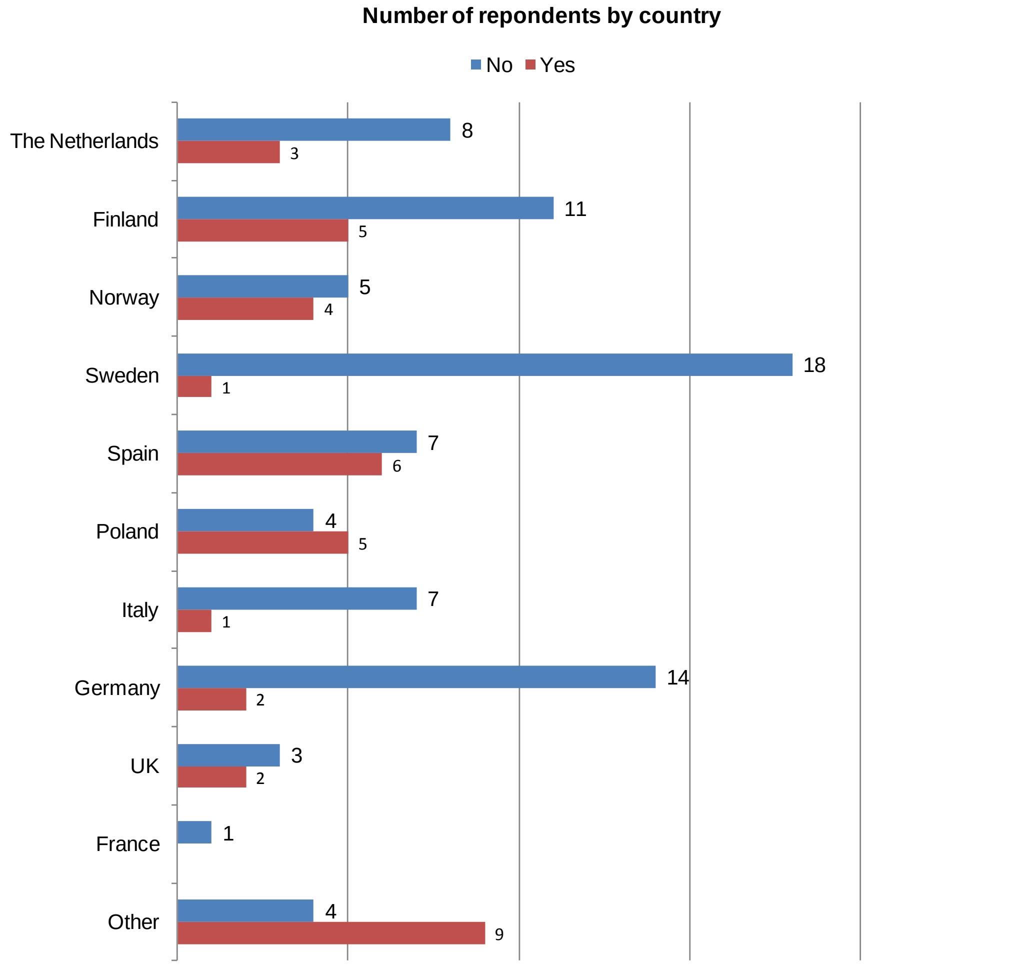
- The direct method provides a real picture of cash flows, which is more relevant;
- It is easier to understand;
- There is empirical evidence in form of the academic research proving the usefulness of the direct method; and
- It increases transparency and comparability between entities.

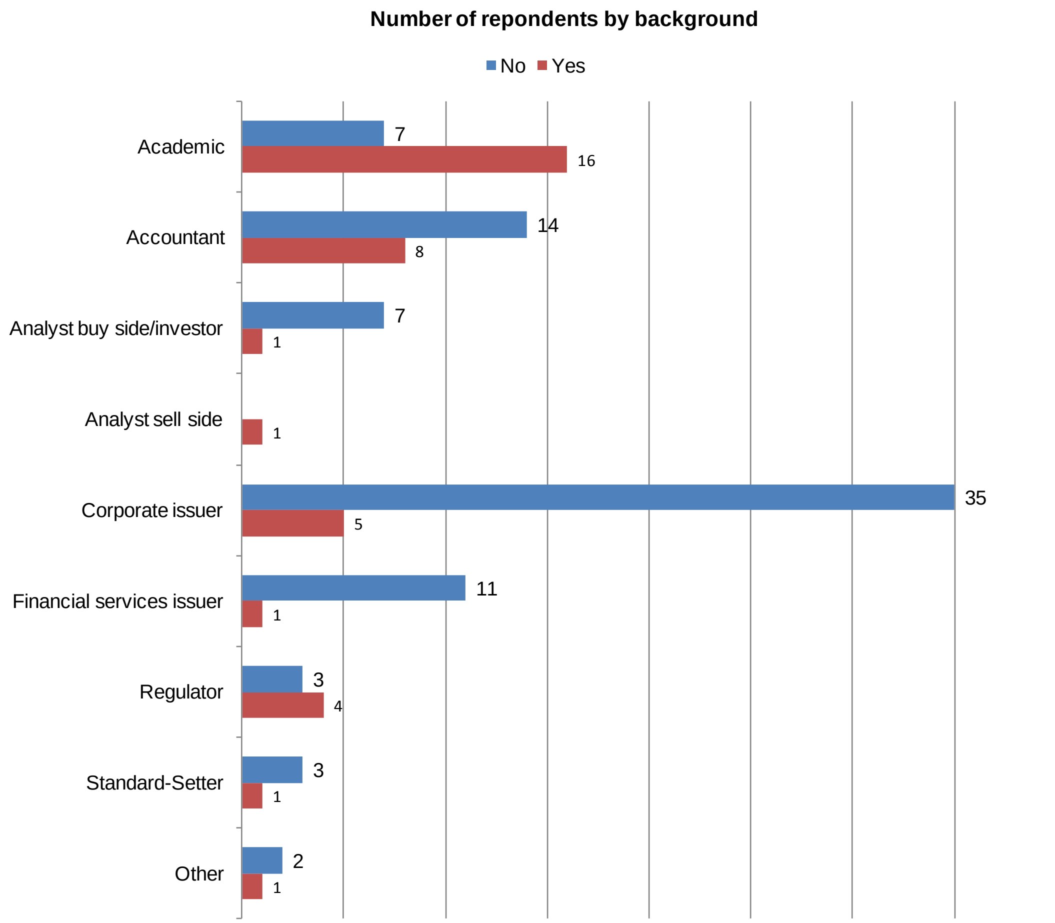
Those who disagreed with the removal of the indirect option argued that:

- Costs to implement and maintain the systems outweigh the benefits;
- The suggested direct method is very detailed and many items will be costly and difficult (if not impossible) to provide for a large group of companies;
- The indirect method provides highly useful information for users; and
- The indirect method, when specified properly, is very easy to understand and work with. It is also easy and logical to use when estimating a firm's cash flow.

Some respondents suggested that the indirect method could be improved by defining the starting point for the statement.

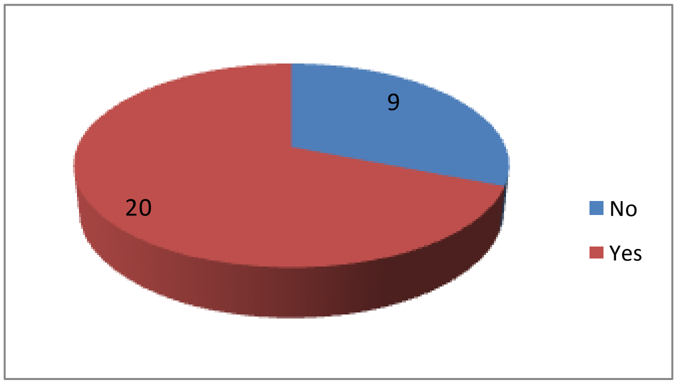
Question: Do you agree with the removal of the indirect option?




Number of repondents by background
No
Yes
Academic
Accountant
Analyst buy side/investor
Analyst sell side
Corporate issuer
Financial services issuer
Regulator
Standard-Setter
Other
7
16
14
8
7
1
1
35
5
11
1
3
4
3
1
2
1

Question: Is the statement of cash flows useful for financial services entities?

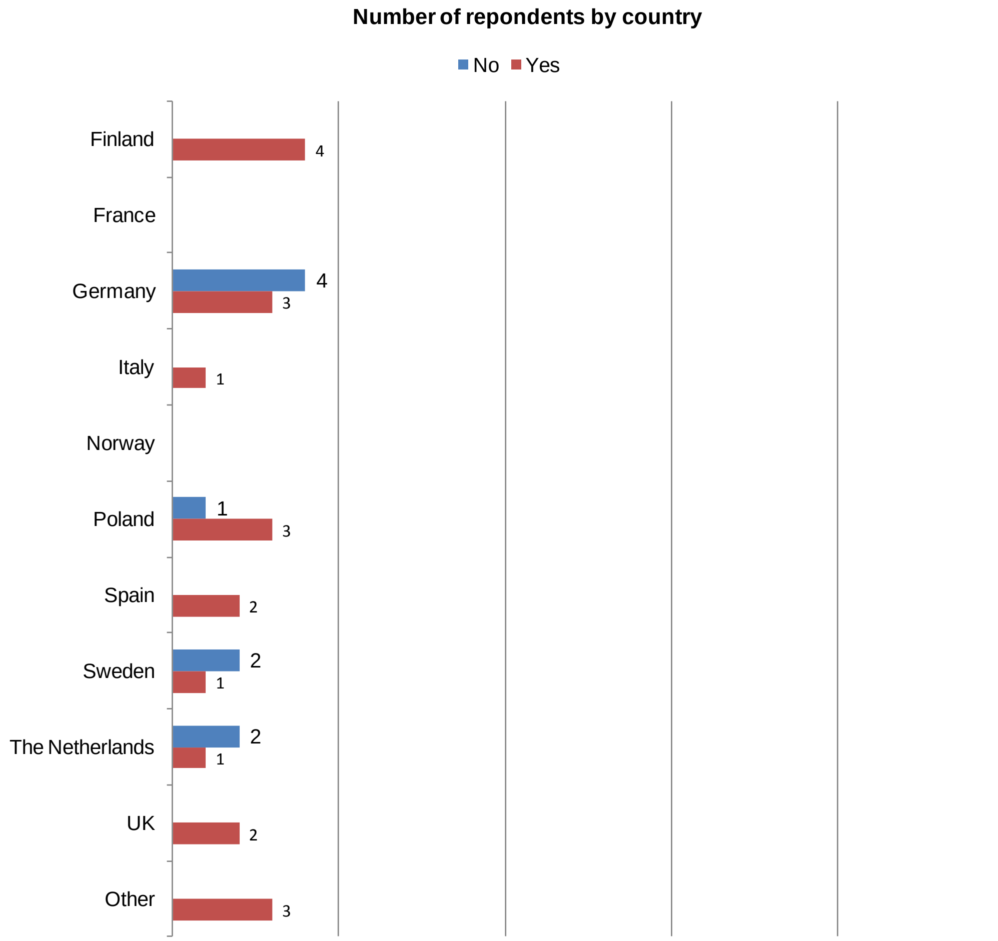
Overall response

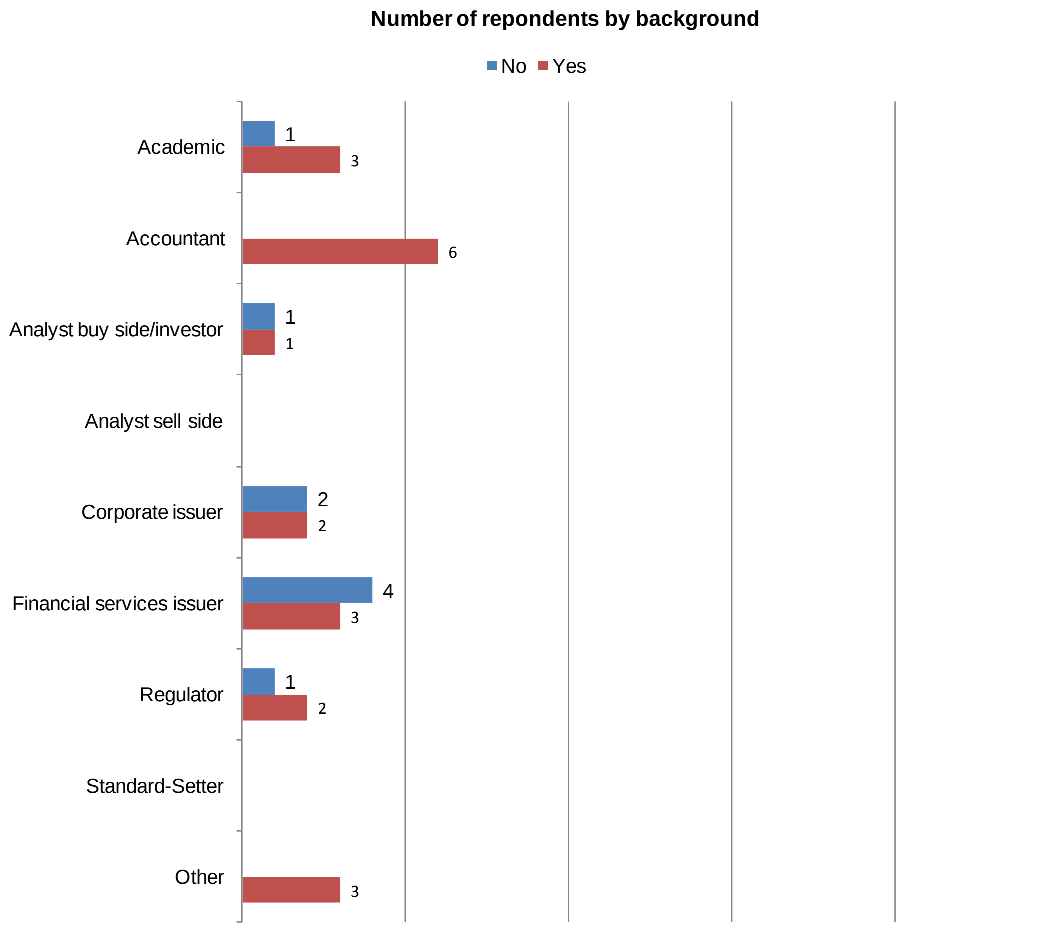


The number of responses to this question was very limited. Only 29 respondents provided their views.

The respondents from Germany, Sweden, and the Netherlands mainly disagreed that the statement of cash flows was useful for financial services entities. Respondents from other countries believed that it was useful. In the background split, those who disagreed that the statement of cash flows was useful for financial services entities, were mainly financial services issuers. They argued that the statement of cash flows is not relevant for assessing the liquidity and solvency of financial and insurance institutions.

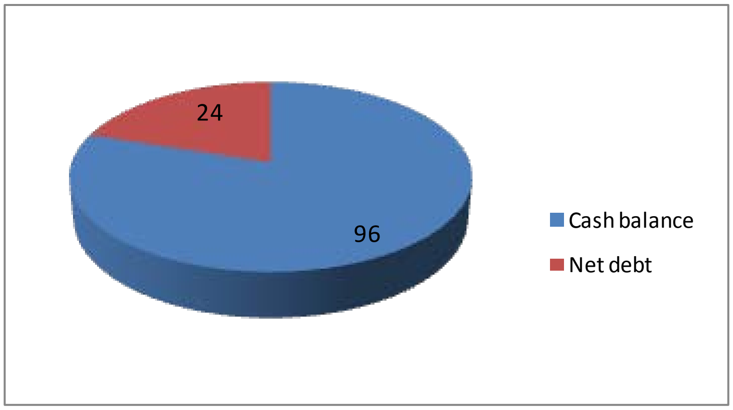
Question: Is the statement of cash flows useful for financial services entities?




Number of repondents by background
No
Yes
Academic
1
3
Accountant
6
Analyst buy side/investor
1
1
Analyst sell side
Corporate issuer
2
2
Financial services issuer
4
3
Regulator
1
2
Standard-Setter
Other
3

Question: What changes should be explained in the flow statement – cash or net debt?

Overall response

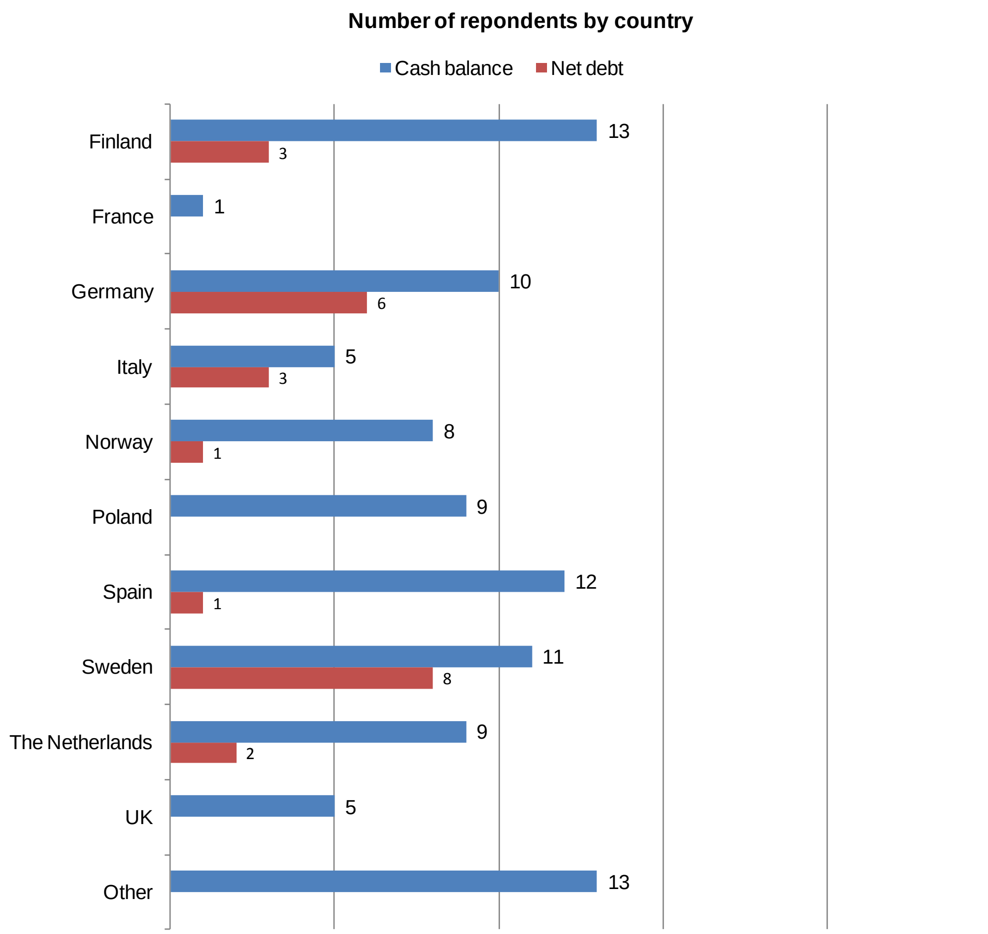


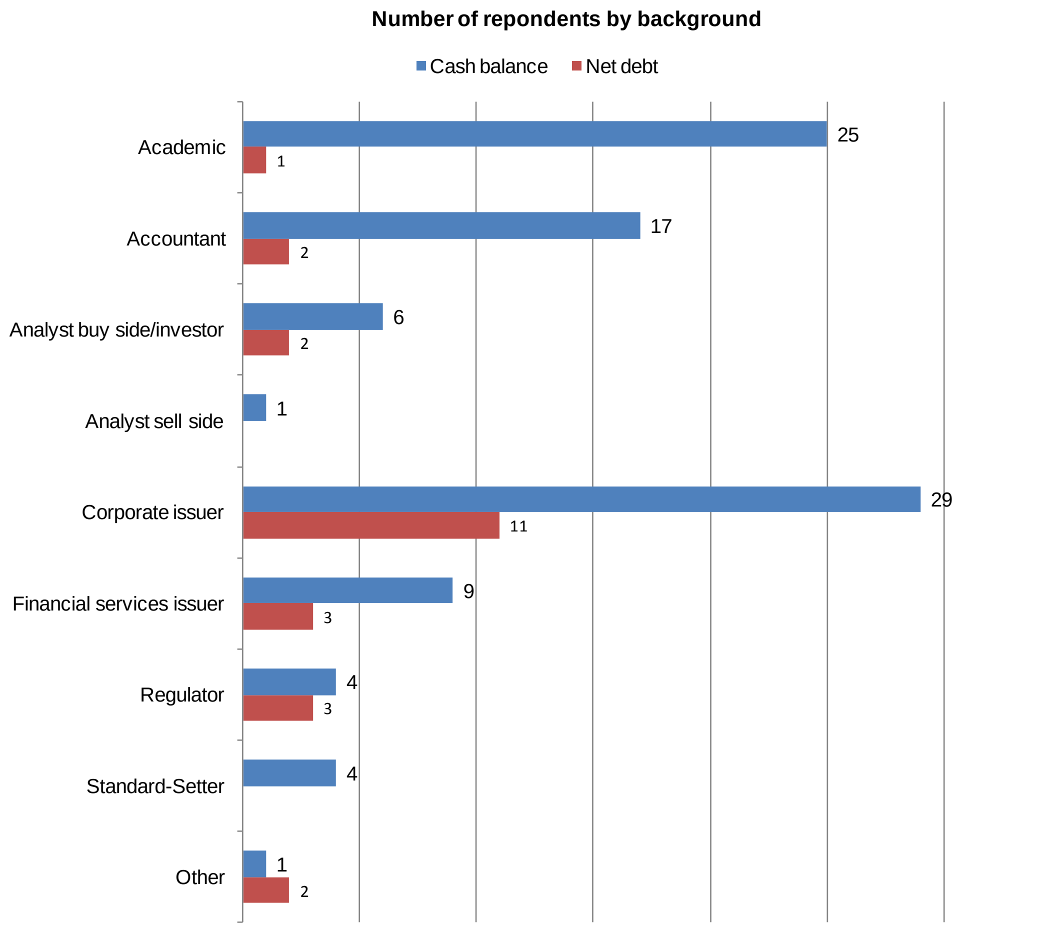
The majority of the respondents believed that the flow statement should explain changes in the cash balance rather than in the net debt balance.

The largest number of supporters of the net debt statement was in Sweden and in Germany, and the respondents were mainly from the corporate issuer background.

Some respondents suggested that both the cash flow statement and the net debt reconciliation provide useful information and that the choice would depend on the specific user needs, i.e., whether the user analysis is focused on the liquidity of an entity or on the enterprise value.

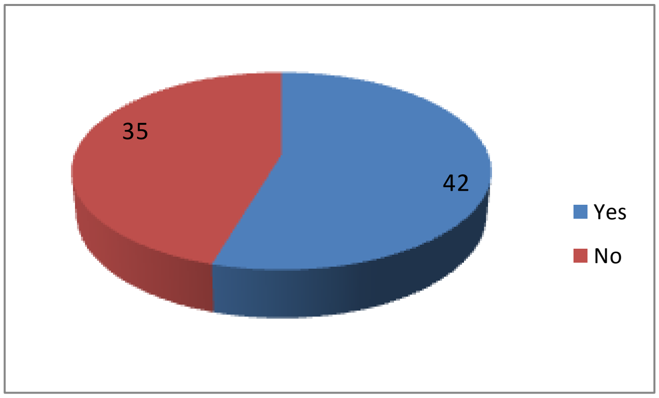
Question: What changes should be explained in the flow statement – cash or net debt?




Number of repondents by background
Cash balance
Net debt
Academic
25
1
Accountant
17
2
Analyst buy side/investor
6
2
Analyst sell side
1
Corporate issuer
29
11
Financial services issuer
9
3
Regulator
4
3
Standard-Setter
4
Other
1
2

Question: Should net debt be defined in the standard?

Overall response



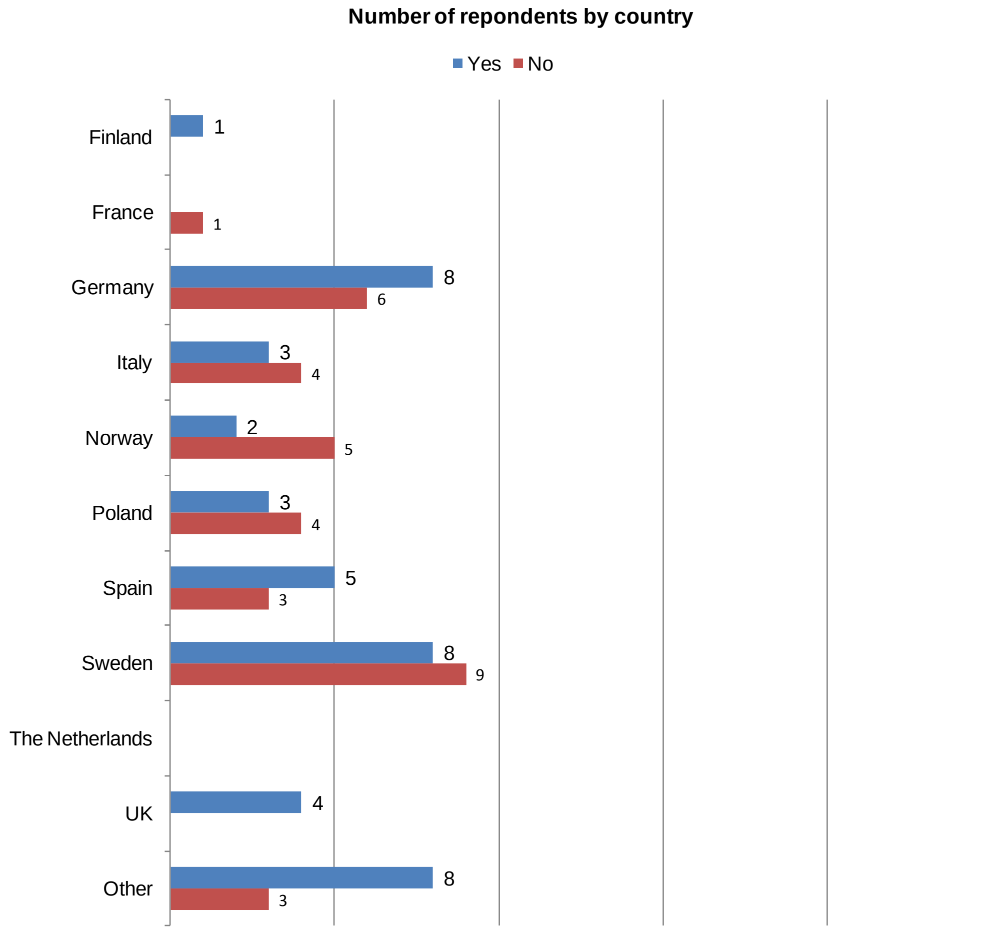
The views of respondents on whether net debt should be defined in the standard were split. It is worth noting that in a number of European countries there is a regulatory or a local GAAP requirement to provide net debt reconciliation. Therefore, there is an established definition of net debt and an established practice of reporting the net debt reconciliation in these countries. However, these definitions vary from country to country.

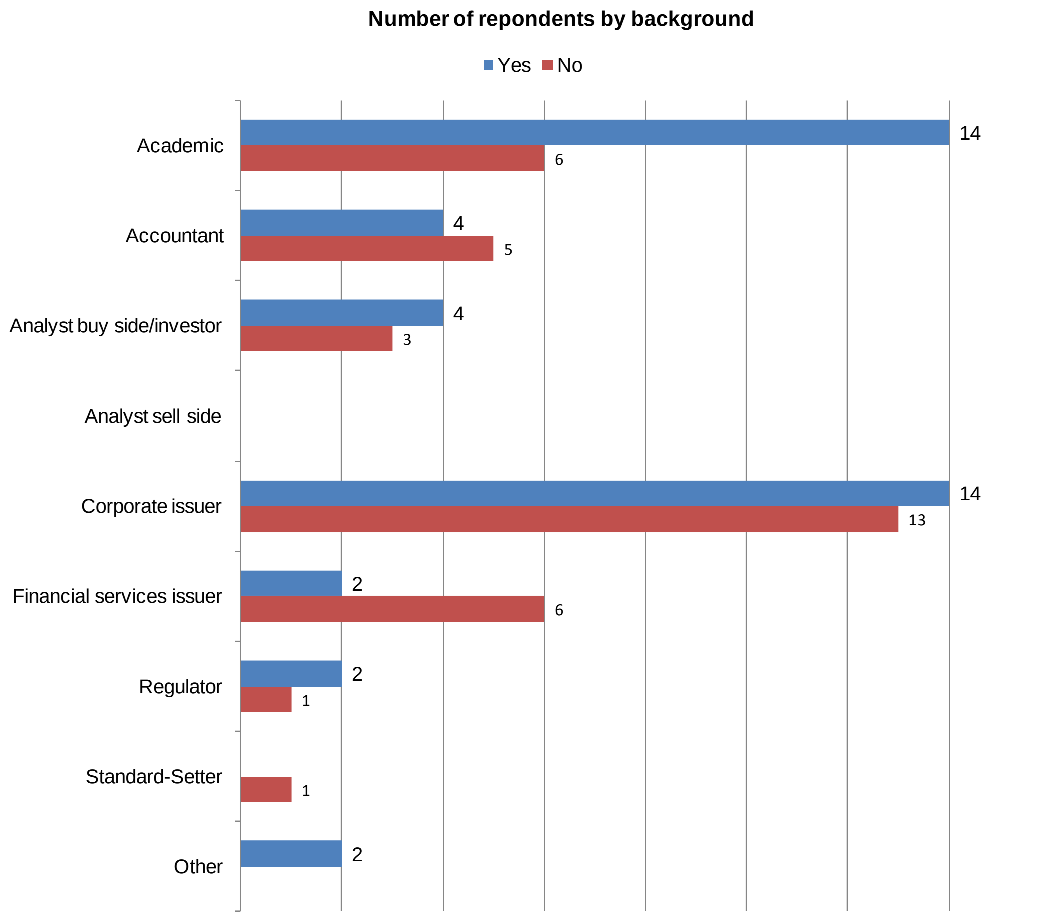
Those who supported defining the net debt in the standard suggested the following options for the definition:

- that it should be net of interest-bearing assets and liabilities;
- that it should encompass financial assets less financial liabilities;
- that it should encompass liquid assets, short-term investments and interest-bearing receivables less interest-bearing liabilities and provisions for pension; and
- that it should be defined in accordance with the business model and the way that analysts look at companies.

Some respondents suggested that the definition should be given in the standard and that it should be universal for all entities to achieve greater comparability, whilst others proposed that it could be entity-specific and could be explained in the notes to financial statements.

Question: Should net debt be defined in the standard?



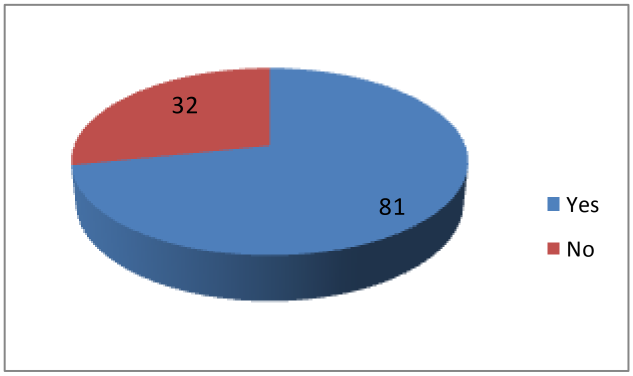


Number of repondents by background
Yes
No
Academic
14
6
Accountant
4
5
Analyst buy side/investor
4
3
Analyst sell side
Corporate issuer
14
13
Financial services issuer
2
6
Regulator
2
1
Standard-Setter
1
Other
2

Remeasurements

Question: Do you support the proposed objective for the remeasurement note?

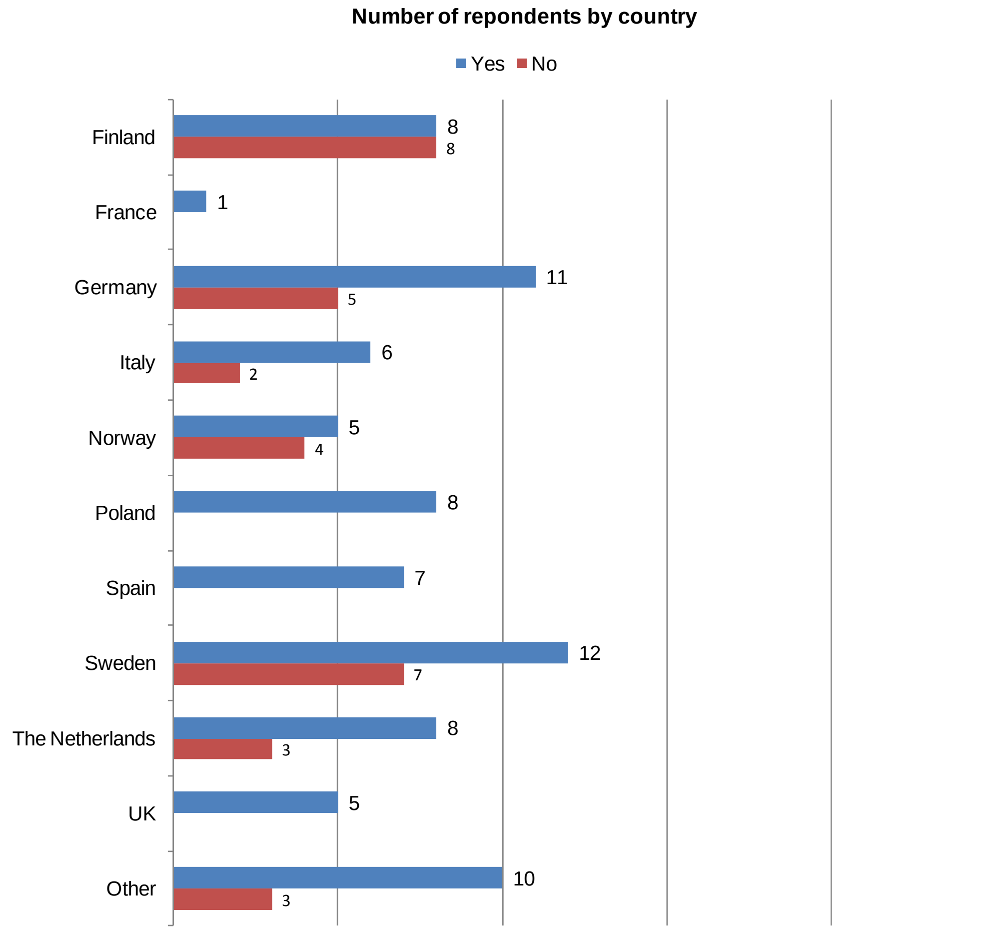
Overall response

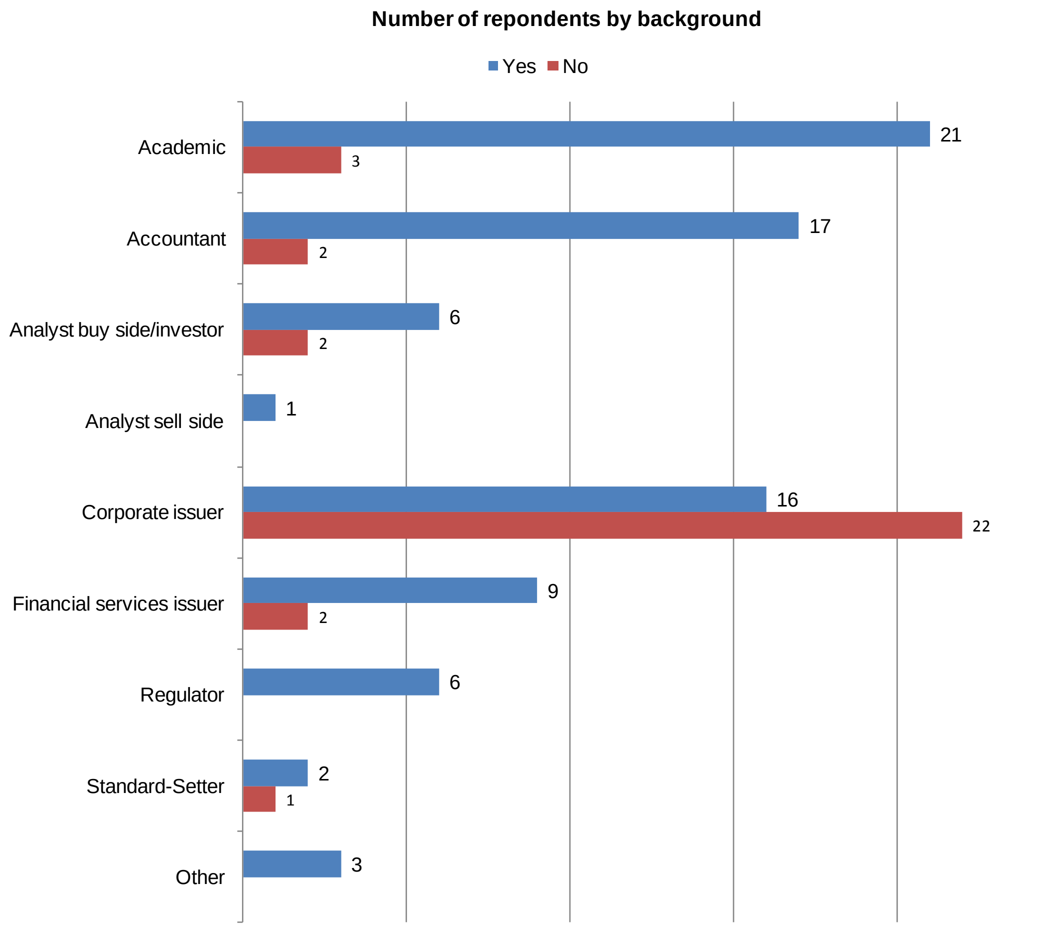


The majority of respondents supported the proposed objective for a separate note about remeasurements.

Those who opposed the proposed objective for a separate disclosure about remeasurements were mainly corporate issuers.

Question: Do you support the proposed objective for the remeasurement note?

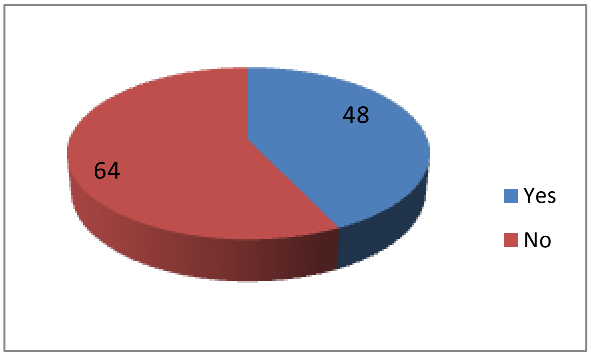



Number of repondents by background
Yes
No
Academic
21
3
Accountant
17
2
Analyst buy side/investor
6
2
Analyst sell side
1
Corporate issuer
16
22
Financial services issuer
9
2
Regulator
6
Standard-Setter
2
1
Other
3

Cost and benefits

Question: Would the new presentation model result in significantly improved and more useful information?

Overall response

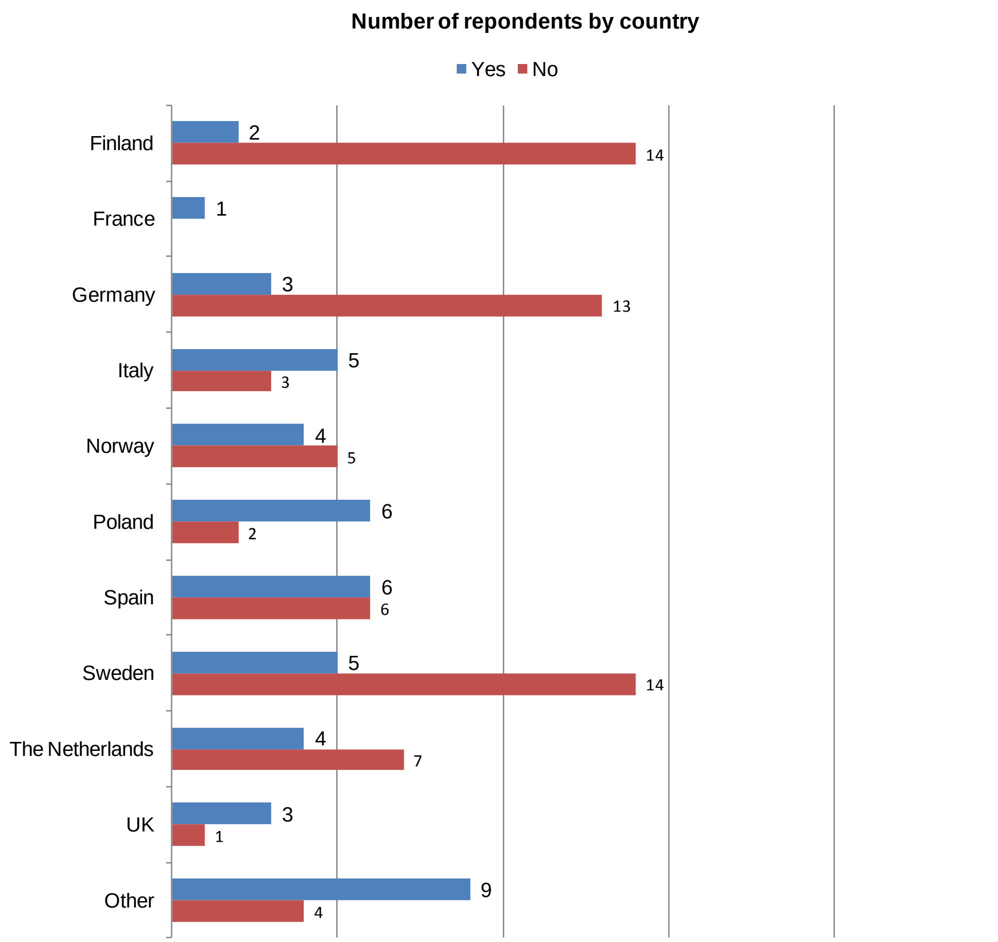


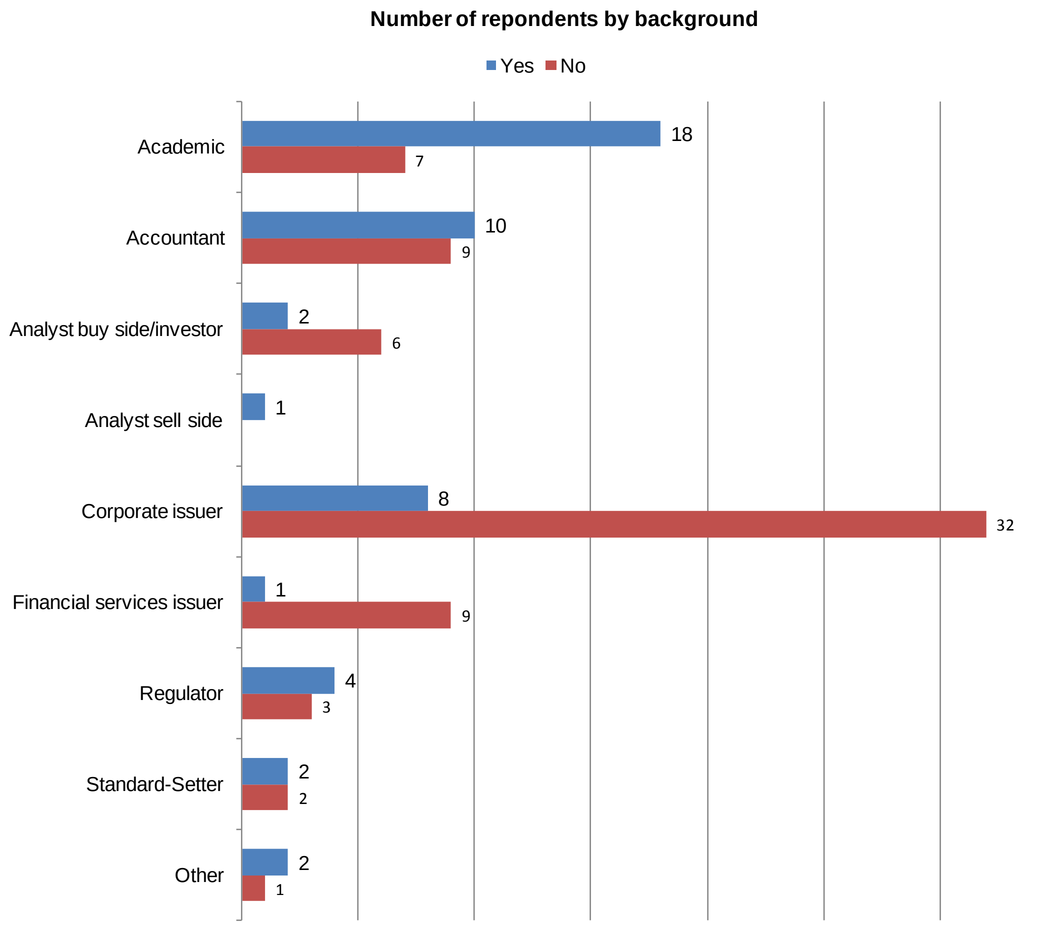
The majority of respondents did not believe that the new presentation model would result in significantly improved and more useful information. A very strong disagreement was expressed by respondents from Finland, Germany and Sweden. This group of respondents included a large number of corporate and financial services issuers. Even the majority of analysts who responded to the questionnaire did not believe that the new presentation model would result in significantly more useful information. Amongst the arguments used by this group of respondents were the following:

- Under the proposed model the primary statements would be overly detailed and therefore confusing;
- The proposals are very prescriptive and there would be a very limited link with an entity's business model;
- The current presentation has a long tradition and is well understood. If the presentation changed fundamentally, the non-professional users would be lost; and
- The information would be too detailed and it would even take a highly sophisticated user some time to digest the additional information.

Those who believed that the new presentation model would result in significantly improved and more useful information were mainly academics and accountants. Amongst the benefits of the new presentation model, a number of respondents mentioned the clear structure with sections and categories and cohesiveness as a principle, which increase comparability and provide a clear connection between the primary statements.

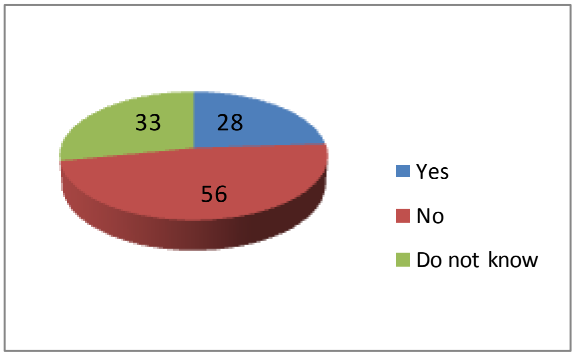
Question: Would the new presentation model result in significantly improved and more useful information?




Number of repondents by background
Yes
No
Academic
18
7
Accountant
10
9
Analyst buy side/investor
2
6
Analyst sell side
1
Corporate issuer
8
32
Financial services issuer
1
9
Regulator
4
3
Standard-Setter
2
2
Other
2
1

Question: Do you think that the benefits of the new model would outweigh the cost?

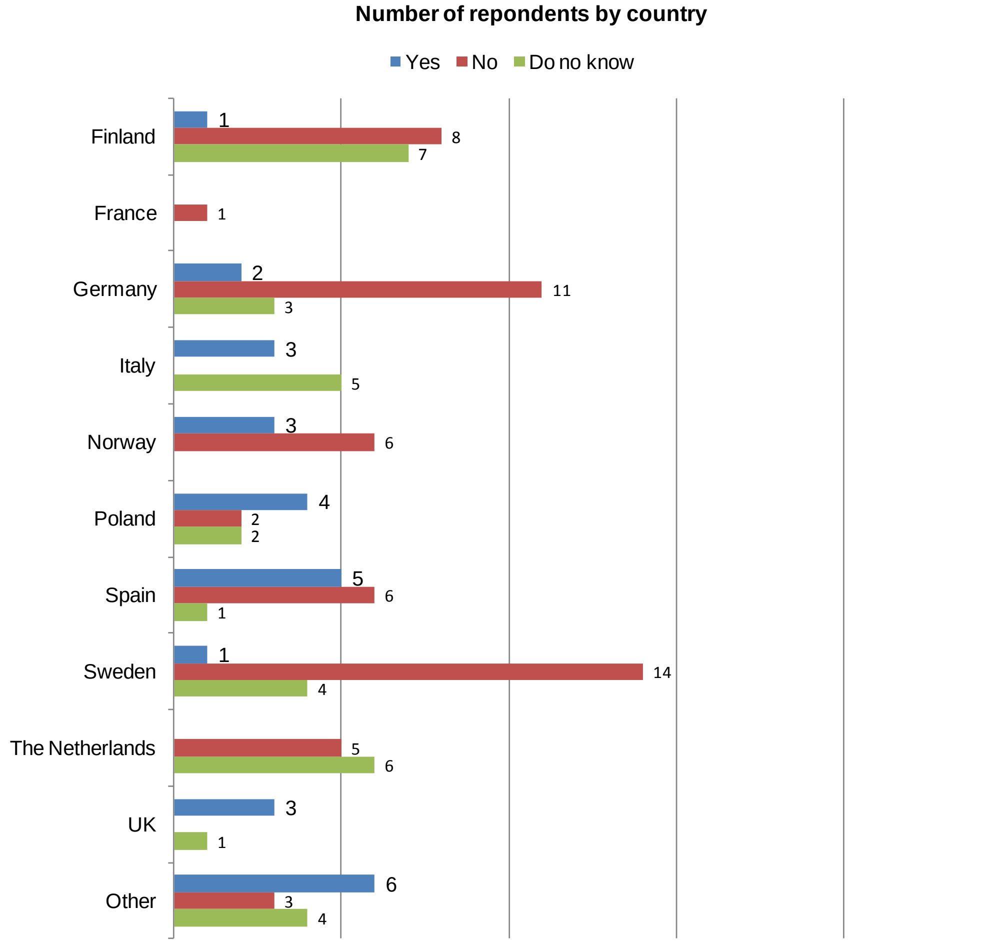
Overall response

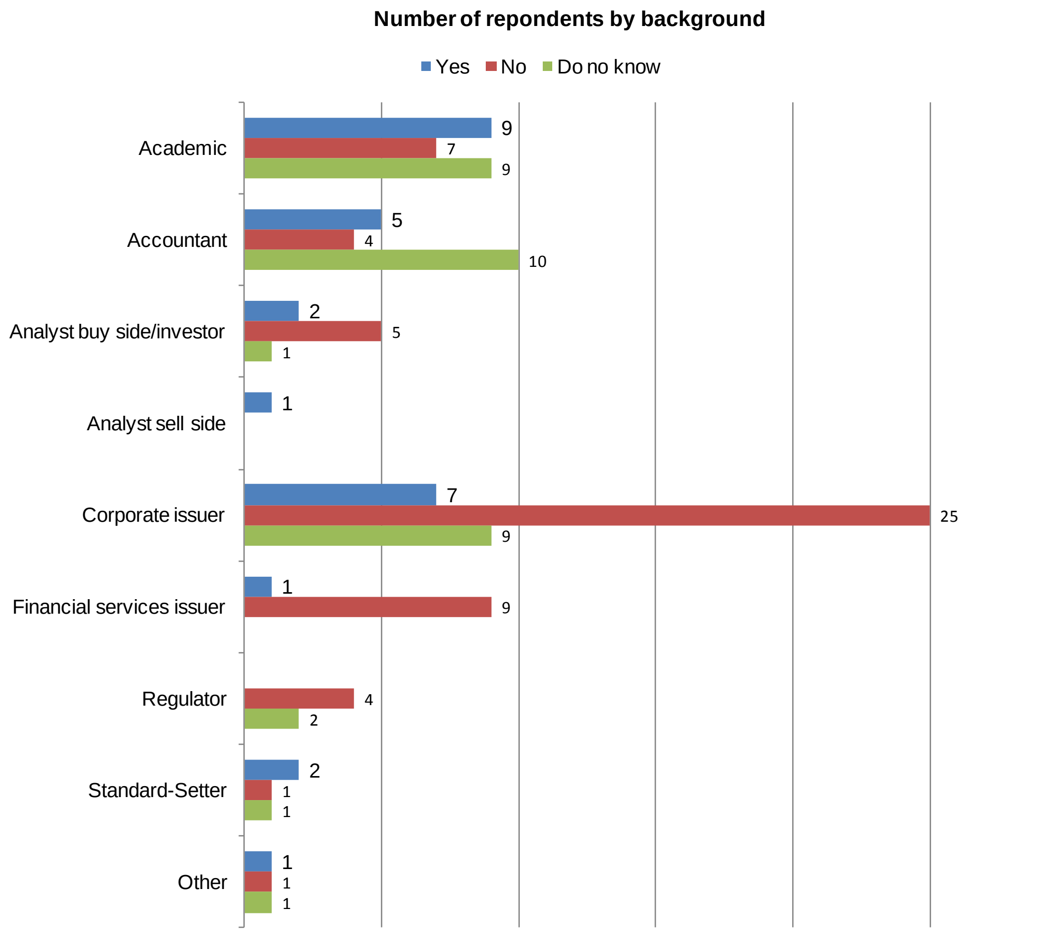


The majority of respondents did not believe that the benefits of the new model would outweigh the costs. Consistent with the response to the previous question, a very strong disagreement was expressed by respondents from Finland, Germany and Sweden, and this group of respondents included a large number of corporate and financial services issuers, regulators and analysts.

These respondents mentioned that substantial work and costs will be required to develop and implement the new systems to support the new presentation model. They also mentioned that the new presentation model would require more maintenance costs, as certain disaggregated information would require splitting everyday invoices into different sections and categories, requiring more skilled people, not only at group, but also at subsidiary level.

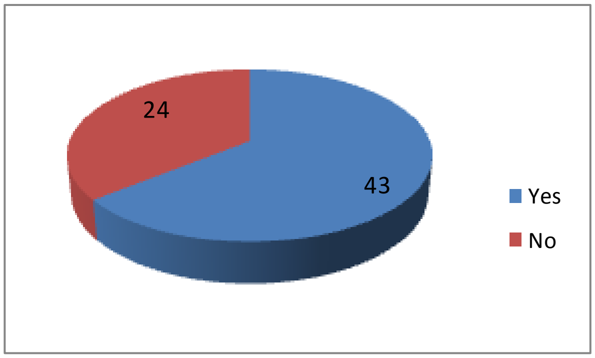
Question: Do you think that the benefits of the new model would outweigh the cost?




Number of repondents by background
Yes
No
Do no know
Academic
Accountant
Analyst buy side/investor
Analyst sell side
Corporate issuer
Financial services issuer
Regulator
Standard-Setter
Other
9
7
9
5
4
10
2
5
1
1
7
25
9
1
9
4
2
2
1
1
1
1
1

Question: Should separate proposals or specific application guidance be developed for some industries?

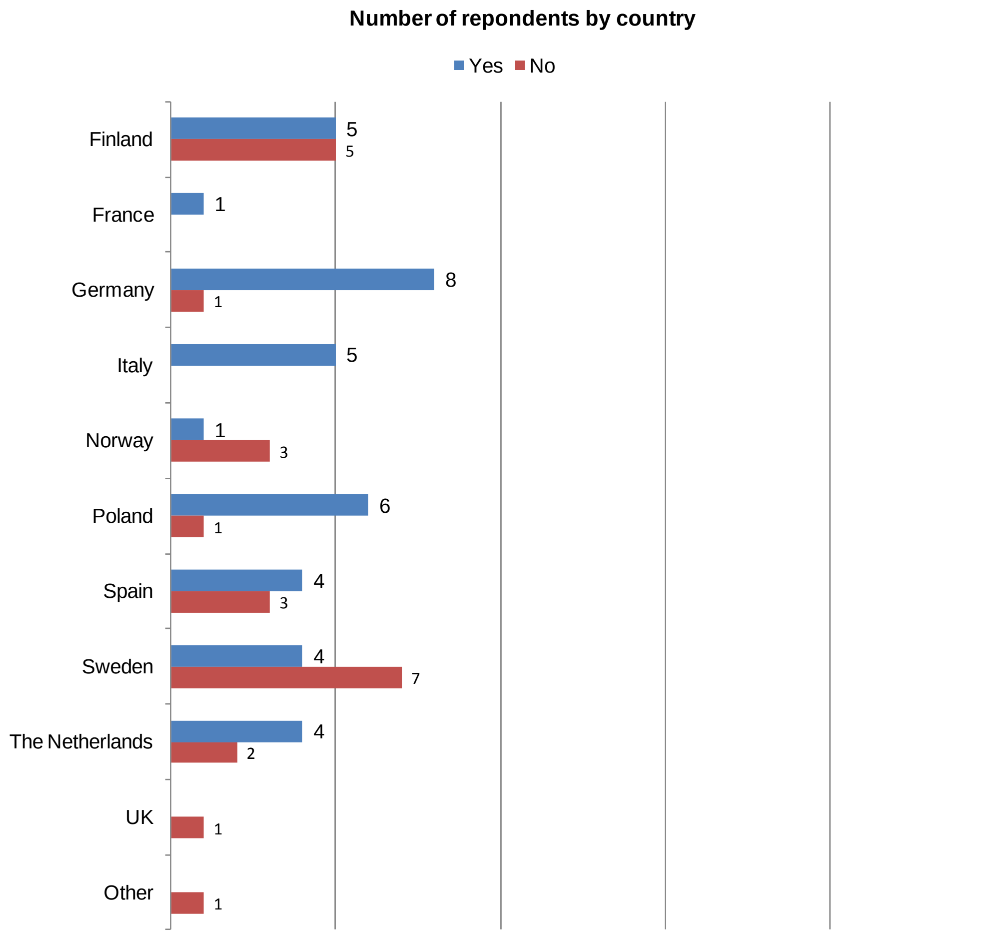
Overall response

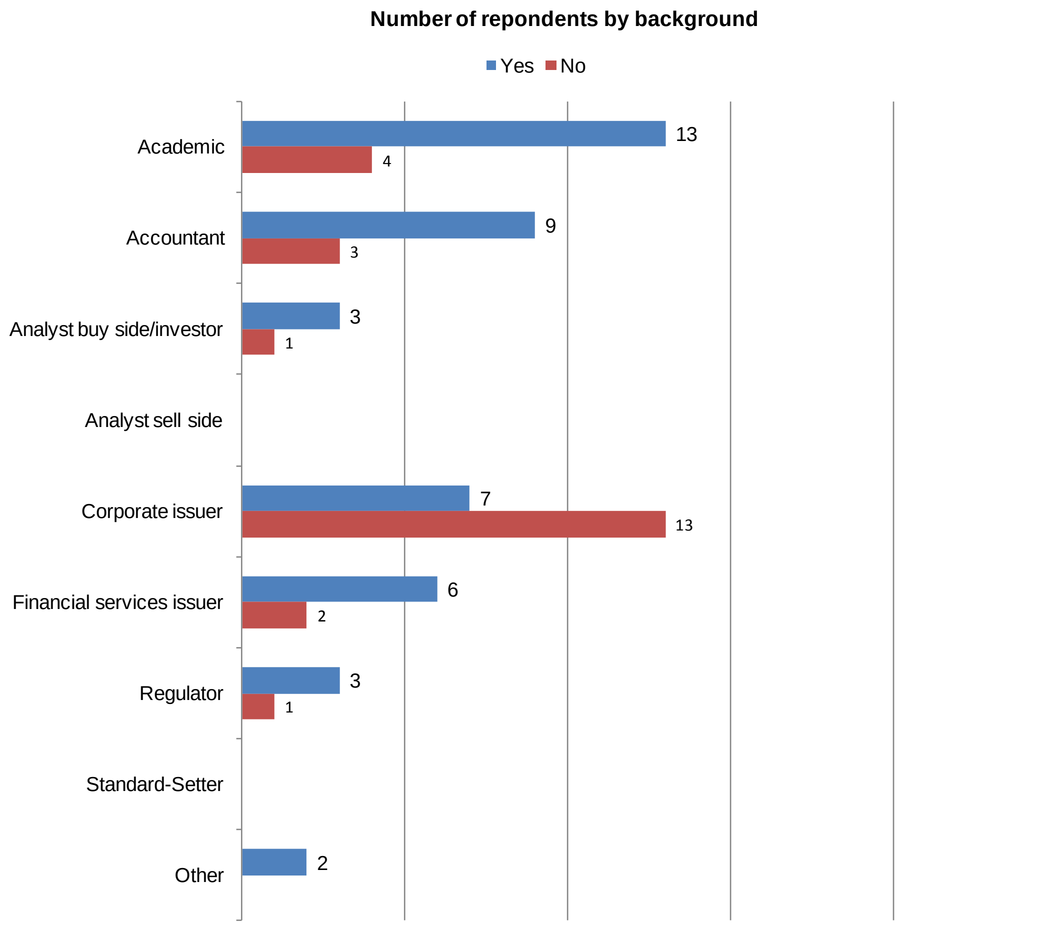


The majority of respondents to this question believed that separate proposals or specific application guidance should be developed for some industries.

Amongst industries requiring special guidance, the respondents mentioned financial services and insurance entities.

Question: Should separate proposals or specific application guidance be developed for some industries?




Number of repondents by background
Yes
No
Academic
13
4
Accountant
9
3
Analyst buy side/investor
3
1
Analyst sell side
Corporate issuer
7
13
Financial services issuer
6
2
Regulator
3
1
Standard-Setter
Other
2