Note about the *Financial Statement Presentation* outreach event on 26th November 2010 in Rome

Below is a note on the discussion about the IASB's staff draft of the Exposure Draft *Financial Statement Presentation* (the Draft ED) held at the outreach event organised jointly by EFRAG and the Organismo Italiano di Contabilità (OIC), the Italian National Standard Setter, on 26 November 2010.

General

In general, the views of participants were split on whether the new presentation standard should be based on principles or rules, as some preferred clear rules.

Scope of the FSP project

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 a starting point for an analyst's analysis, and later the starting point moved to an 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.

Cohesiveness

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.

Financing section

Overall, participants noted that further work was needed to ensure that the classification principle is operational and that the dividing line between 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 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.

Disaggregation on the face

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.

Some participants favoured disaggregation based on a principle, which would allow reflecting 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 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.

Cash flow statement

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 1, 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 balance sheet and income statement, and hardly use a cash flow statement for their analysis, because historically the cash flow statement has been too condensed and did not provide any meaningful information. Therefore, if the option to present operating cash flows were retained, the indirect cash flow would require some improvements.

Remeasurements

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.

Cost and benefits of a new model

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. 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.