CFA UK is a member society of

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Financial Statement Presentation (FSP)

Dear Ms Gomez,

Thank you for providing our committee with the opportunity to present comments on the IASB's Discussion Paper (DP) after the official deadline for responses. The committee's intention in these comments is to provide feedback on the questions raised in the presentation on FSP made to the Analyst Representative Group in March 2009. Our comments do not represent an official response to the DP – where we support the response provided by CFA Institute on 14th April – but will hopefully provide useful views on some of the more contentious issues covered by the DP.

As you know, the CFA Society of the UK (CFA UK) represents the interests of more than 8,000 leading members of the UK investment profession. The society, which was founded in 1955, is one of the largest member societies of CFA Institute and is committed to leading the development of the investment profession through the promotion of the highest ethical standards and through the provision of continuing education, advocacy, information and career support on behalf of its members.

The society's advocacy activities are directed by the Accounting Advocacy and Investment Profession Advocacy committees which are wholly composed of CFA UK members working in the investment profession. CFA UK supports the CFA, Associate (ASIP) and IMC designations. Most members hold either the Chartered Financial Analyst (CFA), or Associate designation. CFA Institute is best known for developing and administering the CFA curriculum and examinations and issuing the CFA Charter. CFA Institute's mission is to lead the investment profession globally by setting the highest standards of ethics, education and professional excellence.

Most CFA UK members also belong to the CFA Institute and reaffirm annually their adherence to its Code of Ethics and Standards of Professional Conduct. Both CFA UK and CFA Institute are committed to providing members with a wide range of continuing education opportunities. All members are encouraged to undertake ongoing post-qualification continuing education.

In addition, CFA UK is the awarding body for the IMC, the benchmark entry-level qualification for those working in investment management in the UK. The examination is accredited by the Qualifications and Curriculum Authority (QCA) and is designated a recommended examination by the Financial Services Skills Council (FSSC) for the purposes of the Financial Services Authority's training and competence requirements. The IMC is held by more than 15,000 investment professionals.

Member feedback on FSP

To support the advocacy committees' work in representing member opinion to regulators and standards setters, the society undertakes regular surveys. A survey on FSP was sent out to members in early April. The society received 351 responses (a response rate of just under 5%). The survey asked members to express a view on the need for a series of changes relating to the presentation of financial statements. The results are contained in Annex A to this letter, but the large majority of members (80% or above in each case) clearly recognise the need for:

- Enhanced transparency on current cash flow disclosure through the cash flow statement and notes to the accounts
- Greater visibility of items within Other Comprehensive Income
- Greater disaggregation of unrealised gains/losses resulting from fair value remeasurements

The Board's concentration on these objectives within the FSP project is clearly necessary and welcome, but there is also a need for balance in approaching these issues and the society notes that there is not broad discontent with preparers' presentation of accounts at this time.

Following the close of the survey, the committee contacted respondents who had indicated a willingness to help the society prepare a response. The society asked those individuals to review the presentation on FSP made to the ARG and to provide comments on a selection of 23 of the questions contained within the survey. The society's comments are based on the comments received and on the views of the Accounting Advocacy committee members.

Comments

Objectives of the FSP project (slide 6)

Do you agree with the three objectives?

Most respondents agreed with the three objectives (portray a cohesive picture, disaggregate information and present information about liquidity and financial flexibility), though it was observed that promoting cohesion may restrict the ability of the different statements to present their varied perspectives on corporate performance. Concern was also raised that the disaggregation objective was ambitious in its scope and, therefore, may be unlikely to be achieved.

Is there any objective you would like to add?

Most respondents did not recommend additional objectives, but there was support for the objectives that:

‘the accounts present a true and fair view of activity during the period and of the financial position of the company at the beginning and end of the period.’

‘the accounts should be understandable to users not qualified in accounting’, and that

‘the main presentations should be concise with the breakdown and explanation of complex items appearing as notes in the accounts’

Proposed structure of FSP

Do you like the format of starting with the statement of financial position (balance sheet), which means asset/liability classifications are drivers?

Again, most respondents supported the approach, but did so with little enthusiasm. Some expressed a preference to start with statements relating to performance rather than position, but agreed that the application of a consistent approach was the only key requirement.

Do you agree with the grouping under the heading “business” with the division between “operating” and “investing”?

Respondents agreed with the approach, but expressed concern that the division would not be relevant for all companies (investing being a core activity for financial services and property companies, for example). Aside from concerns about the artificiality of the distinction, respondents also noted that there would be a need for clear guidelines on operation.

What do you think of the separate sections for financing, taxes, discontinued ops and equity?

Again, most respondents supported the approach as a useful development that would improve the assessment of corporate performance. However, one respondent observed that the changes might make it more difficult to identify the net interest cover ratio and to see whether the year-end net debt is near average net debt. The same respondent expressed concern about the separation of discontinued activities noting that these activities remain with the corporate body until they are either sold, or closed down. Re tax, the priorities for users will be to compare the company’s tax charge with corporation tax rates and with the amount paid, as recorded in the cash flow statement.

Should “other comprehensive income” be retained?

Most respondents agreed that ‘other comprehensive income’ should be retained, though it was recommended that ‘comprehensive’ might be removed from the heading and it was noted that it might be useful to distinguish between recurring and non-recurring income. Those that did not support the retention of OCI preferred the redistribution of OCI items to other sections and that the few remaining elements (such as foreign exchange gains/losses) should have their own lines.

Management approach (slide 9)

What are the pros and cons of the management approach?

The management approach was regarded as useful as it presents the management's view of the business, but respondents also observed that the approach might allow management to hide relevant information and expressed concern that the approach would make it more difficult to compare companies. Clear guidelines should be put in place in order to encourage comparable outcomes across time and across companies. As one respondent put it: 'The major advantage of the management approach is that it should offer a better representation of the company's business and financing decisions. The downside, however, is that it can be "gamed". One important element is to make sure that the classification is properly justified and that any change to this classification is explained and discussed.' The society would welcome greater clarity as to how suitable controls might be designed and how they might work.

Statement of financial position/balance sheet (slides 13 – 15)

Do you agree with disaggregation according to measurement bases?

Respondents agreed that disaggregation would be useful.

Which option (slide 13) for chronology of assets/liabilities do you prefer?

Opinion was fairly evenly divided on this issue. Supporters of the sub-categorisation of assets and liabilities in order of liquidity rather than by short-term and long-term argued that this approach has a stronger economic logic, but conceded that liquidity might be difficult to determine independently and that this approach could pose problems at times of relatively low liquidity.

The society notes that this issue is already dealt with for financial instruments under IFRS 7 and questioned the value of bringing this level of categorisation to the face of the balance sheet.

Do you like the separation between operating and investing?

The large majority of respondents believed that the separation would be valuable, though some noted that the additional value generated might be outweighed by the additional cost to producers of accounts.

Statement of Comprehensive Income (slides 16 – 19)

Should OCI be separated into operating, investing, financing?

Respondents agreed that separation along the same lines as the main income statement would facilitate the redistribution into it of the OCI items. However, a number of respondents noted that OCI in future should be a less significant item and that such a step might not, therefore, be necessary.

What is your view on the recycling of OCI elements?

Respondents were not supportive of OCI element recycling, stating that it should be avoided if at all possible and that disclosures would have to be improved if recycling was to be allowed.

What do you think of the format on slide 17?

Respondents liked the format presented on slide 17 remarking that it contained the key items, was concise and was easy to interpret.

What are your views on disaggregation by "function" and/or "nature"?

Respondents expressed limited support for disaggregation of OCI items. Some respondents observed that this might provide additional detail of little value, but at some cost. Within the views in support of disaggregation there was roughly even support for disaggregation by function and nature, by function and by nature. The overall view seems to be that IAS 1 may well deal adequately with this issue.

And on tax allocation?

Most members suggested that this was not particularly important, but might provide some additional value.

Should "alternative forms" be eliminated?

Most respondents agreed that alternative forms should be eliminated to improve consistency and comparability, though it was noted that prescription of line items might not be productive and that scope should possibly be allowed to allow sectoral variations.

Statement of cash flows (slides 20 – 22)

Do you support a compulsory move to direct cash flows? If yes, what are your views on preparers' claims that this is not how they gather information and would be costly to implement?

A small majority of respondents favour the direct approach, noting that the benefits of the approach might be considerable and should outweigh the costs to preparers. Respondents in favour of the direct approach commented that disclosure of the indirect method data should be made in the notes. Some respondents noted that an approach that starts with the balance sheet should enable satisfactory continuing use of the indirect approach and that the cost to preparers' systems of a move to direct cash flow reporting should not be ignored.

What do you think of the format on slide 21?

Respondents liked the format presented in slide 21, viewing it as clear, consistent and 'a definite improvement over what we have'.

What do you think of classifying cash flows into operating, investing and financing (including capex in operating category)?

Respondents support the proposal, noting that it would be helpful to users wishing to clarify the security of their returns on investment, but some questions were raised about capex's inclusion in the operating category, with some respondents wondering whether it might make sense to sub-categorise capex according to useful life or expected depreciation rate to gain an idea of whether the company was building up its fixed asset base or running it down. Overall, respondents were positive, as one respondent commented: 'moving capex to the operating category would close the gap between the current CFO and free cash flow.'

What are your views on the cash/cash equivalents issue?

Most respondents supported the view that cash and cash equivalents should be reported separately to maximise visibility and some expressed concern about liquidity and volatility issues relating to cash equivalents. Respondents supporting aggregation of cash and cash equivalents felt that cash and cash equivalents should be categorised together unless there were material liquidity or term risks associated with the cash equivalents, in which case the problem lies in the definition of cash equivalents and not with the proposed system of classification.

Reconciliation of the statements (slides 24 – 26)

What are your views on the planned disaggregations?

Respondents were supportive of the planned disaggregations agreeing that this approach should 'make it easier to assess the performance of the core underlying business.' However, it was also noted that multiple disaggregation might not add very much additional value, but might be costly to implement.

And on the reconciliation schedule?

Respondents regarded the proposed schedule as useful, though some raised concerns about the cost to preparers and it was also noted that much of the information would be captured in earlier statements on income and cash flow.

Do you prefer either of the options considered?

Most respondents supported full reconciliation of the opening and closing balance sheet in principle, but expressed concerns that this might be too complex and burdensome approach for most businesses to apply. There was support for mandatory net debt reconciliation and within that it might be useful to have a reconciliation of opening and closing working capital.