DANSKE
REVISORER
FSR*

Andrew Lennard
Financial Reporting Council
8th Floor, 125 London Wall
London
EC2Y 5AS
Via e-mail to cashflows@frc.org.uk

22 March 2017

FSR – danske revisorer
Kronprinsessegade 8
DK - 1306 København K

Telefon +45 3393 9191
fsr@fsr.dk
www.fsr.dk

CVR. 55 09 72 16
Danske Bank
Reg. nr. 4183
Konto nr. 2500102295

Dear Mr. Andrew Lennard,

Discussion paper – Improving the Statement of Cash Flows

The Danish Accounting Standards Committee (DASC) set up by "FSR – danske revisorer" welcomes that the FRC has prepared the Discussion Paper "Improving the Statement of Cash Flows" and we would like to commend FRC and Andrew Lennard on having issued this very well written, interesting and helpful discussion paper. It is our impression that the information in general in cash flow statements can be improved and harmonised and cash flow statements seem to be an area that needs some focus. We also believe cash flow statements are so important they should be required in the Conceptual Framework with a possibility for the standard setter to allow certain entities not to present it (for example banks).

We do not have many comments to the first two chapters maybe except for the general comment that it seems the DP is not in favour of judgement when preparing the cash flow statement. We find that preparation of financial statements involves many judgements, and we are not convinced that it is to be avoided in relation to the cash flow statement. For example, the DP proposes not to require preparers to distinguish between replacements and expansions and mainly for anti-abuse purposes, it seems. In general, we are not equally concerned in this respect, and we have never believed that standard setting should be anti-abuse driven.

We are not convinced that net presentation of financial instruments should only be by class, we prefer this section to be further developed.

We support to have a reconciliation of operating activities presented in the statement. However, we do not support to exclude to have the reconciliation within the cash flow statement, as it has always been the case. We do not find it necessary to have this change just to achieve conceptual perfection. It means we are not convinced that it is necessary to implement such a change. The placement of the reconciliation has not caused confusion and the present placement demonstrates the importance.

We support the direct and the indirect method to be equal. However, we prefer the indirect method for practical reasons, but will not oppose to the two methods to be equal in a future standard.

We are pleased to submit our comments to the questions below in the appendix to this comment letter.

Kind regards,

Ole Steen Jørgensen
Chief Consultant

Appendix

Q1: Do you have any comments on the discussion of the usefulness of information about cash flows?
We do agree that the main purpose of information of cash flows is to assist users to assess liquidity and the financial structure of the entity and changes in it. We do also agree that the main focus of cash flow information should not be to provide a measure for performance.

Q2: Do you agree that notional cash flows should not be reported in the statement of cash flows, but that non-cash transaction should be transparently disclosed? If notional cash flows should, in your view, be reported, how would they be identified?
We agree that notional cash flows should be transparently disclosed, however, not to be reported in any section of the statement of cash flows.

Q3: Do you agree that operating activities should be positively defined or described?
We agree, and we can support the indicated proposal in the DP.

Q4: Do you agree that capital expenditure should be reported within operating activities rather than as an investing activity, with sub-total drawn before capital expenditure, and disclosure of the extent to which capital expenditure represents 'replacement' or 'expansion'?
We actually find that it is a very good proposal and we commend FRC to bring this forward. We find it will be a major improvement to understand the cash flows from operating activities over a number of years. However, the DP proposes not to have preparers to distinguish between replacements and expansions and mainly for anti-abuse purposes, it seems. In general, we are not equally concerned in this respect, and we have never believed that standard setting should be anti-abuse driven. Financial statement preparation involves many judgements, and it is not to be ruled out in the cash flow statement.

Q5: What are your views on the reporting of cash flows relating to financing liabilities?
We agree in the suggestion that all cash flows in respect of financing liabilities should be reported in the financing category of the cash flow statement to ensure comparability.

Q6: Do you agree that tax is best dealt with in a separate section of the statement of cash flows?
We agree. Information about tax is getting more and more wanted by investors and separate disclosure of cash flows relating to tax seems useful. Allocation of tax cash flows to separate sections in the cash flow statement is complex and arbitrary.

Q7: In your view, should the statement of cash flows report flows of cash or of cash and cash equivalents? How, in your view, should cash and/or cash equivalents be defined, and why?
Due to the shortcomings in the current definition of "cash and cash equivalents" we agree with the recommendation that the statement of cash flows should rather focus on "cash".

The suggested definition of cash *"Cash comprises cash on hand, and deposits with and advances from banks and similar financial institutions that are repayable on demand"* seems appropriate.

Q8: Which cash flows should, in your view, qualify for net presentation in the statement of cash flows?
We have some sympathy for the suggestion *"net presentation of cash flows (other than those in respect of operating activities) should be permitted only for cash flows relating to financial instruments that are the same class".* However, we are not convinced by the arguments to allow only the same class to be presented net. We will need better to understand how the author defines a class, because we believe we can find what might be considered different classes of financial instruments where we are in favour of netting. We are not convinced by the arguments to get to the conclusion in all circumstances.

Q9: In your view, is it appropriate to require the presentation of a reconciliation of operating activities in all cases, and to prohibit presenting it within the statement of cash flows?
We do agree it is appropriate to require the presentation of a reconciliation of operating activities, and we have sympathy for the proposal in paragraph 2.4 to describe operating activities. However, we do not support to exclude to have the reconciliation within the cash flow statement, as it has always been the case (and normally in the beginning). We do not find it necessary to have this change just to achieve conceptual perfection. It means we are not convinced it is necessary

to implement such a change. The placement of the reconciliation has not caused confusion and the present placement demonstrates the importance.

Q10: Do you agree that the direct method statement of cash flows should be neither prohibited nor required?
We agree, and we would prefer the two methods to be equal so that a revised standard will not recommend either of them. We prefer the indirect method, but will not oppose to have the methods to be equal.

As an additional comment, we will mention that we find the discussion of the direct versus the indirect method to be a bit weak and we would like to see this discussion to be further elaborated on.

Q11: Which components of cash flows from operating activities should an accounting standard identify as particularly significant, and why? How should standard-setters decide whether to require disclosure of the amount of such components or of changes in related working capital items?
We believe that movements in trade debtors, trade creditors, inventories, depreciation, amortization and impairments plus other movements in working capital should be presented in the statement. We do not find that it should be required to disclose payments from customers and to suppliers.

Other comments:
We have sympathy for the proposed disclosure of the management of liquid resources, but we find it difficult to support a proposal on the relatively loose description in the section from 3.16 – 3.22. We would like to see this part further elaborated on.