The Corporate Reporting Users' Forum

To: The Editor of the Financial Times
6th October, 2008

Sir,

In the past two years we have seen voluntary disclosure by some companies improve considerably. As members of the Corporate Reporting Users' Forum (CRUF), we would now welcome better disclosure to assist our understanding of corporate cash flow. The main problems with current disclosure requirements are: first, lack of reconciliation between cash flow and the change in net debt; second, debt at acquired (and divested) companies is not always disclosed, and neither is currency impact on overall debt; third, many line items are opaque, even to experienced investors.

As users, we would like to be able to rebuild the cash-flow statement – in our own preferred format - in a way that reconciles with the balance sheet. Reconciliation of the cash flow to movements in net debt is critical to understanding the cash-flow profile of a business. Only by reconciling cash flows with changes in net debt can users be certain that they have captured all cash-flow movements in their analysis. In our presentation to the International Accounting Standards Board on June 10 (see www.cruf.com), we set out in greater detail our thoughts on good practice in cash-flow reporting.

Historically, the disclosure needed to reconcile cash flow with net debt changes has been available for UK companies. Indeed, the 1997 revisions in the UK to the FRS 1 standard specifically included a requirement to reconcile cash flow in the period to the movement in net debt between opening and closing balance sheets. A survey by the UK Accounting Standards Board demonstrated that this amendment was welcomed by users, companies and auditors alike. The IAS 7, which replaced FRS 1 in 2005, has no such requirement to reconcile movements in net debt, does not require the disclosure of the impact of foreign exchange translation on debt and is sufficiently ambiguous to avoid disclosure of acquired debt.

Nonetheless, a number of companies continue to provide a net debt reconciliation. We estimate that about one half of non-financial FTSE 100 companies provided this information in their latest annual report and accounts. In continental Europe, we believe that the number is substantially lower.

As the US Financial Accounting Standards Board and IASB focus on the presentation of financial statements, we would encourage them to consider the issue of improved cash-flow disclosure. In the interim, we applaud the current voluntary disclosure and strongly encourage other companies to follow suit when they publish their next results.

Yours faithfully

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