



Membre de
l'Association
internationale des
banques coopératives

Membre de la
Confédération
internationale des
banques populaires

Montréal, April 13, 2009

International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom



LETTER OF COMMENT NO. 85

Dear Sir/Madam,

Invitation to comment - Discussion paper "Preliminary Views on Financial Statement Presentation"

We thank you for the opportunity to comment on this Discussion Paper. We are pleased to have the opportunity to support the IASB's and FASB's ("the Boards") goal of improving the usefulness of the information provided in financial statements.

Desjardins Group is the largest financial institution in Québec and the sixth largest in Canada in terms of total assets. It is a cooperative financial group that belongs to its member-owners. Desjardins Group provides a vast array of financial products and services to its 5.8 million members and clients, individuals and businesses alike. Desjardins Group is also the largest cooperative financial group in Canada and the largest private employer in Québec, with nearly 42,000 employees. Desjardins Group is composed of a network of caisses (equivalent to a branch or a location under the cooperative model) and business centres in Québec and Ontario as well as subsidiaries, several of which operate across Canada. Desjardins is active in four business segments: Personal and Commercial; Life and Health Insurance; General Insurance; and Securities Brokerage, Asset Management and Venture Capital.

The main users of the financial statements are the owner-members, institutional investors, credit rating agencies and other international and local regulatory authorities. As decided by the Canadian Institute of Chartered Accountants, Desjardins will be adopting IFRS as of January 1, 2011. The changes proposed in this discussion paper involve major changes of the financial reporting framework currently in place. We believe that this type of change, in the midst of adoption of a new set of accounting framework, would be a significant change with little benefits for users.

We agree with the Boards on the principles of three objectives on the new model of financial statement presentation. However, we are in disagreement with the major changes with regards to the implementation of the direct method for the statement of cash flows and the presentation in the notes of the reconciliation schedule of cash flows to comprehensive income. We believe that these changes would not provide decision-useful information for users of financial institutions' financial statements and would be extremely costly to implement.

We are pleased that the Boards plan to execute field testing with a number of entities on the proposed presentation model. We believe that a representation sample of this field testing should include a financial institution.

We hope that as a result of this comment letter and the field testing, the challenges will become evident and bring the Boards to reconsider their position.

Should you wish to discuss the content of this letter, please contact me at 001-514-281-7747

Sincerely,

A handwritten signature in cursive script that reads "Linda Labbé".

Linda Labbé, CA

Executive Director, Accounting Disclosure and Standard-Setting, Desjardins Group

cc: Raymond Laurin, Senior Vice-President and Chief Financial Officer, Desjardins Group
Tien Can, Chief of Internal Audit, Desjardins Group

Chapter 2: Objectives and principles of financial statement presentation

- 1- Would the objectives of financial statement presentation proposed in paragraphs 2.5–2.13 improve the usefulness of the information provided in an entity's financial statements and help users make better decisions in their capacity as capital providers? Why or why not? Should the boards consider any other objectives of financial statement presentation in addition to or instead of the objectives proposed in this discussion paper? If so, please describe and explain.**

The objectives of financial statement presentation state that the financial statements should:

(a) portray a cohesive financial picture of an entity's activities;

We agree with the Boards with the objective that financial statement presentation should portray a cohesive financial picture of an entity's activities. However, although it is important that users understand the relationship or interaction between assets, liabilities, income, expense and cash flows, we do not believe that this relationship should be expressed in every line item. Such level of cohesiveness and disaggregation, would, in certain respects, complicate the information available to users and would also compromise the decision-usefulness of the information.

(b) disaggregate information so that it is useful in predicting an entity's future cash flows;

We agree with the principle that financial statement should be useful in predicting an entity's future cash flows.

Disaggregating information could assist users in predicting an entity's future cash flows. However, we believe that it is one of the various ways to achieve a cohesive financial picture rather than being a financial statement presentation objective.

We are not convinced that further disaggregating information will be useful for users to predict cash flows as the volume of information presented would be significantly increased given the relevancy of this information. As a result, we believe that disaggregation would diminish the understandability, comparability and relevance of financial information.

(c) help users assess an entity's liquidity and financial flexibility.

We agree with the Boards that users should know the entity's capacity to fulfill its financial commitments.

- 2- Would the separation of business activities from financing activities provide information that is more decision-useful than that provided in the financial statement formats used today (see paragraph 2.19)? Why or why not?**

We agree with the Boards on this presentation as it may provide certain decision-useful information. However, it would not provide relevant information to users due to the nature of the activities of a financial institution as most of the transactions would be operating in nature. For example, the following categories would not be useful for a financial institution:

- Assets and liabilities in the investing category of the business section in the statement financial position
- Assets in the financing section of the statement of financial position

As a result, we believe that the costs involved would be significant compared to the additional information provided to the users of the financial statements of a financial institution.

3- Should equity be presented as a section separate from the financing section or should it be included as a category in the financing section (see paragraphs 2.19(b), 2.36 and 2.52–2.55)? Why or why not?

We believe that equity should be presented as a section separate from the financing section because it highlights transactions with owners. We believe that these transactions should be presented separately to highlight the fact that equity represents funds received for which the entity does not normally have any obligation of reimbursement or any obligation of generating revenue. The IASB reached a similar conclusion in the exposure draft – ED 7 *Financial Instruments: Disclosures* which states that: "The level of an entity's capital and how it manages capital are important factors for users to consider in assessing the risk profile of an entity and its ability to withstand unexpected adverse events"¹.

4- In the proposed presentation model, an entity would present its discontinued operations in a separate section (see paragraphs 2.20, 2.37 and 2.71–2.73). Does this presentation provide decision-useful information?

Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets and financing liabilities)? Why or why not?

No comment.

5- The proposed presentation model relies on a management approach to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment (see paragraphs 2.27, 2.34 and 2.39–2.41).

(a) Would a management approach provide the most useful view of an entity to users of its financial statements?

(b) Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach? Why or why not?

We believe that a management approach would in fact provide a more useful view of an entity to users of its financial statement as this reflects how management views and manages the entity and its resources. We believe that the reduced comparability resulting from the subjectivity of management views will have a greater impact at implementation, but that entities in the same industry tend to develop means of comparability over time.

However, as discussed in question 2, the management approach would not provide relevant information in the financial statements of a financial institution. Nevertheless, we believe that presenting information of its reportable segments is more decision-useful.

More over, research done by the IASB in preparing IFRS 8 *Operating Segments* reached a similar conclusion. In response to the exposure draft ED 8 *Operating Segments* of January 2006, most respondents supported the adoption of the management approach. We believe that the reasons put forward then are still valuable today. Since the publication of IFRS 8, management has developed experience and systems around a form of reporting that encompasses the management approach. Further guidelines could be provided in the standard in order to apply the management approach in a comparable format that would enhance comparability.

¹ IAS 1, Presentation of Financial statements, paragraph BC 86

- 6- **Paragraph 2.27 proposes that both assets and liabilities should be presented in the business section and in the financing section of the statement of financial position. Would this change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities? Why or why not?**

We believe that this type of classification would have limited value in the calculation of key financial ratios for financial institutions due to the regulatory nature of the industry. For example, financial institutions must comply with ratios determined by the Basel Accord, the Bank for International Settlements and other local regulatory authorities.

- 7- **Paragraphs 2.27, 2.76 and 2.77 discuss classification of assets and liabilities by entities that have more than one reportable segment for segment reporting purposes. Should those entities classify assets and liabilities (and related changes) at the reportable segment level as proposed instead of at the entity level? Please explain.**

We agree with the Boards that financial statements should classify assets and liabilities (and related changes) at the reportable segment level, as discussed in question 5. However, we believe that the information presented should be limited to the total assets and total liabilities (and related changes) by category (operating, investing and financing) segment instead of disaggregating at the line item level and we would suggest that this information be in a note format.

- 8- **The proposed presentation model introduces sections and categories in the statements of financial position, comprehensive income and cash flows. As discussed in paragraph 1.21(c), the boards will need to consider making consequential amendments to existing segment disclosure requirements as a result of the proposed classification scheme. For example, the boards may need to clarify which assets should be disclosed by segment: only total assets as required today or assets for each section or category within a section. What, if any, changes in segment disclosures should the boards consider to make segment information more useful in light of the proposed presentation model? Please explain.**

No comment.

- 9- **Are the business section and the operating and investing categories within that section defined appropriately (see paragraphs 2.31–2.33 and 2.63–2.67)? Why or why not?**

Please refer to question 2 for our response.

- 10- **Are the financing section and the financing assets and financing liabilities categories within that section defined appropriately (see paragraphs 2.34 and 2.56–2.62)? Should the financing section be restricted to financial assets and financial liabilities as defined in IFRSs and US GAAP as proposed? Why or why not?**

Please refer to question 2 for our response.

Chapter 3: Implications of the objectives and principles for each financial statement

11- Paragraph 3.2 proposes that an entity should present a classified statement of financial position (short-term and long-term subcategories for assets and liabilities) except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant.

- (a) What types of entities would you expect not to present a classified statement of financial position? Why?**
- (b) Should there be more guidance for distinguishing which entities should present a statement of financial position in order of liquidity? If so, what additional guidance is needed?**

We agree with the Boards that presentation of assets or liabilities in order of liquidity, as mentioned in the discussion paper, is more useful for users of financial institution's financial statements. We agree that entities that engage in the business of taking deposits, effecting transactions in securities for the account of others, buying and selling securities for their own account, underwriting securities and issuing insurance contracts have financial assets and liabilities with a wide range of maturity dates within a short time period should classify the statement of financial position in order of liquidity.

Nonetheless, this concept of financial position in order of liquidity presents certain weaknesses. For example, in reference to the example on page 130 of the Discussion paper, we believe that interest receivable should normally be presented as having a higher liquidity than loans.

12- Paragraph 3.14 proposes that cash equivalents should be presented and classified in a manner similar to other short-term investments, not as part of cash. Do you agree? Why or why not?

We believe that cash equivalents should be presented and classified as part of cash as they have the same characteristics as cash (liquidity, short-term and readily convertible to cash). However, we believe that further disclosure is needed for cash equivalents and we recommend to the Boards that information that would assist users in understanding the risk relating to these investments be provided in the notes to financial statements.

13- Paragraph 3.19 proposes that an entity should present its similar assets and liabilities that are measured on different bases on separate lines in the statement of financial position. Would this disaggregation provide information that is more decision-useful than a presentation that permits line items to include similar assets and liabilities measured on different bases? Why or why not?

Assets and liabilities that are measured on different bases are already disclosed in the notes to financial statements. Moreover, the hierarchy of fair value required by the amendment of IFRS 7 *Financial Instruments: Disclosures* published on March 5, 2009 would assist in obtaining this information. As a result, we believe that this information is already available in the notes to the financial statements and, in our view, this is sufficient.

14- Should an entity present comprehensive income and its components in a single statement of comprehensive income as proposed (see paragraphs 3.24–3.33)? Why or why not? If not, how should they be presented?

We support the Boards on presenting a single statement of comprehensive income because it provides relevant information and comparability between entities. Due to the objective of the presentation of comprehensive income and its components, it is, in our view, more useful to present it under comprehensive income instead of separately or in the statement of changes in the retained earnings. Nonetheless, we believe it is important to continue to present a profit or loss before comprehensive income.

15- Paragraph 3.25 proposes that an entity should indicate the category to which items of other comprehensive income relate (except some foreign currency translation adjustments) (see paragraphs 3.37–3.41). Would that information be decision-useful? Why or why not?

We understand the objective of having cohesive financial statement presentation but we are not convinced of the usefulness of presenting the categories to which these items relate. The labels used to describe the transactions in the financial statement should be clear enough to permit an understanding of the relationship between the various financial statement items. IAS 1 *Presentation of financial statements* concurs with that presentation. In paragraph 57 b) it states that "the descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position. For example, a financial institution may amend the above descriptions to provide information that is relevant to the operations of a financial institution". We believe that these indications are sufficient in providing useful information.

16- Paragraphs 3.42–3.48 propose that an entity should further disaggregate within each section and category in the statement of comprehensive income its revenues, expenses, gains and losses by their function, by their nature, or both if doing so will enhance the usefulness of the information in predicting the entity's future cash flows. Would this level of disaggregation provide information that is decision-useful to users in their capacity as capital providers? why or why not?

We concur with the Boards, as mentioned in the discussion paper, that for a financial institution, disaggregating its income and expense items by function would not enhance the usefulness of the information in predicting the entity's future cash flows. As required, this information should be presented by nature as this information is more relevant to the analysis of the performance of our business activities.

17- Paragraph 3.55 proposes that an entity should allocate and present income taxes within the statement of comprehensive income in accordance with existing requirements (see paragraphs 3.56–3.62). To which sections and categories, if any, should an entity allocate income taxes in order to provide information that is decision-useful to users? Please explain.

No comment.

18- Paragraph 3.63 proposes that an entity should present foreign currency transaction gains and losses, including the components of any net gain or loss arising on remeasurement into its functional currency, in the same section and category as the assets and liabilities that gave rise to the gains or losses.

(a) Would this provide decision-useful information to users in their capacity as capital providers? Please explain why or why not and discuss any alternative methods of presenting this information.

(b) What costs should the boards consider related to presenting the components of net foreign currency transaction gains or losses for presentation in different sections and categories?

No comment.

19- Paragraph 3.75 proposes that an entity should use a direct method of presenting cash flows in the statement of cash flows.

(a) Would a direct method of presenting operating cash flows provide information that is decision-useful?

(b) Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method? Why or why not?

(c) Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?

We are very concerned about the position of the Boards regarding the direct method of presenting cash flows. In fact, for a financial institution's systems, the disaggregation of cash receipts and payments within each of the sections and categories would require capturing millions of transactions and potentially require significant modifications to the systems to permit such data collection. Due to the nature, the volume and the turnover ratio of operations of a financial institution, we do not believe that this type of disaggregation would provide useful information.

This concept has also already been addressed by the FASB in SFAS 95 *Statement of Cash Flows*, completed by SFAS 104 *Statement of Cash Flows—Net Reporting of Certain Cash Receipts and Cash Payments and Classification of Cash Flows from Hedging Transactions*, an amendment of FAS 95 which has already concluded that for a financial institution, the cost of providing information about certain gross cash receipts and cash payments generally exceeds the benefit to users of their statement of cash flows.

Regarding the reconciliation schedule that reconciles cash flows to comprehensive income, we do not believe that this information provides decision-useful information to its users. Users would find the information difficult to understand and would likely not gain much from this presentation.

Moreover, we believe that the necessity of a cash flow statement for financial institutions is of a questionable nature.

- 20- What costs should the boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81–3.83)? Please distinguish between one-off or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?**

The costs incurred to capture millions of transactions would likely be very significant and once again, would outweigh the benefits due to the nature of the activities of a financial institution.

Even if it is a one-off, one-time cost of making the systems changes, we should ask ourselves whether this information would be decision-useful information for users. We do not believe that a direct method of cash flows is more decision-useful than the indirect method.

We look forward to obtaining the results of the field testing with the entities initiated by the Boards during the comment period, and we hope that these results will substantiate our views.

- 21- On the basis of the discussion in paragraphs 3.88–3.95, should the effects of basket transactions be allocated to the related sections and categories in the statement of comprehensive income and the statement of cash flows to achieve cohesiveness? If not, in which section or category should those effects be presented?**

No comment.

Chapter 4: Notes to financial statements

- 22- Should an entity that presents assets and liabilities in order of liquidity in its statement of financial position disclose information about the maturities of its short-term contractual assets and liabilities in the notes to financial statements as proposed in paragraph 4.7? Should all entities present this information? Why or why not?**

We agree with the Boards that disclosure of information about the maturities of assets and liabilities would be relevant although, we believe that this information should be limited to monetary items. Therefore, we believe that in general the benefits would outweigh the costs incurred.

- 23- Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components:**

(a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments.

(a) Would the proposed reconciliation schedule increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.

(b) Should changes in assets and liabilities be disaggregated into the components described in paragraph 4.19? Please explain your rationale for any component you would either add or omit.

(c) Is the guidance provided in paragraphs 4.31, 4.41 and 4.44–4.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.

We disagree that the reconciliation schedule is decision-useful information and we believe that the costs related to implement this schedule will not outweigh the benefits. In fact, users do not need information about cash transactions and accrual accounting in order to make decisions.

This reconciliation schedule would entail a significant amount of work and costs. We invite the Boards to reassess the benefits of the implementation of this schedule for users.

The goal of preparing financial statements should remain to provide a tool to facilitate decision-making for users and we do not believe that this proposed change achieves this goal.

Many reconciliation schedules are presented in the notes to the financial statements. As an example, in accordance with IAS 16 *Property, Plant and Equipment*, a reconciliation of the carrying amount at the beginning and end of the period must be disclosed. We believe that it serves the purpose of understanding the sources of changes relating to the financial position and can easily be linked to cash flows. We invite the Boards to build on that format and propose more precise guidelines concerning the use of reconciliation schedules in the notes to the financial statements. We believe, as discussed in question 22, that disclosing information about the maturities of monetary items accompanied with reconciliation schedules for non-monetary items would achieve the goals of the Boards at a reasonable cost for the preparers.

24- Should the boards address further disaggregation of changes in fair value in a future project (see paragraphs 4.42 and 4.43)? Why or why not?

We believe that the latest amendment published on March 5, 2009 of IFRS 7 *Financial Instruments: Disclosures*, requiring the disclosure of the hierarchy of fair value (level 1, 2 and 3) including changes therein, already requires disaggregation of fair value. Further disaggregation of changes in fair value in the reconciliation schedule will not present information that is any more useful.

25- Should the boards consider other alternative reconciliation formats for disaggregating information in the financial statements, such as the statement of financial position reconciliation and the statement of comprehensive income matrix described in Appendix B, paragraphs B10–B22? For example, should entities that primarily manage assets and liabilities rather than cash flows (for example, entities in the financial services industries) be required to use the statement of financial position reconciliation format rather than the proposed format that reconciles cash flows to comprehensive income? Why or why not?

As discussed in question 23, we do not believe that the reconciliation schedule or other alternative reconciliation formats proposed are useful for users.

26- The FASB's preliminary view is that a memo column in the reconciliation schedule could provide a way for management to draw users' attention to unusual or infrequent events or transactions that are often presented as special items in earnings reports (see paragraphs 4.48–4.52). As noted in paragraph 4.53, the IASB is not supportive of including information in the reconciliation schedule about unusual or infrequent events or transactions.

(a) Would this information be decision-useful to users in their capacity as capital providers? Why or why not?

(b) APB Opinion No. 30 Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, contains definitions of unusual and infrequent (repeated in paragraph 4.51). Are those definitions too restrictive? If so, what type of restrictions, if any, should be placed on information presented in this column?

(c) Should an entity have the option of presenting the information in narrative format only?

We concur with the IASB's view to not support including this information in the reconciliation schedule because there is no notion of unusual or infrequent events or transactions in IFRS. Therefore, requiring the disclosure of unusual or infrequent events would require judgement and would result in inconsistency in their application. In fact, as discussed in questions 23 and 25, we do not believe that the reconciliation schedule will be useful.

Question specific to the FASB

27- As noted in paragraph 1.18(c), the FASB has not yet considered the application of the proposed presentation model to non-public entities. What issues should the FASB consider about the application of the proposed presentation model to non-public entities? If you are a user of financial statements for a non-public entity, please explain which aspects of the proposed presentation model would and would not be beneficial to you in making decisions in your capacity as a capital provider and why.

No comment.