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LETTER OF COMMENT NO. 34

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Sir David Tweedie International Accounting Standards Board 30 Cannon Street LONDON EC4M 6XH United Kingdom

Via "Open to comment" page on www.iasb.org

Dear Sir David

Comments on Discussion Paper: Preliminary Views on Financial Statement Presentation

Thank you for the opportunity to comment on the IASB Discussion Paper: Preliminary Views on Financial Statement Presentation ("the DP"). The Commonwealth Bank of Australia is a major Australian financial institution which has prepared financial statements under IFRS since 2005. Please find our comments below.

General Comments

We support the IASB's objective of seeking to address issues relating to financial statement presentation, in conjunction with the FASB.

We believe the cohesiveness principle, on which the proposals are based, are a good conceptual approach to presentation and that the management approach, if applied with reasonable consistency by entities, could provide users with appropriate insights as to how a business is managed.

However, while we support these approaches in principle, we have significant concerns about several aspects of the proposals, especially relating to understanding by users, including:

- Adopting a management approach may significantly reduce the comparability of financial statements between entities;
- The mandating of additional disclosures to ensure inter-entity comparability is not the solution to consistency, as it is inconsistent with the management approach principle;
- The DP appears to state disaggregation as an assumed objective and condition of cohesiveness, rather than a proposal for discussion. We believe disaggregation is not necessarily a condition of cohesiveness. The extensive level of disaggregation proposed would come at significant detriment to usability, understandability and

- accessibility to users generally. We believe it should be reconsidered in the context of the framework of addressing who are the users of general purpose financial statements (i.e. not only analysts but a broad range of users);
- The DP's focus on attempting to provide information for estimating future cash flows appears to be a primary justification for disaggregation as the stated objective, without addressing the provision of understandable information for users that addresses management's accountability;
- The level of additional detail proposed for the face of the financial statements is excessively prescriptive and would be overwhelming to users;
- The disaggregation approach itself has no practical application to financial institutions such as banks, or to small or medium size entities. We accept that it might have certain applicability to some types of reporting entity, e.g. industrial conglomerates. However, we believe the majority, if not all, of potential additional information of value to users in this regard could be dealt with by relatively simple amendments to the segment reporting standard;
- We are additionally concerned that application of the disaggregation approach may result in the loss of key lines from the face of the financial statements, such as Net Interest Income (for computation of Net Interest Margin), Total Assets (for computation of Return on Assets), and other critically important performance measures for banks:
- We are of the view that the direct cash flow method in the detail proposed by the DP is unworkable;
- We believe the separation of cash and cash equivalents in the cash flow statement is an artificial distinction which does not reflect the cash management activities of entities and does not adequately reflect the reasons why entities "invest" in cash equivalents. This is another example of inconsistency between proposing a management approach principle while mandating rules; and
- The proposed reconciliation statement is excessively onerous to prepare and not useful to users, due to the minutiae level of detail proposed.

Our detailed responses to what we consider the most critical of the questions for comment are found in the attached Appendix.

Yours faithfully

Michael Venter

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Commonwealth Bank of Australia

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.

While we support the Intention of improving usefulness, we do not believe that usefulness is necessarily improved by requiring extensive additional detailed presentation and disclosure. The proposed level of detail is likely to overwhelm the majority of users, resulting in financial statements failing to fulfill their purpose in effectively communicating the financial position and results of reporting entities. Further, while a management approach is proposed, the mandated categories of business activities (operating and investing) and financing activities are overly prescriptive.

The extent to which considerable additional detail would be provided on the face of the financial statements rather than by way of note is excessive. We strongly believe that the face of the financial statements should present summary information, with additional detail being shown by way of note.

If it is considered that there are weaknesses in current financial reporting, we recommend they be addressed within existing standards.

For example, there may be a perceived issue with current "single line" presentation of assets or liabilities with different measurement bases (e.g. investment property at fair value and own use property at historical cost). However, this simple, yet long outstanding matter could be resolved by the relevant standard requiring presentation on separate lines, for example as part of the annual improvements project.

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 paragraphs 2.19)? Why or why not?

There may be some merit in separating the activities and related income, expenses, assets and liabilities in this way, if that is clearly how resources are arranged and used by the reporting entity. This would be consistent with the management approach and is a style of presentation that may be most suited to industrial conglomerates with highly disparate operations, in different industries or consumer segments that have different risk profiles.

However, the application of such an approach to a financial services organisation needs to be carefully considered. We recommend a "carve out" for financial services organisations, as we do not regard this type of disaggregation to be a useful form of presentation on the face of the financial statements.

Further, the "solution" to what appears to be the perceived issue of relevant segment information would more naturally be found through amendments to segment reporting disclosure requirements. We note that the current segment reporting standard does not require a complete income statement or statement of financial position. We recommend reconsideration of the current segment reporting standard, as the most appropriate method to address perceived shortcomings with reporting by types of activity.

3. 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 & 2.39-2.41).

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

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?

A management approach might in some cases better reflect how assets and liabilities

A management approach might in some cases better reflect how assets and liabilities are used in the business by management, however, if a management approach is to be adopted, it ought to be determined by management, rather than prescribed by standards into inflexible categories.

A management approach would primarily highlight differences in the structure of different reporting entities, whereas it would not necessarily facilitate comparisons between different entities and their relative performance.

We do not believe that comparability will be improved through these proposals. Rather, it would become more difficult, and financial statements will become less accessible to users.

4. 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?

The proposed approach will represent a very significant change that we believe most preparers and users will find very difficult to come to terms with. Many would be left behind.

We do not believe that the level and style of disaggregation proposed will necessarily provide the more sophisticated users (i.e. analysts) with all the information they might desire. We also consider that such radical restructure in the form proposed is not sufficient justification for change if it only might meet the perceived needs of a select user group. We strongly believe that changes to the structure of financial statement presentation should only be made if they significantly progress users' ability to understand reporting entities' financial performance and position.

The changes as proposed represent disaggregation to the point of confusion. It is unlikely that the diverse range of users of IFRS in a global context will effectively manage the transition to the proposed style of reporting, as there is only so much information that can be presented on "one page" without becoming overwhelming. Many users and preparers, including those who sign financial statements, are likely to form a strong view that financial statements have lost their relevance, and perhaps their credibility, by becoming too detailed and overly complex. This, in turn, will lead to further development of alternative means to communicate the key messages that financial statements seek to address – those of financial performance, financial position and stewardship.

5. Paragraphs 2.27, 2.76 & 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 refer to question 2 above. We do not believe that assets and liabilities should be presented at a reportable segment level of detail on the face of the financial statements. General purpose financial statements are better suited to a "group" view and the place for segment information is the segment reporting note. Similarly, notes to the financial statements are the place for any detailed disclosures or reconciliations; to the extent they are relevant, useful, and understandable. If there are perceived shortcomings with segment information we suggest that this be addressed through revisions to the segment reporting standard.

6. 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.

additional guidance is needed?

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

We believe that, consistent with the management approach, presentation of assets and liabilities in categories such as short-term and long-term, or order of liquidity, is a matter for management judgment. As a financial institution, we expect banks and similar reporting entities to continue with an order of liquidity basis of presentation.

7. 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?

Overall, this aspect of the DP's proposals may not represent a large change for reporting entities such as ours, whose assets and liabilities are predominantly financial instruments, given that separate classifications of financial instruments generally each have a distinct measurement basis. However, we expect a greater impact in general for other types of reporting entities.

We propose that judgment and flexibility is required to prevent an unreasonable burden of detail, particularly where there are many alternative measurement bases allowed.

Specifically on the issue of measurement of financial instruments, we note there a number of inconsistencies, such as the different measurements applied to impairment of different types of asset (e.g. equity instruments compared to debt instruments), or the measurement of equity available for sale investments at cost instead of fair value (when a reliable measurement is not considered possible), or the use of risk free discount rates for certain liabilities (e.g. pensions) whereas financial liabilities require applying a measure of a reporting entity's own credit quality. It is not clear whether

these more subtle differences in measurement are each intended to be separately identified on the face of the financial statements. We do not support such an approach.

We also recognise that certain of these issues are on the IASB agenda and we encourage their expeditious resolution so that these measurement anomalies are reduced or eliminated.

8. 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 have no particular issue with the concept of the presentation of a single statement of comprehensive income, instead of two separate statements. However, the current approach in IAS 1 provides users with all the same information and we are not aware of interpretation difficulties arising as a result of the presentation. We also note that at a practical level, the DP's proposal may not result in any real change, since it is unlikely that a single statement of comprehensive income will actually fit on "one page". Consequently the traditional "net profit after tax" line is likely to be retained, not only as a sub total, but as the page break. This being the case, it will not represent significant progress in financial reporting as there will in effect still be two statements.

We believe there are more fundamental issues, which have not been addressed, but which should be addressed before progressing with the DP's proposals. These include determining the nature and characteristics of which items should be treated as "other comprehensive income" and the recycling of certain items back through the current income statement (or, before the "net profit" line).

We strongly encourage the resolution of these technical issues, before proceeding with any presentational changes that may amount to no real change in substance or understanding.

9. 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 note that foreign currency translation items would in practice be particularly difficult to reconcile.

10. 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 do not believe that decision usefulness is necessarily increased through increased detail and additional complexity. Any additional disclosures should be considered in the context of the existing burden of disclosures. We believe that if an entity must disclose items by nature or by function it should be one or the other, but not both, unless information on both bases is used in decision making by senior management.

We also do not believe it is the place of general purpose financial reports to provide all possible potential information. Reporting entities are continually developing and applying a range of communication methods to present detailed additional information to meet certain users' needs, such as analysts, regulators, securities exchanges and capital providers. These methods are far more flexible and adaptable to their purpose than the mandatory and far less flexible requirements of IFRS.

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

While the use of a certain form of the direct method is established practice in Australia, the requirements are not as specific or onerous as those included in the proposals. For example, the proposal to show cash flows for individual operating expenses would defeat the present capacity of the information systems of the vast majority of entities which have not been designed to readily extract this information, even for sophisticated reporting entities. If the proposals are proceeded with, businesses will incur significant additional costs to acquire, adapt and implement software to enable compliance with the requirements.

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

We propose instead that a reconciliation, in the form currently required under Australian equivalents to IFRS, will provide users with the information necessary to reconcile operating profit to cash flow from operations. We refer to AASB 139 paragraph "Aus 20.1".

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?

This may potentially be the case, but would impose considerable additional costs on reporting entities that are not justified on cost-benefit grounds, particularly where users can obtain a similar level of information from existing methods.

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 have concerns about the practicality of this approach.

12. 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 note this is already the case for financial instruments as required by IFRS 7 "Financial Instruments: Disclosures". We see no practical benefit in extending those disclosures, and certainly not in their duplication.

13. 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.

We have serious concerns about the continued appetite of standard setters to require increasingly detailed reconciliations of items within financial statements. We do not believe the case for additional reconciliations has been established. In our view it would represent further "information overload".

In addition, the cash flow statement itself is not a sufficiently adequate foundation upon which to build further additional detailed levels of disclosure and reconciliation, since it is generally not considered by users to be a particularly useful tool.