



Luxembourg, 27 March 2009



LETTER OF COMMENT NO.

33

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

Subject: Comment letter on the discussion paper *Preliminary Views on Financial Statements Presentation*

Dear Sir/Madam,

We thank you for providing us the opportunity to respond on your discussion paper *Preliminary Views on Financial Statements Presentation*.

You will find enclosed our detailed observations and responses to the questions raised in the discussion paper.

We remain of course available should you wish further clarification on our opinion.

Best regards,

Harry Seerden
European Investment Bank

Chapter 2: Objectives and principles of financial statement presentation

Question 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.

Cohesiveness objective

In order to meet the Framework objectives such as faithful representation, understandability or comparability, the set of line items that would be optimal for the statement of financial position will be different from the set of line items optimal for the statement of comprehensive income or cash flow statement.

In that context, we wonder whether a cohesiveness objective is desirable considering that there will be situations where a single item in the statement of financial position will have various corresponding categories in the statement of comprehensive income and vice-versa. In such situations, the application of a cohesiveness objective could lead to lesser quality in the understandability of financial statements and, hence, lesser decision-usefulness.

We note that the Boards are aware of this particular situation as paragraph 2.18 of the Discussion Paper seems to suggest: “... alignment of every line in each of the three statements may not be feasible” and therefore, we think it would be advisable not to impose cohesiveness as an objective of financial statement presentation to avoid inconsistencies with the Framework objectives as well as internal inconsistencies within this Standard.

Disaggregation objective

In our opinion, disaggregation on the face of the financial statements should be reduced to a minimum to avoid obscuring the key information. Details could be provided in the disclosure notes and analysed by the different categories of users (e.g. equity providers and debt providers), according to their specific requirements.

We acknowledge paragraph 2.11 of the Discussion Paper which convinces us even more that too much disaggregation in the same statement would obscure the key information and that other elements required by users should be the subject of disclosure notes.

Question 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?

The proposed format appears to be more decision-useful in that the calculation of key ratios will be eased.

However, as a preparer in the financial services sector, we would like to have more information with regards to the presentation format to be used. For entities in the financial services sector, we would like the Boards to include the guiding principles on how activities, for our sector, should be divided into operating, investing and financing. We reckon that in the case of an International Financing Institution (IFI), putting all of the loan income in the operating category and the cost of funding in the financing category will lead to totally meaningless subtotals in the statement of comprehensive income, not linked to any economic reality and thus not decision-useful for users.

Question 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?

Yes, equity should be a separate section. It is important to create separate sections for owner and non-owner related changes in financial position in order to provide information that is meaningful to users, inter alia for traditional ratio calculations.

Question 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?

In order to meet the decision-usefulness criteria, it makes sense to continue separating discontinued operations from continuing operations in order to provide the user of financial statements with a clear overview of the business activity.

Question 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?

According to us, the statement made by the Boards in paragraph 2.29 of the Discussion Paper does not apply all the time. There may be occasions when changes in operating assets will have to be reflected in other categories than the category used for classifying the operating asset in the statement of financial position. Refer also to question 1.

Even when a management approach is to be used, we can expect entities acting in the same industry sector to have a pretty similar layout except for some entity specifics. In addition, we believe that there are conglomerate entities that are in such different types of business in each of

their reportable segment that the management approach to classification would lead to as many classifications as there are reportable segments.

We would like to draw the attention of the Boards to the risk of inconsistency that could arise between individual standards requiring specific classification and a financial statements presentation standard allowing for a management approach with regards to classification. As an example: this issue was raised by the Board in a recent meeting dealing with the presentation of the remeasurement component for pensions.

Indeed, there is a clear risk of other standards imposing specific classification which possibly is not the management approach of that entity leaving the entire presentation as a mix between a management approach for certain items and an imposed classification for others. Past experiences of any "mixed model approach" show that they usually result in statements that no longer reflect, in an easily readable manner, the underlying economic situation of an entity.

Question 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?

Yes, by all means. Having such type of split on the face of the statements, will ease the calculation of key ratios and avoid searching for additional detailed information in the notes. In our opinion, such objective will be reached provided only key information is available (i.e. sufficient but not excessive information provided on the face of the statements – refer also to question 1)

It is also important to still require total assets and liabilities for analysis purposes.

Question 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 concept that a split by segment would be more useful and provide much information but this is to be balanced with the risk of providing too much information on the face of financial statements and therefore obscuring key information. Consequently, we suggest that classification at the reportable segment level is made in a note to financial statements.

On the other hand, if an entity is a conglomerate which is acting in many business segments, we cannot expect statements of such entities to be condensed in a few lines. The length of each segment will of course be a function of the complexity of the entity. A management approach would be of help to users here for providing, on top of the approach per segment, the overall view of how the conglomerate sees the classification of its overall activities.

Question 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.

It is desirable to provide this type of additional information but it is to be done in a disclosure note as we suggest in our answer to question 7. Our comments on the appropriateness of the cohesiveness objective explained in our answer to question 1 also apply here.

Question 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?

Given that the name “Business” is used, we invite the Boards to at least explain the reason for this naming. One could say that “Business” includes operating and investing but also financing. In our opinion, using such broad term could be misleading for both preparers and users of financial statements.

Furthermore, our reading of the description in paragraph 2.63 of the Discussion Paper suggests that the operating category will receive items that cannot be categorised elsewhere.

On the basis of the above, we believe that too vague descriptions could lead to different classifications by different preparers whose management approach is the same, thus undermining comparability. Therefore, we would welcome a more precise definition of the respective sections and categories.

Question 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?

For a non financial services sector entity, broadly spoken, all liabilities are used as a tool to finance the business activity. For an entity acting in the financial services sector, many but not all of the liabilities are part of the business activity. Therefore, we believe that for financial institutions, it would be useful to have specific principles defined in the Financial Statements Presentation standard because the border line between operating and financing is different and more difficult to define.

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

Question 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?

The use of a split short term/long term is likely to increase comparability compared to the current/non-current split which reflects the operating cycle of each and every entity.

In our opinion, classification in order of liquidity would be more relevant for financial institutions.

Question 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 agree with the proposal.

Question 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?

Financial statements can never become a multi-dimensional matrix and therefore choices are to be made. A classification by type of activity completed by a classification by order of liquidity is already challenging and if another dimension like measurement bases is added, we are trying to push too many dimensions in a one-dimensional table leading to a loss of understandability.

Question 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 agree with the proposal as we believe a single statement will increase comparability of information.

Question 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?

Refer to question 1. We believe that in many cases, such information will not be decision useful because elements of income give way to other, and sometimes multiple, related elements in the statement of financial position.

Question 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?

Disaggregation by function and by nature would lead to excessive information on the face on the statement of comprehensive income. In that respect, we also refer to our answer to question 13 where we indicate that financial statements can never become a multi-dimensional matrix, unless at the expense of significantly reduced decision-usefulness of the information.

Question 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.

Question 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?

If an entity manages its foreign currency translation risk on a global basis, it would certainly be not decision useful to show important foreign currency transaction gains and losses in different sections and categories of the statement of comprehensive income because those important gains and losses might induce an analyst to believe that the entity didn't put a comprehensive management of the foreign exchange risk in place.

For example, in the case of an entity acting in the financial services industry, if a 1 billion EUR foreign exchange gain is made on a loan funded through a bond issue on which a foreign exchange loss of 1 billion EUR is to be recognised, the classification in sections suggested by the Discussion Paper would lead to a gain of 1 billion EUR recognised in the Operating category (lending business) and a loss of 1 billion EUR recognised in the Financing category.

Based on the above, we believe that a disaggregation of foreign currency transaction gains and losses could lead to non decision-useful information.

Question 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?
-

The direct method will impose to many preparers substantial, and probably very costly, changes in their data systems. Therefore, we believe that a comprehensive effects study should precede any decision to impose the direct method.

Question 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?

Refer to question 19.

Question 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?

Alternatives A suggested by the Boards seems to provide for an arbitrary allocation of the effects of basket transactions, whereas alternative C creates a category which has no meaning by itself. Furthermore, alternative C would lead to significant distortions in the other categories, because of the missing effect of, often very significant, basket transactions.

Therefore, we believe that the classification in a single predominant category (i.e. alternative B) would be the most efficient solution and distort least the usefulness of the information.

The very existence of basket transactions reinforces our doubts on the practicability of the cohesiveness principle. It would be very difficult to allocate the single income effect of a basket transaction to the sub-totals that are to be distinguished for the different categories of assets that are affected by this basket transaction.

Chapter 4: Notes to financial statements

Question 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 proposal to disclose information about the maturities of assets and liabilities, in general.

We are a bit confused by the question and suggest its rephrasing, as it seems in contradiction with the related paragraphs in the Discussion Paper. Indeed, paragraphs 4.11 to 4.15 refer to long term assets and liabilities whereas the question is limited to short term assets and liabilities.

Question 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.

(a) We agree with the development of a reconciliation schedule especially in order to identify changes in the comprehensive income attributable to fair value changes or valuation adjustments. Indeed, where management intent is to hold most of its financial instruments until maturity, the proposed table would result in a comprehensive tool to explain the artificial volatility included in the statement of comprehensive income as a result of remeasurement to fair value, thus providing more relevant information to the users of the financial statements.

(b) We agree with the proposed format. However, we understand that this format will induce the use of the direct method for the cash flow statement preparation, in that respect we refer to our concerns on this point explained in our answer to question 19 and re-iterate the need for an effects study.

(c) We agree.

Question 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 this topic should indeed be discussed further in order to ensure that decision-useful information is provided to users of financial statements. In line with our comment to question 1, we would like to see such further disaggregation of changes in fair value disclosed in the notes to the financial statements and not on the face of financial statements.

Question 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?

We believe that the statement of financial position reconciliation is indeed a good format for users of financial statements of entities in the financial services sector since it will provide more useful information to the users of financial statements about how assets and liabilities have been managed during the reporting period.

Furthermore, this format discloses those adjustments that are due to fair value remeasurement and therefore helps the users better understand the amount of volatility included in the statement of comprehensive income as a result of the variation of these adjustments from one period to the next.

Question 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?

(a) We believe that disclosure of this type of information would be decision-useful for users in order to get more precise information about the entity's future cash flows. In their analysis, they will not consider those events that impact the financial statements only once and will not happen again in the future

(b) We agree with paragraph 4.51 of the Discussion Paper that provides room for interpretation in the definition of "unusual and infrequent events or transactions" which is in line with principles-based standards and a management approach.

(c) Yes, provided the information to be disclosed does not include too many numeric information. If that is the case, we would recommend the use of a table to clarify the understanding of the information being disclosed.

Question specific to the FASB

Question 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.