



LETTER OF COMMENT NO. 75

Sir David Tweedie
Chairman of the IASB
30 Cannon Street
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by email to: commentletters@ iasb.org

HAG (0237/09) Brussels, 10 April 2009

Re: Discussion Paper on "Preliminary Views on Financial Statement Presentation"

Dear Sir David

On behalf of the European Savings Banks Group (ESBG), we would like to thank you for the opportunity to comment on the above mentioned Discussion Paper and enclose our detailed response in the Annex to this letter.

The ESBG is convinced that the envisaged redesign of the presentation of financial statements is an important project with far reaching implications for preparers of financial statements and users of financial information. Fundamentally, we welcome the forthcoming standardisation of the structure and presentation of financial statements and the improvement of the information made available. We welcome in particular the focus on the management approach which provides the best suited criterion for corporate activities and facilitating the communication of information which is decision-useful.

We would, however, like to express some concerns about the approach taken, especially as regards the direct method cash flow statement, the envisaged disaggregation of financial information into two sections and the proposed "one statement of comprehensive income approach".

The ESBG stands ready to contribute further to any discussions on this matter and we remain at your disposal should you have any questions in relation to our comments.

I thank you in advance for taking our comments into consideration and remain

Yours sincerely

Chris De Noose Managing Director

- Annex -



ESBG comments on the Discussion Paper on "Preliminary Views on Financial Statement Presentation"

General remarks

The ESBG is convinced that the envisaged redesign of the presentation of financial statements is an important project with far reaching implications for preparers of financial statements and users of financial information. Fundamentally, we welcome the forthcoming standardisation of the structure and presentation of financial statements and the improvement of the information made available. We welcome in particular the focus on the management approach which provides the best suited criterion for corporate activities and facilitating the communication of information which is decision-useful.

Nevertheless, we would like to express some concerns about the approach taken, especially as regards:

- the direct method cash flow statement
- the envisaged disaggregation of financial information into two sections and
- the proposed "one statement of comprehensive income approach".

The ESBG agrees that the issue of liquidity is a major challenge for the banking industry. However, cash flow statements are not the central part of planning procedures and accounting systems of the bank and do not facilitate forecasts concerning the future economic situation. The presentation of cash flows should therefore remain at the bank's discretion and be optional—whether or not it is prepared using the direct or indirect method. We are convinced that a mandatory obligation for banks to use the direct method would create additional administrative burdens and tie up financial resources without providing added value to readers.

As regards the proposed disaggregation of financial information into the two sections "business" and "financing", the ESBG acknowledges that an important reason behind the financial reporting is sharing information which is useful for decision-making. However, the separation of business and financing activities is barely relevant for financial institutions. This could be counterproductive and even hinder the comparability of the financial statements. This is because financial institutions might classify similar items in a different way based on their individual management decisions.

Concerning the proposal on performance reporting ("one statement of comprehensive income approach") the ESBG is strongly opposed to a "single statement of comprehensive income approach". Gains and losses included in net income should be distinguished from other comprehensive income to avoid confusion for users and investors. These statements are of a different nature. Income statements show the performance of the entity and the way operating activities are managed to generate returns to investors. Other incomprehensive income categories do not relate to the core business results. We are therefore in favour of the current option stated under IAS 1 of presenting one or two statements depending on the management approach and the relevance of the information to be provided.



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 applied 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.

In principle, the ESBG agrees with the objectives of the proposals put forward in the discussion paper. We agree that coherence between balance sheet, total comprehensive income and statement of cash flows improves the information which is made available. However, we have doubts regarding the improvement for banks which can possibly be reached.

Ouestion 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 ESBG would like to reiterate that the separation of business and financing activities is barely relevant for financial institutions and for the rationale behind the proposal. We question whether this separation would help to provide better information where banks are concerned. For more details, please refer to our general comments above.

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?

The ESBG agrees with the proposal to present equity separately.

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?

The ESGB is in agreement with the proposal to present discontinued operations separately. This would better reflect the management's view and be in line with the current IFRS 5 objectives.

Question 5

The proposed presentation model relies on a management approach to dassification 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?
- a) As mentioned in our general remarks, the ESBG is supportive of relying on the management approach in order to classify business transactions.



b) The ESBG is convinced that the extent of deviations within the same industries would be insignificant. Where banks are concerned, the use and publication of information based on management intention would in our view not result in a reduced comparability of financial statements.

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?

The ESBG in principal agrees that assets and liabilities can belong both to the business and the financing section. However, we do not see any improvement for banks due to the separation of business and financing activities. Please also refer to our general remarks and the answer given to questions 2 and 5.

Question 7

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

The ESBG is convinced that the incorporation of compulsory segment information would be burdensome for both preparers and users. In addition, all relevant information can be found in the segment reporting disclosures. The reportable level should be up the entity's discretion — which decides if this information should be provided, and in this case which and how detailed the information provided should be. Additionally, we feel that segment reporting issues (IFRS 8) should not form part of the Discussion Paper.

Question 8

The proposed presentation model introduces sections and actegories in the statements of financial position, comprehensive income and cash flows. A s 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 dassification scheme. For example, the boards may need to darify 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 mode? Please explain.

As explained in our answer to question 7, financial presentation standards should provide the opportunity to present the segment information on the face of financial statements on a voluntary basis and in a manner that the entity considers relevant. Such information would be outside the scope of IFRS 8.

Question 9

A re 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?

In general, in the ESBG's view, the definitions are appropriate. However the criterion of interchangeability which is decisive for financing section categorisation could be further clarified.



Ouestion 10

A re the financing section and the financing assets and financing liabilities actegories 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?

The ESBG agrees with the proposal to only categorise financial assets liabilities in the financing section.

Question 11

Paragraph 3.2 proposes that an entity should present a dassified 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?
- a) The ESBG is in favour of the proposed elective right for the presentation of assets and liabilities as it makes sense to structure the bank's balance sheet on the basis of liquidity aspects. However, in examinating the current situation we do not deem the envisaged changes necessary.
- b) In our view, the publication of further guidance is not necessary.

Ouestion 12

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

The ESBG agrees with the proposal and considers the separate presentation of cash and cash equivalents as legitimate.

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?

The ESBG is in favour of the provision of transparent, decision-useful information and is convinced that the existing rules match this purpose.

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?

As mentioned in our general remarks, the ESBG strongly supports the option to present other comprehensive income in a separate statement and does not see any reason to change the current status set by IAS 1.

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?

We would like to refer to our general remarks and our answers to the questions 2, 6, 9 and 10. In general, the ESBG does not agree with the categorisation of other comprehensive income items as such a categorisation would not provide decision-useful information for analysis.

Ouestion 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 aspital providers? Why or why not?

The ESBG supports the proposal of principle based disaggregation as this can help users of financial statements to get a better picture of the entity and more accurate data for their analyses. However, this requirement is not as relevant for banks as they do not use disaggregation by function, as is also confirmed in paragraph 3.52 of the Discussion Paper.

Ouestion 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.

The ESBG does not see the need for a further disaggregation that would exceed the current requirements and therefore strongly opposes this proposal.

Question 18

Paragraph 3.63 proposes that an entity should present foreign aurency transaction gains and losses, including the components of any net gain or loss arising on remeasurement into its functional aurency, 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?

The ESBG does not consider this approach necessary as the existing information is sufficient. The presentation of foreign currency transaction gains and losses within separate sections would be extremely burdensome and costly for banks and would entail major changes to the existing practices.

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?



As explained in our general remarks, cash flow statements are not revelant for the analysis of the banking business. We would like to reiterate that direct cash flow method statements would be extremely burdensome for banks because banks do not gather information about individual transactions on cash basis. In general, the ESBG advocates for a voluntary approach, no matter which method is used.

Ouestion 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 adoption of the direct method would imply fundamental changes in order to reorganize the existing IT systems configuration, creating additional burden and costs. In our view, an estimation of costs is not possible as accounting and other data source systems are not cash flow oriented. The implementation costs of fundamental changes can not be estimated without a study which would assess the available data.

Ouestion 21

On the basis of the discussion in paragraphs 3.88–3.95, should the effects of bask et 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?

The ESBG is supportive of the alternative outlined in 3.90 (b), complemented by the management approach that we mentioned earlier at several occasions in this document.

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?

Fundamentally, the ESBG is in favour of transparent and comprehensive information and advocates for making reference to IFRS 7 in order to harmonise the requirements of liquidity risks.

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) ash 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 dear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.



As previously mentioned, the ESBG does not see the need for any reconciliation of the cash flow statement and comprehensive income.

Ouestion 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?

The ESBG believes that existing IFRS requirements provide a good possibility for entities to present fair value changes from an economic point of view. Any further differentiation of changes in fair value would be unnecessary and should not be addressed by the boards.

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 ash flows to comprehensive income? Why or why not?

As outlined above, the ESBG strongly opposes any reconciliation format that contains direct method cash flow statements.

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) The ESBG is convinced of the sufficiency of the current requirements.
- b) The definition of "unusual and infrequent" as wll as a clarification of "extraordinary" is missing.
- c) The current IFRS already provides entities with the possibility to give additional disclosures. Any additional requirement in this respect would be redundant and therefore not necessary.

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.

The ESBG cannot provide a global response given the diversity of the legal structure of its members.