

LETTER OF COMMENT NO. 168

Deutsche Bank



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Sir David Tweedie Chairman International Accounting Standards Board 30 Cannon Street London EC4M 6XH, United Kingdom

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Discussion Paper, Preliminary Views on Financial Statement Presentation

Dear Sir David.

Deutsche Bank (the Bank) appreciates the opportunity to provide comments on the IASB's Discussion Paper "Preliminary Views on Financial Statement Presentation" (DP). The Bank takes a keen interest in efforts by the IASB which are designed to make financial information more useful to investors, while minimising additional burdens on preparers.

We generally support the IASB's proposals included in the DP to the extent they improve the decision-usefulness of financial statements. In particular, we support the cohesiveness objective, as long as this is not taken to the extreme on the face of the primary statements, and the management approach to disaggregation. However, we have concerns over certain specific proposals, our views for which are detailed in the appendix to this letter. In summary, our main concerns are regarding the following proposals:

- Direct method statement of cash flows We do not believe that the direct method is meaningful or useful for users of financial statements of banks as it does not satisfy the main benefits of cash flow statements as stated in paragraph 4 of IAS 7, Statement of Cash Flows, which are to provide information regarding the change in net assets of a bank, its financial structure (including its liquidity and solvency) or its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. To go one step further, it is questionable whether a statement of cash flows, whether direct or indirect, is indeed useful at all in analysing financial statements of banks. Please see our response to question 19 for further considerations.
- Reconciliation Schedule In addition to disagreeing with the reconciliation schedule due to its interaction with the direct method of cash flows, a complete line by line reconciliation of the statement of cash flows to the statement of comprehensive income would produce a schedule that contains data that is neither useful nor meaningful and could be highly confusing to users. Furthermore, for a bank the costs required to implement and prepare the direct method cash flow statement and the reconciliation schedule would be considerable and are not justified given there are no real benefits to users. Please see our response to question 23 for further considerations.

The Bank is interested in participating in any further discussions which the IASB may hold regarding the topic or in conversations directly with the staff. If you have any questions regarding this letter please contact Charlotte Jones at +44(20)754-76640.

Yours sincerely

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APPENDIX

QUESTIONS CONCERNING BASIC PRINCIPLES AND CLASSIFICATION OF ITEMS

Question 1

Would the objectives of financial statement presentation proposed in paragraphs 2.5-2.13 (cohesiveness, disaggregation, helping users to assess an entity's liquidity and financial flexibility) 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 this discussion paper? If so, please describe and explain.

We generally agree with the boards' objectives and believe that they will enhance the financial information provided to users by a reporting entity. However, as described in more detail below, there are certain proposals in the discussion paper (DP) to which we would like to draw the boards' attention:

- Cohesiveness objective: We support the boards' overall concept of cohesiveness so that the user can clearly see the relationship between all the primary statements. However, we understand this to mean an increase in the number of line items to meet the cohesiveness objective which may cause the primary statements to become unnecessarily long and cluttered. As long as users can easily access the information, the management should be able to determine which information should be disclosed on the face of the primary statements and which information should be disclosed in the notes to the financial statements. For example, the Bank currently shows all types of financial assets and liabilities on the face of the balance sheet categorised according to different measurement bases in accordance with IAS 39. We also shows the interest income and expense related to each category of financial assets and liabilities, however this level of detail is disclosed in the notes to the financial statements whereas on the face of the income statement, only the subtotals for interest income and interest expense are presented.
- Disaggregation objective: The DP proposes disaggregation in terms of line items to meet the cohesiveness objective and in addition, to disaggregate certain items by nature or by function, or both so that users may assess the amount, timing and uncertainty of cash flows. In general, we would support further disaggregation of certain line times where many different types of assets or liabilities, or income or expenses, are aggregated in one line providing users with little or no information. However, whilst we agree that users will find more disaggregation useful, as we have mentioned above, certain disaggregated data may be more appropriate in the notes to the financial statements rather than on the face of the primary statements.
- Liquidity and financial flexibility objective: For banks and other financial institutions, the statement of financial position is shown in the order of liquidity and there are already extensive disclosure requirements on the liquidity of the reporting entity in IFRS 7 and Basel II. We do not believe that this objective is a "new" objective of financial statement presentation as it is already mentioned in the Framework. We do not believe that the DP's proposals on the liquidity and financial flexibility objective is clearly stated and would recommend that any such disclosures are included in the IFRS 7 rather than in this (future) standard.

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 of the DP)? Why or why not?

Whilst we would not object to this separation, we note that for banks, this would not be very meaningful as most of our assets and liabilities will be categorised in the Business section and so the Financing section would be limited.

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?

We believe that equity is a form of financing for companies and therefore should be included in the financing section, as a separate category after financing assets and financing liabilities.

We understand that the categorisation of the financial statements into Business (operating and investing) and Financing is to be based on the management approach. However, paragraph 2.62 requires that assets and liabilities included in the Financing section to be classified by function (i.e. financing) and by nature (i.e. they must be financial in nature), the reason for the latter being "to add objectivity to the classification process". It is not clear to us how restricting the financing section to financial assets and liabilities "adds objectivity to the classification process" and therefore, we would like the boards to clarify their statement. We believe that the management approach to categorisation should be consistent in each of the categories/sections. Therefore, the Financing section should include items that are, according to the management approach, related to the financing activities of the entity, irrespective of the nature of the asset or liability.

In our view, the financing liabilities that we would categorise in the Financing section are those that would be interchangeable with equity and not with other operating liabilities. Therefore, we would view them in the same manner as equity when it comes to categorisation by function. Similarly, as is included in paragraph 2.45, post-employment obligations could be seen as financing by some users/entities whilst other users/entities could see them part of business activities (within operating). The DP as it is currently drafted would not allow entities to classify this part of their post-employment obligation in the Financing section as it is not a financial liability, however, this would then be in contradiction of the proposed management approach as it ignores the way management regard this liability.

Question 4 In the proposed presentation model, an entity would present its discontinued operations in a separate section (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?

We agree with the proposal in the DP to present discontinued operations in a separate section. Both management and external users will find the separation of cash flows from discontinued operations useful because this will enable them to look at the cash flows of the continuing operations in isolation and this will also be in line with IFRS 5, Non-current Assets Held-for-Sale and Discontinued Operations.

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?

We agree that in order to accommodate the differences and uniqueness of each reporting entity and each industry, only a management approach is appropriate to classify assets and liabilities and the related changes in those items. We believe that as long as the accounting policy note fully explains the management's approach to classification, the users will be able to understand the information presented.

(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 the management approach will not reduce comparability as long as the accounting policy on classification sufficiently explains the management's approach. Our view is that this would be more useful to users than for all reporting entities to try and fit their business to one or more models that do not correctly reflect their business.

Furthermore, the separation of operating and investing activities would even enhance comparability between entities (in the same industry) as users can analyse the position, results and cash flows of central operations of entities and filter out the non-central activities.

Despite the above, as it is expected that the vast majority of the assets and liabilities of banks and other financial institutions will be categorised in operating, we expect that there will be little impact to comparability compared to the current presentation 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 will 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 calculation of regulatory and other key financial ratios will not be impacted as these ratios are currently calculated based on the available financial data. The separation of financial data may actually create more work to aggregate certain financial data which were previously presented as a total. We expect that there will be minimal effect on calculating key ratios.

However, due to the separation of categories and disaggregation, analysts may produce new ratios which were previously never calculated. As long as it is clear what the inputs of the ratios are, we see no issues in the calculation of ratios.

Question 7 Paragraphs 2.27, 2.76 and 2.77 of the DP 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.

Due to the fact that the management approach is supposed to be used under both IFRS 8 and the FSP DP, we believe that classification of assets and liabilities should be done at the segment level.

For entities with more than one segment, classification at the segment level ensures that the decision to classify an asset as operating or investing is consistent at both the segment level and the entity level.

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.

We do not agree with changing the current segment disclosures to incorporate the proposals of this DP as segment disclosures should be dealt with as part of IFRS 8, *Operating Segments*. In particular, for banks, as it is expected that only a limited amount of assets and liabilities will be categorised in the investing and financing sections, disaggregating this information into the segment disclosures would provide very limited added value to users.

More importantly, segment disclosure should be determined on the basis of the information that the Chief Operating Decision Maker regards as useful. As mentioned above, this DP should not aim to cover segment disclosure as there is already an IFRS dedicated to the subject.

Question 9 Are the business section and the operating and investing categories within that section defined appropriately (see paragraphs 2.31-2.22 and 2.63-2.67 of the DP) Why or why not?

We agree with how the section and categories are defined. As long as the accounting policy note sufficiently explains the management's approach to the classification, users should be able to understand the categorisation.

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?

We do not agree with restricting the financing section to financial assets and financial liabilities for the reasons mentioned in question 3 as if we are to apply the management approach to categorisation, the financing section should include all assets and liabilities related to the financing activities of the entity regardless of the nature of the asset or liability.

QUESTIONS CONCERNING IMPLICATIONS 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 (paragraph 3.2). Is this presentational option in order of liquidity really necessary?

Yes. As banks typically have financial assets and financial liabilities with a wide range of maturity dates within a short time period, presenting the statement of financial position in the order of liquidity provides for more useful information than the classified format which is based on an "arbitrary" split between short-term and long-term. Presentation in the order of liquidity is therefore more beneficial for the users.

(a) What types of entities would you expect not to present a classified statement of financial position? Why?

Banks and other financial institutions would typically present the statement of financial position in the order of liquidity rather than in the classified format. Largely due to the fact that the majority of the assets and liabilities in the statement of financial position are financial assets and financial liabilities with a wide range of maturities ranging from the very next day to perpetual assets and liabilities, the distinction of less than and more than one year does not give decision-useful information to the users as the categories are too broad. Presentation in the order of liquidity with additional disclosures in accordance with IFRS 7 gives users more information about the liquidity of an entity.

(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 do not believe that additional guidance is necessary as management will know which presentation is appropriate for their business.

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. Although cash equivalents are short-term, highly liquid investments that are readily convertible into cash, we have classified cash separately from cash equivalents in our statement of financial position as, in terms of the order of liquidity, cash in hand and at bank is still more liquid, however slight, than cash equivalents (see also Q 13).

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 (paragraph 3.19). 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?

We believe that this form of disaggregation would be useful information for users as different measurement bases give valuable information to the informed user about cash flows and impact on comprehensive income.

In particular, banks may decide to show financial assets and liabilities, which make up the majority of the statement of financial position, according to the IAS 39 classifications which have different measurement bases. On the adoption of IFRS, we made a decision to show the Bank's financial assets and liabilities by the IAS 39 categories on the face of the statement of financial position. We believe that, in this way, the user can obtain information that is consistent for each line, for example all assets or liabilities shown in each line are measured in the same way, either at fair value or at amortised cost less impairment, and what the impact is to comprehensive income. Further breakdowns are provided in the notes which include the breakdown of interest income and interest expense in the same order as in the statement of financial position.

In contrast, a line showing "investment securities" on the face of the statement of financial position may be confusing to the user and, in our view, not very useful to the user at first glance. Only when the user goes into the notes would they see information regarding the measurement and other impacts.

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 of the DP)? Why or why not? If not, how should they be presented?

DB does not support the single statement approach proposed by the DP, rather we believe the current presentation of a separate income statement and a separate statement of recognised income and expense is a more useful representation of the performance of an entity.

It is our opinion that net income will continue to be an important measure of the performance of an entity and users are familiar with net income or the "bottom line" being the results of the year. Internally, management may also base compensation on the profit or loss for the period and therefore it is a key item. We understand that the boards intend to keep net income in the statement of comprehensive income, however, we do not feel that such an important total should be presented as a subtotal.

Furthermore, as there will be less distinction between realised and unrealised income and expenses, and gains and losses, it is questionable whether the other comprehensive income (OCI) part of the statement of comprehensive income is effectively redundant and the whole statement of comprehensive income is in fact "realised" or at "full fair value".

Specifically, we have the following concerns regarding a single statement:

- As a bank, we have financial assets classified as available-for-sale which are recognised at fair value with the changes in fair value recognised in equity until there is an impairment event or the asset is derecognised (through sale) when the changes in fair value are recycled to the profit or loss. In other words, the changes in fair value until impairment or derecognition are "unrealised". However, by having a single statement of comprehensive income, the available-for-sale category is effectively eliminated as the "bottom line" shows both the realised and unrealised gains and losses so that, in terms of measurement, there is no difference between this category and asset at fair value through profit or loss as all changes are recognised in the current period.
- The above impact is applicable to other items that are currently recognised in equity but recycled to profit or loss when realised, for example, cumulative exchange differences on the disposal of foreign operations, as well as amounts related to cash flow hedges when a hedge transaction impacts profit or loss. A single statement of comprehensive income will effectively "pull forward" the impacts of these items to the current year.
- We have applied the "SORIE" approach under IAS 19 where actuarial gains and losses related to defined pension obligations are taken immediately to equity. These gains and losses are never recycled to profit or loss but are immediately recognised in retained earnings and therefore showing a single statement would effectively be the equivalent of recognising all actuarial gains and losses immediately in earnings.

We would urge the boards to reconsider the proposal for a single statement and first resolve the issue of OCI.

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 adjustments1) (paragraphs 3.37–3.41, see also pages 107 and 129). Would that information be decision-useful? Why or why not?

We agree. This is consistent with the cohesiveness objective and would be useful to users to obtain the "whole" picture relating to assets and liabilities within a category.

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?

We support disaggregation to the extent that it does not make the financial statements become cluttered with data that is not useful. The key aim of the disaggregation objective should be that it provides users with decision-useful information. Presenting more information does not always meet this objective, rather data that is aggregated in a meaningful manner may be of more use to users. We believe that disaggregation should also be performed in accordance with the management approach in that the management decide on what to present as they are in the best position to know what information the users are looking for and in what format it would be most useful. We believe that the boards have, to an extent, taken this into consideration in paragraph 3.46, as it allows disaggregation to the extent that it enhances usefulness and avoids lengthy statements.

Similar to what we have said above in our response to question 1, we think that disaggregation could be disclosed in the notes rather on the face of the primary statements.

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 (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.

Although the new tax allocation requirements adopted by the IASB in the proposed replacement of IAS 12 appear to be somewhat arbitrary, we continue to support the approach of allocating income tax expenses and benefits among continuing operations, discontinued operations, other comprehensive income items and items charged or credited directly to equity as proposed by this discussion paper. We do not support a requirement to allocate income tax expenses or benefits, from continuing operations, to the operating, investing, financing asset or financing liability categories. In order to allocate the income taxes to each category on a timely basis, there would need to be an element of estimation and therefore, the result may not be meaningful to the user.

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 (paragraphs 3.63–3.69).

- (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?

We disagree. This is not the way we manage foreign currency translation (FX) risk, and therefore, if made to do so, it is possible that each of the sections show FX risk when, for the Bank as whole, we do not have any risk. Furthermore, there would have to be some arbitrary allocations which would not be meaningful to the user, and additionally this will be costly to implement.

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?

Currently, as with our peers, DB uses the indirect method of presenting cash flows in the statement of cash flows.

In our view, presenting a direct method statement of cash flows for a bank is not meaningful and not useful to users as it does not provide information regarding the change in net assets of a bank, its financial structure (including its liquidity and solvency) or its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities which are the benefits stated in paragraph 4 of IAS 7, Statement of Cash Flows.

One of the main reasons is because, for a bank there are numerous cash transactions on a daily basis that are not under the control the bank but are controlled by customers of the bank who decide on the amounts and timing of payments and receipts. These movements that have taken place during the reporting period do not provide information on the bank's ability to create value in the future and it is unclear whether they provide any information regarding the liquidity risks or financial flexibility of the bank, for example the bank's ability to generate sufficient cash from operations to pay debts, reinvest in operations and make distributions to owners. In our view, it is difficult to understand what information users will obtain from this mass of data.

Paragraph 3.77 states "Many users have said that they attempt to construct a direct method cash flow statement from other information available in the financial statements". For the reasons cited in the previous paragraph, in our view, we do not expect that users of a bank's statement of cash flows would attempt this as the information that they will obtain would be of little or no benefit, in fact, we believe the "gross up" of operating cash flows would obscure any benefit of the indirect method currently being used.

It should be noted that, internally, the management of a bank does not view the statement of cash flows as an indicator or tool to assess the bank's liquidity risks and analyse the bank's ability to general cash and create value for shareholders and therefore it is questionable how much information external users derive from them.

We, therefore, question the usefulness of the statement of cash flows of a bank, whether direct or indirect, and request that the boards consider whether banks should be exempt from preparing a statement of cash flows.

(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?

For a bank, the direct method is not consistent with the cohesiveness objective because there is little relationship between certain types operating assets and liabilities and operating income and expenses for the reasons stated above.

(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 of the DP)? Why or why not?

As we do support the direct method of cash flows, we also do not support the reconciliation.

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 of the DP)? 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?

At this point, it is difficult to estimate the cost of collecting the additional data necessary in order to enable the cash flow statement to be prepared using the direct method (and reconciliation) without carrying out a detailed analysis. Whilst much of the information may be available in existing operative systems, changes would be necessary to label each cash flow and ensure that the accounting systems are enhanced to collect and correctly process this information. We roughly estimate the implementation costs in the upper double-digit EUR million range. Given the amount of cash transactions in a bank on a daily basis, this workload is expected to be significant and additionally, the matching and elimination of intra-group cash flows are significant tasks. Moreover, due to the costs of reconciling the cash flows to the financial statements and performing additional quality assurance checks, we believe that the ongoing expenses will also be significant, i.e. several million EUR per year.

As we have outlined in our response to question 19, we do not believe that the direct method of cash flows represents a more useful basis of presentation of cash flows for banks, and therefore, all the costs described above would not justify the limited benefits..

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?

We disagree. As the DP states, any allocation is arbitrary and costly to implement. We do not believe that allocation of basket transactions is in line with the DP's "management approach" as acquisitions and disposals are rarely done bearing in mind the individual assets and liabilities but at the more higher level of synergies and corporate strategies.

In terms of presentation, we would support approach B as being in line with the management approach, however, as mentioned above, for banks, it is expected that most of the items would be categorised in the operating section (therefore, more in line with approach A).

QUESTIONS CONCERNING THE PROPOSED ADDITIONAL NOTES TO THE 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?

In general, we agree with the boards' proposal, however, we note that the boards do not give a definition of contractual assets and liabilities.

In accordance with IFRS 7, we already disclose a maturity schedule for financial liabilities as part of the liquidity disclosures. As a bank, we would not object to additional disclosure on the contractual maturities of financial assets in the same time brackets as the financial liabilities as, in our view, we agree that such disclosures would be useful for users to determine the liquidity of an entity.

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!

As we do not support the direct method of operating cash flows, we do not support the reconciliation schedule as proposed in the DP. Although we understand the boards' objectives behind the reconciliation, a complete line by line reconciliation of the statement of cash flows to the statement of comprehensive income would produce a schedule with so many numbers that it may be confusing to the average user and provide a lot of data that is not useful or meaningful to the more sophisticated user - i.e. "they will not be able to see the wood for the trees".

From the preparer's perspective, the information needed to populate the reconciliation may not be available, such as the cash flows data, or even if they are, it would be costly to implement a system that arranges all financial information into the format required by the DP. Certainly, there would need to be excessive quality assurance checks and training in place at the onset and also ongoing so that costs to implement the reconciliation would be excessive and additional to the systems required for the direct cash flows.

- (b) Should changes in assets and liabilities be disaggregated into the four components described in paragraph 4.19 of the DP? 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 of the DP clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.

As we do not support the direct method of operating cash flows, we do not support the reconciliation schedule as proposed in the DP. However, had we had to prepare a reconciliation, the guidance in the aforementioned paragraphs are clear.

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

We do not believe that a further project on the disaggregation of changes in fair value would be necessary. In our view, rather than more information on quantitative disaggregation of changes in fair value, qualitative explanations of the changes during the reporting period and the risk management strategies and policies of the entity are more useful and relevant for users in their decision-making process. We note that such qualitative disclosures around how an entity manages its risk is already a requirement of IFRS 7.

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?

The financial position reconciliation is far more complex than the reconciliation of the statement of cash flows to the statement of comprehensive income, and therefore we would not support such a

statement due to the over-complexity to users and burdensome nature to preparers. We believe the costs to prepare such a schedule would clearly outweigh the benefits.

The statement of comprehensive income statement matrix is merely a disaggregated statement of comprehensive income or the reconciliation without the reference to the statement of cash flows. Although it is less complex than the reconciliation of the statement of cash flows to the statement of comprehensive income and the financial position reconciliation, it nevertheless requires the disclosure of direct cash flows which we have said is not relevant for banks.

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 (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?

As mentioned above, we do not agree with the reconciliation. However, to respond to the question, we would disagree with adding a separate column at the end of the reconciliation as it could be misused and by management to highlight unusual and infrequent items away from the analysis of the recurring components of comprehensive income.

The items that the boards are considering are similar to the extraordinary items under IFRS that are not permitted to be recognised in IFRS financial statements. The boards should therefore clarify the terminology for "unusual and infrequent" events so that a clear distinction can be made with extraordinary items. We believe that the current practice of disclosing such information in the notes in a narrative format is adequate.