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LETTER OF COMMENT NO. 170

International Accounting Standards Board,
First Floor,
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London, EC4M 6XH,
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8th April, 2009

Discussion Paper
Preliminary Views on Financial Statement Presentation

Dear Sirs,

Allied Irish Banks p.l.c. welcome the opportunity to comment on the IASB/FASB Phase B financial statement presentation project discussion paper "Preliminary views on financial statement presentation".

Following a review of the above Discussion Paper, please see our answers to the questions posed below. It is important to note that the impact of the proposed changes to the presentation of financial statements is dependant upon the nature of the reporting entity's business. Information needs of financial institution's shareholders differ from those of corporates, therefore a balance of user information requirements needs to be considered in finalising the amendments to IAS 1.

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.

The objectives of cohesiveness and disaggregation for the presentation of financial statements would result in decision-user information as it allows the reader to relate information across the financial statements and also to assess the amount, timing and uncertainties of cash flows. No further objectives are considered necessary.

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 separation of business activities from financing activities clarifies for the reader of the financial statements the profits received from the business activities as opposed to the costs of financing the business, thus enabling better decision making. However the separation of business activities from financing liabilities is not precise enough and it depends on the entity's consideration of assets and liabilities. Therefore comparability across entities would not be guaranteed due to the lack of homogeneity between entities for the classification of assets and liabilities.

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 should be presented as a section separate from the financing section as shareholders are the primary users of financial statements.

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?

We believe that presenting discontinued operations in a separate section to continued operations will result in more useful decision making information and will allow shareholders to assess more quickly the current financial position of the continuing operations of the entity. It will also allow the reader to assess the relative impact of discontinued operations on the entity.

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?

(a) We feel that the management approach will provide a more useful presentation to the reader of the financial statements as it reflects the management's intention within the primary financial statements.

(b) The proposed format will indeed reduce comparability between entities as limited guidance is given as regards how the assets and liabilities should be classified. However disclosure in the notes of the financial statements as proposed will have to be provided in order to support the new 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 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 we believe that the proposed format would make the calculation of key ratios by users easier.

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.

Assets and liabilities should only be classified as proposed at the entity level in the primary financial statements. The segmental information is given as a note to the financial statements and does not require the level of detail as proposed in the DP.

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 believe that the proposed presentation should apply only to the principal financial statements. These are new requirements on an entity with the replacement of IAS 14 by IFRS 8 operating segments which is intended to report how the entity is run through the eyes of management. Extending these disclosure requirements to include the proposed disclosures included within the DP will prove difficult for many entities.

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?

Yes we agree with the guidance given however in order to achieve comparability across entities more detailed guidance and examples should be provided.

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?

Yes the financing section should be limited to financial assets and liabilities in order to ensure comparability across entities and should be in line with accounting standards.

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?

(a) Financial institutions should not be expected to present a classified statement of financial position as they would hold financial assets and financial liabilities with various maturity dates and as the Discussion Paper highlights it would be arbitrary to specify any particular maturity date to distinguish two maturity subcategories. Assets and liabilities in order of liquidity would provide more decision-useful information. The proposed classified presentation may also overburden small companies in terms of data collection and the benefits of providing such a classification may not outweigh the cost of providing it.

(b) We believe that the guidance provided in the Discussion paper is deemed adequate.

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?

Yes we agree with presenting cash equivalents in a similar manner to short-term investments as cash equivalents are more often short-term investments and should be classified as such.

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?

We agree that disaggregation of assets and liabilities that are measured on different bases provides more decision-useful information as it achieves the disaggregation objective as set out in the Discussion paper and is also in line with requirements contained in IFRS 7 Financial Instruments: Disclosures.

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?

No we do not believe that the option to report these two components within two statements should be removed. Items of income and expense are quite different from owner changes in equity. Merging both these statements will not provide decision useful information to the reader.

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?

Yes we believe that this will contribute to achieving the objective of cohesiveness and will allow the reader of the financial statements to determine the impact of items in other comprehensive income on the various sections within the Income Statement.

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?

We believe that disaggregation of the statement of comprehensive income by nature or by function should enhance the usefulness of information for decision making. However in the case of financial institutions this benefit is limited as income and expenses is already classified by nature. Further disaggregation by function may result in too much detail on the face of the statement rather than in the notes to the financial 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 (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.

We do not agree with the proposal to allocate income taxes to various sections and categories as this will not result in better decision making information. Income tax

should remain in its own section in the income statement so as to maintain comparability in financial statements.

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?

Yes we believe that this proposed change would provide decision-useful information. The reader would then be able to identify the particular asset and liability to which the foreign exchange gain or loss relates to. This will contribute to the objective of cohesiveness for financial statement presentation.

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?

(a) We agree that the direct method would result in information which is decision-useful as it allows the reader to see clearly the operating cash receipts and payments in order to assess the entity's ability to generate cash flows.

(b) Yes we believe that the direct method is more consistent with both objectives as users of financial statements will be able to link information about operating assets and liabilities to operating cash receipts and payments.

(c) The information currently provided using an indirect method to present operating cash flows should not be provided in the proposed reconciliation schedule as this will overburden the reconciliation with information and make cause confusion to the reader. IFRS 7 liquidity disclosures already provide users with a sufficient understanding of liquidity risk within the entities.

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?

The main cost will be the one off implementation costs in order to set up the systems to capture the required information. After this ongoing maintenance costs for the provision of such detailed information would be needed.

By requiring less information split and detail, the costs of using the direct method would be reduced.

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 believe that in order to achieve the objective of cohesiveness, the effects of basket transactions should be allocated to the related sections and categories on the statement of comprehensive income and in the statement of cash flows even though this could be difficult .

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?

Yes as short-term assets may have a wide range of maturities and a table showing information about the maturities of its short-term contractual assets and liabilities in the notes to financial statements will prove useful. It will give a greater insight into the liquidity position of the entity. This could be similar to the disclosure requirements of IFRS 7 which require an entity to disclose information about contractual maturity dates.

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 that the proposed reconciliation statement will give the readers of the financial statements a greater insight and ability to assess the amount timing and uncertainty of future cash flows. However the cost of providing such a detailed note against the benefits of having it should be considered.

(b) Either the changes in assets and liabilities or the changes in the comprehensive income should be disaggregated but not both.

(c) The guidance provided is considered adequate.

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 there is no requirement at the present time for a project to deal with the disaggregation of changes in fair value. However the Board should assess entities' compliance and implementation of the final financial statement presentation requirements and may require such a project in the future.

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 the proposed reconciliation is the most favourable. The alternative comprehensive income matrix provides less information than the reconciliation schedule as it is not reconciled to either the statement of financial position or to the statements of cash flows.

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 do not believe that adding a further column for unusual transactions will provide useful decision making information but will clutter the note and take from the sole purpose of the note as a reconciliation schedule. Instead, a reference to a note, which details to nature and purpose of the unusual transaction, should be inserted.

(b) See (a) above.

(c) We do not support this additional column in the reconciliation.