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Sir David Tweedie Chairman International Accounting Standard Board 30 Canon Street London

20 April 2009

Dear Sir David,

Subject: Discussion Paper "Preliminary views on financial statement presentation"

The International Banking Federation (IBFed)¹ would like to thank you for the opportunity to express its views on the Discussion Paper on financial statements presentation. While the IBFed supports the aim to improve the presentation of information in the financial statements and agrees with the Board's overall objectives, it would like to express that the proposed model is inappropriate for the banking sector because the proposed presentation does not reflect the business of banking and how performance in the banking industry is evaluated by management, shareholders, analysts and other users. The requirements to produce our financial statements in a completely new way, which does not reflect banks' underlying business, could result in significant costs for our source, aggregation and reporting systems and processes. In addition, the proposed implementation does not improve the usefulness of the information presented and does not provide a better communication framework to users of bank's financial statements. This is because many of the requirements are mandatory despite their irrelevance or very limited relevance for the banking industry. We believe that if information is irrelevant, it should not be presented.

Although the key objective on which the Discussion Paper is based is to provide information which is decision useful, a definition of decision usefulness itself is not given. The members of IBFed believe that to be decision useful, the information should have predictive value to enable users to forecast future cash flows as well as enable them to make their own assessment of the current financial condition of the entity. Rather than being limited to an investor-oriented approach, financial reporting standards must also provide useful information to a variety of users. In the banking industry, users are also interested in liquidity and risk figures as well as financial ratios based on regulatory data.

The IBFed supports the cohesiveness and disaggregation principle to the extent that it will not be at the expense of providing of decision useful information. Imposing a rigid disaggregation in the primary financial statements will not always be more decision useful and may in fact hinder the provision of information which is relevant, faithfully representative of the business,

<sup>&</sup>lt;sup>1</sup> The members of IBFed are the American Bankers' Association, Australian Bankers' Association, Canadian Bankers' Association, China Banking Federation, Indian Banks' Association, Japanese Bankers' Association and the European Banking Federation.

material and understandable. For example, banks currently disaggregate income and expense items by nature, it is our view that further disaggregation by function would not improve users' understanding of banks' performance but merely add an unnecessary extra layer of complexity, and additional workload in the process. The requirements of IFRS7 already provide useful information in predicting future cash flows arising from liabilities. IBFed considers that the Discussion Paper should have reflected the links to other standards. In particular, the relevance of IFRS 7 for banking industry should have been taken into account.

A single model as proposed would not suit the different industries. As most of the transactions in the financial services industry are of an operating (business) nature, banks would present few, if any, activity in the financing section. Equity in the view of IBFed should also be presented outside the financing section category. IBFed believes that reporting should reflect the way business is managed and reveal the information management uses in decision making process. The industry is of the view that a management approach permits financial reporting to faithfully represent the entities' operations and is the best way to present the business model and to show the intention of management in the primary financial statements. Although a management approach may lead to a decrease in comparability, particularly among different industries, the management approach would be far superior for evaluating a particular entity's financial condition as the information provided reflects the way assets and liabilities are managed in a specific business. Thus, this would improve the value of the information for the users of financial statements.

In this context, the IBFed favours the increasing involvement of the IASB and IASCF in the XBRL project. Since XBRL allows standardised analysis of information provided in non standardised formats, entities can achieve both greater transparency in their financial reports and a simpler platform for users to use and compare financial statements of different entities and industries. IBFed would like to encourage the Board to assess XBRL's efficiency as it could represent a key tool to help meet the Board's objectives, for the provision of comparable financial statements while reflecting the management approach at the same time.

In the banking industry, cash flow statements do not provide users with the information on the entity's ability to generate future cash flows or anticipation of liquidity risk. While banks manage their liquidity risk on day-to-day basis, cash flow statements provide information on the current period but do not provide much perspective on the liquidity risks incurred by the reporting entity for the next period. Cash flow statements present a restrictive view of the processes that create value in banks. A major difference from other industries is that banks' cash flows are not related to their income generation. Analyzing performance of a bank by means of cash flow is as relevant as measuring manufacturing entity's performance with in and outflows of inventory.

The existing IFRS7 requirements already provide users with the necessary information about future cash flows and liquidity risks in the industry. IBFed is unaware of cash flow statements – whether direct or indirect – being used by banking analysts. They are regarded as inadequate and irrelevant for the evaluation of banks' performance, and such cash flow statements are not used internally for management purposes. Should, however, the cash flow statement be required, IBFed believes that the indirect method is marginally more relevant than the direct method for banks and that this should be retained as an option. The Board preference of a direct method for presenting cash flows over today's indirect method will unnecessary complicate current settings besides carrying expensive implementation costs.

Considering the irrelevance of the cash flow statement for the banking industry, IBFed members regard also the proposed reconciliation schedule unnecessary.

Regarding income presentation, IBFed would like to express its support to the practice of reporting comprehensive and net income in separate statements due to the difference in nature of the components of both statements. The industry does not believe a single statement approach would improve comparability of financial statements, as aggregating non-owner changes in equity and net income is confusing since it may be misunderstood as suggesting comprehensive income would represent the value created during the reporting period.

The specific characteristics of the banking industry reduce the benefits of the proposal. IBFed members are, however, happy to work with the IASB to develop a model which would allow faithful presentation of banks' performance within a single standard on presentation. In order to find the most suitable approach that both helps the Board to meet its objectives and fits the banking industry's characteristics, IBFed requests the Board to engage in the discussion with the industry and seek further comments from preparers as well as users of bank financial statements.

Yours sincerely,

David Bearl.

David Bell Chairman Sally Scutt Managing Director