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VERBAND DEUTSCHER PFANDBRIEFBANKEN E.V. BERLIN



LETTER OF COMMENT NO. 94

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

Via E-Mail:  
[commentletters@iasb.org](mailto:commentletters@iasb.org)

10785 Berlin, den 14. April 2009  
Schellingstraße 4  
Tel.: 030/20 21 – 24 20  
Fax: 030/20 21 – 19 24 00  
MW/AM

## Comments on the IASB-Discussion Paper "Preliminary Views on Financial Statement Presentation"

Dear Sir or Madam,

We would like to thank you for the opportunity to comment on the Discussion Paper (DP) "Preliminary Views on Financial Statement Presentation".

### 1. General

From our point of view, the envisaged redesign of financial statement presentation constitutes a major project which will have far reaching implications for entities preparing financial statements and the users of financial information. We have followed the current discussions of standard setters on this important project with keen interest. On 16 October 2008, in their "Preliminary Views on Financial Statement Presentation", IASB and FASB submitted proposals for standardising the presentation and structure of financial statements which, to date, are largely unregulated both under US-GAAP and under IFRS. We generally welcome the forthcoming standardisation with regard to the structure and presentation of financial statements and the resulting improvement of the information

*function. We particularly appreciate the focus on the management approach since this appears to be the best suited categorisation criterion for corporate activities thus facilitating communication of decision-relevant information.*

Nevertheless there is a need for a fundamental review of those measures which are associated with a completely new structure of the financial statements presentation; these measures need to be verified both with regard to the underlying rationale behind financial statements *per se* and in terms of a more general cost-benefit analysis. Furthermore, safeguards are required so that the further development of new rules be always consistent with the principles and goals of the framework as well as the body of existing standards. From our point of view, there are many areas that give rise to strong doubts as to whether the proposed new rules for banks will be capable of promoting better information-usefulness of accounting.

Particularly the envisage disaggregation of financial information into the two sections “Business” and “Financing” gives rise to certain doubts in this respect. This is due to the fact that this split is not equally fit for purpose across all industries. For instance, banks using the management approach (which, as was pointed out above, is generally highly useful) assign the bulk of their transactions to the section “Business”, whilst the role of the “Financing” section tends to be subordinate. Hence, at least for this industry, we feel that there will be no genuine improvement of the information content.

Another major rationale behind the proposals advanced in the DP consists in the provision of decision-relevant information for the forecast of future cash flows. We do agree that, in the banking industry, the issue of “liquidity” represents a major challenge. Nevertheless, cash flow statements are immaterial in this respect. They do not facilitate any forecasts concerning the future economic situation. A **mandatory obligation** for banks to use a direct method of presenting cash flows would furthermore tie up an inordinately high amount of financial resources without adding any decision-usefulness for readers.

*Neither for banks nor for third parties does a bank’s statement of cash flows – be it using the direct or the indirect method - deliver any benefit. For this reason, we propose that the presentation of cash flows should be left to the banks’ discretion.*

Should standard-setters conclude that a cash flow statement remains indispensable for banks we would advocate retaining the option of an indirect method of presentation. As a result of banks’ payment processing task, concerning cash flows, the presentation of the

cash flow statement using the direct method would not deliver a great deal of meaningful information. Paragraph 3.73 a. allows offsetting if and when cash and cash equivalent receipts and payments reflect customer behaviour. However, handling payments for customers does not give rise to any liquidity increase on the part of the bank. Yet, precisely this would the direct method suggest. Hence, such an approach would plainly be at odds with the principles of decision-usefulness and of a fair presentation. Furthermore, the mandatory application of the direct method would require the introduction of a group-wide ancillary accounting which would tie up a lot of resources and costs; this is due to the fact that the respective payments and receipts would have to be recorded separately. *What is more, important additional information would be lost in the process: During the application of the indirect method this precious information would result from the reconciliation of the statement of comprehensive income to the cash flow statement. Furthermore, in our view IFRS 7.39(a) contains each and any information necessary for the assessment of a bank's future cash flows. This is especially the case, since IAS 1<sup>1</sup> stipulates in combination with IFRS 7<sup>2</sup> that by far the overwhelming majority of financial service providers are also duty bound to present cash inflows from on-balance sheet assets. Based on the foregoing, we explicitly advocate in favour of keeping the right to choose the indirect method as an option.*

Concerning the proposals regarding performance reporting (One Statement Approach) we would like to point out that the presentation both of the items currently presented in the profit and loss account and those which are reported directly in equity does not fit in with the current categorisation philosophy under IAS 39. Hence, the existing requirements concerning recognition and measurement are not always adequately reflected by the proposed one statement approach. In our view, the reporting requirement should, however, on principle, follow the provisions regulating the carrying values in balance sheets the valuation requirements and ought to reflect them accordingly.

So as to ensure the continued appropriate separation between value changes that are neutral in terms of net income and those which are treated under net income, we feel that it makes sense to continue the breakdown into "Other Comprehensive Income" and "Net Income". *Mixing different issues (e.g. parameter changes for pension provisions when*

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<sup>1</sup> IAS 1.56: Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. IFRS 7 Financial Instruments: Disclosure requires disclosure of the maturity dates of financial assets and financial liabilities.

<sup>2</sup> IFRS 7.B11E: Paragraph 39(c) requires an entity to describe how it manages the liquidity risk inherent in the items disclosed in the quantitative disclosures required in paragraph 39(a) and (b). If appropriate, the entity shall disclose a maturity analysis of financial assets it holds for managing liquidity risk (e.g. financial assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial liabilities).

using the “third option” with fair value change or, moreover, capital gains from HfT assets) would merely lead to confusion amongst readers. This is especially true if and when (instead of “Net Income“) the „Total Comprehensive Income“ is viewed as a performance indicator and if important ratios are supposed to be calculated on this basis (where, however, e.g. the calculation of earnings per share shall continue to be based on “Net Income“). Based on the foregoing, we consequently advocate retaining the two statement approach.

Furthermore, we object to the reconciliation calculations requested in the Discussion Paper. If they were to be implemented, they would tie up a high amount of resources whilst providing virtually no additional information for readers.

## **2. Detailed comments on the individual questions:**

**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.**

An important goal of the envisaged redesign of the financial statement presentation is provision of decision-useful information that enables the users of the financial statements to make an assessment of future events and cash flows. In our view, the goals formulated in sections 2.5 to 2.13 of the financial statement reports are essentially fit for purpose in this respect. We do agree with IASB that an important and fundamental rationale behind financial reporting is sharing decision useful information; this goal is consistent with the framework. At this point, however, we would like to point out that in our opinion the exclusive focus on this rationale is not sufficient. After all, the decision-usefulness is predicated on the capacity to generate future cash flows and hence on the assessment of future events. However, this exclusively forward looking view does not entirely take account of management's stewardship responsibilities. This is due to the fact that it is more geared towards an adequate presentation and monitoring of historic transactions - which, in our view, is the second key rationale behind financial reporting. At this juncture, we would like to refer to the Exposure Draft “An improved Conceptual Framework for

*Financial Reporting*“ published by IASB in the year 2008; this document highlights inter alia the importance of the stewardship function..

For this reason, beyond the provision of decision useful information, financial reporting should continue to provide information as to whether corporate management meets its stewardship responsibilities in an appropriate manner. Proposals for the redesign of financial reporting should therefore always seek to guarantee these various rationales behind financial reporting.

Coherence:

We do agree that coherence between balance sheet, total comprehensive income and statement of cash flows improves the meaningfulness of the information which is being made available. An excessively strict classification and categorisation on the basis of “line items” could, however, have the opposite effect meaning that the principle of coherence should be limited to the fundamental elements of financial reporting.

In our view the following items would be necessary:

- The DP’s scope should be limited to the three aforementioned statements;
- The principles of “Faithful Representation, Relevance and Materiality“ of the framework are applicable and
- The proposed changes should be consistent with the requirements of existing standards.

Disaggregation:

This, too, is an objective that should be subject to the principle of decision-usefulness. Hence, we are in favour of rephrasing paragraph 2.7 as follows: “An entity should disaggregate information in its financial statements in a manner that makes it **decision-useful to the users**“. We feel that, in the existing version, the paragraph is not far-reaching enough. Our reservations are owed to the fact that the scope of the present paragraph only extends to the forecasting of future cash flows - regardless of whether or to which extent this information lends itself to a suitable and adequate presentation in the requested financial reporting. What is more, for banks, the presentation of cash flows is less important than for companies that belong to other industries.

However, we hold the belief that the scope of disaggregation should be limited. This is due to the fact that excessively detailed disclosure obligations would lead to an information overkill. This would not promote the underlying rationale, i.e. sharing of decision-useful

information. Instead, it would prove counterproductive. Furthermore, for banks, the proposed categorisation is less relevant. This is due to the fact that, by default, most information can only be assigned to one category.

Liquidity/financial flexibility:

We doubt that the goal of liquidity and financial flexibility requested under paragraph 2.12 f. can be taken into account in an adequate manner. Balance sheet and Income statement are based on historical data meaning that the derivation of forecasts from this is not always easy.

We would also like to caution that - already in the present notes - the information on liquidity has to be presented in an adequate manner; notes should not be covered by the DP.

**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?**

Concerning the proposed breakdown into the sections “business” and “financing” we would like to point out that this categorisation cannot be applied to all industries to the same extent. This is particularly true for banks where industry specific peculiarities based on their business activity have to be considered. One peculiarity of banks which ought to be taken into consideration here is that the overwhelming part of their business transactions would have to be assigned to the category “Operating”. Contrary to this, the category “Investing” in the section “business” and particularly the section “Financing” will probably only play a subordinate role. This is due to the fact that banks’ core activities are inevitably concerned with financing. Based on the foregoing, it is not immediately clear why there are e.g. industry specific standards for the agricultural sector but not for banks.

**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?**

In line with the IASB, we are in favour of a separate presentation of equity.

**Question 4:** In the proposed presentation model, an entity would present its discontinued operations in a separate section (see paragraphs 2.20, 2.37 and 2.71–2.73). Does this presentation provide decision-useful information?

Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets and financing liabilities)? Why or why not?

In our view, a separate presentation of discontinued operations delivers decision-useful information. This is due to the fact that it better reflects the management view. This presentation would be consistent with the goal under IFRS 5, i.e. it would deliver information on corporate elements which used to form part of a reporting unit which, however, henceforth will no longer form part of the operation that will be continued.

**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 welcome the possibility of classification of business transactions by relying on a management approach. In our understanding, orientation on the management approach is a *conditio sine qua non* for a consistent, self-contained presentation of corporate activities. Therefore, the predication on the management approach is the most suitable approach for sharing decision-relevant information. Furthermore, the management approach's fundamental principle has already proved its worth in segment reporting.

(b)

It can be taken for granted that deviations within the same industries will be rather insignificant. This means that there will be no material comparability issues.

**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?**

Particularly for banks, no improvement with regard to the generation of ratios is associated with the aforementioned separation of the sections or, moreover, categories. Furthermore, we would like to point out that some material ratios amongst banks and other regulated companies affect supervisory provisions.

In this context we should also like to refer to our general comments as well as to our answer under question number 2.

**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.**

IASB proposes that entities with more than one reportable segment (cf. IFRS 8) classify the assets and liabilities of the segments in line with the allocation in the business and finance section on the basis how these are being used within the respective reporting segments.

In our view the relevant or, moreover, reportable level should be the entity level. This is due to the fact that the reporting entity is – in the final analysis – the subject of financial reporting. Furthermore, we feel that segment reporting issues (IFRS 8) should not form part of the present Discussion Paper.

**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.**

In view of our answer to question number 7 we see no need for any further mandatory disclosures at segment level. Regardless of this, the management approach under IFRS 8 should also be maintained after implementation of Discussion Paper's new provisions.

**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?**

Companies have the possibility of providing a true and fair view of their respective business models by applying the management approach under due consideration of the classification described in the DP. However, it has already been mentioned above that, by default, amongst banks most assets and liabilities will fall under the section "Business" or, more specifically, under the category "Operating". This means that the information which is made available does not create any real improvements in terms of decision relevance. Beyond this, we would like to refer to our answers to questions 2) and 6).

**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 would like to refer to our previous answers under questions 2), 6) and 9). Here, too, we advocate in favour of the management approach. This is due to the fact that it is most suitable for rendering a true and fair picture of the respective business model.

**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)

We advocate in favour of the proposed elective right for the presentation of assets and liabilities. For banks, it makes sense to structure their balance sheet on the basis of liquidity aspects. Hence, at this juncture any change would be redundant. Other disaggregations would merely be of an artificial nature and thus fail to provide meaningful information.

(b)

In our view, the publication of further guidelines would be unnecessary. For banks, it is a clear principle to structure their balance sheets under liquidity aspects; in the past, this principle has been tested and tried successfully.

**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 feel that the separate presentation of cash and cash equivalents is legitimate; this is due to the fact that this principle is already a common market practice in the banking sector.

**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 would like to refer to our aforementioned presentations. We are in favour of transparent information which supplies the reader with decision-relevant information. However, on the whole, we feel that the existing rules on presentation obligations are, on principle, fit for purpose; Having said this, in our view the (supplementary) presentation on the previous presentation obligations should rather be included in the notes and not directly in the balance sheet. This would help to avoid an excessive increase of the latter's complexity.

**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 already pointed out in our general comments, we feel that a mandatory presentation in a single statement for items which are treated under net income and items which are neutral in terms of net income and subsumed under equity (one-statement-approach) is not fit for purpose. Our reservations are owed to the fact that this mixes different issues (e.g. parameter changes for pension provisions when using the "third option" with fair value changes or capital gains from HfT portfolios). In our view this does not help to improve transparency but rather contribute to the opposite. In order to safeguard an appropriate differentiation between those changes in value that are treated under net income and those value changes that are neutral in terms of net income, we strongly advocate in favour of upholding the right to choose between either the one-statement approach or the two statement approach.

We should also like to explicitly point out that other IASB projects which *inter alia* deal with the issue of "Other Comprehensive Income" are still work in progress. Already for this reason, there should be no deviation from the existing focus on "net income".

**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?**

Please see our comments on the discussion paper's proposals concerning classification and our answers concerning questions number 2), 6), 9) and 10). Should the Board's proposals be implemented, the classification of other comprehensive income would be acceptable in the interests of cohesiveness.

**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?**

As already noted by IASB in the Discussion Paper under paragraph 3.52, banks usually disaggregate their earnings and expenses by nature only because this delivers decision useful information. In our preliminary understanding, the proposals contained in the DP

constitute elective rights. Hence, we feel that for banks there is no need for requirements beyond this.

Furthermore, we are of the opinion that the current requirements on notes disclosures under IFRS 7 supplies sufficient information for predicting future cash flows.

**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 feel that the presentation of taxes in the statement of income and earnings by means of a separate line is fit for purpose. A breakdown of the tax amounts into the areas “Business” and “Financing” or, moreover, their respective categories would be merely artificial. Hence, it would not deliver any decision useful information for readers. We therefore advocate strongly against a further disaggregation that would exceed the currently envisaged obligation under paragraph 3.55.

**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?**

(a)

We are of the opinion that this approach would fail to deliver decision-relevant information; our reservations are owed to the fact that this fails to control forex risks. Such disaggregation would be exclusively artificial and its implementation would require correspondingly higher (financial) resources. Banks usually adopt the approach of steering FX risks centrally within their treasury function or within their derivatives trading. Thus,

also in this case the management approach presents the most appropriate variant for reflecting the respective business model. Furthermore, the existing information in the notes is already sufficient. The informational value of financial statements should not be diminished by requiring further unnecessary disclosures.

(b)

As has already been mentioned above: (artificial) breakdowns would give rise to high costs. At this juncture we should like to refer, for instance, to IT costs.

**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)

Within the envisaged redesign of annual financial statements, the IASB propose that the presentation of the statement of cash flows shall and must use the direct method. We would like to preface our further comments by pointing out that banks do not use statements of cash flows – neither involving the direct nor the indirect method - as a management tool and that its information content is limited. Banks manage their liquidity risks on a daily basis. *The statement of cash flows delivers information concerning the current reporting period; yet, it does not provide an outlook on corporate liquidity risks that have materialised. In this regard, prudential supervision ratios are a better indicator when it comes to the financial industry. The statement of cash flows equally fails to deliver an indication of potential performance. What is more, the IFRS 7 provisions on liquidity risks allow appropriate insight into future cash flows and liquidity risks within the banking sector.*

Neither for banks nor for third parties does the statement of a bank's cash flows – both using the direct or the indirect method - deliver any benefit. For this reason, we propose making the preparation of cash flow statements optional for banks.

Should, however a statement of cash flows for banks be seen as indispensable by standard setters, then we feel that the following reasons at least speak in favour of maintaining the elective right to opt for the indirect method.

(b)

One advantage of the direct method could undoubtedly be seen in the fact that it allows showing the cash flow generated by companies in an immediate and unadjusted manner in the statement of cash flows. This way, readers of the financial statement would receive information on the company's complete payment flows. However, not in all cases are these disclosures suitable for the provision of decision-relevant information which will allow an appropriate interpretation of current cash flows and help forecast future cash flows. This becomes particularly visible in the statement of cash flows. As a result of the clearing and settlement function for payments of banks the direct method would not deliver meaningful information concerning cash flows. Paragraph 3.73 a. allows netting if and when incoming payments and outgoing payments reflect customer behaviour. However clearing and settlement of payment transactions for the customer does not trigger any increased liquidity for a bank. Yet, precisely this would be the insinuation of the direct method, hence it would be a clear contradiction to the principle of decision-usefulness and fair presentation. At this juncture we should also like to point out that the examples contained in the DP are flawed by an inconsistency. Whilst the cash flows from deposits are presented as net, loans are given as gross figures (cf. annex A, page 132).

Furthermore, the indirect method has the advantage that it works as a link between accrual accounting and the cash flow determination. The reconciliation of net income to cash flow which takes place during the indirect method delivers meaningful additional information concerning the differences between these two figures meaning that a further reconciliation calculation would be redundant. Furthermore, a statement of cash flows using the indirect method is better suited for highlighting links to other financial reporting sections (e.g. links to the statement of financial position, income statement / statement of comprehensive income); hence, verification is easier.

On the whole, we feel that the indirect method is preferable to the direct method. This is due to cost-benefit issues and also with regard to sharing decision-useful information. Therefore, we feel that the option of producing a cash flow statement using the indirect method – preferably for companies of all industries (however, at least for banks) – should remain available also in future. Although for banks the categorisation under “Business” and “Financing” is only of very minor importance (cf. above), we still feel it is helpful that the

application of the indirect method shall not only be limited to the statement of cash flows from operating activities.

(c)

If the standard setter were to uphold their requirement for banks to produce a statement of cash flows then we feel that the information which is currently being supplied in the framework of reconciling income statements to the (indirect) statement of cash flows is appropriate and satisfactory. We are not supportive of any reconciliations which would go beyond this or of any reconciliations from the balance sheet (cf. Appendix B of the DP). The reason for our objection is that one precondition for the latter would be using the direct method. We would furthermore like to add that in our view the examples listed in the Appendix not only lead to an excessive amount of information but even to an information overkill amongst users of financial statements.

**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?**

As far as the operating area is concerned, the publication of the statement of cash flows using the indirect method is a standard market practice. *Inter alia*, this is due to the fact that this allows deriving the cash flows from the accounting data that is already available within the company. During the application of the direct method, however, far more stringent requirements have to be met in terms of data input and data mining. This can result far more costly. Hence, based on the existing system environment, guaranteeing a meaningful cost-benefit ratio would not be feasible. This is due to the fact that implementation of the statement of cash flows using the direct method would require comprehensive additional and partly manual labour. For instance, this would refer to labelling individual businesses, the establishment and ongoing maintenance of a group-wide subsidiary accountancy as well as the comprehensive capture and analysis of individual transactions. Based on the foregoing, we also doubt that an adjustment of the system environment would be a viable option. This is due to the fact that there is not even the remotest chance that the additional information would offset the costs that would be created by using the direct method. This, too is a reason why the option of producing a statement of cash flows using the indirect method should be maintained.

**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 take notice of the presentation alternatives expressed under paragraph 3.90(a) and (b). We should like to advocate in favour of the alternative outlined in paragraph 3.90(b). This should take place with concurrent incorporation of the “Management Approach“ as a fundamental principle.

**Question 22: Should an entity that presents assets and liabilities in order of liquidity in its statement of financial position disclose information about the maturities of its short-term contractual assets and liabilities in the notes to financial statements as proposed in paragraph 4.7? Should all entities present this information? Why or why not?**

We are generally in favour of transparent information which conveys decision useful information to the reader. Yet, for banks it is already a standard market practice to structure a residual term to maturity based on the deadlines listed in the Discussion Paper. Hence, particularly for banks, reference should be made to the presentation requirements under IFRS 7.39 or, moreover, IFRS 7.B11 f.

**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.**

We object to the direct cash flow method and advocate in favour of keeping the indirect method (cf. above). Hence, we do not see any need for a reconciliation to the cash flow statement and comprehensive income. Together with the statement of changes in equity and the notes disclosures, the indirect method produces the requested continuity between balance sheet and statement of cash flows automatically. Hence, upholding the indirect method as an option would also make the requests for reconciliation redundant (cf. also our answer to question number 19 on the same matter).

Furthermore, the costs associated with the changes proposed in the DP would clearly outweigh any potential benefit.

(b)

We do not see any need for additional disaggregations or reconciliations.

(c)

Cf. b).

**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?**

Currently we see no need for a project to address further disaggregations of fair value changes. In our view, the requirements under IFRS 7 cover all relevant information in this regard meaning that any further differentiation would be unnecessary. In our opinion it is paramount to avoid any information overkill in the financial statement requirements. Excessive information could easily lead to misinterpretations amongst users of the financial statement.

**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?**

*Because we feel that the direct statement of cash flows would not be helpful for banks, we think that the proposed reconciliation to comprehensive income is dispensable. Hence, we wholeheartedly subscribe to the assessment contained under B.21 (b): "The boards' advisory groups noted that the reconciliation schedule would be too detailed and complicated to be an effective communication tool".*

**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 deem the present requirements sufficient.

(b)

In our view, definitions of "unusual and infrequent" are missing. The same applies to a concept clarification for the term "extraordinary". Furthermore, we would prefer it if the use of an optional column was left to the discretion of entities presenting financial statements.

(c)

Already under the current IFRS, additional disclosures are possible meaning that additional requirements are redundant.

**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.**

n/a

Yours, sincerely  
for

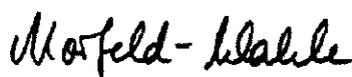
ZENTRALER KREDITAUSSCHUSS

Bundesverband der Deutschen  
Volksbanken und Raiffeisenbanken e.V.



Gerhard Hofmann

by proxy



Stefanie Morfeld-Wahle