Dear Sirs

Discussion Paper – Preliminary Views on Financial Statement Presentation

I am writing on behalf of LIBA (the London Investment Banking Association) to comment on the IASB’s October 2008 Discussion Paper: Preliminary Views on Financial Statement Presentation (“the DP”). LIBA is, as you know, the principal UK trade association for firms active in investment banking and securities trading; a list of our members is attached.

We strongly support the overall objective of the DP of improving the usefulness of information provided in an entity’s financial statements. We are also pleased that this project is being carried out jointly with the FASB, which should result in greater convergence with US GAAP in this important area. We do however have some concerns with the approach adopted - in particular:

- While supporting the proposed management approach to the classification of assets and liabilities, we note that this may result in reduced comparability (see Question 5).
- We believe the proposed level of disaggregation may overcomplicate the financial statements and so reduce their transparency (see Question 16).
- We do not support the proposed requirement to present a cash flow statement prepared using the direct method (as defined in Paragraph 3.76) as we do not believe that the additional value to users would outweigh the additional cost to preparers (see Questions 19 and 20).
- We do not support the proposed inclusion of the reconciliation statement: we believe this would be impractical, and would add an unnecessary level of detail and complexity to the financial statements (see Question 23).

While not responding directly to the questions set out on pages 7-12 of the DP, we have made reference to relevant question(s) where this appears appropriate.
Our more detailed comments are set out below; note that we are commenting on possible changes from the current IFRS position and not on any changes which might be implied for current US GAAP filers.

**Principles**

As already stated, we support the DP’s overall objective of seeking to improve the usefulness of financial statements. We believe, however, that the DP does not sufficiently explain why the cohesiveness, disaggregation and liquidity objectives will necessarily result in an improvement to the way information is currently presented in the financial statements (Question 1). More specifically:

- While supporting the general objective behind the cohesiveness principle, it is important that users should be able to identify the relationship between information in the different statements, and also that the different statements should complement each other as much as possible. We are concerned that developing this principle along the lines set out in Paragraphs 2.15-2.18 risks bringing in a series of rules whose application may limit the flexibility a preparer can use, and which may therefore restrict the usefulness of the resulting statements.

- The DP leaves open several classification issues which are important to our members. These include the treatment of basket transactions, and of assets and liabilities which may be used in several business areas or whose use may change over time. We believe understanding the intended treatment of such items is necessary in order to fully understand the appropriate application of the classification principle, and hence the impact of the proposals; we therefore request that these issues be clarified.

- We are also concerned that the disaggregation principle may result in a substantial increase in the number of items shown on the primary statements, thereby potentially compromising transparency and understandability.

- We support the objective of the liquidity principle but are concerned about the overlap and potential contradictions with the requirements of IFRS 7.

**Separating activities**

We support in general the proposal to present information on an entity’s business activities separately from its financing activities, and we agree that it is potentially decision-useful for readers if the financial statements distinguish between these activities. We note, however, that it is currently proposed to require this split in a number of different places (i.e. presenting operating income and financing income in the income statement, reporting operating cash flows and financing cash flows in the cash flow statement and presenting financial assets and financial liabilities in the balance sheet) and we question how much value these additional requirements will add: increased disaggregation increases the complexity of the primary statements and may, beyond a certain point, make key performance indicators less obvious and potentially less easily comparable (Question 2).

The DP acknowledges (in Paragraphs 2.34, 2.78 and 2.79) that there are issues in applying the business/financing split to financial institutions: specifically, that many assets and liabilities will be classified as operating, as there is in this case a less clear split between
assets which generate value and those which finance a business. We are concerned that a split with such a heavy weighting towards operating items will not provide more useful information for the users of the financial statements of financial institutions than is provided by statements prepared under current practice, which generally distinguish between trading and non-trading activities (Question 5).

**Management approach**

While supporting the principle of preparing financial statements in accordance with management's approach, we note that this may reduce comparability, both between different entities and from the same entity over time (Question 5).

**Performance statement**

While the majority of our members are opposed to combining the two performance statements into one, all are agreed that it is important to continue to distinguish between profit or loss/net income and other comprehensive income, as this does provide users with decision useful information (Question 14).

**Cash flow statement**

We disagree with the proposal to require a cash flow statement prepared using the "direct" method. We do not believe the added value gained by users from such a statement would outweigh the additional cost of preparing a cash flow statement on this basis. Further, we are concerned that the volume of cash flows for a financial institution may render any direct cash flow statement too complex to provide a user with decision-useful information.

Our members generally prepare cash flow statements according to the indirect method and, for most of them at least, the information needed to prepare a direct cash flow statement is not readily available: the information is not used by management to control the business and there are therefore no established systems to produce it. Modifying accounting systems to provide the data needed to prepare a cash flow statement using the direct method will result in significant implementation, educational and ongoing costs solely to meet a financial reporting requirement which will, we believe, bring no added value to the business, and at best questionable benefit to users (Questions 19 and 20).

**Reconciliation**

The proposed reconciliation schedule is to a large degree a reversal of the indirect cash flow method, reconciling cash flows to comprehensive income. Given that the indirect cash flow method already provides much of the information, we do not believe this additional schedule is needed to increase a user's understanding and to provide useful information to assess future cash flows. The proposed reconciliation is, furthermore, very lengthy and would require detailed information, adding complexity that could make the financial statements less understandable. As noted above, we believe it should be sufficient to require additional specific but limited disclosures to the indirect cash flow method, rather than requiring the direct cash flow method and a detailed reconciliation of cash flows to comprehensive income (Question 23).
**Fair Value disaggregation**

We believe that any further disaggregation of the components of fair value changes would be difficult to achieve in a way that would be helpful to users of financial statements. In our view, qualitative explanations of the changes during the reporting period and the risk management strategies and policies of the entity, along the lines of what is already required by IFRS 7, are likely to be more useful and relevant for users in their decision-making process than more information on quantitative disaggregation of changes in fair value (Question 24).

**Other Points**

- Paragraph 2.48 proposes, at least for the time being, to allocate dividends to the financing liability category. Given that the DP suggests (in Paragraph 2.55) that the financial statements should contain an equity section which is separate from the financing section, we believe it is inconsistent to classify dividends in the financing liability category rather than in the equity section.

- The DP states that only financial assets and financial liabilities fall within the financing section, while non-financial assets and non-financial liabilities do not. We believe that, conceptually, all assets and liabilities could be viewed as part of financing, and we therefore do not agree with a rule that prohibits classification of non-financial assets and liabilities in the financing section. We are, in addition, not convinced that this would, as suggested in Paragraph 2.62 “add objectivity to the classification process”.

- We agree that disaggregation of assets and liabilities that are measured on different bases will provide more decision-useful information, but we do not believe it is necessary for this information to be provided on the face of the statement of position, which is likely to result in very long statements with excessive information. We suggest it would be more appropriate to allow preparers to present the disaggregation in the notes, which can be focused on by those who are interested in the details. While including this information on the face of the statement would avoid users having to go back and forth between the statement and the notes, we are concerned that providing too much information on the face of financial statements may reduce, rather than increase, their overall usefulness for users.

- An analysis of financial liabilities by contractual maturity is already common practice for banks. We are however concerned that the maturity schedule proposed in the DP goes beyond what is required in IFRS 7, and would like to see the requirements of the DP aligned with those in IFRS 7.

- We find it unclear why unrealised gains on derivatives in Illustration 2A are presented as a part of Other Comprehensive Income. We request the Board to clarify whether the disaggregation of gains and losses presented in OCI is just for hedge accounting, as discussed in Paragraph 3.39.

*****************************************************************************
I hope you will find the comments set out in this letter to be helpful. We would of course be very pleased to expand on any points which you may find unclear, or where you would like further details of our views, either in discussion with IASB staff or in any other way that might be useful to the Board.

Yours faithfully

[Signature]

Ian Harrison
Director
LONDON INVESTMENT BANKING ASSOCIATION

LIST OF MEMBERS

ABN AMRO Bank
Altium Capital Limited
Ambrian Partners Limited
Arbuthnot Banking Group PLC
Arden Partners plc
Banc of America Securities Limited
Barclays Capital
BlueOak Securities Plc
BNP Paribas
Brewin Dolphin Securities
Calyon
Canaccord Adams Limited
Cantor Fitzgerald Europe
Cenkos Securities Limited
CIBC World Markets
Citigroup Inc.
Close Brothers Corporate Finance Ltd
Collins Stewart Europe Limited
Credit Suisse Securities (Europe) Ltd
Daiwa Securities SMBC Europe Limited
Deutsche Bank AG London
Dresdner Kleinwort
Evolution Securities Limited
Fox-Pitt Kelton Limited
Goldman Sachs International
Greenhill & Co. International LLP
HSBC Bank plc

ING Bank NV London Branch
Instinet Europe Ltd
Investec plc
Jefferies International Limited
JP Morgan Cazenove Ltd
JP Morgan Securities Ltd
KBC Peel Hunt Ltd
Lazard & Co., Limited
Libertas Capital Group plc
Merrill Lynch Europe plc
Mizuho International plc
Morgan Stanley & Co. International plc
NCB Stockbrokers Limited
Noble & Company Limited
Nomura Code Securities Limited
Nomura International plc
N M Rothschild & Sons Limited
Numis Securities Limited
Oriel Securities Limited
Panmure Gordon & Co
Piper Jaffray Ltd
Royal Bank of Canada Europe Limited
Sanford C. Bernstein Limited
Société Générale
3i Group plc
UBS AG London
Winterflood Securities Limited

14 April 2009