

**David Schraa**  
*Director, Regulatory Affairs Department*



April 14, 2009



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

LETTER OF COMMENT NO. 161

Mr. Robert H. Herz  
Chairman  
Financial Accounting Standards Board  
P.O. Box 5116  
Norwalk, CT 06865-5116, U.S.A

**Re: Discussion Paper *Preliminary Views on Financial Statement Presentation***

Dear Sir David and Mr. Herz,

The Institute of International Finance (IIF) Senior Accounting Group appreciates the opportunity to respond to the Discussion Paper: *Preliminary Views on Financial Statement Presentation*. The Institute recognizes both Boards' long-standing commitment to coordinate efforts on improving and simplifying accounting and financial reporting in a global context.

Given the current market environment and the accelerating pace of proposed changes to accounting standards (e.g. consolidations, derecognition, classification and measurement of financial instruments and fair value measurements, to name a few), we do not think that making substantive changes to the form of presentation of financial statements is warranted at this time, especially since, as we state below, such changes are not particularly relevant in the context of financial institutions.

We agree with the general principle of avoiding industry-specific accounting standards. However, there is a fundamental problem with the DP in that, for financial institutions, it is neither relevant, nor indeed meaningfully possible, to distinguish investing, financing, operations, or other business in a financial institution on the same

basis as for the usual sort of business entity. This fundamental fact causes some of the problems noted below, and also makes the DP appear considerably less relevant and significant for financial institutions than would otherwise be the case.

Financial institutions will normally want to combine most of their business into a single category, notionally operations; however, practice of implementation should be allowed to develop over time. Equity is, of course, an essential component of the financial structure of financial institutions and would normally be reflected in the single category that we envision, as would taxes.

This combined approach, in addition to being logically necessary, would reflect the management view of the business. The management view is, in our opinion, essential to allowing users to understand a given firm and how management directs the entity's business. While at the margin there may be some reduction of comparability we believe that, within the various segments of the financial services industry (e.g. banking, insurance), there will be substantial increase in comparability over time as industry practice develops. Among other things, this implies that there should be no change in the treatment or presentation of discontinued operations from the current approach, nor should there be any material change to the current presentation format of income tax information.

As we further discuss below, any proposal for presentation of disaggregated information on the basis of measurement objectives should be analyzed in conjunction with the Boards' joint project on reducing complexity in existing measurement criteria for financial instruments. We think that this would lead to significant efficiency gains and improve the connection between measurement and presentation objectives.

In connection with efficiency gains, we also think that it is important to have a comprehensive review of the overall disclosure framework; small, piecemeal, changes to disclosure requirements are not helpful to users or preparers of financial statements. We address this point in more details below.

The foregoing responses specifically focus on the following topics:

- Classification on the basis of liquidity and measurement objectives;
- Presentation of a single statement of comprehensive income;
- Use of the direct method in the statement of cash flows;
- Reconciliation of cash flows to comprehensive income; and
- Inclusion of financial institutions in field testing.

*Classification on the basis of liquidity and measurement objectives*

The DP permits reporting entities to present assets and liabilities on the basis of liquidity, when such presentation provides more relevant information. As the Boards discussed and acknowledged in paragraph 3.6 of the DP, presentation on the basis of liquidity is pertinent to financial institutions; thus, members of the Senior Accounting

Group strongly support the inclusion this option as part of any changes to current presentation requirements.

Nevertheless, we do not think that presenting a classified statement of financial position (with short- and long-term subcategories) provides decision-useful information to users of financial statements that are prepared by financial institutions. Financial institutions typically will have a wide range of maturities within the short-term subcategory, making such classification too broad. Presentation by order of liquidity provides users with information that is useful in analyzing the liquidity risk characteristics of a given financial institution. However, including disclosures about the maturities of short-term assets and liabilities in the notes to financial statements may afford interested parties additional information (over and above liquidity) but in our view such a disclosure requirement is overly burdensome given that it would not provide the necessary risk-based information to users of financial statements.

In regard to Question 13 of the DP, members generally agree that presenting disaggregated information on the basis of the measurement criteria would be an appropriate approach that meets the disaggregation objective. However, it is important to consider this proposal in the context of a joint FASB/IASB project on *reducing complexity in accounting for financial instruments* and simplifying the mixed-attribute model. Without simplification of the measurement criteria, the information so disclosed on the face of the financial statements would be obscure and voluminous and will not meet the objective of reducing complexity. We also think that it is worth taking into consideration as an alternative approach the disclosure of such measurement information in the notes to the financial statements as is proposed in the *Exposure Draft Investments in Debt Instruments (Proposed amendments to IFRS 7)*. Whichever approach is chosen, it is important to maintain consistency, avoid introducing additional disclosure complexities, and eliminate any duplication of information being reported.

We would also like to highlight to the Boards *Recommendation #22* of the *G-20 Working Group 1 Final Report*, calling for standard setters to “accelerate efforts to reduce complexity of accounting standards for financial instruments and enhance presentation standards to allow the users of financial statements to better assess the uncertainty surrounding the valuation of financial instruments”. We believe that presentation and measurement have complementary objectives and should be considered concurrently going forward. As alluded to previously, we think that uncertainties surrounding valuation and measurement could be lessened by simplifying the measurement and classification criteria, which would then drive the presentational requirements that are part of this project.

#### *Presentation of a single statement of comprehensive income*

Paragraph 3.24 of the DP proposes to require a reporting entity to present a single statement of comprehensive income and to eliminate the currently existing option to present a statement of comprehensive income that is separate from the statement of profit and loss. While we agree that there is a need to eliminate alternative presentation formats

across different accounting jurisdictions, for financial institutions we strongly believe that it would not be appropriate for an entity to present items of other comprehensive income in a single, combined statement of comprehensive income. Therefore, we do not support this proposal.

We think that such presentation would be misleading in that it would imply that certain changes in assets and liabilities now carried in OCI are attributable to current period, whereas in fact these changes may be attributable to future periods and thus should not be perceived to be associated with current-period financial performance. For example: presenting the changes in value of a hedging instrument that is in a cash flow hedge relationship in the current-period statement of comprehensive income may lead readers to an inaccurate interpretation that such changes relate to current-period earnings, whereas in fact they relate to probable future cash flow payments associated with the hedged item. Another example relates to misinterpretations that may result from presentation of gains or losses that are not immediately recognized in net periodic pension cost, and changes in balances associated with prior service costs. These changes are recognized in OCI and do not reflect current period changes in the reporting entity's assets and liabilities; including those in a single statement might lead users to inaccurate interpretations. And yet another example is in the context of the presentation of foreign exchange translation adjustment. Depending on the activities of the entity, such changes may not be economically meaningful to users of financial statements in assessing income and expenses from operations and we think that presenting those in a single statement format may cause confusion as to the ability of a reporting entity to generate future cash flows.

More generally, we believe that OCI continues to be a useful category for financial statements of financial institutions, and it should not be combined with other components of income. In addition, the current breakdown of items within OCI is important and should be maintained.

In regard to Question 18 of the DP, IIF members do not support the proposed requirement to present foreign currency transaction gains and losses in the same category as the assets and liabilities that gave rise to the gains or losses. We think that such presentation would not provide decision-useful information, and would not reflect the business economics accurately, particularly for financial institutions that centrally manage foreign-exchange risk via f/x hedges.

#### *Use of the direct method in the statement of cash flows*

Paragraph 3.75 of the DP requires a reporting entity to present the statement of cash flows using the direct method. The rationale employed by the Board for proposing this change was that such presentation is more consistent with the "cohesiveness" objective and that information about cash receipts and payments provides users with greater decision-useful information than would be achieved under the indirect method. We do not agree with this argument and do not think that the direct method has any clear advantage over existing practice. As a general matter, there is some agreement that the

statement of cash flows, whether in direct or indirect format, is neither useful nor meaningful to users of financial statements of financial institutions and therefore should be optional. In our experience, analysts and investor groups rarely if ever inquire of management about information on operating cash receipts and payments and this should serve to indicate the level of usefulness that such information would provide. However, if the Boards decide to maintain that requirement, we argue that the indirect method is preferable over the direct method.

The direct method is less relevant and will be more burdensome and costly (both during initial implementation and on an ongoing basis). It is less relevant since, for a financial institution, a focus on operating cash receipts and payments is inconsistent with management's view of the decision-making and resource allocation processes. Cash receipts and payments do not accurately reflect the fundamental principles of the business model of financial institutions, specifically credit intermediation and capital allocation, and cash receipts and payments which are highly relevant to manufacturing entities are at most incidental to financial business. It will also be more burdensome to preparers considering the potential transitional systems implementation costs that would be associated with the proposed changes; we think that those costs would be substantial to all entities and are not unique to financial institutions. Furthermore, on an ongoing basis, we expect costs associated with production of direct-method cash flow financial statements to increase. Such costs would relate to training and development as well as, and to the extent that entities choose to implement only partial systems-based solution, extensive manual process intervention.

In contrast, we think that the current indirect method of preparing the statement of cash flows provides a more practical linkage between the statement of profit and loss and changes in operating cash flows and as such may actually be more preferable to users of financial statements. As we further discuss below, we fail to understand why the Boards would require two schedules (i.e. a direct-method statement of cash flows and a reconciliation schedule) to achieve the same objective that is currently achieved with a single statement.

Given that we see little or no evidence of benefit to users to requiring financial entities to make these changes, we believe that the requirement to present cash flows under the direct method should be optional, as it currently is, and not a mandatory requirement.

#### *Reconciliation of cash flows to comprehensive income*

Given that we do not support the proposal to change the method of presenting cash flows statement, we also strongly do not support the closely associated reconciliation schedule to be presented in the notes to the financials. As we mentioned before, we believe that the current format of reconciling net income to operating cash flows already provides all useful required information. Requiring an additional schedule in the notes to the financial statements would add volume to what is already a sizeable amount of information being disclosed, without sufficient and reasonable increase in

decision-usefulness. As stated before, we are also concerned with the costly systems reconfiguration that would be required as a result of this proposal, and the lack of any obvious improvement from the point of view of users or firms.

In general, we think that there should be a comprehensive review of the overall disclosure framework. A piecemeal approach to disclosures increases complexity and volume of disclosures with diminishing decision-usefulness of the information being disclosed. The present proposal is a good example of piecemeal disclosure that may have its own internal logic but will only contribute to the volume rather than the usefulness of disclosure. A comprehensive review of disclosures is obviously a vast topic, but an essential one. It is becoming a cliché, but the saying is no less true, that more disclosure is not necessarily better disclosure, and often the contrary.

*Inclusion of financial institutions in field testing*

We note the statement in Agenda paper 4 for the joint Board meeting in March 2009, that there is “trouble finding financial institutions...to participate”. We are not surprised at this statement, and believe it reflects not only the press of other business in times of severe financial crisis. It is of course the case that there has been a contribution by certain firms from the insurance industry, and that is important; however the lack of participation by banking and investment institutions is concerning to us. As we stated earlier in this letter, there are currently more pressing matters on the accounting agenda for these firms and the press of other issues in difficult times suggests that this exercise, albeit essential if the changes are meaningfully considered and properly evaluated, does not seem to be the highest priority at this point in time. Nonetheless, if the Boards proceed in the direction suggested by the DP, we cannot overemphasize the importance of including financial institutions in the recasting exercise, including full field testing and impact assessment.

As always, the Institute stands ready to provide additional comments or explanations that may be needed. Should you have any questions about this comment letter, please contact the undersigned ([dschraa@iif.com](mailto:dschraa@iif.com); + 1 202 857 3312) or Eran Meishar ([cmeishar@iif.com](mailto:cmeishar@iif.com); + 1 202 857 3633).

Very truly yours,

