



BNP PARIBAS



LETTER OF COMMENT NO. 174

14 April 2009

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

Re: Preliminary Views on Financial Statement Presentation

Dear Sir David:

BNP Paribas appreciates the opportunity to provide comments on the International Accounting Standards Board's ("IASB") proposed Discussion Paper, *Preliminary Views on Financial Statement Presentation* ("DP").

It is unclear whether this DP is needed, as it does not appear to add any benefit or usefulness to the primary financial statements. It seems to add an overall complexity to the statements and therefore defeating its purpose of being more useful to the users of the financial statements.

Our main point of concern is with the proposed single statement of comprehensive income. Aggregating non-owner changes and net income in a single statement is quite confusing, since it tends to make believe that the total is meaningful, while other non-owner change components (cash-flow hedges valuation reserve, for instance) have been specifically excluded from the income statement as not contributing to the measure of the entity's performance. The commingling of these statements will add unnecessary confusion for the users of the financial statements. Comprehensive income should continue to be allowed to be shown separate from the income statement, which will allow for a clearer understanding of the financial numbers being reported.

Before considering the presentation of comprehensive income in a single statement or not, it would be better to define what is performance, and as a consequence the elements of a period not be aggregated with the measure of that performance.

We believe that the cash flow statement, whether in direct or indirect format, is meaningless for financial institutions. Direct method cash flow statements are very difficult to produce, which is today evidenced by the fact that there is hardly any company that produces a pure direct cash flow statement, let alone an industry that uses it as its reporting standard. The board has often referred to Australia, when speaking about a direct cash flow statement,



which in reality produce a direct/indirect cash flow statement, because the direct cash flow statement cannot be/is very hard to produce. Theoretical ideas need to be thought through to their usefulness and their cost benefit, of which, the direct cash flow does not provide a benefit. In reality, the users of bank's financial statements do not reference the indirect cash flow statements. Although indirect cash flow statements have been previously produced, they have not been shown to be of value. Therefore, indirect cash flow statements for financial institutions should be optional.

There needs to be attention brought to the fact that the primary financial statements should not be overloaded with information. All of the financial statements, including the notes should be used together by the users. If there is too much of a concentration of data and information on the face of the primary statements, their usefulness will decrease. An active effort should continually be made to reduce the complexity of financial statements.

Lastly, we believe that preparing the reconciliation schedule is not practicable. It presents information at a level of detail that is not helpful to users and will only significantly increase the complexity of financial statements, making them less useful.

More detailed comments on the specific provisions of the proposed DP are included in Appendix A attached. We hope that you find our comments informative and useful. Should you have any questions or desire any clarification concerning the matters addressed in this letter please do not hesitate to contact us.

Sincerely,

Gerard Gil
Deputy CFO



Appendix A: BNP Paribas' Responses to Questions in the DP

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.

We support the overall objectives as stated in the DP, with the exception of our concern with the cohesiveness principle, in that it should not be applied at the line level because it goes against the principle of relevance in many cases.

There needs to be attention brought to the fact that the primary financial statements should not be overloaded with information. All of the financial statements, including the notes should be used together by the users. If there is too much of a concentration of data and information on the face of the primary statements, their usefulness will decrease. An active effort should continually be made to reduce the complexity of financial statements. This is why the disaggregation principle needs encompass not only the primary financial statements, but also the notes.

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?

We do not believe that the separation of business activities from financing activities would provide better information, as almost all of our activities would be presented in the operating section. Therefore, these unused lines would just result in additional confusion for the users of the financial statements.

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 separate section from the financing section.

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?

If an entity has made the decision to discontinue its operations, then that should be identified and separated from the rest of the accounts. Including this information in the applicable categories would be misleading, as it is no longer part of the business and therefore should not be including with the continuing operations.

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?

Using the management approach in the primary financial statements is the best way to present the business model principle and the intention of the management. In addition, the management approach would be the only way that the principle of this DP could be implemented by banks. (Please refer to our response in question 9) It has also been our understanding that this is the preferred approach of analysts. We note that this management approach as it is described in this DP is slightly different then the management approach described in IFRS 8. Therefore we recommend that the board change the term “management approach” in this DP to not confuse it with the same term used in IFRS 8.

(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?

Showing the financial statements in a form that is aligned with the way the business is managed, shows to the users of the financial statements the actual performance of the business and how it is managed. A part of comparability between companies is the approach the management has chosen in managing the business. It is also noted that the classification rationale would be presented in the notes as part of the accounting policy and any change would result in a restatement of prior years financial statements. This will discourage frequent changes in the management approach.

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?



The banking industry key ratios are not based on accounting data but the key ratio and reconciliation to accounting data are given in the notes. Therefore, the separation of business and financing activities will not result in any additional benefit for banks.

- 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.**

Entities that have more than one reportable segment for segment reporting purposes should be permitted to classify assets and liabilities at the entity level. Requiring a classification at the segment level could result in unnecessary complexity in the presentation of the financial statements for the users.

- 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.

IFRS 8 is principle based and provides adequate disclosures. There is no need for such additional specifications.

- 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?**

We believe that using a principle based approach to defining the business section and allow for the application of the management approach will result in the best presentation of the information. In reality, banks would probably use just one category, which would not result in any additional useful information.

- 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 believe that using a principle based approach to defining the financing section and allow for the application of the management approach will result in the best presentation of the information.

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?

We would expect financial institutions to present a classified statement of financial position in order of liquidity, because this best reflects their actual business.

(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?

We do not believe that there is a need for additional guidance for distinguishing which entities should present a statement of financial position in order of liquidity.

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 believe that cash equivalents should be presented and classified in a manner similar to other short-term investments.

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 support that an entity should have the option to present its similar assets and liabilities that are measured on different bases on separate lines in the statement of financial position, as this is consistent with the business model approach.



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?

Absolutely not. This would be misleading. Aggregating non-owner changes and net income in a single separate statement is quite confusing, since it tends to make believe that the total is meaningful, while other non-owner change components (for example, cash-flow hedges valuation reserve or foreign exchange translation adjustments) have been specifically excluded from the income statement as they do not contribute to the measure of the entity's performance. The specific reasons why the components of comprehensive income have been separated from the income statement have been discussed and concluded in the prior discussion papers for the other standards and these conclusions were that the best accounting for these certain transactions is to separate them. This DP proposes to practically ignore those prior discussions and put them all into one statement, against the fact that it has already been concluded that this would be incorrect to do. For example, by showing the changes in value of the cash flow hedging instrument in the same statement as the income statement, would completely defeat the purpose of the initial hedge, as the hedged item relates only to future cash flows and not the current period's performance. Therefore the option to separate, comprehensive income and the income statement should remain.

Furthermore, the other comprehensive income (OCI) category should be maintained and its components should continue to be used and not combined with other components of income, as they provide a proper way to reflect the activity that the business is conducting.

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?

In reality, banks would probably use just one category, which would not result in any additional useful information.

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 for 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?

The choice of function/nature should be explicit in the standard and be determined by



management. We believe that with a combination of function and nature there is a risk that this could lead to an excessive amount of additional information, which again will lead to the statements not being useful.

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.

Income taxes should not be allocated, but presented as it is currently proposed. If it was allocated, it would need to be arbitrarily allocated, as it is managed on a global basis at the group level.

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 re-measurement into its functional currency, in the same section and category as the assets 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?

We do not support the presentation of foreign currency transaction gains and losses in the same section and category as the assets that gave rise to the gains or losses. We do not believe that this would be decision useful information for the users of the financial statements and would not reflect the economics of the transactions. Many times these types of transactions are managed on a global basis, with such items as foreign exchange hedges and therefore cannot be isolated to specific assets and liabilities. For example, allocating foreign currency gains and losses into the different sections and categories could result in natural hedges being presented in different sections or categories.

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?

We believe that the direct and for that matter the indirect, method for the cash flow statement is meaningless for financial institutions. Direct method cash flow statements are very difficult to produce, which is today evidenced by the fact that there is hardly any company that produces a pure direct cash flow statement, let alone an industry that uses it as its reporting standard. The board has often referred to Australia, when speaking about a direct cash flow statement, which in reality produces a direct/indirect cash flow statement, because the direct cash flow statement cannot be/is very hard to produce. Theoretical ideas need to be thought through to their usefulness and their cost benefit, of which, the direct cash flow does not provide an overall benefit. In reality, the users (both internal and external) of bank's financial statements do not reference the indirect cash flow statements. Although indirect cash flow statements have been previously produced, they have not been shown to be of value. Therefore, indirect cash flows statements for financial institutions should be optional.

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?

One-time cost would be the IT changes and the training costs. The ongoing costs would be from the large volume of detail that would always have to be tracked, therefore, there needs to be additional resources maintained and serviced as well as an increased number of employees involved in the process. We do not believe that there can be a reduction in the cost, because there is no benefit. Because every aspect of banking deals with cash, every system (back office, front office, etc.) would need to be changed in order to capture the required detail for a direct cash flow statement.

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 do not believe that the effects of basket transactions should be allocated. We would choose Alternative B, which is to present them in the category that reflects the activity that was the predominant source of those effects.

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?

If an entity presents its assets and liabilities in order of liquidity in its statement of financial position, the current disclosure requirements have proven sufficient and do not require additional disclosures. Disclosures regarding liquidity are more relevant in the notes of the financial statements and are already provided according to IFRS 7.

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 believe that preparing a reconciliation schedule is not practicable. It presents information at a level of detail that is not helpful to users and will only significantly increase the complexity of financial statements, making them less useful. Please refer to our response to question 1.

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 do not believe that it is necessary for the boards to address further disaggregation of changes in fair value in a future project.

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 that there is no need for a reconciliation schedule for the financial statements, as we have already stated that the direct cash flow statement should not be required. Due to their lack of usefulness, banks should be allowed to have the option of providing a cash flow statement. Please refer to our responses in question 19 and 23.

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) Opinion 30 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?

This information is already provided under current IFRS. Companies decide which events are important to be communicated to its users of its financial statements. Therefore, it is not necessary to create an additional requirement, detailing how it should be done. Please refer to our response to question 23.

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.

We believe that the FASB should not distinguish between public and non-public entities in creating this standard.