

LETTER OF COMMENT NO. 224

# DISCUSSION PAPER Preliminary Views on Financial Statement Presentation

BBVA would like to thank you for the opportunity to express our views on the Discussion Paper on financial statements presentation.

In general we think that the current presentation of information in the current financial statements broadly complies with the Board's overall objectives in this project in the case of financial institutions, so we don't think that making substantive changes to the form of presentation of financial statements is necessary at this time. Additionally, it is important for us to consider:

- that there is a current project with the objective of simplifying financial instruments and, in our opinion, this project should be finished before thinking about any change in financial statements.
- In our believe, the changes proposed do not give more useful information in order to predict cash flows for a Bank. Moreover, one of the main changes proposed is to change the presentation of the cash flow statement from the indirect method to the direct one. This statement has minimal or no use in the case of Banks, therefore we don't see the point to make such an effort, both time and economical, to change the cash flow statement if it does not give any useful information for users of the financial statements (invertors, analyst...) of a financial institution.

# **Questions for respondents**

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.

## Cohesiveness principle:

We broadly agree with the European Banking Federation, the Basel Committee on Banking Supervision and other Financial Institutions, and we are also sceptical about whether the information requirements proposed in the Discussion Paper are of benefit to users in respect of the financial statements of banks. We also think that the future standard should remain <u>principle based</u>, and the cohesiveness principle should <u>not be applied at the line level</u> because it goes against the more fundamental principles of faithful representation, relevance and materiality. An increase in the number of line items to meet the cohesiveness objective which may cause the primary statements to become unnecessarily long

### Disaggregation objective:

From our perspective, there are already disclosure requirements implying enough disaggregation that are displayed in the notes of the financial statements. In our believe, more disaggregation in the face of the financial statements may distract users from information that is relevant and also creates a burden for preparers. This level of detail is disclosed in the notes to the financial statements and are more appropriate in the notes to the financial statements rather than on the face of the primary statements. Presenting similar assets or liabilities in different categories may add complexity, not simplify financial statements.

#### Liquidity and financial flexibility objective:



The statement of financial position is shown in the order of liquidity in Banks, and there are already extensive disclosure requirements on the liquidity of the reporting entity in IFRS 7 and Basel II.

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 of the DP)? Why or why not?

For banks, this distinction would not be very meaningful as most the assets and liabilities will be categorised in the Business section. Therefore a distinction between investing, financing, and operating activities is not meaningful 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?

Since we do not support the separation of business activities from financing activities, we do not support a financing category, and therefore we consider that the current separation between equity and other financing gives very important information. There is much information based on equity information, therefore it must be informed separated in the financial statements.

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?

We agree on the proposal for presenting the discontinued operations in a separate section, as the information on discontinued operations is helpful to users when they are isolated from the entity's continuing operations. In our view, this is more in line with the management approach and will allow entities to present its operations in a more realistic way, as the information about continuing operations won't be mixed with the operations the company is going to dispose of. This separated presentation is also consistent with the objectives stated in IFRS 5.

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).

We agree with the idea that the management approach classification allows an entity's management to communicate the unique aspects of its business to users of its financial statements, but we don't think that it has to be classified in business/financing/discontinuing sections, as the management objective with the financial instruments is already reached with the current IAS 39 requirements. Moreover, financial instrument are around the 90-95% of the total balance sheet of a Bank, therefore the approach proposed in these paragraphs are redundant and unnecessary.

6) The DP 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?



Since the separation into business/financing section does not give any additional and useful information, it does not make it easier to calculate key ratios. The information is going to be the same as almost the total instruments of the balance sheet are going to be in the business section. Moreover, some key ratios in the Banking industry are based in regulatory information, not in accounting information, so this distinction is not going to add any additional support for ratio calculation.

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.

Segment reporting is already covered by IFRS 8, and it should be reported in the scope of that standard and never in the face of the financial statements, as it would lay to too many information, and it would not be in line with IAS 39 and the management approach.

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.

Segment reporting is in the scope of IFRS 8 and, in our believe, it should be discuss in the framework of that standard, and should not be on the face of the primary statements.

9. Are the business section and operating investing categories within that section defined appropriately (see paragraphs 2.31-2.33 and 2.63-2.67) Why or why not?

We appreciate that these definitions are principal based, but we don't think that gives any additional and better information than the one given with the current IAS 39. We think that for the Banking industry it would be difficult to distinguish clearly where to fit every different financial instrument between those two categories.

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?

The definition of the financing category should include non-financial assets and liabilities. Moreover, for a non financial services sector entity, all liabilities are used as a tool to finance the business activity, and for a financial entity almost all of the liabilities are part of the business activity. Therefore it does not seem to be very useful this distinction.

Also, the boards propose that management should have flexibility in determining which liabilities to classify in the financing section, this could lead to a lack of comparision between entities.

- 11. Paragraphs 3.2 proposes that an entity should present a classified statement of financial positions (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 not expect banks to present a classified statement of financial position. We believe that in the case of banks, presentation in order of liquidity provides better information for users on liquidity risk.

(b) Should there be more guidance for distinguishing which entities should present a statement of financial positions in order of liquidity? If so, what additional guidance is needed?

No. Most financial institutions currently present a statement of financial position in order of liquidity. No more guidance is needed.

12. The DP 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 agree as cash equivalents should be considered as financial assets.

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 agree and think that this clasification is in line with IAS 39.

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?

We think that the option to present both statements together or separatly, should be mantained because it does not imply less comparability between companies, as long as the information contained in both parts remains comparable.

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?

We are don't think that further disaggregation of other comprehensive income by category would be useful. We also think that the information required about cash flow hedges should be presented in the disclosures not in the face of the statements.

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?

We support disaggregation to the extent that it does not result in the primary financial statements becoming cluttered. Banks usually disaggregate income and expense items by nature only. In our believe, both options should be available as, depending on the type of industry, one or the other can be more adequate.

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.

In our opinion, tax effects should be reported at the disclosure level provided in the income taxes rule (IAS 12). We think these disclosures provide enough information to understand the effect of tax in the company. We also think that the disaggregation will decrease the degree of comparability as comparability is easier if the amounts exclude the income tax effect.

- 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 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.

We think that if that clasification reflects the way the foreign currency transacctions are managed it can be appropiate.

(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?

IT Department, accounting department...

#### Questions 19 to 21 regarding the Cash Flow statement:

Nowadays, companies in general use the indirect method, therefore a mandate for a direct cash flow statement will require a significant investment in time and cost to modify systems to capture and report this information. Also, for banks, cash flow statements do not provide users with information on the ability to generate future cash flows or anticipate future liquidity risks. A bank's performance is based on its ability to manage the transformation of short term deposits into longer term credits, and the cash flow statement does not give this kind of information. Thefore, we don't think that a direct method of presenting operating cash flows provide information that is decision-useful. Moreover, we think that both methods are consistent with the proposed cohesiveness, so why should we change the current one? Since we think that the cash flow statement does not provide important information in the case of Financial Institutions, we don't think that any cost is justified.

Regarding basket transactions, in terms of presentation, we would prefer to present the effects 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 shortterm 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?

In our believe every disclosure that gives useful information should be required, but information about maturires should be require in the scope of IFRS7, not in this project.

- 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:
  - (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 reject the direct cash flow method, therefore we see no need for the reconciliation of the statement of cash flows to comprehensive income. We think that the reconciliation of net income to cash flow achieved by the indirect method provides enough information on the differences between these two items.

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 see no need to address further disaggregation of changes in fair value.

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 entitles 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?

In our opinion, these reconciliations give too many information, which we don't think is useful for users to predict future cash flows.

- 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?

This information about unusual or infrequent events or transactions has to be reported at a disclusure level, and in our opinion is better to describe it in the notes, no in a reconciliation statement.