



LETTER OF COMMENT NO. 103

Sir David TWEEDIE
International Accounting Standards Board
30 Canon Street, London EC4M 6XH, United Kingdom

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Discussion Paper - Preliminary views on Financial Statement Presentation

Dear Sir David,

We would like to thank you for the opportunity to express our views on the Discussion Paper on Financial Statement Presentation. We enclose our detailed response in the Annex to this letter.

We support the aim to improve the presentation of information in the financial statements and we agree with the overall objectives as long as they are considered as guidelines. We indeed fear that these objectives could generate a significant amount of information, not necessarily decision-useful, if these objectives were to be strictly followed. This additional information would notably include multiple reconciliation schedules with the notes to the financials. We therefore especially welcome the introduction of the management approach that enables the preparers to provide the users with the information they think is the best decision-useful information. The articulation of the management approach with the three objectives could be clarified.

We are also very concerned that the proposed communication framework includes requirements that are irrelevant (or with very little relevance) for the banking industry. For instance:

- the Discussion Paper is primarily focused on helping the users assessing future cash flows. In the banking industry, we believe that the information provided in the primary financial statements does not have enough predictive value to enable users to forecast future cash flows. We however believe that this is the objective set in the amendment to IFRS 7 dated March 2009;
- the direct method cash flow statement requires an important amount of time and investments to produce a document (whatever the method) that cannot be considered as a tool used by the management to make decisions;
- the definitions of the "financing section" and the "investing section" are somehow
 misleading when it comes to the banking industry. As most of the transactions in the
 financial services industry are of an operating (business) nature, these sections will be
 rarely used. We therefore question the interest of this classification for the banking
 industry;



For these reasons, we feel that the proposed format is more relevant for industries other than banking or insurance. The examples provided within the Discussion Paper (Bank Corp) could be reviewed based on the conclusions from the field test.

Finally, we would like to reaffirm the fact that we strongly disagree with the single statement of comprehensive income since net income and other comprehensive income are of different nature and should not be confused.

I thank you in advance for taking our comments into consideration and I remain at your disposal should you have any questions in relation to our comments.

Yours sincerely

Eric Filliat





Part I – Questions concerning the objectives and principles of financial statement presentation

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 generally agree with the general focus presented in §2.3 of the Discussion Paper ('providing information about an entity's financial position (its economic resources and claims on those resources) and changes in its financial position that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers').

We support the three proposed objectives, as long as they are considered as guidelines. We indeed believe that these objectives applied in an extreme way could generate both an unlikely cost/benefit ratio and an important amount of information, not necessarily decision-useful to the users.

We also would like to make specific comments on each of the objectives presented in the Discussion Paper.

Cohesiveness

We support the cohesiveness principle as it is described in paragraph 2.6 ('the relationship between items across financial statements is clear and the financial statements complement each other as much as possible').

We are however concerned with the following limitations of this principle:

- applying the cohesiveness principle to a certain extent may increase the complexity of the financial statements, including when, for example, identical assets will be classified under different categories;
- the cohesiveness principle can't be applied to service activities which generate both income (fee income) and cash flows when the 'underlying asset' is either not recognized or is presented in the off-balance sheet (which is not a primary financial statement). In that case, a relationship of related items across financial statement won't be provided to the users.

Therefore, we believe that cohesiveness should not be applied on a line-to-line basis and should remain a guideline for the management to provide relevant, understandable and representative information of the business.



Disaggregation

We agree with the general objective of disaggregation and with the fact that 'classification in financial statements facilitates analysis by grouping items with essentially similar economic characteristics' (§2.8). At the same time, significant items with different economic characteristics should be disclosed separately.

We are however concerned with the definition provided in §2.7 which states that disaggregating information should make information 'useful in assessing the amount, timing and uncertainty of (..) future cash flows'. We believe that the disaggregation objective should be wider and that the wording could be reviewed as follows: 'An entity should disaggregate information in its financial statements in a manner that makes it <u>decision-useful to users'</u>.

We also believe that the disaggregation objective should remain a guideline and that management should decide whether an information should be provided in the primary financial statements or should become a disclosure in the notes in order to comply with the 'delicate balance between having too much information and having too little information'.

Liquidity

We agree with the general objectives of liquidity and financial flexibility.

We however believe that, when it comes to the banking industry, these objectives can't be met only using the information provided in the primary financial statements.

The users of the financial statements will indeed need to complement this information with disclosures provided under IFRS 7.

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?

As users of financial statements, we support the separation of business activities from financing activities as this model is widely used and provides decision-useful information to the users.

However, as preparers of financial statements in the banking industry, we would like to highlight the item presented in §2.79: 'The boards would expect a financial services entity to classify many of its financial assets and financial liabilities in the operating category even though they are financial in nature'.



We indeed consider that the definition provided for financial assets and liabilities (as defined in IFRSs and US GAAP) can be considered as our operating assets and liabilities., that is to say the "assets and liabilities that management views as related to the central purpose(s) for which the entity is in business".

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 agree that the equity should be presented in a section separate from the financing section.

Indeed, with a strict application of the cohesiveness principle, should equity be included in the financing section, the changes in OCI – currently presented in the second part of the statement of comprehensive income - should be included in the financing income.

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 that discontinued operations should be presented in a separate section.

This presentation is consistent with the current IFRS 5 objectives and provides a better information on on-going activities to the users of the financial statements.

- 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?



As an introduction, we would like to highlight the definition of the 'management approach' proposed in the Discussion Paper and which is <u>limited</u> to the allocation of assets and liabilities into the operating, investing and financing categories. Our understanding is that this approach would <u>not</u> concern the allocation within categories which should be performed in accordance with existing standards.

Furthermore, this definition of a management approach to classification should not be confused with the information used by the management as defined by IFRS 8.

As users of financial statements, we strongly defend comparability. As preparers of financial statements, we feel that the 'management approach' to classification of assets and liabilities in the sections would in time lead to a certain level of comparability within the same industry (similarities in the activities and 'pressure' from the users of the financial statements such as regulators or rating agencies for example).

We are therefore in favour of the 'management approach' to classification of assets and liabilities if based on a set of limited guidance. For example the guidance provided under §2.40 ('an entity should classify its business and financing assets and liabilities in a manner that reflects how the entity uses those assets and liabilities').

This presentation will however lead to an increased need for reconciliation schedules, especially when the disclosures under other standards will have to be reconciled with the information provided in the primary financial statements and allocated to different categories / sections (e.g.: schedule of changes in fixed assets to be reconciled with fixed assets allocated under operating and investing).

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?

As preparers of financial statements in the banking industry, we would like to underline the fact that key financial ratios in our industry are usually based on regulatory data (and very little on accounting data).

Therefore, the proposed change in presentation, coupled with the separation of business and financing activities, cannot facilitate the calculation of key financial ratios in the banking industry.



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.

We believe that assets and liabilities should be classified in the different sections at the entity level. We fear that a classification of assets and liabilities at the reportable segment as presented in §2.40 would increase both the complexity of the primary financial statement and the volume of the notes to financial statements providing the classification rationale (accounting policy).

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.

Segmental information provided under IFRS 8 needs to be reconciled to the primary financial statements. Under the proposed presentation, some key subtotals (total assets / total liabilities) may disappear and the reconciliation between the primary financial statements and the IFRS 8 disclosures may become difficult..

We however do not feel that changes should be made to segment information. The information provided indeed needs to be regularly provided to the chief operating decision maker (IFRS 8.23) and this should not be influenced by a specific standard. Reconciliation schedules may however be needed in order to reconcile the primary financial information with the IFRS 8 notes.

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 support the high-level definition of the business section provided in §2.31 ('assets and liabilities that management views as part of its continuing business activities').

Regarding the definition of the operating (§2.32) and investing (2.33) categories, we however prefer the terms provided under §2.64 ('the operating and investing categories are based on a notion of 'core' and 'non-core' activities').



We indeed think that the following paragraph provided under §2.33 may be misleading in the banking or the insurance industries and that it may be viewed as too restrictive in the other industries: 'an entity may use its investing assets and liabilities to generate a return in the form of interest, dividends or increased market prices but does not use them in its primary revenue'.

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 do not believe that such a restriction is necessary.

We consider that a majority of the assets and liabilities classified under the financing section will be financing assets and financing liabilities as defined by IFRSs and US GAAP. However, management should be able to classify other items under this section in specific cases.

Part II - Questions concerning the implications of the objectives and principles for each financial statement

- 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 agree with paragraph 3.6 and we confirm that banks, as holders of a large volume financial assets and financial liabilities, are very likely to present a statement of financial position by order of liquidity. This presentation is indeed more relevant in our industry since it better introduces the disclosures on liquidity risk.
- (b) We do not feel that more guidance should be provided on this specific topic.
- 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 agree that cash equivalents should be presented and classified in a manner similar to other short-term investments. We believe that the information provided on liquidity will be more decision-useful to the users of the financial statements.



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 with the proposal to disaggregate similar assets and liabilities that are measured on different bases (e.g.: securities classified as loans and receivables and securities at fair value through P&L).

We believe that this disaggregation within the statement of financial position will reduce the amount of reconciliation needed between the primary financial statements and the notes. Furthermore, we believe that this disaggregation provides a decision-useful information to the reader (how the financial assets and liabilities are managed).

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 do not support the concept of a single statement approach and we strongly disagree with the idea of removing the option to report net income and OCI components under two statements.

The items recorded under "Other comprehensive income" are separated from "net income" since they do not meet the recognition criteria of income or expense ('more probable than not' and 'reliable measurement').

We fear that removing the option will lead to mixing items that are fundamentally different and to a confusion for the users of financial statements.

The decision should be left to preparers and the option provided under IAS I should be maintained.

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 do not believe that the proposed information would be decision-useful to the readers. It would indeed increase the amount of information provided under Other Comprehensive Income and participate to the risk of confusing net income and OCI.



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?

IAS I already requires entities to present 'an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the entity, whichever provides an information that is reliable and more relevant' (IAS 1.99).

As stated under §3.52, the banking industry has generally chosen the disaggregation by nature. The disaggregation by nature can indeed sometimes be considered useful by managers (monitoring of expenses for budget purposes), but it can't be considered as relevant in terms of analysing the performance of the entity as a whole.

We believe that the presentation should be an option left to the preparers.

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 do not believe that allocating income taxes to the different sections and categories would provide a decision-useful to the users. As stated in §3.60, this allocation would probably become arbitrary. Furthermore, this allocation would reduce comparability significantly since only before-tax balances can be compared (income tax rates can vary significantly from one country to another).

We believe that income taxes should be presented in a separate section of the statement of comprehensive income, as suggested in the Toolco example of the Discussion Paper.



- 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.
 - (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) As preparers of financial statements in the banking industry, we do not consider that the allocation of FX gains and losses would provide any decision-useful information to the users.

We indeed believe that this allocation would not reflect the way banks manage their exposure to foreign currency risk as they match assets and liabilities, whatever their section or category. For example, FX exposure on a securities portfolio (operating section) can very well be cancelled by an FX exposure on debt issued (financing section).

We believe that the preparers should be able to decide to which section or category they should allocate the net gain or loss arising from the FX translation.

(b) We fear that the costs would definitely outweigh benefits and would notably include significant changes in the ALM and accounting systems (since FX is both managed and accounted for differently in the banking industry).

Training and second-level controls should also be considered when estimating the related costs.

- 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) Liquidity is a major issue for the banking industry and we are convinced that the banking industry should provide material information on its future cash flows, meaning on the ways it manages its liquidity risk.

However, the cash flow statement cannot be considered as a tool used by management in the banking industry to assess that risk. This statement indeed provides the users with a retrospective information on past cash flows. It however does not provide them with information on future cash flows since it is our business to transform short term deposits into longer term credits and to manage or transform cash on a daily basis. The decision-useful information is however provided under IFRS 7 requirements.

Considering the costs that would be needed to implement a direct method with no direct added value provided to the users, and since the cash flow statement is rarely (if ever) used by management to make decisions (or by other users of the financial statements), we strongly believe that the Boards should allow the presentation of cash flow statement to become optional, especially when detailed information related to the liquidity risk is already provided in the notes to financial statements (under IFRS 7 requirements for example).

- (b)&(c) As we strongly support that the cash flow statement should become optional, we also believe that the reconciliation schedule to the statement of comprehensive income should not be mandatory.
- 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?

The implementation of the direct method, should it be adopted, would generate significant operational complexities and associated costs for an information that would not be used.

For example, we have identified the following subjects that could lead to significant changes in the banking industry reporting systems:

- trading portfolio: separation of the nominal value of the securities and the unrealized gain or loss;
- derivatives portfolio: identification of fees or premium (paid / received) that are currently included in the fair value of the derivatives;
- effective interest rate: identification of fees and other cash items currently included in the effective interest rate (undiscounted)

Training and second-level controls should also be considered when estimating the related costs.



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 are in favour of allocating the effects of basket transactions to a single section and a single category in the statement of comprehensive income and the statement of cash flows.

This would indeed not be consistent with the cohesiveness objective (assets and liabilities would be allocated in the statement of financial position) but we are in favour of reducing arbitrary allocations as much as possible.

We therefore believe that the effects should be left under "not allocated" and "Alternative B" would be the best alternative.



Part III - Questions concerning the notes to financial statements

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 support the proposal of the Discussion Paper. We however believe that the expected information is already provided under IFRS 7 requirements. This should be taken into account to avoid overlap of requirements.

- 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.

As we strongly support that the cash flow statement should become optional, we also believe that the reconciliation schedule to the statement of comprehensive income should not be mandatory.

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 are opposed to the board addressing 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?

As we strongly support that the cash flow statement should become optional, we also believe that reconciliation schedules should not be necessary.

- 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?

As we strongly support that the cash flow statement should become optional, we also believe that reconciliation schedules should not be necessary.

We however believe that companies should retain the ability to present unusual items separately in order to provide needed transparency to investors.

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.

Not applicable