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International Accounting Standards Board
30 Cannon Street,
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Dear Madam, dear Sir

1630-100

Preliminary Views on Financial Statement Presentation LETTER OF COMMENT NO. 56

The Committee of European Banking Supervisors (CEBS), comprised of high level representatives from banking supervisory authorities and central banks of the European Union, welcomes the opportunity to comment on the Discussion Paper Preliminary Views on Financial Statement Presentation.

Banking supervisory authorities and central banks have a strong interest in promoting sound and high quality accounting and disclosure standards for the banking and financial industry, as well as transparent and comparable financial statements that would strengthen market discipline.

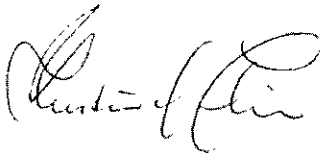
CEBS welcomes the IASB's continued efforts to improve financial reporting and disclosure in a harmonized manner with the Financial Accounting Standards Board. We welcome this Discussion Paper ('DP'), which addresses important issues and find value in some of the broad objectives identified such as cohesiveness and disaggregation.

Nevertheless, CEBS questions the usefulness and the relevance of the proposed presentation for financial institutions and queries whether the benefits obtained regarding the provision of additional decision-useful information to users will be worth the incremental costs incurred. We believe 'full scale' cost-benefit analysis, based on broader field testing than carried out so far, would be required in order to form a view on whether the costs of the proposed changes would be justified by the benefits to users of financial statements. Furthermore, CEBS is concerned about the proposed presentation for financial institutions from a clarity and comparability point of view. We have developed our main concerns in that respect in the general comments part of the appendix of this letter.

The comments put forward in this letter and in the related appendix have been coordinated by CEBS's Expert Group on Financial Information (EGFI) chaired by Mr. Didier Elbaum (Deputy Secretary General, Commission Bancaire)- in charge of monitoring any developments in the accounting area and of preparing related CEBS positions - and in particular by its Subgroup on Accounting under the direction of Ian Michael of the UK FSA. If you have any questions regarding our

comments, please feel free to contact Mr. Elbaum (+33.1.4292.5801) or Mr. Michael (+ 44.20.7066.7098).

Yours sincerely,



Kerstin af Jochnick

Chair, Committee of European Banking Supervisors

Appendix

General Comments

CEBS queries the usefulness of the proposed presentation for banks as most assets and liabilities will be classified in the operating category (paragraph 2.79). We are unsure whether this will improve clarity or meaning to banks' financial statements. Also, we question the usefulness of this classification and strongly recommend the Board to liaise further with financial institutions to ensure that the finalised proposed format is useful for the users of these entities' financial statements.

Whilst CEBS acknowledges that an approach whereby information is being presented 'through the eyes of management' better reflects the way risks are managed, there are concerns that the guidance as it is currently drafted will decrease the comparability across the financial statements of financial institutions. Any decrease in comparability would be of great concern, especially in the current climate. In addition CEBS has some doubts that financial statement presentation as put forward in the DP would facilitate the calculation and comparability of widely accepted key performance indicators and ratios.

CEBS cautions against imposing a single statement of comprehensive income if it leads to the loss of the distinction between net income and other comprehensive income and of the reclassification adjustments between these categories. Our view is that some items of other comprehensive income are substantially different in nature to those which appear in net income; therefore we want this distinction to be retained.

CEBS does not comment on all the questions raised in the DP but rather addresses only those issues that are considered to be most relevant.

Responses to selected questions

Question 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.

CEBS broadly agrees with the objectives of cohesiveness, disaggregation, and liquidity and financial flexibility, because these enhance the usefulness and transparency of financial statements.

However, we believe the implementation of these objectives needs further consideration. As currently drafted in the DP, we are not persuaded that incorporating these objectives will provide decision-useful information to users of banks' financial statements. We believe financial services entities require a more specific and adapted presentation.

CEBS believes that an increased level of disaggregation is a desirable objective for banks, as the majority provide only limited disaggregation, which can

obscure the links between the income statement and the balance sheet. However we caution about an unlimited amount of disaggregation, as we fear that more granularity could obscure the key metrics and reduce comparability.

We are not convinced that the financial flexibility objective can be met by information in the primary statements rather than via disclosures.

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)? Why or why not?

The distinction between business and financing activities lacks relevance for the banking sector as most business activities are financial in nature. The proposed presentation could lead to the arbitrary disaggregation of activities between operating and financing categories given that it is subjective to allocate assets and liabilities between categories. This could also lead to a loss of comparability as institutions may not allocate consistently.

If, as suggested most activities fall into the operating category then we would question the usefulness of the proposed distinctions.

Question 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?

CEBS generally believes that the management approach could provide more information on an entity's business model. However its application to financial statements presentation as proposed in the DP does raise concerns for financial institutions as the categories are not entirely appropriate for banks and may need to be reviewed and tailored.

Furthermore, the definition of management approach as proposed in the DP requires clarification. Is the intention to have a definition similar to the one in IFRS 8, or is a more 'business approach' intended'?

(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?

We have concerns about the benefits to users of banks financial statements. In our view the benefits (mainly the easier calculation of certain key financial ratios) because of enhanced cohesiveness are not sufficient to outweigh the reduced comparability which may result from an increased reliance on the management approach.

Question 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?

Banks and other financial institutions would not present a classified statement of financial position but continue to present by **order of liquidity** (as already allowed by IAS 1) which is more relevant.

(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?

CEBS assumes that presentation in order of liquidity would be largely based on the same principles applied in the present situation. However, if this not intended to be the outcome additional guidance will be needed.

Question 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?

CEBS broadly agrees that assets and liabilities measured on different bases are presented on different lines in the primary statements, subject to materiality – it is important that the primary statements do not become overly cluttered. CEBS has followed this approach when developing its framework for consolidated financial reporting (FINREP) that, although designed for prudential supervisory reporting, aims to be consistent with financial statements prepared under IFRS (such as the statement of financial position or the income statement).

Question 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?

CEBS supports the distinction between the profit and loss account and the components of "other recognised income and expense". As stated in the comment letter relating to the exposure draft on proposed amendments to IAS 1 : "...most of our members would not favour a single statement approach if it were a first step to removing the distinction between P&L and "other recognised

income and expense", and to suppressing the reclassification adjustments between these categories".

Question 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 in 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?

This level of disaggregation provides information that is decision-useful to users. It must be kept in the standard that replaces IAS 1. It is important that entities 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. As far as banks are concerned, the choice would be by nature as it is explained in paragraph 3.52.

Question 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 believe that further clarification is needed on this issue as disclosures on the maturities of assets and liabilities are already required by IFRS 7. We realise that the scope of this project is to focus on matters of presentation in the primary financial statements, as it will replace IAS 1 and IAS 7, but we nevertheless feel that the IASB, when considering the need to introduce new disclosures in the notes as proposed in paragraph 4.7, should avoid inconsistencies with IFRS 7.

Question 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 some useful information is included in this reconciliation. However, we caution that the proposed reconciliation schedule is complex, which may undermine its usefulness, and impose unwarranted costs on preparers.

Some of the proposed items, for example disaggregating the fair value changes (into those resulting from accruals, those resulting from recurring fair value and those resulting from all other remeasurements), could more easily be presented at much lower cost via a specific disclosure rather than this complex reconciliation.

Finally, as stated in CEBS' comment letter on the Exposure Draft on proposed amendments to IFRS 7 "Improving Disclosures about Financial Instruments", CEBS sees the need for more transparent presentation of realised and unrealised fair value gains and losses in the financial statements of the financial institutions, particularly the banks, In this sense, CEBS believes that the transparency on realised and unrealised fair value gains and losses can achieved through separate presentation in the financial statements.

Question 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?

The IASB should address the disaggregation of changes in fair value of financial instruments, but as stated previously this should be addressed through disclosures rather than the proposed reconciliation.

Question 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?

Alternative reconciliation formats could be considered for the financial service industry. However, our view is that the two alternatives proposed (reconciliation of statement of financial position or statement of comprehensive

income matrix) are too complex and for banks are largely irrelevant because of link to the statement of cash flows. We urge the IASB to revisit the cost benefit analysis using field trials with financial services entities.