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Standards Board
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9 April 2009

Comments on the IASB Discussion Paper *Preliminary Views on Financial Statement Presentation*

Dear Sir David,

Thank you for the opportunity to comment on the Discussion Paper *Preliminary Views on Financial Statement Presentation*.

1. General remarks

The planned redesign of financial statement presentation is a major project, in our view, with far-reaching implications for both preparers and users of accounting information. We have followed the standard-setters' discussions of this important undertaking with great interest. The intention of the boards to further harmonise and improve the sometimes diverging existing requirements as part of the convergence process has our unqualified support. Whether and, if so, to what extent there is also a need for measures aimed not at convergence or improvement but at fundamentally redesigning the format of financial reporting is, on the other hand, a matter which should be carefully weighed with cost-benefit considerations in mind. It is also important to ensure that any new requirements are consistent with the principles and objectives of the framework and of existing standards.

We basically welcome the proposed objectives of cohesiveness, disaggregation and the description of liquidity and financial flexibility. These objectives should, however, always be seen in the context of decision-usefulness. An entity should be able to present its financial information in a manner that appropriately reflects its business model and activities.

A number of the requirements proposed in the discussion paper are very restrictive and excessively detailed in our eyes. We question whether the plethora of proposals will bring real benefits to the users of financial statements published in the banking sector. The presentation of many of the details required would, moreover, result in information overkill, with the risk that really decision-useful information might be overlooked. Presentation should, instead, take as its yardstick the extent to which it reflects management intent. If information is not relevant, it should not need to be reported. We therefore welcome the proposed application of a management approach.

One of the major objectives of the boards' proposals is to provide information which is relevant to predicting future cash flows. We agree that the issue of liquidity presents a significant challenge for the banking sector. Nevertheless, cash flow statements cannot help to assess future liquidity in any way. No financial analyst, for example, has ever queried any of our member banks about, or given any great consideration to, the cash flow statement. If the IASB has information pointing in another direction, we would be interested in the details. What is more, a requirement to apply a direct method of presenting cash flows would be highly onerous for the banks without enhancing decision-usefulness for users.

In our experience, a bank's cash flow statement – whether prepared using the direct or indirect method – delivers no benefit to either the bank or third parties. This raises the question of whether cash flow statements serve any useful purpose in the banking sector.

Should standard-setters conclude that a cash flow statement remains indispensable for banks, we would advocate retaining the option of an indirect method of presentation.

In our view, other comprehensive income and net income should continue to be presented as separate items. Combining the two would result in a misleading presentation and an overstating of total comprehensive income, especially if this figure is regarded as a performance indicator (and even more so if earnings per share are calculated on the basis of net income). We are therefore in favour of retaining the option of a two-statement approach.

We reject the reconciliation schedule proposed in the discussion paper. Implementation would be extremely onerous without generating added value for users.

2. Responses to the 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.

The provision of decision-useful information is an important objective, in our view, and one which is consistent with the framework. Nevertheless, we do not believe it is sufficient to focus solely on this objective. This is because the decision-useful criterion is oriented towards the ability to generate future cash flows and thus to assessing future events. This exclusively forward-looking perspective does not, however, permit a full assessment of how effectively management has discharged its stewardship responsibilities, since this is more dependent on an appropriate presentation and monitoring of past transactions. In our opinion, the provision of information enabling users to evaluate stewardship is the second key objective of financial reporting. We would draw attention in this context to the IASB’s 2008 Exposure Draft *An Improved Conceptual Framework for Financial Reporting*, which highlights the importance of the stewardship function.

For this reason, financial statements should continue to provide not only decision-useful information, but also information showing whether or not management has fulfilled its stewardship responsibilities adequately. Proposed amendments to financial reporting should always be geared towards achieving these two objectives in the best possible way.

In our view

- the scope of the discussion paper should be limited to the three financial statements addressed,
- the principles of faithful representation, relevance and materiality should apply and
- the proposed changes should be consistent with the requirements of existing standards.

Cohesiveness

We agree that cohesiveness between the statement of financial position, statement of comprehensive income and cash flow statement enhances the usefulness of the information provided. Excessively detailed classification and categorisation on a line-item basis could have

the opposite effect, however. We therefore believe that the principle of cohesiveness should be confined to the basic elements of financial reporting.

Disaggregation

This objective should also use decision-usefulness as its yardstick. With this in mind, we recommend amending paragraph 2.7 as follows: *“An entity should disaggregate information in its financial statements in a manner that makes it **decision-useful to users**.”* The current wording does not go far enough, in our view, since it focuses only on predicting cash flows (irrespective of the extent to which it is possible at all to present this information adequately and appropriately in the form proposed). What is more, the presentation of cash flows in a cash flow statement is less helpful for banks than for entities in other sectors.

In our view, however, information should only be disaggregated to a limited extent because an excessive degree of disaggregation would result in information overkill, making it more, not less, difficult to provide decision-useful information. There would be a danger of really relevant information being obscured by a mass of detail. The IASB and FASB refer to this problem themselves in the discussion paper (cf. paragraph 2.10). Furthermore, the proposed categorisation is of little relevance to banks because most items could only be allocated to one category.

Liquidity/financial flexibility

We doubt whether the **liquidity** and financial flexibility objective set out in paragraph 2.12 f. can be adequately met in the form proposed. The balance sheet and profit and loss account show past performance, which is not always an optimum basis for making forecasts. It should also be borne in mind that sufficient information about liquidity already has to be provided in the notes and that the notes should not be covered by the scope of this discussion paper.

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 proposed separation of operating, investing and financing activities does not lend itself to all industries. This applies particularly to banks; the nature of their business makes it important to take account of industry-specific characteristics. In particular, it should be borne in mind that the vast majority of their activities would have to be assigned to the operating category. The investing and, to an even greater extent, the financing category would play only

a minor role, by contrast, since the core activities of banks are inevitably concerned with financing. This is acknowledged by the IASB itself in the discussion paper (cf. paragraph 2.79). We consequently welcome the ability to categorise business activities on the basis of a management approach. This will allow transactions to be presented in a manner which appropriately reflects the business model of the individual reporting bank.

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?

We are in favour of presenting equity in a separate section, as proposed by the IASB.

Question 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 believe that the presentation of discontinued operations in a separate section provides more decision-useful information because this method better reflects the management view.

Separate presentation would be consistent with IFRS 5's objective of providing information about operations which used to be part of a reporting unit but which are to be discontinued.

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?**
- (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?**

- (a) We welcome the ability to classify instruments on the basis of a management approach. This allows transactions to be presented in a manner which appropriately reflects the business model of the individual reporting bank, thus providing users and investors with decision-useful information. The management approach has already proved its worth in segment reporting.
- (b) A certain amount of variation is unavoidable if assets and liabilities are classified on the basis of how they are used by the reporting entity. But such differences are likely to be only minor within the same industry (and between entities using a similar business model). A reduction in comparability is acceptable because the benefits of the management approach outweigh its disadvantages. Furthermore, the proposed requirements for allocating assets and liabilities to the various categories give entities only limited leeway in any event and if the management approach is applied, transparent information about the allocation method used has to be provided in the notes.

Question 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?

It is possible, in principle, that users may sometimes find it easier to calculate certain key financial ratios if assets and liabilities are separated into business and financing sections both in the balance sheet and in the statements of comprehensive income and cash flows. This separation of sections would not, however, make it any easier to calculate the financial ratios of banks. It should also be borne in mind that the key ratios of banks and other regulated entities are sometimes influenced by prudential requirements.

Question 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.

The IASB proposes that entities with more than one reportable segment (cf. IFRS 8) should classify their assets and liabilities in the business and financing sections on the basis of how these instruments are used within the segment in question.

We are in favour of classifying assets and liabilities at entity level. Issues relating to segment reporting (IFRS 8) should not, in our opinion, be addressed by this discussion paper.

Question 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.

The content of other standards (in this case IFRS 8) should not be addressed by this discussion paper.

Irrespective of this point, the management approach in IFRS 8 should still be retained in its present form after the changes proposed in the discussion paper have been implemented. We do not believe that there would be any added value in applying the proposed presentation and classification model to segment reporting. This would only result in information overload and make segment reporting excessively complex.

Question 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?

The use of the management approach will enable entities to classify instruments under the proposed procedure in a way which appropriately reflects their business model. As mentioned above, however, most of the assets and liabilities of banks will be assigned to the operating category.

Question 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?

As indicated in our reply to question 3, we are in favour of presenting equity in a separate section. If the management approach is to be applied consistently, however, the financing section should not be restricted to financial assets and financial liabilities. Classification should depend instead on the entity's intention and purpose in acquiring the instrument. We are thinking of the role of pension liabilities, for instance.

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?
 - (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 welcome the ability to present assets and liabilities using the proposed alternative method. The most appropriate method for banks is presentation in order of liquidity, and it would make little sense to change it. Any other breakdown would be purely artificial and could not deliver relevant information.
- (b) There is no need for additional guidance, in our view. Presentation in order of liquidity is a clear principle and tried and tested practice in the banking industry.

Question 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 it is legitimate to present cash equivalents separately from cash. This is already normal practice in the banking sector.

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?

We consider it legitimate to separate assets and liabilities which, though similar, have been measured on different bases. In our view, however, it should be permitted to make this separation in the notes so as to avoid unnecessary complexity on the face of the statement. Since we believe that the classification and thus measurement of financial instruments should depend on their intended purpose, the proposed separation will allow adequate insight.

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?

The standard-setters propose that an entity's financial performance should be shown in a single statement of comprehensive income. It is planned, among other things, to present items currently presented in the profit and loss account in a single table alongside items currently reported directly in equity. We are pleased to note that previous plans have been dropped under which components recognised as profit or loss were to be aggregated with components with no effect on net income to form a single total ("total comprehensive income"). The net income figure is now to be retained as a subtotal. Nevertheless, the proposals will result in overstating total comprehensive income. What is more, the presentation of total comprehensive income as the "bottom line" figure raises concerns about the external perception of the financial statements. It might be very difficult, in our opinion, to communicate to the majority of market participants precisely what this figure represents. Given the differences in the level of knowledge between various groups of users, the new measure of performance might cause confusion among some market participants (such as investors) and result in erroneous conclusions being drawn. This danger could be avoided by retaining familiar and widely recognised measures such as net income, which often also serves as a basis for calculating certain remuneration components. The discussion paper's illustrative example of a statement of comprehensive income demonstrates the problem: it

is not clear whether the figures on page 129 for earnings (loss) per common share have been calculated on the basis of net income or total comprehensive income. Although the IASB states that no changes to IAS 33 are planned, a relatively inexperienced user may not be aware of this.

We would also point out that the IASB has other projects under way dealing with the issue of other comprehensive income. For this reason alone, the current focus on net income should not be abandoned as things stand.

We consequently advocate retaining the two statement approach.

Question 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?

With the cohesiveness principle in mind, we consider the IASB's proposal to be acceptable.

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?

We are in favour of disaggregation that does not lead to information overload in the statement of comprehensive income or to information better being presented in the notes. Also, the management approach should be adhered to here, too.

As explained by the IASB in paragraph 3.52 of the discussion paper, banks usually disaggregate their income and expense items by nature only, as this provides decision-useful information. We understand the proposals specified in the discussion paper as an option, so that we take a critical view of any additional requirements for banks.

In addition, we believe that the current requirements regarding the disclosures to be made in the notes to financial statements under IFRS 7 provide useful information for predicting future cash flows.

Question 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 are against any allocation of taxes to sections or categories. Income taxes should – as proposed in the discussion paper – be presented on a separate line, as disaggregation would restrict comparability and cohesiveness. Any allocation of income tax would be purely arbitrary, since it depends on various factors and is not merely the sum total of all the income taxes resulting from each transaction. The disclosures on income taxes currently required (IAS 12) already provide sufficient information, so that we cannot see how further disaggregation would improve decision-usefulness.

Question 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 and liabilities 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)

We do not believe that this would provide decision-useful information, as foreign currency risk is not managed in this way. Any allocation would be purely arbitrary and its implementation would impose a correspondingly heavy (cost) burden. Banks usually manage foreign currency risk centrally within their treasury function or within their foreign currency trading. The disclosures that must currently be made in the notes to financial statements are sufficient in

our view. The informational value of financial statements should not be diminished by requiring further unnecessary disclosures.

b)

As mentioned above, (arbitrary) allocations would entail high costs, e.g. IT costs.

Question 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)

As part of their planned redesign of financial statement presentation, the IASB propose that only a direct method of presenting cash flows in the statement of cash flows should be used.

May we first point out, however, that a cash flow statement – whether based on the direct method or the indirect method – is no use as a management tool for banks and has limited informational value. Banks manage their liquidity risk on a day-to-day basis. The cash flow statement provides information on the current reporting period, but gives little idea of an entity's liquidity risk exposure. A cash flow statement likewise provides no information on an entity's efficiency. Furthermore, the requirements with regard to liquidity risk under IFRS 7 already allow sufficient insight into future cash flows and liquidity risk in the banking sector.

A bank's cash flow statement – whether based on the direct or the indirect method – is of little benefit to either the bank or third parties. For this reason, the purpose of the requirement for banks to prepare a cash flow statement is unclear. If, however, standard-setters decide that a cash flow statement is indispensable for banks, we are in favour of retaining the option to apply the indirect method for the reasons set out below.

b)

It could undoubtedly be argued that an advantage of the direct method is that the cash flows generated within an entity are shown directly and without any adjustment in the cash flow statement. In this way, users would be provided with information on the entity's complete cash flows. However, such presentation is not suitable in every case for supplying decision-useful information that allows users to correctly interpret current cash flows and predict future cash flows. This is illustrated particularly clearly by the cash flow statement prepared by a bank. Because of banks' payments processing function, presentation of a direct method cash flow statement would not provide enough meaningful information on cash flows. Although paragraph 3.73 allows netting if receipts and payments reflect the activities of the customer, processing payments for customers does not trigger any increase in a bank's liquidity. Yet precisely this is what the direct method would suggest, so that it would plainly be at odds with the principles of decision-usefulness and fair presentation. It should be pointed out at this junction that the illustrative examples given in the discussion paper contain an inconsistency. Whilst the cash flows from deposits are presented on a net basis, those from loans are presented on a gross basis (cf. Appendix A, p. 132).

In business practice today, presentation of a cash flow statement based on the indirect method is the norm for the operating segment. This is mainly because under this method cash flows can be derived from the accounting data already available in the entity. The indirect method therefore imposes much less of a data capture and data collection workload than would be the case with the direct method. Under the direct method, all gross receipts and payments would have to be reported as and when they occur; this would require the implementation of group-wide ancillary accounting, which would be extremely personnel- and cost-intensive. Whether introducing an obligation to use the direct method can actually produce additional benefits that would justify this enormous investment in terms of manpower and money appears questionable.

A further advantage of the indirect method is that it functions as a link between accrual accounting and cash flow statement. The reconciliation of net income to cash flow achieved by the indirect method provides useful additional information on the differences between these two items that users can draw on also to predict future cash flows. In addition, an indirect method cash flow statement is more suitable for showing connections with the other financial reporting tools and therefore also easier to check.

Overall, it may be concluded that – if standard-setters continue to call for a cash flow statement for banks – the indirect method is superior to the direct method both from a cost-benefit angle

and in terms of ability to provide decision-useful information. That goes particularly for banks, where use of the direct method would, as mentioned above, more easily lead to misinterpretation. We therefore believe that presentation of a cash flow statement based on the indirect method should remain an option preferably for the entities of all sectors, but at least for banks. Even if the investing and financing categories are only of very minor importance for banks, we also believe that it would be advisable not to restrict use of the indirect method only to presentation of operating cash flows. Instead, use of the indirect method should be permissible also for the investing and financing categories. This would allow uniform, consistent presentation of all three categories in a cash flow statement.

c)

If standard-setters continue to require banks to prepare a cash flow statement, we believe that the information which is currently provided in the reconciliation of the profit and loss account to the (indirect method) cash flow statement is appropriate and sufficient. We reject any additional reconciliation or statement of financial position reconciliation as outlined in Appendix B of the discussion paper (since the direct method is a condition here). It should also be noted that the illustrative examples set out in Appendix B would not simply lead to a surfeit of information but to information overkill.

Question 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?

At the present time, it is difficult to make any detailed estimate of the costs involved. We believe, however, that if all the changes proposed in the discussion paper are introduced implementation of the direct method cash flow statement would account for around 95% of total costs.

The bulk of costs would be generated by the required IT conversion. Data systems would have to be changed as well as the way valuation of (financial) instruments is recorded. For consolidated accounts, banks need to adapt data collection and data aggregation processes. This will require a further consolidation system in addition to the one already in place. By contrast, the indirect method cash flow statement can be based on existing data. Ultimately, any changeover means enormous costs without any real benefit.

Ongoing costs after conversion would depend on the amount of data reconciliation necessary and the volume of detailed information that would have to be tracked. This would require additional resources and the involvement of extra manpower in the relevant processes. The costs this would entail would be in no proportion to the benefit.

Question 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?

As outlined in the discussion paper, any allocation is arbitrary and would provide no decision-useful information or even leave users in the dark about the purpose of the transaction. Moreover, such allocation would be inconsistent with the management approach proposed in the discussion paper, as in this case acquisitions and disposals do not focus on individual assets or liabilities but on company-wide synergies and strategic objectives. Furthermore, allocating the effects of basket transactions to sections and categories is virtually impossible, as the information required for this is usually not available.

If the effects of basket transactions are to be presented without any allocation of such effects, we would prefer Alternative B, i.e. presenting the effects in the category which reflects the activity that was the predominant source of those effects.

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?

The IASB calls for indication of contractual maturity dates for all short and long-term assets and liabilities if these are presented in order of liquidity in the statement of financial position. In the event that the expected maturity dates differ significantly from the contractual maturity dates, an entity is required to indicate this separately and explain the difference. In addition, the undiscounted amounts of long-term assets and liabilities, based on contractual maturity dates, should be reconciled to the amounts presented in the statement of financial position. It is already customary for banks to adopt a residual maturity breakdown using the maturities listed in the discussion paper. Generally speaking, however, we are in favour of transparent disclosure that provides information which is more decision-useful to users. For this reason,

we believe that the proposed changes are acceptable; presentation could be based on IFRS 7.39 and IFRS 7.B11 ff. respectively, which already require entities to indicate contractual maturity dates for financial liabilities when disclosing their liquidity risk.

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.

As already mentioned, we reject the direct cash flow method and favour retention of the indirect method. The reconciliation of net income to cash flow achieved by the indirect method provides useful additional information on the differences between these two items that users can draw on also to predict future cash flows. This is why we also see no need for a schedule in the notes to financial statements reconciling cash flows to comprehensive income. However, further disaggregation – as called for in the discussion paper, for example – is conceivable on this basis in the notes, although the decision-usefulness of the information should be kept in mind.

a)

The proposal would entail additional reconciliation that is not necessary. We do not believe that users would in this way be provided with better decision-useful information. Instead, the opposite would be the case, i.e. financial reporting would be made less understandable for most users.

The costs associated with the changes proposed in the discussion document by far exceed any potential benefit.

b)

We see no significant benefit that would justify the potential implementation costs and workload. The whole thing would lead to information overkill, with the result that important information might be obscured by a mass of detail.

c)

As we see no need for any additional reconciliation, this question is superfluous.

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?

We see no need at present for any project to address further disaggregation of changes in fair value. We also believe that it would be better to present such disaggregation in the notes to financial statements than directly in the statement of comprehensive income.

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?

As we do not believe that the direct cash flow method serves any useful purpose for banks, the proposed reconciliation to comprehensive income is unnecessary. The statement of financial position reconciliation, as discussed in Appendix B, paragraph 11 ff., also fails to find our support. It is not only too complex, but also constitutes reconciliation to the (direct) cash flow statement.

The statement of comprehensive income matrix, which is also discussed in Appendix B, could be important for assessing the persistence and subjectivity of income and expense items. However,

column C also calls for the disclosure of cash flows, which appears problematic for the reasons already outlined.

Question 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?

a)

We believe that the current requirements are adequate.

b)

In our view, the term “*unusual and infrequent*” needs to be defined more clearly and differentiated more clearly from “*extraordinary*”. We would prefer that preparers be given the option of using any column or not.

c)

Additional disclosures in this form are already possible under the current IFRS, so that there is no need for further requirements.

Question 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.

n/a

We should be grateful if you would take the above comments into account and are, of course, at your disposal to provide any further clarification you may require.

Yours sincerely,


Dirk Jäger


Ingmar Wulfert