Committee of European Banking Supervisors

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Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Cannon Street,
London EC4M BXH
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Dear Sir David

Exposure Draft of proposed amendments to IAS 1 Presentation of Financial Statements A Revised Presentation

The Committee of European Banking Supervisors (CEBS) welcomes the opportunity to comment on the Exposure draft of proposed amendments to IAS 1 issued by the IASB.

Banking supervisory authorities 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 and enhance financial stability.

We acknowledge that the objective of this first phase of the financial statements presentation project is to ensure the immediate convergence of IAS 1 towards the provisions of FAS 130, in the context of a long term convergence project included in the existing Memorandum of Understanding between the IASB and the FASB. This is certainly a positive step that should help to ensure consistency and comparability between the two sets of standards.

However, it remains difficult to assess the potential implications of this joint project, without a clear picture of what could be the final objective of the IASB and FASB regarding the presentation of financial statements. Therefore, we would like to emphasise two general comments that refer mostly to Phase B of the project and encompass both conceptual and practical considerations.

First, we believe it is essential that the option to make a clear distinction between the profit and loss account and the components of 'other recognised income and expense' is preserved, whether in a single statement or in a two statements approach. We attach particular importance to the broad existing structure of the profit and loss account as many users currently believe that there is an economic distinction between the elements included in P&L and 'other recognised income and expense' respectively. Some consider that the latter reflects a particular influence of general market value volatility and actuarial assumptions, or as in the case of cash flow hedge accounting, the results of an accounting technique which requires highly specific interpretation.

Most of our members would not favour a single statement approach if it were a first step to removing the distinction between profit and loss and 'other recognized income and expense', and to suppressing the 'reclassification adjustments' between these categories. Such a change would amount to a major change in many current IFRS standards. We note that most of the elements of 'other recognised income and expense' are currently subject to prudential filters for the calculation of banking regulatory capital.

Moreover, the profit and loss account forms the basis, in many jurisdictions, of the distribution of dividends to shareholders as well as of the taxation of the reporting entity. Any complete merger of P&L account with the components of ’other recognised income and expense’ could trigger important legal and tax questions in those jurisdictions and we encourage the IASB to take such impacts into account when working on Phase B of the project.

This does not mean that the information on ‘other recognised income and expense’ is not important and necessary but it may be different in nature from most of the components of the profit and loss account. That said, we noted that some elements that are already included in profit and loss – such as the instruments designated as at fair value through profit or loss - have characteristics similar to the components of the ‘other recognised income and expense’ statement. Therefore, we would suggest that the IASB carries out further research regarding the segregation of fair value gains and losses between the profit and loss account and the other recognised income statement. Such research should of course take account of the views of all major classes of users, as some of our members have been made aware by certain preparers and users - notably financial analysts - that there is a real and continuing interest in the concept of profit and loss – or, more precisely, in what could be the recurring components of the profit and loss account.

Second, we would like to emphasise the need for a certain stability of the accounting and reporting framework. Indeed, there is a risk that the implementation and understanding of accounting standards both by preparers and users could be impaired by fast changing accounting provisions. A positive step could therefore be that the effective implementation dates for the two phases of the project are set at the same moment, so that preparers do not have to change the layout of their accounts twice in a short period of time.

More detailed comments on the questions raised in the Exposure Draft are provided in the attachment below.

The enclosed comments have been prepared by one of CEBS’ expert groups, the Expert Group on Financial Information (EGFI), chaired by Mr. Arnoud Vossen, in charge of monitoring any developments in that area and of preparing positions to be taken by CEBS. The development of our comments on this Exposure Draft was coordinated by a Subgroup of EGFI under the direction of Mr. Patrick Amis.

If you have any questions regarding our comments, please feel free to contact Mr. Arnoud Vossen (+31.20.524.3903) or Mr. Patrick Amis (+ 33.1.4292.6032).

Yours sincerely,

Danièle Nouy
Chair, Committee of European Banking Supervisors

Attachment

Question 1 – Do you agree with the proposed titles of the financial statements (bearing in mind that an entity is not required to use those titles in its financial statements)? If not, why?

We do not see a substantial benefit to these changes at this point of time, particularly without a clear view of future developments. It will probably be necessary to wait for more information on Phase B of the project in order to assess more precisely the need for the changes. Nevertheless, we are not clear that all gains and losses are best described as 'income' or 'expense'. In general, in drafting accounting standards it would be preferable to use “mandatory titles”, in order to avoid any confusion among preparers, users etc. about the exact content of each financial statement.

Question 2 – Do you agree that a statement of financial position as at the beginning of the period should be part of a complete set of financial statements, and that an entity presenting comparative information should therefore be required to present three statements of financial position in its financial statements? If not, why?

We do not disagree with this proposal as it might bring more information to users of the financial statements, although the cost/usefulness balance should be considered carefully, especially given the retrospective application of new standards and IFRIC interpretations.

Question 3 – Do you agree that non-owner changes in equity should be referred to as ‘recognised income and expense’ (bearing in mind that an entity is not required to use the term in its financial statements)? If not, why?

Is the terminology used in the Standard important if entities are permitted to use other terms in their financial statements? If so, what term would you propose instead of ‘recognised income and expense’?

Even though the proposal is probably not inconsistent with the Framework, there could be an issue in the sense that the components of ’other recognised income and expense’ may not correspond to what could be regarded as ’income’ or ’expense’ by a number of readers of the financial statements. In any case, we encourage the IASB to promote further debate and carry out further research on the respective definition and characteristics of ’income’ and ’expense’, versus ’gain’ and ’loss’.

Question 4 – Do you agree that all non-owner changes in equity (ie components of recognised income and expense) should be presented separately from owner changes in equity? If not, why?

We agree with the proposal that all non-owner changes in equity should be presented separately from owner changes in equity. Such a stance however should not be taken to imply that CEBS prefers a single statement approach for the ’recognised income and expense’. Moreover, we suggest clarifying the definition of whom the IASB regards as an ’owner’. For instance, would the holder of a mutual share issued by a cooperative entity be regarded as an 'owner'?

Question 5 – **Do you agree that entities should be permitted to present components of recognised income and expense either in a single statement or in two statements? If so, why is it important to present two statements rather than a single statement? If you do not agree, why? What presentation would you propose for components of recognised income and expense that are not included in profit or loss?**

We agree with the possibility to present components of recognised income and expense either in a single statement or in two statements. As already said in the cover letter, we would also note that the profit and loss account forms the basis, in many jurisdictions, of the distribution of dividends to shareholders as well as of the taxation of the reporting entity. Merging the components of the profit and loss account with the components of 'other recognised income and expense' could trigger important legal and tax questions in those jurisdictions and we encourage the IASB to assess carefully all potential impacts when deciding on Phase B of the project.

Question 6 – **The Exposure Draft requires the disclosure of reclassification adjustments relating to each component of other recognised income and expense (see paragraphs 92–96 of the draft Standard and paragraphs BC21–BC23 of the Basis for Conclusions).**

Do you agree with this proposal? If not, why?

We support this proposal. Due to the relevance of this information, we believe that the disclosure of reclassification adjustments relating to each component of 'other recognised income and expense' should be made in one of the primary statements and not only in the notes.

Question 7 – **The Exposure Draft requires the disclosure of income tax relating to each component of other recognised income and expense (see paragraph 90 of the draft Standard and paragraphs BC24 and BC25 of the Basis for Conclusions).**

Do you agree with this proposal? If not, why?

While there was no agreement on the desirability of those disclosures, it was noted that the elements currently reported in the statement of changes in equity are generally already displayed net of tax.

Question 8 – **Do you agree that earnings per share should be the only per-share measure that is required or permitted to be presented on the face of the statement of recognised income and expense? If not, which other per-share measures should be required or permitted to be presented on the face of a statement and why?**

No comment.