

30 September 2010

International Accounting Standards Board
30 Cannon Street,
London EC4M 6XH
United Kingdom

Tower 42
25 Old Broad Street
London EC2N 1HQ
United Kingdom
t + 44 (0) 20 7382 1770
f + 44 (0) 20 7382 1771
www.c-eps.org

Dear Madam, dear Sir,

Exposure Draft ED/2010/5 Presentation of Items of Other Comprehensive Income

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 IASB's Exposure Draft on the presentation of items of other comprehensive income (ED/2010/5).

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 note that the IASB acknowledges that it has not set out a conceptual basis for how it determines whether an item should be presented in other comprehensive income (OCI) or in profit or loss (BC 15). We believe that such a conceptual basis is necessary as it will drive future decisions about which items should be presented in OCI and it may potentially affect perceptions of profit or loss as a key metric used to assess the performance of entities.

As expressed in our previous comment letters, CEBS¹ does not favour a single statement approach, which would combine profit or loss and OCI. A single statement could blur the distinction between net income and OCI. Furthermore, it would undermine the importance of profit or loss by reducing it to a subtotal, and presenting total comprehensive income as the new 'bottom line' of the statement.

It is by no means obvious that total comprehensive income should be regarded as capturing performance in a way that is similar to profit or loss. Combining items into a single statement that are different by nature may lead to confusion and affect the relevance of financial statements, leading to a negative cost-benefit outcome – not because we would expect significant costs to arise in implementing the proposal, but because the proposal would probably have a negative, rather than positive, impact on the usefulness of financial reporting.

¹ It should be noted that of the 27 members (and 3 observers) of CEBS, 2 members –the Czech Republic and Denmark - fully support the proposals put forward in the Exposure Draft.

Indeed, such a blurring would be inconsistent with decisions made with regard to individual standards which require particular gains and losses to be allocated to OCI rather than to profit or loss. Moreover, certain debt covenants, executive payments, dividends and other contracts governed by national laws and EU directives rely on the current distinction between net income and OCI.

Overall, we believe it is essential to preserve the current option in IAS 1 (two statements approach) that permits entities to make a clear distinction between the profit or loss and the components of OCI. Thus, we welcome the fact that the IASB does not intend to eliminate profit or loss as a measure of performance (BC 20). We see this as a strong reason for keeping separate statements.

We support making the distinction clearer between items in OCI which will never be recycled and those that are subject to subsequent reclassification. Furthermore, the Committee is of the view that recycling of gains or losses from OCI to profit or loss should not be prohibited. CEBS encourages the IASB to define the conceptual basis that should drive the reclassification of OCI items.

It would be helpful and more transparent to have disclosures on accumulated OCI gains and losses in equity (for instance own credit risk, as proposed by CEBS in its comment letter ED/2010/4) since the initial recognition of the instruments they stem from. These disclosures should be either in the balance sheet or in the statement of changes in equity. This would be useful in particular for those elements of OCI that are subject to prudential filters for the calculation of banking regulatory capital. The distinction between items in OCI which will never be reclassified (recycled) and those subject to subsequent reclassification should also be made for accumulated amounts.

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, Autorité de Contrôle Prudentiel) - 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 Mr. 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,



Giovanni Carosio

Chair, Committee of European Banking Supervisors