

# Comments

## **ED/2019/7: General Presentation and Disclosures**

Register of Interest Representatives

Identification number in the register: 52646912360-95

Contact:

Stefanie Morfeld-Wahle

Telephone: +49 30 2021- 2420

Telefax: +49 30 2021- 192400

E-mail: [s.morfeld-wahle@bvr.de](mailto:s.morfeld-wahle@bvr.de)

Berlin, 20-09-17

Coordinator:

National Association of German

Cooperative Banks

Schellingstraße 4 | 10785 Berlin | Germany

Telephone: +49 30 2021-0

Telefax: +49 30 2021-1900

[www.die-dk.de](http://www.die-dk.de)

## **General comments**

The German Banking Industry Committee (GBIC) gladly takes the opportunity to comment on the IASB consultation about General Presentation and Disclosures (Primary Financial Statements). The GBIC welcomes the IASB's effort to introduce improvements to the way information is communicated in the financial statements, with a focus on financial performance.

Although the GBIC basically appreciates the IASB proposal to introduce new subtotals and categories in the statement of profit or loss it has concerns whether the benefits outweigh the costs and efforts associated with the new requirements in all cases.

### **Question 1: Operating profit or loss**

No comments so far

### **Question 2: The operating category**

The function of the "Operating" category shall by description be to show the financial performance of the "main business activity". We understand that all income and expense not generated through "Investing" or "Financing" will be categorized into "Operating". Therefore, we do understand that it is not necessary to give a detailed definition of "main business activity". We also conclude that whether or not an entity's activities belong to a "main business activity" is subject to judgement, as IASB also states in the ED at several points (e.g. in B27, or indirectly in B31, where a relation to IFRS 8 "Operating Segments" is made).

Summarizing every income and expense not generated by "Investing" or "Financing" may not be clear enough to review the operating performance of any given entity. For example, a company focussing on few activities in which they specialized in will have different gain margins than a generalized company that has no specified "main business activity". Due to specialized business models, those companies are also exposed to higher risks concerning changes in markets or competitors. Therefore, these two companies should not be evaluated on summarized numbers. A separate disclosure of "main business activities" (sum of all identified activities) and "other operating activities" might help there, because statement users might be able to see whether the company is specialized on some activities or if it is a generalized company.

### **Question 3: The operating category: income and expenses from investments made in the course of an entity's main business activities**

We welcome the classification in the operating category of income and expenses from investments made in the course of the entity's main business activities from paragraph 48.

### **Question 4: The operating category: an entity that provides financing to customers as a main business activity**

We welcome the accounting option for entities that provide financing to customers as a main business activity from paragraph 51 of the exposure draft to classify in the operating category either:

- income or expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing for customers; or

- all income and expenses from financing activities and all income and expenses from cash and cash equivalents.

Raising funds is a main factor of credit institutions when providing financing to customers and the interest result as well as the net commission income are important line items in the income statement of banks. Therefore, income and expenses from financing activities should be classified as operating. In view of the above a comparison of net income from the financing of customers and net expenses from own funding is desirable. An allocation of income and expenses from financing activities and from cash and cash equivalents to the provision of financing to customers and to other financing activities may be too costly or may not be possible. In addition, for banks typically only a less significant portion of funding activities would relate to activities other than the provision of financing to customers. Thus, this option does not significantly reduce the comparability of bank financial statements. A mandatory separation of income and expenses from financing activities and cash and cash equivalents that relate to the provision of finance to customers and income and expenses from financing activities and cash and cash equivalents that don't relate to the provision of finance to customers could be too costly if compared to the resulting net financing expenses. The optional separation should be kept because there are organisations with multiple significant lines of business apart from the provision of finance to customers, e.g. organisations with captive finance companies, where separating the net financing expenses and income and expenses from cash and cash equivalents could prove to be less costly.

We support the accounting option from paragraph 51 of the exposure draft as an important accounting choice for banks and defend it against the objection that it leads to less comparability.

In addition we think it seems inadequate to have only one item resp. small subtotals (which also may be likely to be insignificant or immaterial) in the 'Financing' category (e.g. Unwinding of discount on pension liabilities and provisions).

**Question 5: The investing category**

**Question 6: Profit or loss before financing and income tax and the financing category**

No comments so far

**Question 7: Integral and non-integral associates and joint ventures**

In our opinion, the proposed definitions of "integral" and "non-integral" do not provide a sufficient distinction between these two categories. This leads to uncertainties in the preparation of financial statements.

In addition, the effort to categorize existing associates and joint ventures into "integral" and "non-integral", and to monitor and update this categorization, is disproportionate to the information gain that these figures provide. We doubt that the proposed approach has any additional benefit compared to the disclosure of associates and joint ventures under IAS 1.82 (c) using the equity method. We therefore reject the idea of creating new accounting processes of categorization and monitoring for associated companies and joint ventures that are disproportionate to the expected results.

### **Question 8: Roles of the primary financial statements and the notes, aggregation and disaggregation**

It is uncertain to what extent diversified groups that have different lines of business can or have to disclose a disaggregation of their income and expenses within the operating profit or loss in order to present their different business models adequately. This is an important issue for conglomerate member institutions because their group companies are operating in different industries, e.g. having an insurance business subsidiary as well as an investment fund business subsidiary.

### **Question 9: Analysis of operating expenses**

Such analysis of operating expenses is useful especially for companies that produce goods and render services to their customers. Banks, other financial institutions and insurance companies will not give useful information to users of their statements by providing such analysis. We are therefore concerned that the former IAS 1's paragraph, stating that every industry should consider the industry standard when assessing which method should be used, did not make it into the released ED. We therefore are afraid that there will be a wide spread in practice, which a) does not provide the reader with better information and b) is not useful in regard to the industry itself. We therefore would appreciate if IASB could consider implementing a bail-out-rule for those entities that have no physical (or in case of intangible products like software: manufactured) product/s as business objective/s.

### **Question 10: Unusual income and expenses**

Does this definition mean that a special effect that persists over more than one year cannot be unusual? An effect becomes usual when having which frequency of occurrence? IASB does not give clear rules to determine whether or not any given income or expense is unusual. Since the classification is based on future conditions the issue of the documentation and audit of unusual items arises.

We believe, that in accordance with the management approach, the company should determine a definition of unusual, which is then consistently applied and disclosed.

### **Question 11: Management Performance Measures**

In this instance the IASB would make a rule for performance measures that are not originally reported in the annual financial statements. In addition, there is no limitation of the origin "public communication outside financial statements" from which the performance measures are to be gathered. This is a problem, because accounting rules are not to be applied to the other communication of the company but have to be applied to the performance measures that are mentioned therein. This rule could lead to an accumulation of Non-GAAP subtotals of income and expenses. Therefore, it would be costly to gather all publicly communicated performance measures, to examine them, to document them, to monitor them, and to reconcile them, especially since income tax and the effect on non-controlling interests have to be disclosed. It is difficult to ensure the comprehensiveness of the performance measures. This is particularly onerous for member institutions that pursue a decentralised controlling approach. The reporting of management performance measures within one note would require a central coordination. Moreover, this could affect alternative performance measures as defined by the ESMA guidelines and possibly also prescribed regulatory performance measures. This could double the reporting requirements. If separate reporting cannot be avoided, then at least there should be reconciliations between IASB and ESMA, which is working on a similar topic ("Alternative Performance Measures"), to avoid two different

sets of regulations. This would induce extra work and might even confuse statement readers, as two sets of performance measures with possibly marginal differences may be found in one document. Also, we would like to emphasise that some performance measures might be useful only for a small part of statement readers. This might be the case for performance measures that were made public for investors in an entity's subordinated liabilities, for example. Some of those numbers therefore could confuse statement readers that have not invested in these subordinated liabilities. Furthermore, performance measures that are not subject to IFRS obtain a particular note in the financial statements and are thus emphasised.

The German Banking Industry Committee opposes the wide scope of the origin of management performance measures and - in order to communicate target-related - the single note for management performance measures.

Furthermore according to B83 of the ED an entity can disclose part of its MPMs in the note for segment information if it discloses in that note all of the information required by Para 106 of the ED for all of its MPMs or provides a separate note that includes all of the information required for MPMs.

Certain member institutions fear that this requirement potentially leads to duplicate reporting of MPMs in those cases where entities continue to report part of their MPMs in the note for segment information according to IFRS 8 but refuse to report all the required information for MPMs in that segment note.

Certain member institutions do report a set of selected MPMs in the IFRS 8 note but would rather choose to not expand this note by adding all the new information required by Para 106 of the ED. In those cases a separate MPM note - partially including duplicate information - needs to be provided. Certain member institutions question whether duplicate reporting of MPMs really helps to improve how information is communicated in the financial statements.

We propose that the Board provides further explanation of how MPMs interact with performance measures already presented under IFRS 8 and considers the option of cross references for performance measures presented in the note for segment information.

According to the ED, for each MPM an entity must disclose a reconciliation to the most directly comparable subtotal/total referred to in Para 104 of the ED including the income tax effect and effect on NCIs and how the income tax effect was determined. Not all of the member institutions will have the information available with regard to the individual tax effect and NCIs for each individual performance measure. Hence, in those cases the calculation of those effects can be very complex, costly and burdensome. Certain member institutions suspect that the reason for stating individual tax effects and NCIs in the reconciliation is that those effects might be used by analysts to calculate adjusted EPS measures but from their point of view it is questionable whether the expected benefits will outweigh the related costs and efforts. It should also be kept in mind that many member institutions are not required to calculate and report EPS measures. Regarding the reconciliation certain member institutions invite the Board to reconsider how to handle disclosure of confidential or highly sensitive information. In some cases performance measures are adjusted by specific restructuring or tax effects that should not be disclosed in a reconciliation to the public and peer companies for competitive reasons.

We ask the Board to take a stand on the above-mentioned questions and concerns regarding performance measures.

**Question 12: EBITDA**

**Question 13: Statement of cash flows**

The newly created three categories in the income statement are not aligned with the statement of cash flows, however, they have the similar labelling (operating, investing and financing). In our view, this inconsistency between the labelling in the statement of profit or loss and the cash flow statement is confusing. Therefore, the GIBC welcomes further work on the exposure draft in order to improve consistency between the new content and structure of the income statement and cash flow statement. Another option would be to change the labelling in the statement of cash flows and not to use the same labelling like in the income statement.

**Other issues: Prohibition of a mixture of the nature of expense method and the function of expense method**

Due to paragraph B46 of the exposure draft it is forbidden that entities use a mixture of the nature of expense method and the function of expense method except when required to do so by paragraph B47. A categorisation by function can provide information on the way the line item is controlled by management. A mix of methods can prevent information overload by providing an aggregation of similar items from the view of the business model. The line item administrative costs in a German bank income statement, for example, can be regarded as a fixed costs block that mainly comprises a mix of fixed asset expenses and personnel expenses. A split would result in at least three line items of fixed costs. This would be in addition to the existing interest, fee, credit provision line items as well as the new subtotals and line items required by the exposure draft.

We oppose the strict prohibition of a mixture of the nature of expense method and the function of expense method.

**Other issues: Relation to other standards that affect the statement of profit and loss and other comprehensive income**

IFRS 9 affects the structure of the statement of profit and loss and other comprehensive income for banks in particular. There are more standards that affect the structure of the statement of profit and loss and other comprehensive income, i.e. IFRS 5, IFRS 15, IFRS 16, and IFRS 17. In the exposure draft there are no instructions regarding the reconciliation of the requirements from these standards and the requirements in the exposure draft concerning the statement of profit and loss and other comprehensive income.