

European Financial Reporting
Advisory Group
35 Square de Meeûs
1000 Brussels
Belgium

name: Stefan Schöne
phone: +49 30 81 92 - 233
fax: +49 30 81 92 - 178
email: stefan.schoene@voeb.de

commentletters@efrag.org

31 March 2016

Comments on the discussion paper "The statement of cash flows issues for financial institutions"

Dear Madam, dear Sir,

We appreciate the opportunity to comment on Discussion Paper "The statement of cash flows issues for financial institutions" published by the European Financial Reporting Advisory Group in July 2015.

Questions for consultation

Question 1 - Usefulness of the statement of cash flows

The DP discusses the claim that, for some entities, the statement of cash flows in its current format has limited relevance. Do you think the claim is legitimate? If so, do you think that paragraph 3.12 appropriately identifies these entities?

We partly agree that the statement of cash flows in its current format has limited relevance for banks. It depends on the business model of a bank, how relevant the statement of cash flows is.

The statement of cash flows helps providing an appropriate insight into the solvency of an entity. Banks face special challenges because their solvency is checked daily by the market. Therefore disclosing the statement of cash flows

on an annual or quarterly basis is not sufficient. Users of financial statements are aware of this. Hence, it is unclear in which respect the statement of cash flows is beneficial for banks. Clarifying this should be used as the starting point for further discussion on improving the statement of cash flows with respect to financial institutions.

Question 2 - Possible alternatives

Chapter 3 discuss two alternatives: replacing the statement of cash flows for the identified entities with other requirements, or retain it with targeted improvements. Do you support any of these two proposals? If not, do you have other suggestions?

Alternative 1 of the discussion paper recommends separating the statement of cash flows from financial accounting. The suggestions within this alternative refer to the problem of daily solvency as mentioned in our answer to question 1. This might create expectations of the users that cannot be met.

In our view regulatory indicators are not supposed to be used to replace corresponding accounting requirements. Such indicators have been developed to support the supervision of banks especially by considering risks. A core principle of IFRS is to show a true and fair view. Hence, there is a systematic breach within the objectives of accounting and banking authorities with respect to financial disclosures.

Some regulatory indicators have to be published independently of the financial statement. This leads to less useful information in the statement of cash flows. Other regulatory figures which are treated confidentially should not have to be disclosed in financial statements. Also the consolidation requirements under banking supervision rules differ from IFRS consolidation requirements. Considering the reasons mentioned above, we reject alternative 1.

Alternative 2 of the discussion paper proposes a few adjustments on the current statement of cash flows. We believe this is a good starting point for further discussion. However, prior to the discussion, it should be clarified in which respect the statement of cash flows is beneficial for banks as mentioned in our remarks to question 1. Amongst others the wide range of banking models should be considered within the discussion.

Question 3 - Replacing the statement of cash flows

Assuming the statement is replaced by the identified entities, do you support the introduction of the new disclosures discussed in paragraphs 3.14 to 3.37? If not, what other requirements would you suggest to replace the statement of cash flows with?

We do not consider the disclosures introduced in paragraphs 3.14 to 3.37 as an appropriate alternative for the statement of cash flows and reject them. The proposed key figures serve a different purpose than that of financial accounting. Therefore, such key figures focus on different aspects, which differ systematically. These differences are material, especially with respect to risks and rewards of an entity.

Additionally, the basis of consolidation differs between financial statements and banking supervision. This offers two options. The first one is to disclose the key figures as calculated for regulatory purposes. This option would have the benefit that no adjustments are necessary, so that the same numbers are used as reported to banking authorities. On the other hand there would be no direct relation to the financial statement anymore, because the actual differences in the basis of consolidation are not presented by the numbers.

The second option is to recalculate the key figures for banking supervision on the basis of financial consolidation. This would lead to consistency with accounting. However, the recalculation generally leads to new results compared to figures submitted to the banking authority. The resulting differences might be difficult to understand by users. It might for example be necessary to include entities, which are excluded from consolidation under banking supervision as they are not a financial institution. However, including such entities in banking related liquidity ratios may lead to distortions. In addition differences to Pillar 3 disclosure requirements would need to be explained.

Question 4 - Targeted improvements

Assuming that the statement is retained for the identified entities, do you support the targeted improvements in paragraphs 3.38 to 3.47?

We recommend discussing the purpose of the statement of cash flows for banks in advance as mentioned in our comments to question 1. However, disclosing mid and long term credit business on a gross basis instead of a net basis could be an improvement.

Question 5 - Separate financial statements

The DP discusses general issues with the statement of cash flows for the identified entities. Do you think that there are other issues specific to their separate financial statements? If so, what are they?

We do not have any comments.

Yours sincerely
The Association of German Public Banks



(Simon Recker)



(Frederike Michel)