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Dear Sir or Madam,

On behalf of DZ BANK I am writing to comment on EFRAG's draft comment letter (DCL) on the IASB's discussion paper Preliminary Views on Financial Statement Presentation (DP). Overall, we are in line with most of EFRAG's comments. We therefore have only selected comments to those aspects of the DCL that are of particular importance from our perspective as a credit institution.

EFRAG believes that the separation of business activities from financing activities, based on the management approach, would provide information that is decision useful to users. The approach would seem to fit well with the way users work, and would be also pretty well in line with the way most industrial entities look at their businesses and currently show their results. However, EFRAG notes that those in the banking and similar sectors might have difficulties drawing a dividing line between business and financing items (DCL A1.22).

From our perspective as a credit institution we agree with this differentiated view of EFRAG. We would however appreciate EFRAG to elaborate a bit more on the problems of the banking industry with the proposed approach. Banks are mainly in the business of lending out money to customers and carrying out monetary transactions. They would have to categorize these financing activities as their business activities. The financing category as set out in the DP would only play a very subordinated role in comparison with the business activities. This fact is even acknowledged by the DP itself (DP 2.79). It would cause a lot of extra work and effort to label transactions as "Business" or "Financing" on a transaction by transaction basis, without providing information with significant additional value for users. The proposed categorization into business and financing would therefore not improve the structure of bank's financial reports.

EFRAG members are split as to whether the standard that will be developed from the DP under discussion should eliminate the option to prepare two separate statements of performance (DCL A78).

In our opinion the choice to present two statements should be maintained. Under the categorization rules of IAS 39 some changes in fair value of financial instruments affect profit or loss, whereas others are merely recognized in equity. To reflect this different treatment appropriately, net income is an important number that is well established among market participants, which should not be downgraded. Beyond that the notion of total comprehensive income is still under discussion within other projects. Therefore the position of net income should not be devalued at this moment in time. Therefore we consider it essential that the presentation of two statements remains possible.
Finally looking to the future, if IFRS statements should become relevant to measure distributions to owners and taxes, two separate statements seem to be necessary under German national law.

EFRAG is not persuaded that the direct method of presenting operating cash flows within the statement of cash flows provides information that is
More decision-useful than an indirect method and therefore justifies the additional cost that would usually be involved (DCL A1.113). EFRAG's view, having considered all the factors involved (including cost), is that the indirect method of presenting operating cash flows in the statement of cash flows is the preferable approach. EFRAG is therefore against the proposed mandatory use of the direct method for this purpose (DCL A1.122).

We think that EFRAG puts forward many very convincing arguments to support its opinion that we fully agree with. We want to add some points which we consider essential from our point of view as a credit institution. Any cash flow statement, whether construed using the direct or indirect method, is no tool normally used to manage a bank. Banks manage their liquidity risk on a day by day basis. The cash flow statement provides information relating to the reporting period as a whole. Therefore regulatory numbers and the rules concerning liquidity risk contained in IFRS 7 are much

better indicators for the cash flows and liquidity risk of banks than a cash flow statement. For these reasons we argue that any cash flow statement should merely be optional for credit institutions. If the IASB holds on to the requirement to provide a cash flow statement for banks as well, we strongly believe that the indirect method to present that statement ought still to be allowed. Firstly the direct method is not suitable for banks on conceptual grounds. The handling of large numbers of payments for clients which are often of large amounts is among the key functions of a bank. The unconsolidated presentation of these transactions for clients using the direct method would show a lot of cash flows which are not generated by the reporting entity itself, thereby creating a picture of enhanced liquidity of the bank. In reality the liquidity of a bank is not enhanced by carrying out transactions for its clients. Thus the use of the direct method would conflict with the principles of true and fair view and decision usefulness.
Secondly the direct method would cause disproportionate cost and effort for credit institutions. The separate recognition of in- and outflows of cash payments in accordance with the direct method would require the implementation of a complex and costly sub-ledger. This is because the required data is not provided by current accounting systems in practice. On the other hand, the data needed in order to present a cash flow statement using an indirect method may easily be derived from information which is available for accounting units already today. If all the proposals of the DP were implemented, an estimated 95 % of all implementation cost would arise in order to get equipped for the preparation of the cash flow statement using a direct method of presenting operating cash flows. Ongoing costs would have to be incurred for the additional staff needed to collect the detailed data required and provide the necessary reconciliations. These extra costs are not out weight by any significant benefits considering the special circumstances of The accounting for cash flows of credit institutions.

In EFRAG's view, too many of the numbers that would be disclosed in the proposed reconciliation schedule from the cash flow statement to the statement of comprehensive income will be of little informational Value to justify the cost of preparing the schedule in the form proposed. EFRAG's suggestion is that the schedule should be scaled down and should focus instead on remeasurements and large non-cash items (DCL A142f). Finally, EFRAG asks its constituents, what they think about the alternative reconciliation formats discussed in the DP.

We support Efrag in its view on the reconciliation schedule. The proposed reconciliation schedule might provide significant additional information, if a direct method of presenting operating cash flows is used. As mentioned above, we favour holding on to the indirect method of presenting cash flows. If the indirect method of presenting operating cash flows is maintained, much of the proposed reconciliation between the cash flow statement and the statement of comprehensive income is provided automatically. Therefore we think the proposed reconciliation schedule would lead to a presentation of redundant information. This seems to bee true with regard to the alternative reconciliation schedules discussed in the paper as well. They appear to be even more complex than the one favoured by the IASB, leading to an information overload, - if not information overkill - almost inevitably

We hope you find our comments helpful and remain at your disposal for any questions you may have.

Yours faithfully,
Rainer Krauser
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