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Performance Reporting – A European Discussion Paper

Dear Sir or Madam

Thank you for the opportunity for commenting on the discussion paper published by the European Financial Reporting Advisory Group (EFRAG) entitled "Performance Reporting – A European Discussion Paper".

A. General comments

With reference to the discussion conducted for some time now on the further development of performance reporting, we are pleased that EFRAG is participating in the discussion with the present discussion paper and has undertaken to provide the European view – in the international debate – with uniformity and thus a stronger position.

We believe that the questions addressed in the discussion paper regarding the retention of net income and the reclassification of result components between the individual expense and income categories represent an important contribution to the further development of performance reporting.

In our opinion, these questions are even more important since the International Accounting Standards Board (IASB) expressed a clear preference for the "one-statement approach" to stating the result in the paper entitled "Preliminary Views on Financial Statement Presentation" published in October 2008,

although the paper does not say anything about the formation of interim results.

With this in mind, we commented to the IASB (this document is attached for your information) that the proposals on the one-statement approach do not harmonise with the current classification logic of IAS 39. The consolidated presentation of result components in equity which affect net income as well as those which do not in one statement does not always correctly reflect the existing approach and valuation rules of IAS 39. However, in our opinion the statement rules should fundamentally comply with the approach and valuation rules and reflect these accordingly. To ensure the continuation of proper separation of result components which affect net income and those which do not, we explicitly advocated the retention of the option to choose between the one- and two-statement approaches and explicitly rejected the improper equal treatment of different items (e. g. changes in parameters for pension provisions when the "third option" is used with fair value changes and the results of sales from HfT inventories). Furthermore, we pointed out to the IASB that a compulsory requirement for the use of IFRS individual accounts as the basis for the dividend and tax assessment is a presentation using the two-statement approach, because a pre-tax result, which is required for a proper assessment of the dividends to be paid, can be derived only from a performance report prepared using the two-statement approach.

At this point we wish to note our doubts with regard to the division of all financial information planned by the IASB into the categories "business" and "financing", which also applies to performance reporting. Such a division is not equally well-suited for all branches and in particular for lending institutions does not lead to an improvement in the provision of information. Furthermore, due to the financing activity of the lending institutions, the vast majority of the transactions would be assigned to the "business" category and would make the formation of interim totals and interim results, which is important for the communication and interpretation of business results, unnecessarily difficult.

Having said this, we welcome the efforts of EFRAG to achieve the formation of a uniform European view of the future design of performance reporting at an early stage and have commented below on the questions posed in the discussion paper.

B. Answers to the questions

We wish to respond to the individual questions as follows:

Chapter 2 – As already mentioned, Chapter 2 summarises the existing performance reporting model as prescribed in current accounting standards – including how net income is segregated from other items of income and expense – and how those standards have developed.

Question 1: Do you think there is anything else in the development of existing standards (apart from that discussed in chapter 2) that should be taken into account when considering the way forward for performance reporting?

No comment.

Chapter 3 – Chapter 3 considers whether there is agreement as to what “performance” does or should represent.

Question 2: Do you agree with the observation in this chapter that, at the level at which standards are written, there is no generally agreed notion of what represents “performance” and that in fact performance is a complex, multi-faceted issue that cannot be encompassed in one or a few numbers? If you do not, please explain your reasoning.

Yes, as the definition of 'performance' in conjunction with a company depends directly on the standpoint from and the circumstances under which the performance of this company is reviewed and analysed. Examples include the various stakeholders with their different primary interests, such as those of investors in the creation of added value and the corresponding dividend capability, those of creditors in interest and redemption payments, those of suppliers in the sale and payment of their products, etc. Accordingly, the respective stakeholders focus on different aspects of the performance of a company. Preparation of the correspondingly useful key data will therefore also differ accordingly. Thus, this cannot be comprehensively reflected solely in one set of rules or figures.

Chapter 4 – In Chapter 4 we consider the necessity and importance of key line(s) and bottom line(s), the number of statements of income and expense that might be needed and the extent of recycling of items of income and expense between categories of statements that might be necessary.

Question 3: Do you agree that key lines are still useful, though only because of their value as a basis for communication to the market and as a starting point for analysis and comparison? If you do not, please explain your reasoning.

Yes, key lines are a necessary and useful means of information for companies. With these, the company management can represent factors in the result based on which they manage the company.

Question 4: Do you agree that, in order to fulfil this function, it is important that there are clear principles that underpin what is included and excluded from the key line(s) (in order to make their content understandable) and those principles need to be such that the content of a key line is standardised to a fair degree (in order to ensure the necessary comparability)?

A definition of the items which contain key lines is fundamentally sensible from the point of view of comparability for the users of the information. However, as also noted in the discussion paper, it must be ensured that the manner and degree of detail of the definitions do not restrict the flexibility of the relevant company or a sector too much. Otherwise the relevant company cannot individually state the relevant specifics and/or reflect the special features of the branch sufficiently or appropriately.

Question 5: This chapter discusses the need for standard setters to balance the competing demands of comparability and flexibility, in order to give users fairly consistent starting points for analysis, while allowing management to present income and expenses in a manner that reflects the particular circumstances of the entity. Has the range of approaches to flexibility and comparability given in the chapter been appropriately described? What do you believe would offer the best approach in practice?

In our opinion the options described in section 4 are sufficient. We prefer the approach in option B. In particular, a "bottom key line" should be defined as obligatory and comprehensively defined by the standard setters. The possibility of adding other key lines should be provided due to the varying business models (particularly for mixed companies). With regard to a 'bottom key line' we refer to the responses to the following questions on section 4.

Question 6: This chapter finds no evidence that it is important for the "bottom line" of statement(s) of income and expense to be a key line. Do you agree that it is not important for the "bottom line" of statement(s) of income and expense to be a key line? If you do not, please explain your reasoning.

There should always be a key line at the end of any performance report, no matter how it is written, which is of particular interest for the users to whom the document is addressed. Accordingly, a bottom line always fulfils the function of a key line.

Question 7: In chapter 4, the paper observes that there is no evidence that it is important for the "bottom line" of statement(s) of income and expense to be a key line. Assuming that is correct, do you agree that it follows that the number of performance statements provided is not particularly important

either, and thus that the one or two performance statements debate is a non-issue; the real issues relate to the key lines? Do you agree with this analysis and conclusion? If you do not, please explain your reasoning.

Our answer to question 6 shows that in our view a “bottom line” should be a “key line”. We therefore do not consider the basic assumption to be correct. Only from the standpoint of balance sheet users with corresponding knowledge of analysis is the debate about the number of statements irrelevant. In the comments on the first discussion paper entitled “What (if anything) is wrong with the good old income statement?” we had stated that the broad range of all balance sheet users must be taken into account. That is, balance sheet users with less expertise in accounting, such as the press, small shareholders, etc. must be taken into account. When these users are taken into account, the preparation of a single “key line” in which the 'total performance' is summarised, is necessary.

Question 8: Do you agree that recycling is mainly an issue if a realised/unrealised split is the main disaggregation criterion for the statement(s) of income and expense, that therefore recycling is really a secondary issue and that the main issue is which disaggregation model should be used? If you do not, please explain your reasoning.

Yes, the primary aspect for performance reporting is which model is used and what the costs and benefits of it are for the company and the users of the information. Recycling is thus a subordinate criterion for the choice of model. However, in conjunction with the issue of recycling, there are basic comments which were already discussed in detail in the comments on the first discussion paper entitled 'Is recycling needed? If so, what should it be used for and on what criteria should it be based?'. Overall, the non-uniform use of recycling resulting from different capital maintenance concepts (see F.102-110) must be viewed critically.

Chapter 5 – 1.24 Chapter 5 considers some models for disaggregating income and expenses and some of the issues that would arise in relation to those approaches.

Question 9: Would the issue of recycling on its own affect your decision as to the best approach to disaggregation? Please explain your reasoning.

As already stated in the answer to question 8, the issue of recycling is of secondary importance in deciding on a suitable method of performance reporting.

Question 10: Do you have any comments on the basic models of disaggregation presented in this chapter? Are there any other broad types of model that would have been worth exploring?

The relevance of a model of disaggregation depends directly on the information needs of the users of performance reports and structurally on the characteristic drivers of the results in the respective branches. Consequently, as also discussed in detail in the discussion paper, the question of the appropriate degree of flexibility versus comparability of the performance reports is of decisive significance, less so the basic model to be used. The question of the best model to use can thus be answered only when the questions regarding the informational needs of the users and the issue of flexibility versus comparability have been clarified, as the decision on the use of the model depends directly on these issues. (See also our answer to question 4 regarding this issue.)

Question 11: Is the discussion of the advantages and disadvantages of each disaggregation model fair and complete? If not, how could it be improved?

Please refer to our response to question 10.

Question 12: Which of the models of disaggregation – or combinations of models – do you favour and why do you believe it meets the needs of users better than the alternatives?

Please refer to our response to question 10.

Should you have questions or require further discussions, we will be pleased to assist you at any time.

Yours sincerely
Association of German Public Sector Banks



(Karl-Heinz Boos)



(Lothar Jerzembek)

Enclosure