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Our reference
C-048

Your reference

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Dear Madam,

EFRAG's Financial Statement Presentation – Paper

The Belgian Accounting Standards Board (BASB) is pleased to respond to the Financial Statement Presentation Paper issued by EFRAG in October 2010 (hereinafter the "Paper"). Over the last couple of months, the fundamental basics of International Financial Reporting were significantly redefined by the issuance of several Exposure drafts by the IASB on key accounting topics. The BASB, like many other constituents, have always encouraged the pro-active work of EFRAG in the past; nevertheless we are also of the opinion that, given the uncertainties surrounding the scope and timing of the presentation project, EFRAG might reconsider the priority of this project on its overall agenda. Indeed, in a progress report issued on 21 April 2011 on their joint projects, the FASB and IASB indicated that they have revised their work plan to focus on completing the revenue recognition, leases and financial instruments projects in the second half of 2011, besides this, certain lower priority projects, including financial statement presentation and financial instruments with characteristics of equity, have been further delayed and will not be considered by the Boards before December 2011.

General – Scope of the Joint Project

- a. Do you share EFRAG's view that fundamental issues related to performance reporting should be given a higher priority on the IASB's agenda?

As mentioned above, the BASB is of the opinion that given the current status of the Memorandum of Understanding related projects, the in-depth discussion in relation to performance reporting should not be prioritized. However, we fail to understand why the Board did not include a thorough review of the components of *Other Comprehensive Income*, as the BASB sometimes fails to understand the consistent use of *Other Comprehensive Income* within performance reporting.

- b. EFRAG seeks input from constituents, especially from users, on whether a new presentation model would result in *significantly* improved and more useful information.

The BASB is of the opinion that the IASB should focus on the understandability of the disclosures instead of increasing the number of mandatory disclosures. We are not convinced that the new reporting model will increase the understandability as such.

- c. EFRAG also seeks input from constituents on whether benefits of the new model would outweigh the costs associated with implementing and maintaining it.

Except for the cash flow statement (i.e. elimination of the indirect method), we believe that the implementation & maintenance cost will be limited.

- d. EFRAG seeks input from constituents, especially from users, on whether the new presentation model would improve financial reporting overall for the banking and insurance industry.

Within the banking and insurance industry, the complexity increases significantly compared to other entities reporting under IFRS; hence the BASB believes that given the complex nature of the industry, financial reporting for these entities can only be simplified to a certain extent. Indeed, besides IFRS reporting, the banking and insurance industry is also exposed to regulatory reporting requirements in order to disclose the complexity of its activities.

- e. Do you believe that separate proposals or special application guidance should be developed for the banking and insurance industry?

The BASB believes that a separate application guidance for banking, or other industries, will result in better financial reporting. Nevertheless, the Board should be cautious, as IFRSs are considered to be principles based, hence the application guidance should bear this principle in mind.

Core principles of financial statement presentation

- a. Can you provide other examples of cases in which applying the cohesiveness principle at the category level may cause problems?

Whenever an entity decides to finance an asset using either a loan on the one hand and a finance lease on the other hand. The loan would be considered to be presented within the financing section, whereas the asset is considered to be an operating item. Under the finance lease scenario, both the asset and loan are considered to be included within the operation section

- b. How would you propose to deal with such cases (e.g. provide additional guidance, provide some exceptions to the cohesiveness principle, or make the principle rebuttable)?

in general the BASB believes it is better to provide a framework within which preparers can exercise their judgment about the most appropriate and informative presentation of their financial statements.

- c. Do you share EFRAG's concerns that the disaggregation requirements in the Draft ED might result in overly detailed primary statements?

We support EFRAG's concern and question whether overly detailed primary statements increase the understandability of the related statements. We believe that the concept of materiality should also be applied to certain notes in order to overcome this concern.

- d. Do you support EFRAG's proposal to specify the principles for disaggregation in the standard, which should be followed to determine the level of detail on the face of primary statements, or are you in favour of the rules, which would set the required level of detail for all entities?

The BASB agrees that a principles-based approach for disaggregation is better than a prescription-based approach.

Classification into sections, categories and subcategory

- a. Do you share EFRAG's view that equity should be a section on its own rather than form part of the financing section?

The BASB is of the opinion that, from a conceptual point-of-view, equity has different characteristics from those of (financial) liabilities, hence a different section for equity as such is appropriate.

- b. Do you share EFRAG's view that the financing section should include *all* items (i.e., including assets) engaged in the activities related to management of the financial position?

We agree with EFRAG's view.

- c. Do you share EFRAG's view that the definition of the financing section should be based on the notion of net debt?

We agree with EFRAG's view, as many entities reporting under IFRS already include on a voluntary basis already net debt disclosures.

- d. Do you have concerns about the term "net debt" not being defined? Would this reduce comparability between entities?

The BASB believes that the concept of "net debt" should be defined using a principles-based approach in order to overcome the interpretational issues that might arise in practice applying the new presentation model.

- e. In which category would you prefer to classify cash?

As many entities manage cash as part of the overall net debt management, we are of the opinion that cash should be classified within the financing category.

Statement of cash flows

- a. Do you share EFRAG's disagreement with the removal of the option to present operating cash flows using the indirect method?

Most, if not all, of the Belgian IFRS Reporters currently apply the indirect approach for the presentation of the Cash Flow Statement. We believe that the direct approach can, to a certain extent, provide more user-relevant information in relation to an entity's cash flows, but is from an administrative and accounting information system point-of-view more complex. Thus, the BASB is of the opinion that the indirect method satisfies the needs of most stakeholders in relation to cash flow reporting without undue cost or effort for the preparers of general purpose financial statements. Hence we fail to understand why the indirect method is excluded.

- b. What do you, as a user, think is necessary to address the IASB's concerns about shortcomings of the indirect method?

The BASB is of the opinion that the identified shortcomings by the IASB do not outweigh the overall simplicity of the indirect method.

Information about remeasurements

- a. Do you share EFRAG's concerns about the lack of a principle underlying the definition of remeasurements and the duplication of the disclosure requirements?

We agree with EFRAG's view.

Analysis of changes in assets and liabilities

- a. Do you share EFRAG's concerns about the proposals on the analysis of changes in assets and liabilities?

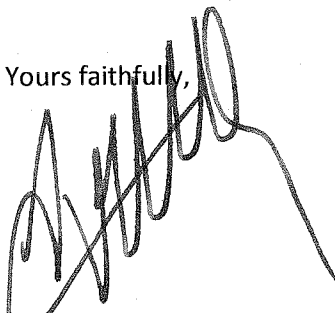
The BASB agrees with the objective of providing information on significant changes in assets or liabilities that are important to an understanding of the financial position of an entity. However, these proposals look likely to result in excessive disclosure, of changes in every line item in the statement of financial position. The resulting detail could obscure relevant information.

- b. Do you share EFRAG's view about the requirement to reclassify comparative information for a change in presentation, following the change in the entity's activities?

We agree with EFRAG's view.

Should you wish to discuss the content of this letter with us, please contact Jan Verhoeve at jan.verhoeve@cnc-cbn.be.

Yours faithfully,



Jan Verhoeve
Chairman BASB