RAAD VOOR DE JAARVERSLAGGEVING

Secretariaat:
Antonio Vivaldistraat 2-8, 1083 GR Amsterdam
Postbus 7984, 1008 AD Amsterdam

T +31(0)20 301 02 35
F +31(0)20 301 03 02
rj@rjnet.nl
www.rjnet.nl

EFRAG
Attn. EFRAG Technical Group
35 Square de Meeûs
B-1000 Brussels
Belgium

Our ref:	RJ-EFRAG 572 D
Direct dial:	0031 20 3010235
Date:	29 March 2016
Re:	Comments on EFRAG Short Discussion Series - *The Statement of Cash Flows: issues for Financial Institutions*

Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to comment on your paper in the EFRAG Short Discussion Series - *The Statement of Cash Flows: issues for Financial Institutions* issued in July 2015 (the 'DP').

We support the EFRAG initiative to animate the discussion around the insightfulness and usefulness of cash flow statements for financial institutions in its current format.

In reading the DP we decided to respond in two ways. One through this cover letter as a more general response on the existential question for the cash flow statement as one of the primary financial statements in financial institution's financial reporting. The other by answering the respective questions formulated in the DP in the Appendix to this letter.

Our overall view can be summarized as follows:

- The cash flow statement in its current format is insufficient for many financial institutions.
- Further work should be performed to assess whether a major overhaul of the cash flow statement would result in relevant in formation.
- Before the cash flow statement is no longer required for financial institutions we would expect that robust alternative requirements (including possibly an alternative primary statement) are developed.
- Adding retrospective information as part of the requirements in IFRS 7 may be helpful in this respect.

The purpose of a cash flow statement is primarily to provide insight in the sources and backgrounds of changes in a company's total cash position. A financial institution is often run with managing cash and all types of cash related products as one of its primary business activities and, as such, the cash flow statement in its current format does not necessarily provide useful additional information to enrich the balance sheet and income statement.

In addition, financial risk management and asset and liability management are key elements in a financial institution's day-to-day business and are in many cases a core element of its financial position and performance. Therefore risk management related information about its cash inflow and outflow for financial instruments is an even more crucial element in reading, understanding and analysing a financial institution's financial position and performance. The sources and background of changes in a financial institution's total cash position due to financial risk management activities are currently not easily identifiable in a cash flow statement.

Reflecting on the above, we agree that the main question that must be addressed first is whether a cash flow statement in its current format adds relevant information and insight to a financial institution's financial statements. However, we are hesitating to take out the cash flow statement from the financial statements as a first step. We do support the examination whether the cash flow statement could be improved and additional disclosures would be required; we believe that most likely this would require a major overhaul of the cash flow statement.

Also, in addition to considering targeted improvements to the current cash flow statement, it is worthwhile to analyse in more detail whether the current statement should be replaced by alternative requirements with more financial institution specific information and insight. These alternative requirements could include an alternative primary statement and/or additional requirements as part of IFRS 7 *Financial Instruments: Disclosures*.

We note that the DP currently does not define the term 'financial institution'. Given the considerable variety and broadness of the financial industry and its institutions we would suggest to ensure a more specific and tailored definition of this terminology as a reference point for the discussion, its scope and conclusions reached. We believe that the definition currently referred to in the DP as 'those entities that engage in deposit-taking and/or in underwriting life-insurance' is too narrow and other entities should be considered as well. Even entities such as finance companies that raise funding for related parties could be considered.

Our detailed responses to your questions are included in appendix A of this letter.

We will be pleased to give you any further information that you may require.

Yours sincerely,

prof. dr. Peter Sampers
Chairman Dutch Accounting Standards Board

Appendix A – Comments to the EFRAG letter and responses to specific questions

Question 1 – Usefulness of the statements 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?

As mentioned in our cover letter, we believe that the statement of cash flows in its current format does not necessarily provide useful information for many financial institutions, for example deposit-taking and underwriting life-insurance as noted in the DP. We believe that for these entities the cash flow statement in its current format addresses only to a limited extent the information objectives stated in paragraph 1.17.

Our view is that cash flow statements in its current format is also of less relevance or usefulness for other types of financial institutions than those listed in paragraph 3.12 of the DP. As noted in our cover letter given the variety of the financial industry we believe that the definition currently referred to in the DP as 'those entities that engage in deposit-taking and/or in underwriting life-insurance' is too narrow. This would require further assessment as financial institutions may also consist of multiple business models where for some business models a cash flow statement may provide relevant insights in the performance; this may be the case for example in more asset management-type businesses.

Question 2 – Possible alternatives Chapter 3 discuss two alternatives: a) replacing the statement of cash flows for the identified entities with other requirements, b) or retain it with targeted improvements. Do you support any of these two proposals? If not, do you have other suggestions?

We encourage alignment to existing disclosure initiatives of the IASB but also outside the IASB such as the Enhanced Disclosure Task Force ('EDTF') which suggests disclosures that would overcome the most relevant limitations stated in chapter 1 of the DP. One could consider whether the (financial risk management) disclosures as required by IFRS 7 complemented by disclosures developed by the EDTF make IAS 7 or EFRAG's suggested disclosures redundant for the identified entities.

We are hesitating to take out the cash flow statement from the financial statements as a first step. We do support the examination whether the cash flow statement requires a major overhaul (including considering for example replace the "cash and cash equivalents" definition to a basis that is more relevant for a financial institution). Given the concerns raised on the cash flow statement, the topic of this DP is more fundamental and raises the question whether targeted improvements of the cash flow statements are satisfactory and effective to address these concerns; that is why we refer to a major overhaul.

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?

Considering our answer to question 2, we generally support the proposed disclosures in the DP. However, the disclosure suggestions stated in paragraph 3.14 to 3.24 cover the information objectives of the cash flow statement, as mentioned in paragraph 1.17, mainly to the extent of understanding the sources of financing and the ability of generating sufficient cash to settle the entity's liabilities. In particular, we believe that the following disclosures do add value:

a) The breakdown and movements in the stock of highly liquid assets (paragraph 3.19); and

b) The breakdown of contractual and/or expected maturities of both assets and liabilities allocated to maturity buckets (paragraph 3.21-22), complemented with information on encumbered assets (paragraph 3.24).

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?

As per the discussion in our cover letter and our answers on the previous questions, we believe that targeted improvements of the cash flow statement are not expected to effectively address all concerns on the cash flow statements for financial institutions. We question whether narrow amendments only will be sufficient in order to obtain better information and insight of the cash position and performance of a financial institution. As a result hereof we propose considering a major overhaul of the cash flow statement for financial institutions.

Furthermore, we could imagine that clearer depiction of qualitative disclosures could complement the quantitative information given the complexity of most financial statements of financial institutions. This would enable users to evaluate the performance more effectively.

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?

It depends on the nature of the entity that prepares the separate financial statements. If the separate financial statements relate to a typical holding company, a cash flow statement is likely to provide more insight, in particular the investment and financing categories of the cash flow statement, which are relatively more important to obtain insight of the performance of the entity. In addition, we note that separate financial statements are very often subject to local jurisdictional rules, that may affect the (presentation of a) cash flow statement as well.