European Association of Co-operative Banks
Groupement Européen des Banques Coopératives
Europäische Vereinigung der Genossenschaftsbanken

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E-MAIL

EFRAG research paper: "The role of the Business Model in Financial Statements".

Dear Ms Flores,

The European Association of Co-operative Banks (EACB) appreciates EFRAG's initiative to produce a research paper on the role of the business model in financial statements, and gladly takes the opportunity to comment on it.

We welcome EFRAG's view that the business model should play a role in financial reporting. It could ensure that financial statements provide more relevant information about an entity's performance and lead to a faithful representation of its economic reality. Other qualitative characteristics of financial information, such as comparability and understandability would also be enhanced by addressing the business model in the conceptual framework.

The business model approach has already been used explicitly when revising the classification and measurement provisions of IFRS 9 ("Financial Instruments"). Taking into account that the business model influences the value creation process in various ways, and given the need for a common understanding of the concept, we support the idea of addressing it in the conceptual framework.

However, we believe that there are some standards leading to a good representation of the financial position of an entity without referring to the business model, such as in the case of IAS 17 (Leases) and IAS 40 (Investment Property), which were discussed in the research paper. We do not think that further clarification is needed for these standards as extra time and effort spent on describing the business model in those cases will not lead to improved accounting.

The way assets and liabilities are managed in order to create value differs from one entity to another. This difference should be the real driver for the classification and measurement of financial instruments. The specificities of the co-operative banks' business model, which has a strong focus on retail banking activities, should be taken into account in the measurement and disclosure of financial information, in such a way that the economic reality is faithfully represented.

We do not think that the introduction of the business model in the conceptual framework would increase subjectivity at the expense of comparability. The way an entity operates is complex and it is influenced by several internal and external factors, which are similar for entities operating within the same sector or industry. The reflection of this in the

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financial information would then help investors to better compare how those entities are managed. The goal is not that all companies present uniform information, but that they provide for a faithful representation. Comparability must not be mistaken for uniformity.

The introduction of the business model on a standard-by-standard basis should not imply additional and compulsory extensive documentation and disclosure provisions. In this regard, we see the necessity to assess the benefits of including the business model for each standard in order to avoid unnecessary red tape.

The banking example provided by the research paper (page 52) takes sales of assets as the main criterion for deciding about the measurement approach. In our opinion, this falls short of the complexity of an entity's operations. A wide range of criteria should be used in order to properly assess the business model, such as risk management or the conditions of those sales. We would therefore welcome more elaborated details on how other indicators would affect the banks in the example.

Since the goal of addressing the business model in the conceptual framework is to provide a more accurate portray about entity's value creation process, the definition should take into account different indicators affecting this process, such as:

- The future cash flows on the assets and liabilities sides and how these will be realized.
- The link between performance and what the financial statements are supposed to represent.
- The risks affecting this performance and the way they are managed.
- The objective of short/medium/long term detention of financial instruments in view of maximizing the return (principal and interests) or the appreciation of capital.

A common understanding of the concept of business model is needed in order to effectively address it in the conceptual framework. As we have seen in IFRS 9, using the business model enhances the relevance and faithful representation of an entity's operations. We therefore support the inclusion of the business model in the conceptual framework and standard setting where appropriate. However, this should not lead to additional and compulsory extensive documentation and disclosure provisions on a standard-by-standard basis.

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