



Committee of European Banking Supervisors (CEBS)
Floor 18, Tower 42
25 Old Broad Street
London EC2N 1HQ

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Your ref: CEBS CP06

Consultation Paper on Financial Reporting

Dear Madam or Sir,

The Norwegian Financial Services Association (FNH) welcomes the opportunity to comment on CEBS' consultation paper CP06 on Financial Reporting (FINREP). The FNH represents the interests of commercial banks, financial services institutions and insurance companies operating in Norway.

I. General remarks

The project aims at developing a standardised consolidated financial reporting framework for credit institutions that is consistent with international accounting standards (IFRS). It is not the intention of CEBS to impose additional reporting requirements, but rather to create a common financial reporting framework for the collection of data prepared under IFRS that will reduce administrative burden on cross-border banking groups and contribute to removing a potential obstacle to financial market integration. The framework's objective is to streamline the reporting process of supervisory purposes and thereby to increase the cost-effectiveness of supervision across the EU.

The FNH is at the outset supportive of a common financial reporting framework for credit institutions in Europe. We particularly support the idea of harmonising financial statements to be provided to prudential regulators on the basis of IFRS consolidated accounts. This is indeed the main basic principle which should guide the project. However, a considerable number of the proposed items which would need to be reported go beyond the extensive disclosures which are required under IFRS. Reporting requirements that go beyond the international accounting standards should in our opinion be removed from the reporting framework.

The standardisation in the tables sometimes has the effect of restricting existing accounting options. Where IFRS provide entities with options, these should be included in the financial reporting framework. CEBS should not use the project to restrict these opportunities. We see an obvious risk in that the CEBS project will have a prejudicial effect on financial reporting and thereby indirectly impose restrictions on the options provided by IFRS.

The FNH is of the opinion that the proposed reporting framework is far too extensive and highly detailed. It will not reduce the burden of banks which operate on a cross-border basis in a

significant way. We consider the magnitude of the reporting framework should be limited to figures that can be motivated and actually used in the on-going analyses and supervision. It is indeed important for the supervisory authorities to define the purpose of the required reporting and to adapt the reporting thereafter. The reporting of financial information is a considerable burden for banks and therefore supervisors should not require information that goes beyond what is actually used in the on-going supervision.

II. Replies to the specific questions in the consultation paper

Our replies to the specific questions in the consultation paper are as follows:

1. Do respondents agree that the reporting framework is IAS/IFRS consistent? Please indicate where you believe this is not the case.

As expressed above, harmonisation of financial reporting requirements for prudential purposes should be achieved on the basis of IFRS only. However, the reporting proposed in the consultation paper far exceeds that required in the context of IFRS disclosure.

Examples:

- Table 4 requires information about derivatives held for trading not only by nature but also by type. This goes beyond IFRS. Several tables require fair values to be broken down by counterparty (table 6, 7, 8 and 39 D). This is not an IFRS requirement.
- The same goes for the breakdown of fair values by product (table 19, 20 and 21).
- Table 39 B, requires quantitative information on impairment to be disclosed by time-bucket. This goes beyond what is required under ED7 (which requires a breakdown by class of financial asset only).

Furthermore, the tables include frequent references to IFRS rules, which contain no disclosure requirement, but merely provide definitions.

Examples:

- references made to IAS 39.9 (providing definitions of various categories of financial instruments) in table 1.1, 1.2, 2, 3, 5, 6, 7, 8, 26, 29 and 31
- references made to IAS 39.86-89 (providing definitions of various categories of hedging relationship) in table 1.1, 1.2, 2. 9 A & B and 32
- references made to IAS 39 AG 15 (listing financial liabilities which are considered to be held for trading) in table 1.2
- references made to IAS 32.11 (providing definitions of “financial instrument”, “financial asset”, “financial liability”, “equity instrument” and “fair value”) in table 5, 6 and 39 D

Similar reservations apply to numerous other references to IFRS which deal with recognition and measurement rules and not with reporting requirements (e.g references to IAS 39.37 in table 43 A, B, C & D).

There are also instances where reference is made to IFRS disclosure requirements, which are not consistent with the information requested in the tables.

Examples:

- ED 7.21 requires that realised gains and losses should be broken down by certain categories of financial instruments and disclosed on a net basis. The table for the income statement, however, requests gains and losses to be divided into groups of financial instruments and reported on a gross basis.
- The same applies to several of the numerous and highly detailed reporting requirements in the tables for the cash flow statement and the statement of changes in equity, which go far beyond the disclosure currently required under IFRS (particularly IAS 7.20 and IAS 1.97).

Some of the requirements have the effect of restricting existing flexibility and accounting options. One example is the treatment of interest income and interest expenses from trading transactions. IFRS allow these to be allocated to either the interest result or the trading result. The table for the income statement, in contrast, requires mandatory reporting under interest result. As a result, prudential reporting requirements will influence how certain accounting options are exercised.

Another example concerns the treatment of accrued interest recommended in the explanatory guidance. The IFRS do not give a clear answer to whether unpaid accrued interest should be accounted for in a separate caption of the balance sheet or be included in the portfolio caption to which they relate. The explanatory guidance, however, makes it mandatory to report accrued interest as a separate item on the balance sheet.

IFRS provides for much flexibility concerning the structure of the balance sheet and the profit and loss statement. It is particularly worth noting that in the proposed financial reporting framework CEBS has chosen the portfolio approach, instead of the product approach, for the presentation of the balance sheet and income statement. We consider the restriction of approaches not IFRS consistent.

Some tables contain references to supervisory rules which have not yet been adopted, such as Article 86 of the Capital Requirements Directive. Such requirements go clearly beyond IFRS requirements.

References are made to requirements imposed by the European Central Bank (table 18 A & B, 19 and 20). These are obviously not consistent with IFRS.

Another IFRS inconsistency is the frequent use of Common Practice. Common Practice is used frequently in the reporting framework, where CEBS obviously do not find support in IFRS. References to Common Practice are by definition not consistent with IFRS.

2. Do respondents believe that the use of Common Practice (CP) is appropriate? Please indicate where you believe this is not the case.

We do not think that the reference to Common Practice is appropriate. Many reporting requirements which are supposedly covered by this notion exist in a few Member States only. Common Practice, therefore by no means reflect normal reporting and disclosure practices which are being observed throughout the EU. In our opinion, Common Practice will be a serious obstacle to a harmonised and standardised financial reporting framework. As expressed above, we believe that reporting items which are not supported in IFRS do not belong to a harmonised reporting framework and should, therefore, be removed unless it is demonstrated that they indeed serve prudential needs.

3. Do respondents believe that the data contained in the reporting framework are available within the reporting entity? Please indicate for which data you believe this is not the case.

The data in the reporting framework are assumed already to be available within the credit institutions' IT systems. Many of the requested data is not readily available to be used for financial reporting purposes – precisely because many of the requirements which CEBS intends to impose exceed the existing IFRS rules in terms of both form and content.

An example of data, which is not available, is the grossing of the currency exchange result in gross profits and gross losses.

It will also be difficult to readily comply with the requirements under the “layered approach” concerning balance sheet and profit and loss data. Balance sheet data, for example, are first to be presented by category of financial instrument (held for trading, available for sale, held to maturity, designated at fair value through profit and loss, etc.). These categories must then be broken down according to certain product groups (equity instruments, debt instruments, derivatives, etc.) and sometimes further subdivided according to counterparty or prudential exposure class (e.g. public sector, banks, corporate, retail, etc.).

4. What additional steps do respondents think CEBS should take to promote further convergence towards a system of regular supervisory reporting that strikes a proper balance on the degree of detail of the information requested.

One of the key principles that have been followed in the design of the FINREP is flexibility for the individual supervisor to choose the level of aggregation and level of detail in the financial reporting. Each supervisor is free to select from the framework those data that it considers useful in carrying out its supervisory mission. In addition, each supervisor has the option to extending the standardised reporting framework with additional information considered necessary at the national level. This approach allows each individual supervisor to collect financial information adapted to its specific needs. No attempt seems to have been made to as to achieve an agreed common minimum level of information that can be seen as appropriate by all supervisors. Instead the FINREP seems to include almost all the information different supervisors wish to have reported.

We fear that the said flexibility will have the effect that more detailed financial reporting requirements will be applied across Europe than would be the case without a common financial reporting framework. The FNH understands that there exist different traditions with respect to financial reporting in Europe. It is however important for the sake of the Internal Market, that CEBS makes use of the opportunity the introduction of international accounting standards throughout the EEA-area gives, to reduce the differences between the supervisory practices in this area as much as possible. Therefore, we believe that CEBS should be very restrictive when permitting country specific reporting possibilities.

The FNH proposes that CEBS adopts a goal of a harmonised minimum IFRS consistent financial reporting framework, which is based on “best practice” among European supervisors, as the long term goal for the FINREP. CEBS should as a first step towards this goal devote resources to arrive at a first common reporting framework, which is significantly reduced compared to that of the consultation paper. In our opinion, CEBS must weigh the interests of the industry and those of supervisors in an appropriate way, thus in such a way that the requirements become proportionate to the objectives of the framework. Our general impression of the consultation paper is that the interest of the supervisors have been emphasised too much at the expense of the interests of the industry. The level of details in the proposed reporting is illustrative of this fact.

CEBS leaves the decision on reporting frequency to the local supervisory authorities. We think that different reporting items should be reported with different frequencies. Balance sheet and income statement should probably be reported rather frequently, semi annually or quarterly. However, many of the specifications would not be analysed as often as the balance sheet and the income statement. As considerable resources are required to collect the specifications, they should in many cases only be collected annually or in some cases on demand, e.g. by on-site examinations.

A possible approach to reach a regular supervisor reporting that better strikes a proper balance on the degree of detail of the information requested, could be to separate reporting items which are to be submitted quarterly, which are to be submitted yearly, which are to be submitted only ad hoc, and finally which should be deleted. By starting with this approach, CEBS could reach a harmonised IFRS consistent financial reporting that is manageable.

5. Do respondents believe that the guidance provided in Annex 2 is appropriate in all respects? We particularly welcome comments on the first chapter of the explanatory guidance.

In our opinion, it is important with an explanatory guidance supporting a European alignment of the IFRS implementation in practice. However, we do not consider it appropriate for CEBS to

prescribe guidance that restricts options available under accounting standards.

Yours sincerely,
Norwegian Financial Services Association

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