



DANISH BANKERS ASSOCIATION

CEBS CP06

CEBS consultation on Financial Reporting

The Danish Bankers Association welcomes the project by CEBS aiming at developing a more cost-efficient reporting framework which can be applied across the EU.

The project is a very important development for international financial groups which could gain much from a more cost-efficient system for prudential returns across the EU.

On the other side it is very important for smaller and less complex institutions with little or no international activity that the proposed framework should only be applied for these institutions on a voluntarily basis as they would gain very little from investing in the framework. Furthermore, the financial institutions have just recently applied many resources towards implementing new national reporting forms. In most cases these forms fulfill the needs of small and medium sized institutions, for which reason, an obligatory change would be an unreasonable burden.

When commenting on the proposal in the rest of this response, we take the perspective of an international active group.

As we see it, the most important factor for a common reporting framework is to agree on a common application across the EU and to extend the framework to all levels within the international active financial group. It is obvious that if some national jurisdictions choose not to apply the framework, little benefit will come from the proposal. Further, the framework can not automatically be applied in separate financial statements, which is a major flaw in the framework. If these fundamental decisions on the level of application are not agreed upon by CEBS, the reporting burden will not diminish and instead international active institutions will be faced with an increase in the reporting burden, as local reporting requirements will still exist with a new international framework on top of it. The Danish Bankers Association finds it very unambitious if some national supervisory authorities will not commit themselves to applying the framework.

The level of detail in the proposal is very high and should be reduced significantly to align the framework with its objective. It is fundamental to restrict reporting requirements to information, which have a clear supervisory purpose and which is within the already very extensive IFRS framework. Fur-

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Finansrådets Hus
Amaliegade 7
DK-1256 Copenhagen K

Phone +45 3370 1000
Fax +45 3393 0260

mail@finansraadet.dk
www.finansraadet.dk

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ther, the framework should allow for all options in IFRS to be applied otherwise it could easily influence or restrict the way the official financial statement is prepared. It should be possible for supervisors to achieve a consensus on how to rationalize the very exhaustive framework, which is set out in the consultation paper.

The Danish Bankers Association believes it would be a natural choice that the XBRL Taxonomy would be applied for implementing the proposed framework, when sufficiently developed.

However the use of XBRL also makes it possible that banks can be allowed to transfer their annual accounts as published in XBRL without any change and then let the supervisory authorities pick what they want in order to make the supervisory analysis needed. The advantage of this is that the supervisory authorities have all the information published by the banks in a format easy to handle that makes it easy to change focus without any change in specification to the banks.

Specific comments to the questions asked by CEBS in the consultation paper.

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

The framework is not fully consistent with IFRS. If harmonisation should succeed it is crucial to be consistent with the international accounting standard. In the proposed financial reporting framework, the reporting requirements go beyond IAS/IFRS in several aspects. Especially the following areas can be observed.

- IFRS provides a great flexibility with regard to the structure of the balance sheet and the p/l statement.
- Some of the options in IFRS are not reflected in the framework. In this way, the use of the proposed framework may have a prejudicial effect on accounting, which is a great cause for concern.
- The disclosure requirements within the framework are going even further than the extensive requirements for disclosures under IFRS (ED7 included).
- Specific requirements under IFRS concerning recognition or measurement do not impose separate presentation/disclosure.
- The frequent use of Common Practice is not consistent with IFRS

The Danish Bankers Association supports the detailed comments from the European Banking Federation on these issues, which provides valuable input to CEBS for the further work to rationalize the proposed framework and make it 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.

Reporting items that go beyond the international accounting standards, like Common Practice, should be removed from the reporting framework. In many cases it will be hard to interpret what is supposed to be reported by the reference to common practise and a number of the reporting requirements supposedly covered by this term exist only in a few member states and so by no means reflect normal reporting and disclosure practise throughout the EU.

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

Theoretically the data are available within the reporting entity. However, the information is in most cases stored different to the financial reporting framework. It will require considerable resources to collect the data in the way that the framework requires. The disclosure requirements for a full annual report for many first time applicants of IFRS will first be realised with the annual report of 2005. Therefore the more detailed analysis of the data availability to easily support the many very detailed requirements of the proposed reporting package is complicated by this. Yet, an example of data which is not available is the grossing of the currency exchange result in gross profits and gross losses.

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.

To get a proper balance on degree of detail of the information requested the supervisory authorities must ask themselves two questions.

- First, what is the purpose of the reporting items required?
- Secondly, what is the actual use of the reporting items by the authorities?

The Danish Bankers' Association consider the magnitude of the reporting framework should be limited to figures that can be motivated and actually used in the on-going legislative analyses and supervision. Many supervisors have a risk based supervisory policy and they aim at finding risks in the portfolios or in behaviour and not so much in controlling compliance in details. In those cases the reporting framework is far too comprehensive.

A possible approach in the more detailed analysis of the proposed requirements could be to separate into which (very limited) data is to be submitted quarterly, which to be submitted ad hoc (or yearly), and which should be deleted.

As mentioned above, the Danish Bankers' Association considers removing the Common Practice (CP) items from the reporting framework an important step to promote convergence on the regular supervisory reporting. In many

cases CP, building on national discretions, will be hard to understand and to collect.

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Also we would like to refer to the opening remarks on the possibility to transfer the annual accounts as published in XBRL without any change and then let the supervisory authorities pick what they want in order to make the supervisory analysis needed. Such an approach could be pursued when the XBRL taxonomy is sufficiently developed.

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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.

The Danish Bankers Association welcomes the explanatory guidance that hopefully will be helpful in securing a common understanding and application of the framework across the EU. However, it is of great importance that the discretion of management to interpret the IFRS in a proper way is not hampered.

Yours sincerely

Carsten Skelde

Direct +45 3370 1096

cas@finansraadet.dk