



FBE OBSERVATIONS ON CEBS CONSULTATION PAPER ON FINANCIAL REPORTING

GENERAL OBSERVATIONS

The FBE has already informed CEBS of its main stance concerning the proposed Consolidated Financial Reporting Framework, which can be summarized as follows:

- The main concerns which the FBE has with the proposed package are threefold:
 - it does not achieve a sufficient degree of harmonization as the information and the level of detail required by national supervisors will differ significantly. The proposed package, therefore, does not make sufficient progress towards achieving an internal market for financial services and establishing a level playing field between banks from different Member States.
 - it does not reduce substantially the reporting burden imposed on banks.
 - It goes far beyond the existing disclosure requirements under IFRS and, moreover, imposes restrictions on accounting rules/options.
- Against this background we believe that the proposed approach should be thoroughly reviewed. The proposed package should in any event not be adopted in its present form.

A more detailed analysis of the proposed package has, moreover, highlighted that banks which have establishments in various Member States may even be faced with requirements which are impossible to reconcile as each national regulator remains free to decide what financial information it requires. It is, therefore, essential that the rules of the parent company's Member State be applied to all units of the group.

ANSWERS TO THE VARIOUS QUESTIONS RAISED 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.***
 - a. A considerable number of the items that would need to be reported under the proposed framework go beyond the extensive disclosures required under IFRS.

The following examples (which are not exhaustive) illustrate this:

- 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 (tables 6, 7, 8, 39D). This is not an IFRS requirement.

- The same goes for the breakdown of fair values by product (tables 19, 20, 21).
- Chapter II of the explanatory guidance sets out a detailed method for reporting impairment of financial assets in the available for sale category. Such impairment does not reflect a specific IFRS rule or common practice within banks. We do not consider it appropriate for CEBS to prescribe a rule in this way.
- 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).

IFRS already constitute a comprehensive set of rules which have been agreed upon at an international level. Requirements which go beyond those imposed by IFRS - or are at odds with them – should be removed.

- b. The proposed templates include frequent references to IFRS rules which do not impose any disclosure requirement whatsoever but merely provide definitions. Therefore, the requirements which are being proposed here go beyond what is required under IFRS/IAS.

Non-exhaustive list of examples:

- References made to IAS 39, paragraph 9 (providing definitions of various categories of financial instruments) in templates 1.1, 1.2, 2, 3, 5, 6, 7, 8, 26, 29 and 31.
- References made to IAS 39, paragraphs 86 to 89 (providing definitions of various categories of hedging relationships) in templates 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 template 1.2.
- References made to IAS 32.11 (providing definitions of “financial instrument”, “financial asset”, “financial liability”, “equity instrument” and “fair value”) in templates 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 templates 43 A, B, C & D).

- c. Furthermore, there are instances where reference is made to IFRS disclosure requirements which are not consistent with the information requested in the templates.

Non-exhaustive list of examples

- ED 7, paragraph 21 requires realised gains and losses to be broken down by certain categories of financial instruments and to be disclosed on a net basis. The template 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 templates 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, paragraph 20 and IAS 1, paragraph 97).

- d. Moreover, flexibility provided by IFRS has been removed by the proposed CEBS Framework in various instances.

Non-exhaustive list of examples

- Tables 2, 10 and 26 require securities to be measured at clean price and accrued income/expense to be calculated for each portfolio. As the IFRS framework does not contain any explicit rule in this respect, it leaves a choice to institutions. The CEBS Reporting Framework should leave that choice intact.
- IFRS provides for much flexibility concerning the structure of the balance sheet and the profit and loss statement. It is particularly worth noting that specific requirements under IFRS in the area of recognition or measurement do not impose separate presentation/disclosure. We consider the choices which CEBS proposes in this regard to be inconsistent with IAS/IFRS. In their present form, the use of templates which the CEBS Reporting Framework seeks to impose may have a prejudicial effect on accounting, which we consider a cause for concern.
- Some of the proposed requirements have the effect of restricting existing flexibility and accounting options (as it is highly probable that CEBS rules will rapidly establish themselves as criteria for exercising IFRS options). As a result, prudential reporting requirements will influence how some accounting options are exercised. This is unacceptable. It is not the task of CEBS to restrict or even merely interpret existing accounting standards. This is the responsibility of accounting standard setters and their interpretation committees.
 - 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 template for the income statement, in contrast, requires mandatory reporting under interest result.
 - Another illustration concerns the treatment of accrued interest recommended in the explanatory guidance. The IFRS permit separate reporting in the balance sheet or offsetting against the financial instruments to which the accrued interest relates. The explanatory guidance, however, makes it mandatory to report accrued interest as a separate item under information on the balance sheet.
- e. Some templates 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.

More importantly, the Directive's envisaged rules on exposure grouping are intermingled in the templates with certain product categorisations and accounting rules. This leads to new reporting requirements which reflect neither accounting nor supervisory disclosure rules and request information which is not available in this form in the banks' IT systems (see also our reply to question 3).

Finally, the breakdown which is requested under the FINREP framework regarding counterparties should be less detailed than under COREP.

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

It needs to be emphasised that such data may not be readily available to the reporting institution on an aggregated level as the ECB requires those data to be reported on an individual basis only.

- g. Frequently references are made to Common Practice to cover reporting requirements which do not find support in IFRS. They are by definition not consistent with IFRS.
- h. It should be carefully examined if the Reporting Framework is compliant with the XBRL Taxonomy.

Non-exhaustive list of examples

- Table 39 B: the proposed time-buckets do not seem in conformity with the XBRL Taxonomy.
- Table 14: the maturity tables seem inconsistent with the XBRL Taxonomy.

In contrast, we warmly welcome the fact that the existing IFRS option allowing financial instruments to be accounted for on either the trade date or the settlement date has also been adopted by CEBS in its financial reporting requirements. We do not agree, however, that each supervisory authority be given an opportunity to reconsider the issue if practice would show that this choice may have significant consequences.

Finally, it should also be noted that the references made to IASB's Exposure Draft 7 (Financial Instruments: Disclosures) will need to be reviewed as soon as a standard will have been adopted. This implies, amongst others, removing the column 'fair value of the collateral or other credit enhancements' in table 39 D as this information would no longer need to be disclosed under the near final draft of IFRS 7.

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

We believe the whole concept of referencing "Common Practice" to be problematic as it covers instances in which the proposed framework does not find support in IAS/IFRS. Reporting items that have no support in IFRS should not be included in a reporting framework.

It is, moreover, sometimes difficult to see what specific interest banking supervisors would have in being informed into detail of what is being referred to as "Common Practice" (see, for instance, staff expenses, under template 35).

Furthermore, a number of the reporting requirements supposedly covered by this term appear to exist only in a few Member States and, therefore, do not reflect normal reporting and disclosure practices throughout the EU. It would not be appropriate to include such items in a harmonised Framework.

It needs to be highlighted, finally, that because references made to Common Practice find no support in IAS/IFRS, it will be difficult for banks to understand what they exactly need to report.

Therefore, every reference which is being made to CP in the proposed Framework should be removed.

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.

We fully support the basic principle which seems to be implied in the question: the CEBS reporting framework should confine itself to data which are already held in banks' IT systems and, moreover, can be made readily available. It is essential that the requested data could be taken directly and in automated form from the group's consolidated accounts (general ledger).

Whilst we agree that the requested data are likely to be available somewhere within the reporting entity, it needs to be emphasised that many of them are 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. As a result, the proposed Framework ultimately produces a combination of accounting disclosure requirements, various product categorisations (which are CEBS-specific) and prudential exposure classifications which do not correspond to what is available in the banks' databases in this form.

- An obvious example of data which are unlikely to be available within institutions results from the requirement to gross the currency exchange and report gross profits and gross losses.
- The same applies to some of the extensive information which banks will need to provide on repurchase agreements and reverse repurchase agreements (Template 43).
- 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 p & I, 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.).
- Additional difficulties will be created by the requested breakdowns of profit and loss items (e.g. the detailed subdivision of interest income and interest expense by certain groups of financial instruments or the breakdown of the trading result by product categories specified by CEBS). Much of the data could, if available at all, only be accessed manually in individual sub ledgers (this applies, for example, to numerous details on derivatives and hedge accounting in Templates 4, 9 and many others). This would require extensive input from individual group subsidiaries, which would then have to be consolidated by the parent company in a time-consuming and labour-intensive process. Such complex breakdowns provide little meaningful

information, however, and are not to be recommended from a cost-benefit point of view.

- The breakdowns which the Reporting Framework requests concerning staff expenses under template 35 are not readily available.

Reporting such items would create an additional administrative burden which would, moreover, be out of proportion to the additional information value.

The same would doubtless apply to the processing by supervisors of such a large number of highly detailed, quantitative reporting requirements which are likely to result in information overload undermining the desired transparency and potentially leading to the wrong conclusions being drawn. A harmonised financial reporting system should focus first and foremost on providing relevant information and, therefore, be made subject to a stringent cost/benefit analysis.

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.*

- a. As CEBS noted in its Consultative Paper, there is currently a wide diversity of supervisory approaches concerning the use made of financial statements for prudential purposes. Instead of promoting such diversity, CEBS should aim at achieving total harmonization in this area over time.

It should be possible to achieve a consensus amongst banking supervisors throughout the EU within a short time-frame about how to rationalize the key information data which banks need to report by means of their consolidated balance sheet statements and consolidated income statements. Harmonization of more detailed tables could be pursued in a second stage.

It is in any event absolutely essential for banking supervisors to bring their reporting package in line with IFRS disclosure requirements. The disclosures resulting from IFRS already represent an extensive set of common reporting requirements which have, moreover, been internationally agreed upon. They should serve as a benchmark for the harmonized financial reporting package.

- b. It is particularly disappointing to note that the Reporting Package does not give due consideration to the needs of banks which are active in various Member States.

The proposed Reporting Framework will not prevent them from continuing to be faced with 25 sets of reporting requirements because it applies on a consolidated level only. The reporting burden of banks having subsidiaries in various Member States will not be substantially reduced as they still need to comply with local requirements regarding each subsidiary in the group.

It needs to be emphasized, furthermore, that cross-border banks may even be faced with requirements which are impossible to reconcile as each national regulator remains totally free to decide what financial information it requires. This will particularly be the case for institutions which are both active in countries which are satisfied with a layered approach and countries which give more preference to a tabled approach. Those institutions will only be able to meet both conflicting approaches by preparing themselves to deliver aggregated data in conformity with

both approaches. We do not believe this to be satisfactory. Therefore, the parent institution should be required to comply on an aggregated basis only with the approach for which its home country supervisor has opted.

- c. There is an urgent need to reduce in a substantial way the number of different reporting requirements which currently exist in the various EU Member States. The proposed package fails to achieve this objective as it is far too extensive and highly detailed. It will not reduce in a significant way the burden of banks which operate on a cross-border basis.

One of the basic flaws of the proposed Framework is that numerous specifications often seem to lack a clear supervisory purpose. The level of detail of the proposed reporting framework could be substantially reduced if it were restricted to data which supervisory authorities effectively use in their on-going supervision and, more particularly, to those data which they used within a risk based supervisory policy that aims at focusing at risks in portfolios or in behaviour.

A possible approach to achieving a reporting framework which strikes a better balance concerning the degree of detail, it should be considered distinguishing between items which would need to be reported on a yearly basis and those that would need to be reported on a quarterly and/or semi-annual basis.

Finally, when introducing a harmonised Reporting Consolidated Framework, EU banking supervisors should commit themselves to substantially reducing the financial data which they require institutions to produce on a statutory level.

- d. Implementing the proposed Reporting Framework will be particularly burdensome for smaller banks without necessarily bringing any benefit to them. It should, therefore, not be imposed on them. More particularly, credit institutions which do not have establishments in other Member States should be permitted to decide themselves whether to use the framework as implemented by their national supervisor or to continue using the national financial reporting schemes as today. A similar option is suggested on CoRep in some European countries. This option should persist as long as national GAAP is not in total accordance with IFRS.
- e. Inconsistencies in definitions, classifications and disclosure requirements which currently exist between FINREP and COREP need to be removed. Table 39, B, for example, requires quantitative information on impairment to be disclosed by time-bucket; if this requirement were to be maintained, the prescribed time-buckets should be the same as those required under COREP.

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 FBE welcomes the provided explanatory guidance. It 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.

The explanatory guidance, however, contains some examples which result in restricting flexibility and accounting options permitted under IFRS (see also our reply to question 1).

- Concerning the treatment of accrued interest, IFRS allows separate reporting in the balance sheet or offsetting against the financial instruments to which the accrued interest relates. The explanatory guidance, however, makes it mandatory to report accrued interest as a separate item of the balance sheet, which we do not believe to be appropriate.
- The same applies to the treatment of impairments of financial assets in the available for sale category. Chapter II of the explanatory guidance prescribes a detailed method of posting such impairment, which does not reflect a specific IFRS rule or common practice within the banks. Therefore, the guidance which is provided on this needs to be removed.

On several aspects the guidance provided is not sufficiently clear. The concept of central government, for instance, may refer to different things in different countries, but there is no guidance on that.
