

TECH 48/05

CEBS Consultation Paper on Financial Reporting

Memorandum of comment submitted in July 2005 by the Institute of Chartered Accountants in England & Wales to the Committee of European Banking Supervisors in response to its Consultation Paper on Financial Reporting.

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INTRODUCTION

- 1 The Institute of Chartered Accountants in England & Wales ('ICAEW') welcomes the opportunity to respond to the Committee of European Banking Supervisors on its Consultation Paper on Financial Reporting ('CP 06'). The ICAEW is the largest accountancy body in Europe, with more than 126,000 members operating in business, public practice and within the investor community. The ICAEW operates under a Royal Charter, working in the public interest.

GENERAL COMMENTS

- 2 The status of the proposed guidance is unclear. We would welcome confirmation that it is intended as guidance to central banks and supervisors on the information that they are likely to receive when accounts are submitted under International Financial Reporting Standards (IFRS), rather than guidance to banks on the preparation of IFRS financial statements.
- 3 We would also welcome clarification over the relationship between CP 06, which deals with financial reporting, and CP 04, also issued by CEBS, which deals with solvency reporting. We are concerned that CP 06 strays into areas outside the responsibilities of CEBS, notably by interpreting IFRS, which we consider inappropriate.

RESPONSES TO QUESTIONS

Q1 Do respondents agree that the reporting framework is IAS/IFRS consistent? Please indicate where you believe that this is not the case.

- 4 We do not consider that the reporting framework proposed in CP 06 is consistent with IFRS. It would appear to provide a basis of reporting that would allow entities to meet the requirements of IFRS. However, CP 06 suggests a greater level of detail and is more prescriptive than the IFRS framework issued by the IASB. It cannot therefore be considered IFRS compliant.
- 5 The level of detail suggested in CP 06 is not appropriate for financial reporting purposes where excessive detail can confuse users of financial statements. Furthermore, the greater level of prescription suggested by CP 06 undermines the objective of financial statements to provide a "true and fair view" and suggests a rules rather than principles based approach to financial reporting.
- 6 While CP 06 addresses information provided to regulators, it might also impact upon decisions made for general purpose financial reporting, since entities might wish to avoid the use of different accounting policies for different user groups. We do not consider it appropriate for the reporting needs of regulators to drive general purpose financial reporting where the objective is to provide to the owners of an entity a true and fair view of the financial position and performance. Regulatory reporting requirements should not restrict the options available under IFRS for general purpose financial reporting. If the IFRS framework is considered inadequate for regulatory purposes, supervisors can achieve greater consistency through their solvency reporting mechanisms.

Q2 Do respondents believe that the use of Common Practice (CP) is appropriate? Please indicate where you believe this is not the case.

- 7 The ICAEW is a strong supporter of the development of a single set of high quality, global financial reporting standards. We are concerned that the provision of guidance and interpretations of International Financial Reporting Standards (IFRS) by bodies other than those with formal responsibility for the setting of such standards might undermine the concept of a single set of high quality global standards.
- 8 CP 06 states in Annex 2 that it is not intended to provide interpretations of “other than presentational issues” of IFRS. However, given that many IFRSs are closely related, presentational matters can have an impact upon recognition and measurement. Furthermore, we have concerns over the status of any interpretations of IFRS issued by CEBS, even if those interpretations are limited to presentational issues. Only interpretations issued by IFRIC have any formal status. The issuance of interpretations of IFRS by other bodies risks undermining the IASB and IFRIC, or creating a series of competing interpretations, thereby creating confusion. Furthermore, guidance or interpretations issued for one sector might have implications outside that sector, potentially extending outside the remit of the body issuing the guidance.
- 9 We therefore do not consider it appropriate for CEBS to issue interpretations of IFRS. CEBS should instead focus upon areas within its responsibility, such as solvency reporting. We also support a risk based approach to regulation. There is a danger that, by focussing too much on consistency of information requirements across jurisdictions, this risk based approach might be lost if convergence is at a maximum rather than minimum level.

Q3 Do respondents believe that the data contained in the reporting framework are available within the reporting entity? Please indicate where you believe that this is not the case.

- 10 The situation will vary between reporting entities. CP 06 requires more detailed disclosures than the IASB financial reporting framework and the information required for solvency reporting purposes. Entities may be required to implement costly system changes or use secondary IT systems (which may be less robust, accurate and reliable than the primary systems) to extract and analyse the data.

Q4 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?

- 11 CEBS should focus its efforts upon solvency reporting requirements rather than financial reporting. If the general purpose financial reporting information does not provide sufficient consistency or detail, then supervisors can ask for further information through solvency reporting rather than requiring it in financial reporting.

Q5 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.

12 Annex 2 provides only limited guidance on an extensive list of disclosures in Annex 1. We consider it appropriate for this guidance to be of a limited nature, though are concerned over the extensive nature of the proposed disclosures in Annex 1. We would welcome clarification that Annex 1 is intended as a list of examples of the type of disclosures that might be asked for by supervisors for solvency reporting purposes, rather than a checklist of disclosures required to be submitted by all banks across all jurisdictions.

13 We have no further comments

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