

Committee of European Banking Supervisors (CEBS)

24 June 2005

Cc: Irish Financial Services Regulatory Authority

By email: cpob@c-eps.org

Consultation paper on Financial Reporting (FINREP)

Dear Sirs,

Allied Irish Banks, p.l.c. (AIB Group) would like to thank CEBS for the opportunity to comment on the consultation paper. A few general comments are made below and these are supplemented in our replies to the specific questions in the consultation document.

I. General comments

In principle, we support the concept of harmonisation of financial reporting requirements on the basis of IFRS consolidated accounts. The aim of such a project should be to increase the comparability of the reported data and thus ensure a level playing field in the European internal market for financial services.

We are however opposed to a requirement that would require us to report to our Regulatory Authority on a basis substantially in excess of that reported to management on a regular basis. We do not believe that the level of detail proposed is necessary for a regulator to perform its regulatory functions. We would be extremely concerned if a requirement was introduced to report this level of detail other than on an annual basis after publication of annual results because of the cost involved with little potential benefit. In our opinion, financial reporting can only be truly harmonised on the basis of rules which already apply in equal measure to all banks in the European Union and are not supplemented or modified by numerous additional requirements and national specificities. Such a basis would be provided by IFRS disclosure requirements in their annual reports.

A considerable number of the proposed items to be reported go beyond the already extensive disclosure required under IFRS and in some cases are more detailed than what management requires to run the business. This is inappropriate, in our view. Given that IFRS already constitute a comprehensive and internationally recognised set of rules, the disclosure requirements they contain should also serve as a benchmark for harmonised financial reporting for prudential purposes. Requirements which exceed or are even at odds with IFRS disclosure should therefore have no place in harmonised financial reporting at EU level.

As outlined above, some of the proposed data is not readily available in our IT systems. Reporting these items would therefore create an additional administrative and cost burden out of all 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. There would be a real risk of information overload, undermining the desired transparency and potentially leading to the wrong conclusions being drawn. A harmonised financial reporting system should therefore focus first and foremost on providing relevant information and should be subject to a cost/benefit analysis.

II. Specific comments

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 this is not the case.

In principle, we welcome CEBS's aim of developing an IFRS-consistent reporting format with a view to ensuring consistency of external financial reporting by European Financial Institutions. To achieve the greatest possible degree of consistency, the IFRS disclosure requirements should also be used as a benchmark for the standardised financial reporting framework. However, the reporting proposed in the consultation paper far exceeds that required in the context of IFRS disclosure. The templates include frequent references to IAS 39, which contains no disclosure requirements, but merely definitions of various categories of financial instruments. We have similar reservations in respect of other references to IFRS which deal with recognition and measurement rules or with definitions, not reporting requirements.

There are also instances where reference is made to IFRS disclosure requirements which are not consistent with the information requested in the templates. ED 7.21, for example, envisages that realised gains and losses should be broken down by certain categories of financial instruments and 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. This approach reflects neither the requirements of ED 7.21 nor normal banking practice and is therefore inappropriate, in our view. The same applies, for example, 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.

In some templates, the reference column indicates supervisory rules that have not yet been adopted, such as Article 86 of the Capital Requirements Directive. In these cases, the Directive's envisaged rules on exposure grouping are intermingled in the templates with certain product categorisations and accounting rules. This combination creates new reporting

requirements which reflect neither accounting nor supervisory disclosure rules and request information which is not available in this form in our IT systems.

We have observed that the templates restrict the treatment of interest income and interest expenses from trading transactions. IFRS allow these to be allocated to either the interest income or trading. The template for the income statement, in contrast, requires mandatory reporting under interest income. While this is our current practice, we had envisaged moving to the other option available within IFRS (i.e. within trading income). We do not believe it is appropriate for prudential reporting to influence how certain accounting options are exercised. This is the responsibility of accounting standard setters and their interpretation committees.

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

AIB Group believes that the concept of referencing items as 'common practice' is not strictly correct as some of the items referenced are certainly not common practice within AIB Group. For example, among other items, we do not separately monitor or record gains and losses from exchange difference revaluations.

As IFRS is only just being implemented across Europe we believe that it will take time for so called 'common practice' to emerge and therefore new disclosure requirements should not be set under the guise of 'common practice'.

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.

Some of the proposed reporting requirements exceed the existing IFRS rules in terms of both form and content and consequently some of the requested data is not readily available in AIB's IT systems. This applies, for example, to some of the extensive information on repos and reverse repos (Template 43). It will also be highly problematic to comply with the requirements under the "layered approach" to balance sheet and profit and loss data.

Some of the balance sheet data including the CEBS-specific product categorisations and prudential exposure classifications are not available in our central databases in this form. Similarly 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) is not available or can only be accessed manually financial systems diversified (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.

We therefore believe it would be far more effective if the CEBS reporting framework confined itself to the data which is already compiled for the purposes of complying with IFRS disclosure requirements. This would also have the advantage that the data could be taken directly and in automated form from the group's consolidated accounts.

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?

We believe that regular supervisory reporting in the manner set out does not strike a balance on the degree of detail of the information requested.

External financial reporting, should be harmonised based on IFRS disclosure requirements, since these will apply equally to all listed companies in the European Union. We believe that there is a need to revise the requirements proposed in the templates with this in mind. Steps should be taken to reduce the high volume and level of detail and achieve as much consistency as possible with the information-oriented disclosure required under IFRS. We are of the opinion that when developing and reviewing reporting requirements the principle of home country supervision, and thus the rules of the parent company's member state, should apply to all units of a group. This will ensure that reporting requirements for banks operating across borders are consistent.

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.

We do not consider it appropriate for CEBS to prescribe guidance that restricts options available under accounting standards.

AIB is happy to discuss the above matters with you further at any time.

Yours sincerely,

Brendan Mc Hugh
Group Financial Controller