Committee of European Banking Supervisors
CP06@c-ebs.org

7 July 2005

**Position of the European Association of Public Banks on the CEBS Consultation Paper on Financial Reporting (CP 06)**

Dear Madam,
Dear Sir,

The European Association of Public Banks (EAPB) represents the interests of 19 public banks, funding agencies and associations of public banks throughout Europe, which together represent some 100 public financial institutions with a combined balance sheet total of EUR 3,000 billion and over 170,000 employees, i.e. representing a European market share of approximately 15%.

We thank you for the opportunity to state our position on the CEBS consultation paper which focuses on a standardised financial reporting framework for credit institutions, issued by the Committee of European Banking Supervisors (CEBS) on 7 April 2005. The EAPB would very much appreciate CEBS considering the comments below and taking them into account.

## A. Basic Remarks

The CEBS's request for the creation of a EU-wide harmonised, standardised financial reporting framework for supervisory purposes is understandable. However, we do not regard the approach proposed in the consultation paper for achieving this goal as being apt.

In our view, the route adopted by the CEBS for harmonising supervisory financial reporting already founders against the high scope for flexibility that is simultaneously permitted in the national transposition provisions: harmonisation and flexibility are competing goals, the achievement of each of which inevitably entails giving up as much of the other as possible. Ultimately, this would result in differing supervisory reporting requirements for multilaterally active credit institutions, which would entail the ongoing comparison of potential differences. All in all, the objectives remain unclear.

We are of the opinion that, exclusively for supervisory purposes, the supervisory authorities are creating structural rules that contain additional requirements of information and with



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which options conferred under IAS/IFRS are narrowed. However, we fundamentally reject any curtailment of options.

The CEBS's Financial Reporting proposals are evidently in contradiction with the aims it has publicly stated, of not wanting to create any additional requirement of information and the potential reduction of administrative burdens. The nature and the scope of the foreseen information, particularly the high level of detail and the attendant lack of any comprehensive overview, in our opinion defy any meaningful analysis or evaluation.

We reject any unfounded increased burden for or disadvantaging of the banking sector. We therefore emphatically state that we are against the standard setting of segment-specific rules by institutions other than the IASB.

Furthermore, we are of the view that supervisory structure requirements for balance sheets and profit and loss accounts that merely provide for a structure according to the portfolio approach as not being appropriate. We therefore at least demand that a structure based on a product approach should also be permissible. Credit institutions should not be deprived from the freedom offered by IAS/IFRS to structure their balance sheets and profit and loss accounts and the form of the notes on simply supervisory considerations.

It is already the case that, under IAS/IFRS, significant matters are to be explained in the notes, so that it is our view that a further breakdown for purely supervisory purposes is not required. Moreover, determination of a true and fair view, at least at the end of the accounting period, is to be audited and confirmed by an external auditor. If, contrary to expectations, the accounts and the audit reports should not be in line with the information requirements of the supervisor, they would still have the option of enacting further-reaching information requirements for credit institutions at a later stage. If so, it would have to be ensured that supervisory reporting is in tune with the IAS/IFRS requirements to the extent that there do not arise any additional external audit obligations through Financial Reporting.

Finally, we should like to refer to the enormous costs associated with preparing the information required by Financial Reporting. Investigation of the data required in the context of Financial Reporting would in our estimation *de facto* be tantamount to manually preparing further annual financial statement. We would also like to draw attention to the fact that, in fulfilling these reporting requirements, less and less account can be taken of the banking supervisors' and the capital markets' ever stronger requirement for the prompt preparation and publication of financial information ("fast close").

In reply to your questions, we refer to the following:



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**B. Replies to the questions**

_Consistency with IAS/IFRS_

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

As already stated under our Basic Remarks, as a result of the standardised financial reporting framework, additional requirements of information are created or the presentation options offered by IAS/IFRS are restricted.

In our view, the nature and scope of the planned disclosures, particularly the high level of detail, result in an "information overkill" on the part of the supervisor that defies meaningful evaluation.

Thus, for example, the strongly differentiated presentation of hedge accounting, broken down into individual types of products (table 9, page 13 of annex 1 to the CEBS Consultation Paper of 7 April 2005) creates reporting requirements that go beyond those laid down in IAS/IFRS. A further example is the planned separation of interest deferral in the case of financial instruments held for trading and derivatives that are used as hedge instruments (table 10, page 16). The disclosures regarding the at equity-valuation of subsidiaries are also not required by IAS/IFRS to that level of detail (table 14, page 23).

Regardless of the individual provisions, in our view it has to be ensured that the CEBS proposals under discussion do not in any event restrict the discretions accorded under IAS/IFRS with regard to the reporting and presentation of asset items.

As we unfortunately could note, this is not the case at various points in the Financial Reporting. Thus, in particular, separate reporting of interest income realised from held-for-trading items is required in the interest result, which constitutes a significant restriction of the corresponding option under IAS/IFRS (table 2, Consolidated Income Statement, Interest Net Income, page 5). This requirement also fails to follow either the capital commitment concept or any economically meaningful form of presentation (trading result). Purely incidentally, we would mention that the expression "interest flows" is misleading; what is meant seems to be rather more "accrued interest".

Likewise, a restriction of options is constituted by the separate reporting of interest deferral in the balance sheet (table 1.1, 1.2, pages 2-3).



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The proposed form of presentation for balance sheet and profit and loss accounts disclosures runs *de facto* a compulsion to extract certain information from the notes, which we reject as fundamentally inappropriate.

The, to a broad degree free, structural freedom allowed to institutions under IAS/IFRS as to how they present information in the notes of the financial statement is a further restriction of IAS/IFRS options, which we likewise do not accept.

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

We acknowledge that the use of Common Practice implies expansion of the information making it possible to transfer certain sub-items to a main item.

Against the background of the fact that the change of group accounting to IAS/IFRS is to be made for the first time in 2005 respectively in 2007, our concern is nevertheless whether any such Common Practice could already have accumulated. Given that requirements of information responsibilities that go beyond those of IAS/IFRS do not arise as a result of additional information requirements of the market, but merely serve the informational purposes of the supervisors, we emphatically reject the use of Common Practice.

The additional burden incurred as a result by credit institutions for the preparation of information is in our view disproportionate to the interests supervisors have in information from an institution's group account. This is rendered more apparent by the fact that, to a large extent, information not required under IAS/IFRS is not available or not to the necessary granularity, such that demanding same under Financial Reporting is *de facto* tantamount to manual preparation of an additional set of annual accounts.

*Availability of data*

*Question 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.*

As is generally known, the IAS Regulation (EC 1606/2002) allows Member States to grant an exemption to issuers of debt securities until 2007 from adopting IAS/IFRS group accounts. For this reason, institutions represented by the EAPB currently find themselves in a phase in which they are changing their group accounting to the IAS/IFRS requirements. Hence, at this stage, we would like to dispense with a detailing listing of non-available information, since, for one, it would not at this stage in the conversion process result in a comprehensive listing and, second, it would not be representative.



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However, we would like to point out that, owing to the fact that the Financial Reporting appoints exclusively on the portfolio approach, in the case of credit institutions that are oriented towards a product approach in structuring their balance sheets, certain data will not be available or not in the requisite form, due to the variances in balance sheet structure.

*Degree of detail*

*Question 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.*

Concerning this question, we would once again like to take the liberty of voicing a fundamental criticism of the procedure opted for by CEBS. As already stated, at the current time a number of institutions are in the phase of converting to IAS/IFRS. This exceedingly resource-intensive work is flanked by further disclosure requirements under Basel II and the EU capital requirements (Pillar 3) and by the attendant changes to the solvency-reporting system (COREP). In light of this, we consider the creation of a further reporting requirement that affects the conversion work being done by fixed structures, restricting discretions and extending information requirements, and that merely for supervisory purposes as being inappropriate. We are therefore in favour of greatly attuning the varying information requirements with one another, not only as regards their content but also in respect of their introduction and implementation.

With its nearly 70 pages and over 80 tables, we consider that the Financial Reporting is not practicable, especially owing to its lack of clarity and usability. We should nevertheless again emphatically like to state that we entirely reject these regulations as put forward by CEBS, under which, for merely supervisory reporting purposes, presentation options are restricted and new information requirements created.

*Explanatory guidance*

*Question 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.*

According to the EAPB, the explanations given in Annex 2 constitute merely a short summary of discretions, structures and objectives in connection with the Financial Reporting Framework. In particular, the motivations for deciding in favour of the portfolio approach cannot be discerned. As we understand it, ED 7 does not justify simply replacing the balance



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sheet structure effected under liquidity considerations (cf. also Appendix IAS 1) with the portfolio approach. We regard further comment in this regard as being of urgent necessity.



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