



8.7.2005

To the Committee of European Banking Supervisors

Consultation paper on a standardised consolidated financial reporting framework (CP06) for credit institutions.

CEBS published on 7th April 2005 a consultation paper on Financial Reporting (FINREP).

The Finnish Bankers' Association is a member of the European Banking Federation (FBE). While supporting the views put forward in the FBE's comment paper sent to the CEBS, the Finnish Bankers' Association respectfully submits the following comments.

1. General remarks

Finnish Bankers' Association welcomes CEBS' work aiming to harmonise the financial reporting requirements in Europe. It would reduce the compliance costs particularly for international banking groups and remove a potential obstacle to further financial market integration. It would also increase comparability of reported data between banks.

We think that the proposal is a step in the right direction, but, from our point of view, a number of concerns would arise within the issues addressed below in this statement.

Firstly, the Finnish Bankers' Association is of the opinion that the proposed financial reporting framework is drafted in a too detailed and extensiveness manner. The extensiveness reporting would give an impression that proposed reports represent a sum total of every possible combination of reporting requirements already used in few European countries. This would significantly increase reporting burden in a number other European countries with no prudential justification. We also believe that the breakdown in too many levels and items would probably overload the supervisory authorities with information and put a considerable burden on the institutions collecting and analysing them.

We believe that the reporting framework should be limited to figures that can be motivated and actually used in the on-going analyses and supervision. It is also important for the supervisory authorities to define the purpose of the required reporting and to adapt the reporting thereafter.

Secondly, we don't support the idea that each national supervisory authority will be able set any additional reporting requirements over and above those in the new framework. We think that the outcome of this approach would not be in line with the aim to create a level playing field and remove obstacles for cross border consolidation. It should be therefore removed from the reporting framework. As a first step, the principle of home



8.7.2005

country supervision, and thus the rules of the parent company's member state, should be able to apply to all units of a cross border group.

Thirdly, the proposed financial reporting framework is not fully consistent with IFRS, as considerable number of the proposed items to be reported go beyond the already extensive disclosure required under IFRS and would sometimes restrict available options. 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. Regulation on the application of international accounting standards makes the use of IFRS mandatory for the consolidated accounts of all EU listed companies from 2005 or 2007. Requirements which exceed or are even at odds with IFRS disclosure should therefore have no place in harmonised financial reporting at EU level and should be therefore removed.

2. Comments to the questions in consultation paper

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

As stated above, IFRS disclosure requirements should be used as a benchmark for the standardised financial reporting framework. However, reporting requirements in the consultation paper don't meet this objective. At least following subdivision for the inconsistencies could be made:

- 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.
- b) The proposed templates include frequent references to IFRS rules which do not impose any disclosure requirement whatsoever but merely provide definitions.
- c) There are instances where reference is made to IFRS disclosure requirements which are not consistent with the information requested in the templates.
- d) Flexibility provided by IFRS has been removed by the proposed CEBS Framework in various instances.
- 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.
- f) References are made to requirements imposed by the European Central Bank. These are obviously not consistent with IFRS.

For specific examples each of the above mentioned items, see non-exhaustive list defined in the FBE' s response sent to CEBS.



8.7.2005

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

We find the concept "Common Practice" problematic, since a number of the reporting requirements supposedly covered by this term only represent a sum of reporting requirements already used in few European countries and so by no means reflect normal reporting and disclosure practices throughout the EU. We believe that harmonisation of financial reporting can only be achieved on the basis of rules that apply equally to all banks in the European Union and require no further interpretation by national supervisory authorities. As already stated above, we think only IFRS can meet this objective and concept "Common Practice" should be therefore 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 idea that reporting framework should be based on the data which are already held in banks' IT systems and, moreover, can be made readily available. We would like to however draw attention to the fact, that many of the proposed requirements are not readily available to be used for financial reporting purposes as they exceed the existing IFRS rules in terms of both form and content. Reporting such items would create an additional administrative burden for banks. For specific examples, see non-exhaustive list defined in the FBE' s response sent to CEBS.

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.

Currently, a wide diversity of supervisory approaches concerning the use made of financial statements for prudential purposes exists. We believe that CEBS should aim at achieving total harmonization in this area over time. As a first step, each banking supervisors should 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.

In addition, 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.

It is also important that inconsistencies in definitions, classifications and disclosure requirements which currently exist between FINREP and COREP should be removed.

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.



8.7.2005

We find the explanatory guidance helpful in so far as it's objective is to clarify the structure and content of reporting requirements. The explanatory guidance, however, contains some examples which result in restricting flexibility and accounting options permitted under IFRS. In that sense the guidance provided should be clarified in further work.

FINNISH BANKERS' ASSOCIATION

Pentti Kostian
Head of Department

Jyrki Laakso
Head of Department