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Dear Madam, dear Sir

Exposure draft on an improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information

The Committee of European Banking Supervisors (CEBS), comprised of high level representatives from banking supervisory authorities and central banks of the European Union, welcomes the opportunity to comment on the Exposure Draft on an improved Conceptual Framework for Financial Reporting (chapters 1 and 2).

Banking supervisory authorities and central banks have a strong interest in promoting sound and high quality accounting and disclosure standards for the banking and financial industry, as well as transparent and comparable financial statements that would strengthen market discipline.

We regard the conceptual framework project as a key step in the accounting standards international convergence process, as well as in the IASB's efforts for developing principles-based, sound and internationally accepted accounting standards. The Committee will continue to monitor the different phases of the project and is looking forward to contributing further to this important debate.

With regard to the present Exposure Draft CEBS acknowledges significant improvements compared to the previous Discussion Paper on chapters 1 and 2 of the proposed framework but still considers that some of the conclusions drawn in the paper need more examination. The remainder of this letter further elaborates on the improvements and the topics that CEBS still has concerns about or would like to be further discussed.

The comments put forward in this letter and in the related appendix have been coordinated by CEBS's Expert Group on Financial Information (EGFI) - in charge of monitoring any developments in the accounting area and of preparing related CEBS positions - and in particular by its Subgroup on Accounting under the direction of Mr. Patrick Amis of the French Commission Bancaire. If you have any questions regarding our comments, please feel free to contact Mr. Didier Elbaum (+33.1.4292.5801) or Mr. Patrick Amis (+ 33.1.4292.6032).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Kerstin af Jochnick', enclosed in a light blue rectangular border.

Kerstin af Jochnick

Chair, Committee of European Banking Supervisors

Appendix

General Comments

Before presenting specific comments, we would like to underline some key remarks on the exposure draft.

First, we welcome the decision of the Boards that respondents should assume that the framework's authoritative status will be elevated in the US GAAP hierarchy to be comparable to the status of the Framework in IFRS. We reiterate our strong preference for a high authoritative status to be accorded to the Framework. In that respect, we support the placement of the Framework at the IFRS level, i.e. IFRS and US GAAP preparers should be required to refer to the Conceptual Framework in the absence of guidance in the standards. A discrepancy between the authoritative status of the Framework in IFRS and US GAAP might impair its implementation and understanding. We have also noted that the Boards still plan to address the issue once the Framework is almost complete. We believe that the authoritative status of the jointly designed framework is a fundamental aspect of the process and should be addressed as soon as possible in the interest of its consistent application. Moreover, we would expect that – as a matter of principle - future standards will be consistent with the Framework. Any remaining inconsistency should be explained.

Second, we would like to stress an important area of concern about the exposure draft regarding the replacement of the concept of reliability with faithful representation. As stated in our previous comment letter about the discussion paper, we would prefer to maintain the concept of reliability instead of introducing the notion of faithful representation. We are not sure that a similar definition of the concept of faithful representation is shared among market participants and this concept reduces the emphasis on the importance of reliable measurements. This aspect is addressed more fully in our detailed comments.

More detailed comments on the two chapters of the exposure draft are provided below.

Comments on Chapter 1 – The objective of financial reporting (OB)

We acknowledge that the objective of financial reporting is more broadly defined compared to the objective set out in the discussion paper. The objective of financial reporting is to provide financial information to "capital providers" (including equity investors, lenders and other creditors) while it was limited in the discussion paper to provide "information useful in making investment and credit decisions". A wider range of users is concerned with financial reporting. We believe that this definition is more appropriate than the definition previously suggested.

As already mentioned in our previous comment letter about the discussion paper, CEBS is convinced that the accountability of management to owners and creditors for the custody and safekeeping of the entity's economic resources, and for their efficient and profitable use in past periods, is a key aspect of financial reporting for users and preparers, as well as for corporate governance more generally. In this regard, we recognize that the exposure draft more

clearly addresses the assessment of management's stewardship as an important component of the objective of financial reporting. We support the proposal of the Boards made in the exposure draft on this aspect.

In the same way, although the exposure draft states that financial reporting helps users to make an assessment of future cash flows less prominence is given to this component of the objective of financial reporting compared to the discussion paper. We welcome this change, which we regard as an improvement. Further the exposure draft mentions liquidity and solvency as other components of the objective of financial reporting (OB16 and OB23), concepts that we fully support. Indeed, assessment of the solvency of financial institutions, and other counterparties to financial transactions, is fundamental to the operation of the economy.

We noted that the exposure draft does not provide a complete definition of financial reporting. Financial statements are for instance included in financial reporting as stated in OB3. However the Boards intend to consider the boundary of financial reporting in a later phase of the conceptual framework project. We still recommend, as mentioned in our letter about the discussion paper, that the IASB should clarify this concept and consider very carefully the legal implications of the replacement of the notion of financial statements with the wider notion of financial reporting before making any final decision on the issue. Indeed this could have very material impacts on the ability of other authorities to impose specific financial reporting without being compliant, necessarily, with the IFRS as well as, potentially, on audit requirements.

Comments on Chapter 2 – Qualitative characteristics of Decision-Useful Financial Reporting Information (QC)

The qualitative characteristics are split into fundamental and enhancing qualitative characteristics. We noted that the Boards give a more balanced prominence to each fundamental qualitative characteristic - relevance and faithful representation. We welcome this reorganisation that depicts more clearly the attributes of useful financial information. We agree with the equal prominence given to the fundamental characteristics and with the characteristic of verifiability being placed separately from the faithful representation concept in the proposed framework.

In addition, we welcome the more appropriate balance between predictive value and confirmatory value contained in the definition of relevance.

However, as set forth in the former discussion paper, the exposure draft proposes to replace the concept of "reliability" with "faithful representation", while deleting "prudence" and "substance over form" as explicit components of this qualitative characteristic.

We have already expressed our concerns in our previous comment letter on this change. We believe that the concept of "faithful representation" does not have a clear and internationally accepted meaning. Notably, we are concerned that the redefined notion might not convey with the same force as "reliability" the paramount importance of expert and critical judgment needed, especially in challenging areas of recognition and measurement such as deriving fair values of illiquid instruments - as it can be observed in the current financial environment.

In the same way, we still believe that the definition of verifiability should be reinforced. We think that it should be additionally specified that the consensus between knowledgeable and independent observers should be based on reliable input in order to constitute verification.

Finally, as stated in our previous comment letter about the discussion paper, we believe 'substance over form' is a key qualitative characteristic of high-quality financial information and as such should be retained as a distinct feature of the framework. While we agree that faithful representation cannot be inconsistent with substance over form we are of the view that it is important to maintain and explicitly mention this important and well accepted concept in order to avoid giving the impression that the new Framework has changed in that respect.