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Dear Madam, dear Sir

Discussion Paper Preliminary Views on an improved Conceptual Framework for Financial Reporting – The Reporting Entity

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 Discussion Paper Preliminary Views on an improved Conceptual Framework for Financial Reporting – The Reporting Entity.

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.

The comments put forward in this letter and in the 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. Ian Michael of the UK FSA. If you have any questions regarding our comments, please feel free to contact Mr. Elbaum (+33.1.4292.5801) or Mr. Michael (+ 44.20. 7066.7098).

Also, I would like to take this opportunity to express, on behalf of the Committee, my gratitude to the Board and Chairman Tweedie for granting us, per the letter of 2 October, additional time to prepare our answer.

Yours sincerely,



Kerstin af Jochnick
Chair, Committee of European Banking Supervisors

Appendix

General Comments

First of all, we would like to welcome, as already pointed out in our comments regarding Phase A, the suggestion 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. In that respect, we reiterate our strong preference for a high authoritative status to be accorded to the Framework and support the status it has in IFRS, where preparers are 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 noted that the Boards 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.

Against this background CEBS would like to express its support for the efforts undertaken by the IASB and the FASB to develop a common conceptual framework. It is recognized that this project interacts with many other projects that both Boards currently work on and that concepts defined or developed in this or in another phase of the work on the framework have an impact on other areas and vice versa. At the same time the Boards should avoid potentially confusing inconsistencies between any of the concepts or notions in this or in other projects that are being worked on, as we felt was the case with the notions of control used in the present context and in the consolidation project.

CEBS does not comment on all the questions raised in the Discussion Paper but rather addresses only those issues that are considered to be most relevant.

Questions 1 and 2: Section 1: The reporting entity concept

CEBS agrees that a reporting entity should not be limited to business activities that are structured as legal entities.

We also support describing a reporting entity as a circumscribed area of business activity of interest to financial reporting users and the link to the objective of financial reporting. We understand that such a broad description would allow, for example, inclusion of special purpose entities in the concept of reporting entities. At the same time we would presume that the description would not preclude applying the concept to unincorporated branches or sole proprietorships.

Questions 3 -7: Section 2: Group reporting entity

We understand that the composition of a group reporting entity is based on the "control" of one entity over another. At the same time the working definition of "control" would be specified in the conceptual framework to be 'the ability to direct the financing and operating policies of an entity, so as to access benefits from that entity (or to reduce the incidence of losses) and increase, maintain or protect the amount of those benefits (or reduce the amount of those losses)'.

Were this concept to be agreed by the Boards, they should ensure that there is not a conflict with concepts or notions used in the current standards or future due process papers, where the concept of control is of relevance. In particular we see links with the IASB consolidation project, the goal of which is to publish a single IFRS on consolidation to replace IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation- Special Purpose Entities. We suggest in particular that the Boards consider how the proposed concept of control could be considered to contain the notion of 'risks and rewards'.

Questions 8 – 10: Section 3: Parent entity financial reporting

CEBS agrees that the presentation of consolidated financial statements should be made from the perspective of the group reporting entity, as compared to the proprietary perspective where no distinction is drawn between the entity and its owners and non-controlling interests would not be captured in the consolidated financial statements.

The Boards should ensure in that context that there are no inconsistencies between the project and other phases of the conceptual framework, in particular Phase B (Elements and Recognition).

Consolidated financial statements are of paramount relevance to providing decision-useful information to users of financial reports. But at the same time CEBS is of the view that the conceptual framework should allow the presentation of parent-only financial statements provided that they are included in the same financial report as consolidated financial statements. This might be of specific relevance to particular equity investors, lenders and other capital providers.

In addition, parent-only financial statements, apart from the fact that they are required by law in many jurisdictions, are also of interest to banking supervisors – in addition to specific regulatory reporting– to assess the ability of a parent to provide support to its subsidiaries.

Question 11 – 13: Section 4: Control issues

Control of an entity is based on the ability to direct an entity and to access the benefits from that entity. Establishing the existence of control involves assessing all the existing facts and circumstances. CEBS considers that it should be clarified that the factors and circumstances that have to be considered in this assessment also include risks (as foreseen in the existing risks and rewards models).