

31 January 2010

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Dear Madam, dear Sir,

Request for Views on Effective Dates and Transition Methods

The European Banking Authority (EBA), which has come into being as of 1 January 2011 and taken over existing and ongoing tasks and responsibilities from the Committee of European Banking Supervisors (CEBS) and a number of new competences¹ - welcomes the opportunity to comment on the IASB's Request for Views on Effective Dates and Transition Methods.

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. Effective dates and transition methods have a significant impact in the context of the transition from one standard or set of standards to another and therefore their implications need to be carefully considered.

We have carefully considered this Request for Views from the perspective of banking supervision, and in particular, in light of the relationship between financial reporting and prudential regulation. In this regard, our views are shaped by the need to balance the need for sufficient preparation time (allowing for supervisory systems and process changes, training and education, and the development of any necessary policy and guidance changes), and the need for timely adoption of the new/revised standards in order to provide more relevant, reliable and comparable financial reporting.

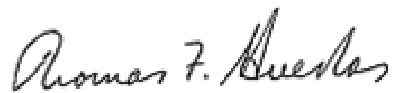
Given this context, we favour the consideration of a single adoption date, but also recognize the practical constraints to this alongside the merits of sequential adoption employing logical groupings of standards. We understand that early adoption might impede comparability between firms, but at the same time there are merits in facilitating early adoption of new or modified standards as they are supposedly superior to the existing ones. In any case, appropriate disclosures should allow users to understand the impact of early adoption. The IASB should adopt a general policy concerning the so called "early adoption" option, in order

¹ These competences include preventing regulatory arbitrage, guaranteeing a level playing field, strengthening international supervisory coordination, promoting supervisory convergence and providing advice to the EU institutions in the areas of banking, payments and e-money regulation as well as on issues related to corporate governance, auditing and financial reporting.

to apply an approach consistent over time and worldwide considering that this option has so far generally been provided by the IFRS transition rules

The comments put forward in this letter and in the appendix have been coordinated by the EBA's Expert Group on Financial Information (EGFI) chaired by Mr. Didier Elbaum (Deputy Secretary General, Autorité de Contrôle Prudentiel) - in charge of monitoring any developments in the accounting area and of preparing related EBA positions - and in particular by its Subgroup on Accounting under the direction of Mr. Michel Colinet of the Belgian CBFA. If you have any questions regarding our comments, please feel free to contact Mr. Elbaum (+33.1.4292.5801) or Mr. Colinet (+ 32.2.220.5247).

Yours sincerely,

A handwritten signature in black ink, reading "Thomas F. Huertas". The signature is written in a cursive style with a large initial 'T'.

Thomas Huertas
Alternate Chair of EBA

Appendix

General comments

The EBA would like to note that the opinions expressed hereafter are purely indicative and technical and obviously without prejudice to any future EU endorsement decisions, in particular that of IFRS9 and IFRS4. Ultimately the application dates at EU level will be determined as part of the EU endorsement mechanism.

Responses to questions

Q1. Please describe the entity (or the individual) responding to this Request for Views.

For example:

(a) Please state whether you are primarily a preparer of financial statements, an auditor, creditor or other user of financial statements (including regulators and standard-setters). Please also say whether you primarily prepare, use or audit financial information prepared in accordance with IFRSs, US GAAP or both.

[...]

(d) If you are an investor, creditor or other user of financial statements, please describe your job function (buy side/sell side/regulator/credit analyst/lending officer/standard-setter) your investment perspective [...], and the industries or sectors you specialize in, if any.

(e) please describe the degree to which each of the proposed new IFRSs is likely to affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors and creditors might explain the significance of the transactions to the particular industries or sectors they follow).

The European Banking Authority (EBA) acts as a hub and spoke network of EU and national bodies safeguarding public values such as the stability of the financial system, the transparency of markets and financial products and the protection of depositors and investors and thus falls in the category of other users of financial statements, or more specifically in the category of regulators.

Banking supervisory authorities are important users of financial statements; they use financial statements as an important source for information on banks' activities and risks. In addition, financial statements are used to verify or supplement information gathered as part of prudential returns.

At the same time, accounting figures form the basis for prudential returns including the calculation of prudential ratios such as capital adequacy and minimum capital requirements. This impact of accounting on these measures will depend on factors specific to regulated firms such as the nature of their business activities, capital structures, size and complexity. Consequently IFRS changes – in particular those in relation to the accounting for financial instruments – have a direct impact on figures reported in prudential returns.

Traditionally supervisors strive to keep the link between financial and prudential statements as close as possible; not least in order to take advantage of the fact that financial statements are audited and to limit the administrative burden for reporting entities.

More specifically it should be noted that the EBA's predecessor CEBS has developed a framework for financial reporting for supervisory purposes (known as "FINREP"). This framework consists of a set of reporting formats ("templates") based on the International Financial Reporting Standards (IFRSs). Currently, FINREP is designed to be applied by credit institutions when preparing their supervisory financial returns under IFRS

FINREP also forms part of the basis for the data collection of the new European Banking Authority (EBA) and the European Systemic Risk Board (ESRB) which have been established by recent reform of the EU financial supervision architecture.

It is therefore in the interest of both supervisory authorities and supervised entities that FINREP reporting formats remain to the largest extent possible consistent with the effective IFRSs. This consistency increases the quality of the data and reduces the implementation and development costs.

Irrespectively, CEBS announced in December 2010 that a new revised framework version of FINREP (rev3) will be published, by the new European banking Authority (EBA) by the end of 2011 with an application date of 1 January 2013. This revision will, to the greatest extent possible, take into account all relevant IFRS amendments with the same application date, provided they are endorsed at EU level. This is also to allow supervised entities sufficient time to prepare for the new release of FINREP.

Any changes in IFRS therefore will have significant effects on supervisory reporting.

Q2. Focusing only on those projects included in the table in paragraph 18 above:

(a) Which of the proposals are likely to require more time to learn about the proposal, train personnel, plan for, and implement or otherwise adapt?

(b) What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?

(a) The following standards, prioritised in order of importance are likely to require significant investment by preparers in the banking industry in terms of training personnel, planning and implementation challenges:

1. Financial Instruments;
2. Fair Value Measurement;
3. Insurance Contracts, Consolidation and Joint arrangements;
4. Leases;
5. Revenue Recognition and Post Employment benefits.

(b) We provided a qualitative indication of the costs that are likely to be incurred in planning and adapting to the new requirements in our response to question 1 above.

Q3. Do you foresee other effects on the broader financial reporting system arising from these new IFRSs? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?

Many of the new or revised standards will impact the calculations required in prudential returns, in particular capital adequacy requirements, and of micro- or macro prudential measures. The discussion on effective dates and transitional arrangements should pay due consideration to the forthcoming regulatory changes.

More generally, we encourage the IASB to continue its outreach with regulators with a view to ensuring that regulators have sufficient time to monitor the impact of modified accounting standards on the regulatory framework.

Other indirect impacts are on auditing standards and on the work to be carried out by external auditors.

Q4. Do you agree with the transition method as proposed for each project, when considered in the context of a broad implementation plan covering all the new requirements? If not, what changes would you recommend, and why? In particular, please explain the primary advantages of your recommended changes and their effect on the cost of adapting to the new reporting requirements.

In general, the EBA recognises the principle of retrospective application as the default approach as it usually ensures maximum comparability of financial information over time. However, as the IASB mentioned, retrospective application can be very costly for reporting entities due to the effort required to gather relevant historical data, and overcome information systems limitations that may exist. In some cases this may even be impracticable or impair reliability of the information provided.

For that reason, the Board is encouraged to adopt a more pragmatic approach. In cases where retrospective application is highly burdensome or impracticable (using the concept in IAS 8) or no sufficient time could be allocated, the Board could allow for the application of a simplified retrospective approach, for prospective application or for a transitional period based on a prospective application (in descending order of preference).

Q 5. In thinking about an overall implementation plan covering all of the standards that are the subject of this Request for Views:

(a) Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimise the cost of implementation or bring other benefits? Please describe the sources of

those benefits (for example, economies of scale, minimising disruption, or other synergistic benefits).

[...]

(c) Under the sequential approach, how should the new IFRSs be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new IFRSs.

The EBA sees merit in having a single application date for all revised standards, to have a robust and consistent framework that does not allow for cherry-picking (if early adoption is permitted) and to reduce the reporting burden and costs.

However this approach may be difficult to achieve in practice and potentially delay the implementation of several important projects.

If a single adoption date cannot be achieved for all standards, then different adoption dates for different cohorts of standards could be used (e.g. *Financial Instruments, Revenue, Leases and Insurance* on one date, *Consolidation and Joint Arrangements* on another date and so on). The EBA also thinks that under a sequential approach certain standards should be implemented concurrently - namely IFRS 4 and IFRS 9 in order to limit accounting mismatches between insurance assets and liabilities. These two standards, along with Leases, will require an element of balance sheet 'reconstruction', which may be better adopted in the same period.

It should be noted that CEBS previously has expressed the view that for the implementation of phase 2 of IFRS 9 entities will need sufficient time to prepare and adapt their systems to the new standard, as well as, in certain cases, collect data necessary for the determination of estimates. In some cases reporting entities may need sufficient lead time to adapt themselves to the possible economic consequences of the new standards, without causing disruptions that might become a source of concern from a supervisory point of view

Against this background, the EBA encourages the IASB to finish the projects subject of this Request for Views by 30 June 2011.

Q 6. Should the IASB give entities the option of adopting some or all of the new IFRSs before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

The EBA recognises that early adoption offers flexibility to the entities in the application of the standards, especially for the first-time adopters. This view has also been taken by CEBS when commenting on proposed new accounting standards.

At the same time, we note that there is a trade-off between the flexibility offered by the option to early adopt and the potential loss in comparability between preparers of financial statements. The latter could erode the ability of users (including prudential supervisors and regulators) to have comparable data. The loss of comparability would probably even be worse in the sequential approach, making it more difficult to keep track of which entity early-adopted what, than in

the single adoption approach. On the other hand, there are merits in facilitating the early adoption of new or modified standards as they are supposedly superior to the existing ones.

If early adoption were to be permitted nonetheless, it has to be subject to sufficient disclosure requirements to enable the user to understand the impact of early adoption.

In any case, new or revised standards that are linked to each other or have an impact on similar instruments should be treated in the same way regarding early adoption avoiding the risk of cherry picking.

For the future it is important that the IASB will define a general policy on the implementation of IFRS (in the Framework and in the due-process statute). In particular, a general policy should be adopted concerning the so called "early adoption" option, in order to apply an approach consistent over time and on a global basis considering that this option has so far been generally provided by the IFRS transition rules.

Q7. Do you agree that the IASB and FASB should require the same effective dates and transition methods for their comparable standards? Why or why not?

Ideally the IASB and FASB should strive for aligning application dates for their common projects. However it seems difficult to achieve in practice. Indeed, the Boards are not always at the same level of progress (e.g. insurance project) or do not fully agree on the content of the projects (e.g. financial instruments).

Q8. Should the IASB permit different adoption dates and early adoption requirements for first-time adopters of IFRSs? Why, or why not? If yes, what should those different adoption requirements be, and why?

To avoid unnecessary inconvenience and to limit the cost of convergence to IFRS for countries which adopt IFRS for the first-time, early adoption of new/revised standards could be permitted as an exception, in order to avoid that these countries make two significant changes in quick succession.