European Association of Co-operative Banks
Groupement Européen des Banques Coopératives
Europäische Vereinigung der Genossenschaftsbanken

Committee of European
Banking Supervisors

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Consultation Paper (CP 06) on a Standardised Consolidated Financial Reporting Framework

Ladies, Gentlemen

The European Association of Cooperative Banks (EACB)[1] welcomes the CEBS's initiative to consult the industry on its proposal for a Standardised Consolidated Financial Reporting Framework.

The EACB gladly takes the opportunity to give you its comments. We are ready to continue our discussions with CEBS on these issues.

Yours sincerely

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Secretary General

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[1] The European Association of Co-operative Banks represents over 4.500 co-operative credit institutions active in all the EU Member states and serving over 100 Million customers. Its member organisations are decentralised national networks of small-sized Co-operative banks' networks, which have a strong presence on a local or regional level. They account for a large part of the SME and private household credit market (17%) and thus play a crucial role within the Internal Market.

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GENERAL REMARKS

In principle, the EACB supports the idea of an EU-wide harmonisation of financial reporting on the basis of IFRS consolidated financial statements, which should aim at improving the comparability of company data and thus to ensure a level playing field on the European Internal Market for financial services. In this respect, the numerous financial reporting requirements, which exist in the different EU Member States, should be considerably reduced and processes be made more efficient.

We underline at this point that CEBS should remain consistent with the scope set by Regulation 1606/2002/EC and thus abstain from any measures that would push banks not covered by the Regulation to apply IAS/IFRS.

We are of the opinion that the CEBS proposal has fallen short of the stated objectives and it is our view that the proposed approach, as it does not contribute to harmonization and would lead to substantially increased administrative burden. It should therefore be reconsidered and not be adopted in its present form for the following reasons:

- In our view, genuine harmonisation of financial reporting can only be achieved, if rules are adopted which are equally valid for all credit institutions throughout the EU and which are not supplemented or changed by additional requirements and national specificities.

  Yet, the present consultation paper proposes a comprehensive and extremely detailed list of the content of financial reporting, which also includes many national specificities. It is then up to each national supervisory authority to decide, which data they elect to chose from the list for the reporting requirements of their national credit institutions. Furthermore, the national supervisory authority has the option to formulate additional reporting requirements, going beyond the information items contained in the already comprehensive framework for financial reporting.

  Consequently, the great number of existing divergent reporting national requirements would continue to exist in the future, which would not contribute to creating a level playing field.

  While CEBS aims at easing the burden for cross-border banking groups, the approach chosen by CEBS through its relative lack of harmonised application of the same reporting requirements throughout all Member States would actually increase the burden for the banks concerned, particularly in the case of a cross-border consolidation. Indeed, the necessary changes would require new accounting projects, which, for banking groups active across borders, would involve IT-personnel, accountants and managers worldwide. Such projects would be costly and certainly take up 2 to 3 years time.

- We are in principle favourable to the idea of using IFRS as a basis for a future harmonized financial reporting framework for listed banks that prepare consolidated financial statements. As CEBS rightfully stated in its consultation paper, the credit sector attaches great importance to the need for reporting requirements to remain consistent with IFRS. However, we disagree with CEBS' view that this has been achieved.

  Indeed, many of the reporting content items listed go beyond the already comprehensive disclosure requirements of the IFRS and restrict a certain number of existing IFRS accounting options. This does not appear adequate. Since the IFRS already represent a comprehensive and internationally recognized set of rules, their disclosure obligations should also form the basis for the reporting requirements for a financial reporting framework for supervisory purposes. Also, practically speaking, the accounting information systems do presently not provide the items which come in addition to, or diverge from, the existing IFRS. Credit institutions would have to undertake substantial investments and administrative burden to comply with these items, which appear in no proportion to the additional information achieved. Therefore, reporting requirements, which would go beyond the disclosure requirements under the IFRS or which might even be in contradiction to the standards should not be included in a harmonized financial reporting framework at EU-Level.

We therefore encourage CEBS to take these points into consideration and to redraft the proposal accordingly.

DETAILED REMARKS

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

The disclosure requirements of the existing IFRS should also be applicable for a harmonized financial reporting framework with a view of ensuring a high degree of consistency. However, as stated in the general comments above, the information items proposed go beyond those required in IFRS. Also, it should not be CEBS' task to restrict existing accounting options through reporting requirements in the tables. This should exclusively be the privilege of National Standard Setters and the respective interpretation committees.

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

We are generally opposed to resorting to Common Practice as many items referenced to Common Practice are in fact national specificities and therefore their inclusion would be contradictory to creating a harmonized financial reporting framework. In the interest of creating a level playing field for credit institutions from all Member States, the framework should exclusively reference to IFRS, and not to any additional or contradictory information requirements.

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.

On page 4 of the consultation paper, CEBS states that the availability of data should not pose a problem, since the reporting framework would be IAS/IFRS consistent and the data assumed to be already available in the credit institutions' IT systems. We disagree with this view, as many of the suggested requirements go beyond those contained in the existing IFRS, both with regard to content and structure. They are consequently not available in the respective IT systems. As an example, we would state the case of the extensive reporting requirements with regards to Repos and Reverse Repos, as contained in Table 43.

We regard the reporting requirements arising out of the "layered approach", which combines primary statements and additional tables as particularly problematic. E.g., in the first layer, the balance sheet requires the disclosure of financial instruments according to categories (held for trading, available for sale, held to maturity, etc.), which are subdivided in the second layer according to product groups (e.g. shares, bonds, derivatives, etc.). In the third layer, they must again be subdivided, this time according to counterparties or exposure categories (e.g. governments, credit institutions, corporate, retail etc.).

The information required by the layered approach, which combines balance sheet or income statement disclosure requirements with product categories as fixed by CEBS and prudential exposure groups, is not available in this format and combination in the IT systems. The data, if it exists at all, would have to be gathered manually, resulting in considerable burden and costs.

Consequently, we suggest that the requirements should be restricted to the existing data required as a result of IFRS, which could be generated automatically and instantaneously from the accounting IT-systems.

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?

As mentioned before, the financial reporting framework can only be harmonised, if it is in a high degree coherent to the disclosure requirements of IFRS. Consequently, the content of Annex 1 should be redrafted accordingly, and, from a viewpoint of avoiding unnecessary burden, the volume and level of detail of the requirements be reduced.

Finally, for practical purposes and cost considerations, we suggest that according to the home country principle, the financial reporting requirements of the country in which the parent undertaking is established should apply for all its subsidiaries active in other Member States.

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.

The explanatory guidance restricts certain options available under IFRS in several instances (e.g. for accrued interest and interest margin). The risk in this case would be that the option favoured could become a future de-facto standard for applying IFRS, which in our perception is not adequate.

Rather, the credit institutions should have the discretion of being able to report the same option for supervisory financial reporting purposes as they apply for accounting purposes. This will ensure that supervisory financial reporting will not influence the use of accounting options by the reporting entities.