IRISH BANKERS FEDERATION

Nassau House | Dublin 2 | t: +353 1 671 5311 | e: ibf@ibf.ie
Nassau Street | Ireland | f: +353 1 679 6680 | w: www.ibf.ie

RESPONSE OF IRISH BANKERS FEDERATION TO CEBS CONSULTATION PAPER ON FINANCIAL REPORTING

8 July 2005

1. INTRODUCTION

1.0 In principle, Irish Bankers Federation supports the Committee of European Banking Supervisors' (CEBS) aim of developing a harmonised consolidated financial reporting framework, consistent with International Financial Reporting Standards (IFRS). The introduction of a common financial reporting framework will increase the comparability of reported data and thus promote a level playing field in the European financial services market. Irish Bankers Federation congratulates CEBS on seizing the opportune introduction of IFRS to initiate this project and particularly welcomes the application of the framework to consolidated reporting and the resulting consistency with bank's internal reporting systems.

1.1 The proposed framework represents a considerable divergence from the current financial reporting requirements in place in Ireland and therefore poses a significant challenge for our members. Although as stated, Irish Bankers Federation fully supports the stated aim of CEBS, we would like to highlight some general concerns expressed by the Irish banking industry to the proposed framework before responding to the specific questions posed by CEBS.

2. GENERAL CONCERNS

2.0 This project was motivated by the absence of prescribed reporting formats under international accounting standards and the desire of cross-border banking groups to have a common financial reporting framework for the collection of data prepared under IFRS to reduce the administrative burden of these banks when reporting to supervisors in different countries. Irish Bankers Federation recognises that this initiative is in response to requests made by industry participants and congratulates CEBS on formulating its' work programme to meet industry needs.

2.1 We accept that the proposed framework will inevitably represent a significant increase in the information currently reported in many jurisdictions given the wide diversity in the supervisory practices of European authorities concerning how financial information is used for prudential purposes. However, it is the firm view of Irish Bankers Federation that the scope of the proposed framework is excessive. It is imperative that the framework is restricted to information that a credit institution is required to publish in order to be IFRS compliant. Although this is the stated intention of CEBS, a considerable number of the proposed items to be reported go beyond the disclosure requirements prescribed under IFRS. Numerous references are made to IAS 39, which contains no disclosure requirements, but merely definitions of categories of financial instruments. In fact, in some cases, the level of detail required exceeds that which an institution would report to its' Board.

2.2 Irish Bankers Federation believes that all reporting items which are not produced as part of IFRS should be removed from the framework. Regulatory authorities requesting information beyond that produced under IFRS must justify this request in the context of performance of their regulatory functions. A cost-benefit analysis must also be undertaken whereby the value derived by the Regulator in requesting this additional information must be commensurate with the costs and efforts imposed on institutions. Further detail on this issue is included in our response to Question 1.

2.3 Although Irish Bankers Federation recognises CEBS' intention of creating a standardised yet flexible framework by allowing each national authority to extend the standardised reporting framework to include additional information considered necessary at the national level, we believe that this provision undermines the underlying objective of standardisation. The framework is excessive in its current format and we so no justification for allowing regulatory authorities to set additional reporting requirements. This provision will inevitably result in diverging national reporting requirements and undermine the establishment of a level playing field. The only circumstance in which the Irish Bankers Federation could support this feature would be if the framework was reduced to the Income Statement and Balance Sheet format with no additional table. If necessary, regulators could request additional information to that provided in the Income Statement and Balance Sheet.

2.4 The failure to consolidate this project with the common prudential reporting project is regrettable. Irish Bankers Federation recognises that the timing of the solvency reporting package was and is determined by the progress made on finalisation of the Capital Requirements Directive. However, we see no justification for the lack of co-ordination between the two projects given that IFRS has been effective since 1 January 2005. It is essential that the two projects are aligned to create a comprehensive reporting package. Although the two consultations have not been conducted in tandem, it is imperative that the outcomes of both consultations are amalgamated and the two projects are interlinked when conducting a second consultation or issuing a final proposal.

3. SPECIFIC COMMENTS

Our replies to the specific questions in the consultation paper are as follows:

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

As stated previously, a considerable number of the items to be reported as part of the proposed framework go beyond the disclosure requirements prescribed under IFRS. Please refer to the response of the European Banking Federation for a more exhaustive list of examples. However, one pertinent example is the requirement under Table 4 to provide information on derivatives which are held for trading, both by nature and by type. This is not an IFRS requirement.

Numerous references are made to IAS 39, which contains no disclosure requirements, but merely definitions of categories of financial instruments. Again, please refer to the response of the European Banking Federation for a more exhaustive list of examples.

There are also instances where reference is made to IFRS disclosure requirements which are not consistent with the information requested in the templates. ED 7.21, for example, stipulates that realised gains and losses should be broken down by certain categories of financial instruments and disclosed on a net basis. The template for the income statement, however, requests gains and losses to be divided into groups of financial instruments and reported on a gross basis. This approach reflects neither the requirements of ED 7.21 nor normal banking practice.

In a number of tables, the reference column indicates supervisory rules that have not as yet been finalised, such as Article 86 of the Capital Requirements Directive. In these cases, the Directive's envisaged rules on exposure groupings are incorporated in the templates with certain product categorisations and accounting rules. This combination creates new reporting requirements which reflect neither accounting nor supervisory disclosure rules and request information which is not available in this form in banks' IT systems.

CEBS' intention is that all of the options offered by the international accounting standards are also available in the financial reporting framework. However, some of the proposed requirements have the effect of restricting existing flexibility and accounting options. Again, please refer to the response of the European Banking Federation for a more exhaustive list of examples. However, one example is the treatment of interest income and interest expenses from trading transactions. IFRS allows interest income and interest expenses to be allocated to either the interest income or trading. The template for the income statement, in contrast, requires mandatory reporting under interest income. We do not believe it is the intention of CEBS to influence how certain accounting options are exercised.

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

Irish Bankers Federation opposes the inclusion of any item referred to as "Common Practice". In the first instance, Irish Bankers Federation does not believe that reference to 'common practice' is appropriate as some of the items referred to are not common practice amongst our members. One example being the requirement to separately monitor or record gains and losses from exchange difference revaluations.

Furthermore, as IFRS has only recently been implemented across Europe we believe that it will take time for a so called 'common practice' to emerge. New disclosure requirements should not be set under the auspices of the term 'common practice'.

Irish Bankers Federation believes that all reporting items which are not produced as part of IAS/IFRS should be removed from the framework. This includes any item referred to as "common practice".

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.

As stated, some of the proposed reporting requirements exceed the existing IFRS rules both form and content and consequently some of the requested data is not readily available in the IT systems of our member banks.

Examples include the extensive information required in relation to repos and reverse repos in Template 43. Member banks have highlighted difficulties in complying with the requirements under the "layered approach" to balance sheet and profit and loss data.

Further examples include the CEBS-specific product categorisations and prudential exposure classifications required as part of the balance sheet data. This data is not available in the central databases of our member banks in this form.

The requested breakdowns of profit and loss items (e.g. the detailed subdivision of interest income and interest expense by certain groups of financial instruments or the breakdown of the trading result by product categories specified by CEBS) are not available or can only be accessed

IRISH BANKERS FEDERATION

manually. Examples include the details required on derivatives and hedge accounting in Templates 4, 9 and others. This would require extensive input from individual group subsidiaries, which must then be consolidated by the parent company in a time-consuming and labour-intensive process.

In light of the examples provided above, which are by no means exhaustive, we again re-iterate the importance of restricting the framework to data which is already compiled for the purposes of complying with IFRS disclosure requirements.

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?**

It is the view of Irish Bankers Federation that regular supervisory reporting in the manner set out in the proposed framework does not strike an appropriate balance on the degree of detail of the information requested.

Irish Bankers Federation fully supports the underlying objective of the proposed framework. However, we have reservations as to whether the stated objective of creating a harmonised framework is in fact achieved under these proposals.

Although IFRS does not prescribe a structured presentation format, in our view it is likely that presentation styles will converge. This being said, we fully recognise the benefits of creating a harmonised financial reporting template. However, we believe that the income statement and balance sheet format should be used as the starting point within this process. CEBS could review the framework after an initial phase-in period with a view to gradually introducing the additional templates.

At the very least, external financial reporting should be harmonised based on IFRS disclosure requirements only. Steps should be taken to reduce the high volume and level of detail and achieve as much consistency as possible with the information-oriented disclosure required under IFRS.

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.**

Irish Bankers Federation welcomes the explanatory guidance provided. This guidance promotes a common understanding and application of the framework across the EU. However, we do not consider it appropriate for CEBS to prescribe guidance that restricts options available under accounting standards. Examples include the treatment of accrued interest whereby IFRS allows separate reporting in the balance sheet or offsetting against the financial instruments to which the accrued interest relates. The explanatory guidance however requires reporting entities to report accrued interest as a separate item in the balance sheet. As stated in our response to Question 1, we do not believe it is the intention of CEBS to influence how certain accounting options are exercised.