FEDERATION
BANCAIRE
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The Deputy Director General

July 8th, 2005

Object : FBF Response to CEBS Consultation Paper on Financial Reporting – CP06

Dear Mr Roldan,

The FBF welcomes the opportunity to comment on CEBS Consultation Paper on Financial Reporting – CP06.

We were pleased to be involved to the early stages of the project : two invitations to CEBS FinRep Sub-Group meetings in October and December allowed representatives of European banking associations to express their support to a harmonised IFRS-compliant supervisory financial reporting framework. It was also an opportunity to exchange views with European supervisors on the way to achieve such ambitious objective.

We were therefore all the more disappointed by the proposed consultation paper. Very few comments had been retained by CEBS FinRep Sub-Group in drafting its set of financial statements and related tables.

In particular, the consultation as it is currently drafted does not meet CEBS objective to harmonise reporting requirements in Europe. It raises several major issues in terms of organisation (IT systems, human resources…), which we believe need to be pointed out again, as they imply significant costs and technical difficulties :

- the 48 template-project is much too detailed. In general, many requirements go far beyond IFRS disclosure requirements, and some of them are not consistent with IFRS or reduce the flexibility allowed by IFRS ;

Mr Jose Maria Roldan
Chairman
Committee of European Banking Supervisory
Floor 18, Tower 42
25 Old Broad Street
London EC2N 1HQ

./…

18, rue La Fayette 75440 Paris cedex 09 • Tel. 01 48 00 52 52 • Fax 01 42 46 76 40
Minitel 3617 AFB1 • Télex : 660 282 F • www.fbf.fr

- some requirements are based on "Common Practice", the degree of commonality of which is often questionable among European supervisors (some of these requirements are only requested by a few supervisors), and which do not correspond to banking "common practice": these requirements should be removed ;

- a large proportion of the information requested under the proposed templates is not available in the consolidated IT systems of banks, if available even in IT systems of their subsidiaries ;

- the flexibility left to national supervisors to choose the degree of detail that will be required in their implementation of the FinRep scheme leads to an increased reporting and compliance burden for banking groups that are active in more than one country : harmonisation of financial reporting cannot be achieved without a preliminary way towards harmonisation of supervisory practice regarding reporting requirements.

We hope that these concerns will be addressed by CEBS after this consultation, which we consider only as a first step. We are confident that the European banking industry will be provided with a second, reduced and rationalised, proposal.

You will find our detailed comments to the questions raised by the consultation paper in the attached appendix.

Yours sincerely,

Pierre de Lauzun

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FBF RESPONSE TO CP06 : APPENDIX

GENERAL COMMENTS

- **Many requirements are not based on disclosure requirements under IAS / IFRS** but on definitions (IAS 39, paragraph 9), measurement provisions (IAS 39, paragraph 46 (c)), or on the implementation guidance of the standards, which is not in itself part of the standards. Three templates also refer to the ECB regulation 2001-13 related to consolidated balance sheet of Financial Monetary Institutions, which requires data from credit institutions only on an individual basis.

- **The accumulation of disclosure requirements** according to different layers of breakdowns (accounting breakdown such as IAS categories of financial instruments, prudential breakdowns such as draft Capital Requirement Directive...) comes up against technical problems linked to the size of the consolidated ledger, the possibilities of extension of which are limited.

- The granularity of requirements, in particular those where the information is requested according to two or more layers of breakdowns of different nature, is a key issue : it implies that the architecture of accounting IT systems will have to be modified in several banking groups, which requires **time (at least three years, that is to say until end 2008)**; the problem is increased for co-operative groups, for which the parent-undertaking is also supervised on an individual basis.

- The increase of disclosure requirements on a consolidated basis needs to be connected with **a proportional reduction of statutory disclosure requirements**, which should also be rationalized.

- In some cases, European supervisors impose a presentation where IAS / IFRS leave options. The restriction of such options is not acceptable, insofar as it could lead either to a double IT system framework for credit institutions that chose a different option from that decided by CEBS and already implemented it, or to an imposed presentation format, not necessarily linked with the management and reporting practices. In both cases, **it implies an unjustified additional cost**. An example of this imposed presentation is the case of accrued income and expenses from trading activities, which can be presented in the income statement under IFRS either in the interest margin, or in the trading profit or loss. In Template 2 and 26 of the draft FinRep project instead, the only presentation allowed is in the interest margin.

- The French accounting standard-setter made a Recommendation in 2004 on the presentation of IFRS-compliant financial statements for credit institutions. This Recommendation proposed a pattern for the balance sheet, the income statement, the cash flow statement and the statement of changes in equity. After a 5 month-consultation, the French Banking Commission decided in March 2005 to adopt these patterns for its new IFRS-compliant consolidated prudential reporting, at least until the FinRep project is finalised. French banking groups, which initiated and participated to the elaboration of these patterns, have therefore implemented IT developments in order to disclose their 2005-financial statements according to these patterns.

  In some cases, the presentation in the FinRep set of financial statements differs from that in the CNC Recommendation, not only in terms of order of the item in the statements, but also in terms of grouping or splitting of items. The change in the presentation in order to be compliant with the FinRep presentation requirements will imply further IT developments and costs, which are not necessarily balanced by increased relevance. This should be taken into account in the national implementation of the FinRep project.

COMMENTS ON THE 48 TEMPLATES OF THE DRAFT FINREP PROJECT

Table n°	Titel	Comments
1	Consolidated Balance Sheet Statement	- Granularity problem and requirements not linked with any disclosure requirement set forth in the IAS / IFRS Standards. - « Accrued income from financial instruments » and « Accrued expenses from financial instruments »: under IAS these amounts may be offset against the financial instruments to which they relate, and imposing their separate reporting in the balance sheet comes to restricting a flexibility provided by IFRS. It is all the more unacceptable than not all European supervisors agree with this restriction. - Excessive detail required for liability provisions.
2	Consolidated Income Statement	- Accrued income and expenses from trading transactions are included in the interest margin, which raises significant technical problems to several credit institutions, in particular as regards derivatives. IAS provide the option to allocate these accrued amounts either in the interest margin or in the trading result; European supervisors are not speaking with one voice on that matter. - The place of certain items in the proposed income statement does not correspond to that recommended by the French accounting standard-setter (the CNC) in 2004, which will be used by banks from 2005 for their financial statements to the market and to the French Banking Commission: gains and losses on fixed assets are included in the « gains and losses on derecognition of assets other than held for sale » subdivision in the draft FinRep project, whereas they are presented lower in the income statement in the IFRS-compliant French income statement. - All types of dividend income are presented together in a separate subdivision whereas in France they are connected to the correspondent category of financial instrument. - There are some discussions in France about where to present the decrease during the period in the discounted amount arising from the passage of time. This issue is not addressed in the draft FinRep project.

3	Financial assets held for trading	- Granularity problem and requirements not linked with any disclosure requirement set forth in the IAS / IFRS Standards; as regards granularity, the breakdown « corporate » / « retail » would be a major issue. - Banks ask for lines « non credit institutions », « corporate » and « retail » to be reduced to one single line. - In practice, banks will include investment firms into the « credit institutions » category
4	Derivatives held for trading	- This template is too detailed and the information required is different from that currently required in the French reporting scheme (the breakdown by type is not automatically available in the consolidated general ledger, although it may be accessed in individual sub ledgers) - A breakdown by nature of instrument would be sufficient. Nevertheless, it can raise problems of interpretation for complex products. - We do not consider the point of requiring a separate disclose of notional amounts for assets and liability. One column would be sufficient.
5	Financial assets designated at fair value through profit or loss	- See comments on Template 3
6	Available-for-sale financial assets	- See comments on Template 3 - The column « Impairment » comes from an interpretation of IAS 39.
7	Loans and receivables (including finance leases)	- See comments on Template 3. - The breakdown of allowances for collectively assessed financial assets by CRD portfolio is difficult to achieve. The total amount would be available. - The breakdown of the fair value amount according to the required granularity is not available in IT systems. ED 7 requirements only concern groups of assets and do not include complex breakdowns by counterparty ; Allowances for collectively assessed financial assets

		may be broken down by geographic area and a further breakdown by counterparty is then not required.
8	Held-to-maturity investments	- See comments on Template 7
9	Derivatives used for hedging	- See comments on Template 4 (except for that on notional amounts) - We wonder about the usefulness of such detail
10	Accrued income and expenses from financial instruments	- See comments on Template 2. - It is problematic to fill in the template with information related to accrued income / expenses on derivatives used for trading.
11	Property, Plant and Equipment	- Information not available in IT systems.
12	Investment property (IP)	- The reconciliation of lines with columns is difficult to achieve.
13	Goodwill and other intangible assets	- We believe that lines « Additions from internal development » and « Additions from separate acquisition » should be turned into one single line in Table A et B, given the requested detail by column. - The French Banking Commission seems to agree with this position.
14	Investments in associates, subsidiaries and joint ventures	- IAS 28 requires the total amount of investments and not a breakdown by category (associates, subsidiaries and joint ventures): Tables B to D should be removed. - The concept of « Revenue » is not clear, in particular as regards insurance companies. To be specified.
15	Tax assets and tax liabilities	- Requirements in this template go far beyond IAS 12 requirements. Credit institutions disclose information on that matter according to their own analysis. - The French Banking Commission seems to care about Table B V in particular. - N.B. This template is based on the work done by a working group that is not part of CEBS (WG III du

		European Committee Central Balance Sheet Office).
16	Other assets	- No specific comment on this template
17	Non-current assets and disposal groups classified as held for sale	- The level of detail requested goes beyond IFRS 5 requirements. To be reduced (number and size of the templates). - We wonder how the separate column « Subsidiaries » is to be understood: is it an extract from the table that comes before?
18	Financial liabilities measured at fair value through profit or loss	- This template and the two following ones refer to requirements under ECB Regulation 2001/13 which does not apply on consolidated basis, but to each financial monetary institution. - We query about the relevance of requiring the own credit risk of the credit institution on deposits from external counterparties: these requirements should be removed. - CRD breakdown refer to risks (assets) and not to liabilities: the requirements related to liabilities should be removed.
19	Deposits from credit institutions	- See comments on Template 18. - The breakdown by CRD portfolio is difficult to achieve, especially as regards the fair value amount.
20	Deposits from non credit institutions	- See comments on Template 19.
21	Debts certificates including bonds	- The breakdown by CRD portfolio is difficult to achieve, especially as regards the fair value amount.
22	Subordinated liabilities	- We query about the usefulness of this template, given the refaction effects; information will only be available manually. - The breakdown of the fair value amount is problematic.
23	Financial liabilities associated with transferred assets	- No specific comment on this template

24	Provisions	- See comments on Template 1 (balance sheet) on that issue: too detailed requirements, which go beyond IAS 37 requirements.
25	Other liabilities	- We question the usefulness of requiring the disclosure of the amount of social security charges.
26	Interest income and expenses	- See comments on Template 2 (Income Statement) on this issue. - N.B. We understand that this template will be required only if the information is not already required directly in Template 2 (choice taken by national supervisors).
27	Dividend income	- See comments on Template 26
28	Fee and commission income and expenses	- Such level of detail is not available, in particular as regards securities. - This template concerns more corporate and investment banking than retail banking (what of underwriting fees, record keeping charges…?).
29	Realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss	- No specific comment on this template
30	Gains and losses on financial assets and liabilities held for trading	- No specific comment on this template
31	Gains and losses on financial assets [and liabilities] designated at fair value through profit or loss	- We would prefer one column, instead of two separate columns for gains and losses. - We question the usefulness of the 3rd column (Net amount current year)
32	Fair value adjustments in hedge accounting	- The information related to the ineffective portion of the hedge may not be available on a consolidated basis (it is available at the level of individual entities of the group, but is then included in the trading result). - We would prefer one single columns « variation of the fair value » instead of two separate columns for gains and losses. - The distinction between micro-hedge and portfolio hedge may not be available for each type of hedge. - Template to be reduced.
33	Gains and losses on derecognition of assets other than held for sale	- No specific comment on this template
34	Other operating income and expenses	- No specific comment on this template except on the usefulness of requested information
35	Staff expenses	- We query about the usefulness of requiring information on temporary staff expenses, given the heterogeneity of the Labour laws in Europe.

36	General and administrative expenses	- Too detailed: one line "total" would be sufficient
37	Profit or loss from non current assets and disposal groups classified as held for sale not qualifying as discontinued operations	- The requested information concerns cost accounting (information broken down by nature of expense) and is not available.
38	Profit or loss after tax from discontinued operations	- Information at such a level of complexity (granularity) is not collected on an automatic and regular basis (such information is only accessed on significant operations, which are by nature one-off operations). Moreover, the level chosen for such operations (Cash-Generating Unit…) is important.
39	Impairment (for all portfolios not measured at fair value through profit or loss)	- Some of the information requested in this template is already required in templates 11-13 - Table B takes up ED 7 requirements which banks criticized in their response to the exposure-draft. - The breakdown simultaneously by past due time bands and CRD category is problematic, as well as the breakdown of allowances for collectively assessed financial assets by CRD category. - The last column « Collateral and other credit enhancements received as security for the related impaired and past due assets » is also an issue. - Table C raises a problem in terms of granularity - Table D raises several issues: granularity, maximum credit and average exposures by CRD category; is redundant with CoRep. The information is not available in the banks' IT systems.
40	Maturity breakdown for liquidity risk (pending issue pillar 2 – under consideration by CEBS Groupe de contact)	- Under ED 7, only liabilities shall be broken down by maturity, lines related to assets should therefore be removed. - There is no CRD breakdown for liabilities (CRD risk portfolios only concern assets) : lines to be removed - The treatment of liquidity risk is still a pending Pillar 2 issue at CEBS.
41	Maturity breakdown for interest rate risk (pending issue pillar 2 – under consideration by CEBS Groupe de contact)	- This template is impossible to fill in (repricing dates are based on agreements). The requested information is not available in accounting IT systems: these are management data. - Same comment as on template 40 (CRD breakdown for liabilities). - Information requested on the trading book cannot be the same as that requested on the banking book because these two books are not managed in the same way. - The French Banking Commission has proposed to convert this table into a table on liquidity risk, which would correspond to Template 40 with extended

		maturities.
42	Leasing : additional information	- No comment on this template.
43	Repurchase agreements, reverse repurchase agreements and related agreements	- It is not sure whether the breakdown both by line (IAS 39 categories) and by column (type of products) is available.
44	Related party disclosures	- IAS 24 does not require information on intercompany accounts (contrary to Tables A and B) - Too much detail is required in Tables A and B (both lines and columns).
45	Defined benefit plans	- Too detailed (for each plan) - N.B. This template is based on the work done by a working group that is not part of CEBS (WG III du European Committee Central Balance Sheet Office).
46	Notional amounts on off-balance sheet commitments other than derivatives	- Problems related to the granularity (in particular, « corporate » / « retail »).
47	Cash flow statement	- This table is not in line with the recommendation made by the French accounting standard-setter (the CNC) providing patterns for IFRS-compliant financial reporting to be applied by credit institutions, which allowed much more flexibility.
48	Analysis of equity	- As far as the stock of equity is concerned (analysis of equity components, 1st table), a connexion with the CoRep project is necessary (to avoid redundant requirements and inconsistencies) - Too detailed.