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To the
Committee of
European Banking Supervisors

Vienna, 14th February 2010

CEBS – Consultation on bank disclosures

On behalf of Deloitte Austria I am pleased to provide you with comments on the CEBS consultation paper number 30 „disclosure guidelines: Lessons learned from the financial crisis“ issued on October 9, 2009 and start by setting out some general observations.

We broadly agree that in the light of the recent financial crisis past and present bank disclosure policies and guidelines warrant a detailed review and that certain improvements both in principles and content may be required. It appears without doubt that the practical application of disclosures around financial instruments should attract more attention and an increased diligence both in preparation and use of the information should be observed. This may also involve a furtherance of financial literacy by increased education. As this does not relate only to financial institutions - banks in particular - we consider it useful to broaden this discussion to all financial statements and related disclosures.

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Ad I) General principles:

1) **Up to date information:**

Assuming that this disclosure is also intended to be publicly available we are concerned that such a new requirement does not fit into the existing format of both regulatory reporting, interim reporting requirements as per IFRS, and the existing ad-hoc reporting requirements which are not as descriptive as those laid out in section II “Content” of the discussion document. Besides the potential conflicts with existing reporting requirements it is uncertain what responsibilities such a reporting may trigger for the reporting banks and it appears impossible to have this ad-hoc reporting audited or reviewed (before it is issued) as this would undermine the short term reporting goal and there are no existing financial reporting and auditing standards for such short term (ad-hoc) disclosures.

2) **Disclosures on areas of uncertainty:**

We are not sure how such a disclosure on areas of uncertainty may be accomplished on an ad-hoc basis. We sincerely believe that the existing annual and interim reporting requirements as per IFRS (in particular IAS 1.125 and various provisions in IFRS 7) are comprehensive and sufficient to address the desired outcome of enhancing the quality of information provided by financial institutions.

3) **Fully describe the financial situation:**

We would like to draw to CEBS attention that IAS 1.9 and IAS 1.112-1.133 require a comprehensive disclosure of all relevant financial information for general purpose financial statements. We do not believe that additional information and disclosures over and above those already required by IFRS and further elaborated in IAS 1.138 with respect to the business activity and the general disclosure clause in IAS 1.15 ff are necessary to meet the public information requirements. We are convinced that such information, if it were to be provided, cannot be tracked back to the financial reporting standards and can therefore not be subject to audit procedures.

4) **Comparison over time and between institutions:**

We generally agree that financial information should be comparable both over time and between institutions. Such a comparison is already required by IFRS to the extent that this is possible for general purpose financial statements applicable to all industries and businesses of all sizes. With respect to intragroup aspects (that is time wise and in case of changes in scope of business) such information will be made more easily available once the XBRL reporting format is more broadly used. We also refer to our comments to question 5 with respect to interpretations.

5) **Best practice recommendations from standard setters and regulators:**

We caution that under the existing financial reporting framework interpretations to IFRS should and may only be made by the IASB and the appropriately designated interpretation committees and that the task of interpreting IFRS should not be extended to regulators or enforcement authorities for that matter.

6) **Verification by external auditors:**

We draw your attention to the fact that the International Standards on Auditing (ISA´s) as published by the International Auditing and Assurance Standards Board (IAASB) do not allow for a differentiation in audited and unaudited parts of financial statements. Therefore, when financial statements as a whole are subject to an audit the statements and not its´ individual items are subject to such audit procedures and therefore no individual items or sections may be excluded from the overall audit scope and therefore should not be designated as either unaudited or reviewed or any other designation (ISA 700.8, 700.46&47.) Note, that other sections of the financial disclosures such as the management report or the glossy brochure and ad-hoc filings or press releases are usually not subject to audit or review procedures except for a very high level reading with a view to consistency with the audited or reviewed financial statements when they are published together.

7) **Activities under stress within the business model:**

We note that the present IFRS do not require an extensive disclosure of the business model as it is commonly included for instance in filing prospectuses under the heading “investment story” and therefore the description of the business model is usually included in the management report or the glossy brochure and not subject to full audit or review procedures for the reasons outlined above. We therefore believe that the disclosures suggested under item 7 generally would not fit for inclusion in the notes to financial statements but rather fit into the management report or other publicly available information which also implies that they are not subject to audit procedures.

As far as the disclosure refers to financial instruments either individually or as a whole there are detailed and sufficient disclosure requirements already included in IFRS 7 which are part of the notes to the financial statements and therefore subject to audit procedures.

8) **Disclosures should include clear and accurate information regarding the impacts on results and on risk exposures of the activities under stress**

Disclosures should cover:

- the precise nature of the risks incurred as well as the level of exposures related to its activities;
- detailed information on losses;
- the nature of the protection implemented or acquired to cover the risk and the quantitative impact of risk mitigation; and
- forward-looking information (institutions are encouraged to consider communicating information, possibly quantitative, that provides some insights into how the situation may evolve).

We are particularly concerned with bullet point four of the subheading and consider it virtually impractical to produce such information on an ad-hoc or close to ad-hoc basis as it generally requires extensive preparation work and similarly extensive verification work by auditors or reviewers to produce and validate the disclosures around the quantitative impact of such forward looking information. It should be noted that under the existing IFRS there is no forward looking reporting requirement (while we recognize that certain IFRS 7 disclosures require the description of the impact on current equity and financial position of certain future stress scenarios) and therefore never require preparers to include possible future impacts for the very reason that financial statements give information about the influence of past transactions and events on the current financial position. In most jurisdictions it is legally prohibited and at least highly unusual to provide quantitative figures about future expectations within a scenario presentation.

We see two significant issues:

a) The way such scenario information is provided may by itself cause market manipulation and
b) any scenario results disclosed in the financial statements may undermine the validity of the primarily reported financial information.

Thus such a requirement may lead to additional legal responsibilities of preparers and others involved in the financial reporting process.

Finally we need to note that ISA´s do not provide any guidance on the audit of forward looking information (projections, forecasts). There are a limited number of other assurance standards that deal with the verification of forward looking information, but outside ISA´s.

9) Disclosures should also include information regarding the impact on the institution´s financial position

Disclosures should cover:

-the impact of the activities in question on the level of capital and on the resulting solvency ratio; and

- the impact on the institution´s liquidity position.

We refer to our comments to item 8 but note that IFRS 7 already requires extensive disclosure on the impact on the current financial (liquidity) position of banks in particular.

10) **Financial institutions should communicate appropriately on the management of risks linked to activities under stress**

Disclosures should cover:

- a description of relevant risk management practices, including associated governance arrangements where necessary; and

- a description of any measures taken to enhance risk management processes.

We refer to item 9 and do not have additional comments.

11) **Financial institutions should be as specific as possible with regard to sensitive accounting issues**

Disclosures should cover:

- an adequate description of the accounting policies that are of particular relevance for the activities in question;

- details of relevant changes, if any; and

- detailed information where significant judgment has been applies.

As long as there is no extensive scenario disclosures around sensitive accounting issues which would undermine the quality of the primarily reported financial information we have no major concerns (see above).

12) **Disclosure should as far as possible be provided in one place with appropriate cross-references where necessary**

We fully agree that disclosures should be easy to read and understandable which may also be achieved by cross-referencing. It should be noted, however, that there may be no cross-referencing from audited information to non-audited information as this would imply that non-audited information (such as a management report or a glossy brochure or other documents) would become subject to the same audit procedures as those statements that make reference to this unaudited document or information.

13) Disclosure should be provided at an appropriate level of granularity to help achieve a high level of transparency

We have no comments to item 13.

14) Financial institutions should seek an appropriate balance between quantitative information and narrative information

We have no comments to item 14.

15) Financial institutions should continue to develop an educational approach

We are not convinced that general purpose financial statements and their dissemination to the public is a primary means of educating about financial reporting matters. While it is common practice to include a limited glossary of company specific definitions or abbreviations used, financial statements should not provide text book style IFRS education. This is a matter solely reserved to market discipline and as it is common practice in most countries and regions to publicly grant awards for annual reports issued by the financial press and other institutions we believe that there is sufficient pressure for high quality and informative financial statements and related disclosures.

As far as the call for “executive summaries” is concerned we caution that financial statements should be read in their entirety and that the drive to provide shorter and more user friendly summaries is detrimental to the overall principles as outlined in Section I of your consultation paper.

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We are, however, aware that virtually all publicly held companies prepare press releases, analyst presentations and other documents which are usually disseminated more quickly and more widely to the users of financial information/ statements than the long-form financial statements. We believe that it is up to the enforcers and regulators to assure that such documents are of the highest possible quality and provide a true and fair - albeit abbreviated and not comprehensive - representation of the entity as compared to the full financial statements which are approved and audited.

16) Financial institutions which are not exposed to the activities under stress should clearly specify that fact when this is likely to provide useful information for users in their decision-making

We refer to our comments to item 8 and like to point out that a public disclosure that certain activities under stress have no or very limited impact on the reporting entity create the same obstacles and issues both with respect to the responsibility of the preparers and the auditability as outlined before. Such statements - while they may be required to counterbalance market rumors – imply a significant risk of market manipulation or undesired guidance including an uncontrollable legal responsibility of those issuing them.

For a more detailed discussion of this comment letter please do not hesitate to contact me at +43 1 537 00 4500 or via email at ekandler@deloitte.at.

Yours sincerely

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Financial Services Industry