

24 November 2009

International Accounting Standards Board  
30 Cannon Street,  
London EC4M 3XH  
United Kingdom

Tower 42  
25 Old Broad Street  
London EC2N 1HQ  
United Kingdom  
t + 44 (0) 20 7382 1770  
f + 44 (0) 20 7382 1771  
[www.c-ebs.org](http://www.c-ebs.org)

Dear Madam, dear Sir,

### **Exposure Draft: Improvements to IFRS**

The Committee of European Banking Supervisors (CEBS), comprised of high level representatives from banking supervisory authorities and central banks of the European Union, welcomes the opportunity to comment on the IASB's Exposure Draft on Improvements to IFRS.

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.

CEBS welcomes the efforts of the IASB to improve financial reporting through the "annual improvements" process. We agree that, to avoid a series of piecemeal changes, it is better to deal with non-urgent but necessary amendments to IFRS in a single exposure draft that deals with all the issues that arise throughout the year together.

Although CEBS supports this IASB initiative, we consider that amendments included in an "improvements project" should be restricted to clarification when redrafting is necessary due to divergent interpretations and should not substantially modify current accounting treatments. Notably we believe that the Board should: i) avoid anticipating far-reaching changes that are under way in other projects and ii) ensure consistency with other projects currently on the IASB's agenda.

For instance, the proposed improvements in the qualitative characteristics of the information (IAS 8), which aim at replacing the concept of reliability by that of faithful representation, anticipate a change to be made in the conceptual framework. CEBS believes that this "improvements" process is not the right procedure for implementing such a change, given that the final version of the relevant chapter has not yet been published. Moreover we have in past comment letters to the Board stressed our concern about this replacement of the concept of reliability.

Furthermore, we have the following concerns with the proposals regarding the accounting for investments in subsidiaries, jointly controlled entities and associates in separate financial statements (IAS 27).

a) The proposal to clarify that, in the separate financial statements, the impairment of these investments should follow IAS 39 is considered troublesome given that this standard has been amended as per the adoption of IFRS 9 "Financial Instruments". With the suppression of measurement at cost and "recycling" for equity investments, there is no available impairment method for these investments.

b) The proposed change in the measurement methods would no longer allow an investment to be accounted for at "fair value through other comprehensive income" in separate financial statements. Therefore we do not support this change, which has wider implications and goes beyond a clarifying change.

Our detailed comments on the Exposure Draft (ED) have been provided in the appendix of this letter.

The comments put forward in this letter and in the related appendix have been coordinated by CEBS's Expert Group on Financial Information (EGFI) chaired by Mr. Didier Elbaum (Deputy Secretary General, Commission Bancaire) - in charge of monitoring any developments in the accounting area and of preparing related CEBS positions - and in particular by its Subgroup on Accounting under the direction of Mr. Ian Michael of the UK FSA. If you have any questions regarding our comments, please feel free to contact Mr. Elbaum (+33.1.4292.5801) or Mr. Michael (+ 44.20.7066.7098).

Yours sincerely,



Giovanni Carosio  
Chair, Committee of European Banking Supervisors

## **Appendix: Detailed Comments**

### **Measurement of non-controlling interest (IFRS 3)**

The ED proposes to distinguish i) equity instruments that are "*present ownership instruments*" and "*entitled to a pro-rata share of the entity's net asset in liquidation*" from ii) "other" equity instruments. The former are measured either at fair value (FV) or at their proportionate share of the acquiree's net assets. The latter are measured either at FV or "*other measurement basis as required by IFRSs*".

While CEBS agrees with the principle to provide clarification for the accounting of non-controlling interest and with the rationale behind the proposal, we are concerned about the process for introducing these changes into the standards. We believe that the IASB should avoid anticipating changes before the relevant project has been completed (namely, the project on financial instruments with characteristics of equity), especially when more guidance to implement this change would be welcome.

In particular, the standards currently in force does not provide clear principles or guidance to separate equity instruments that are "*present ownership instruments*" and "*entitled to a pro-rata share of the entity's net asset in liquidation*" from "other" equity instruments. Furthermore, the practical implications of measuring "other" equity instruments using "*other measurement basis as required by IFRSs*" have not been addressed in detail in the ED.

### **Deletion of the disclosure of financial assets that have been renegotiated (IFRS 7)**

The ED includes various proposals to amend IFRS 7. In this context CEBS is concerned about the deletion of paragraph 36(d) that requires disclosing "*the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated*".

The justification for this deletion is that the requirement was unclear and difficult to apply (see BC on proposed amendments to IFRS 7). While CEBS acknowledges possible cost implications for preparers, it believes that this disclosure is useful for users in allowing an assessment of the quality of assets, and that the benefits may outweigh the costs. Moreover CEBS believes that the difficulties this requirement creates should be solved by providing clarifications, as has been the case for other IFRS 7 requirements.

It should also be noted that the FASB has included a similar requirement (with additional clarifications) in its ED on Disclosures about the "Credit quality of financing and receivables and the allowance for credit losses". Given the importance of convergence on accounting for financial instruments, we believe that the IASB should consider whether similar clarifications would make this requirement easier to apply.

### **Change in the qualitative characteristics of the information (IAS 8)**

The ED proposes to modify the terminology used in IAS 8 to refer to the qualitative characteristics in order to make it consistent with that used in the yet to be published revised conceptual framework. These amendments lead to the deletion of the explicit mention of reliability.

In the CEBS comment letter to the ED on Conceptual Framework, we noted that *"we would like to stress an important area of concern about the exposure draft regarding the replacement of the concept of reliability with faithful representation"*. A similar comment was made in the CEBS comment letter on the related DP. We would like to use this opportunity to reiterate our concern about this replacement. We would prefer to maintain the concept of reliability instead of introducing the notion of faithful representation. We are not sure that a similar definition of the concept of faithful representation is shared among market participants. Furthermore, this concept reduces the emphasis placed upon reliable measurements.

### **Accounting for investments in subsidiaries, jointly controlled entities and associates at FV in separate financial statements (IAS 27)**

CEBS notes that the purpose of the proposed amendments is to clarify that, in the separate financial statements the impairment of these investments should follow the provisions of IAS 39 (and not IAS 36).

CEBS would like to emphasise that this amendment is likely to be troublesome, given the IASB's recent publication of a new standard for classification and measurement of financial assets. With the suppression of the measurement at cost and of the "recycling" for equity investments, there will be no impairment method for these investments.

Furthermore, the ED proposes to modify the measurement of these investments in separate financial statements by stating that they should be measured either at cost or at "FV through profit or loss". Currently in IAS 27, the option is either at cost or in accordance with IAS 39. Following the latter alternative, these investments are frequently classified as Available-for-sale. Therefore, the ED proposal would no longer allow these investments to be measured at "FV through other comprehensive income (OCI)", even though this measurement basis seems to be an appropriate one. This proposal remains troublesome when considering the new requirements of IFRS 9, because it appears that these investments would be typically eligible for the "FV through OCI" category. CEBS does not support this change, which we believe goes beyond that of a simple clarification.

### **Disclosures on FV in Interim Financial Reporting (IAS 34)**

The proposed amendments will incorporate into the standard an explicit reference to disclosures on the FV of financial instruments. However, the way the amendment is currently drafted is not totally clear. Indeed, it is not straightforward which information should be disclosed. It would be useful for the Board to clarify the requirement. In this regard, CEBS believes that the

Board should align the IAS 34 requirements more closely with the proposed disclosures made in the ED/2009/5 "Fair Value Measurement" which also proposes to include disclosures on FV in interim financial statements (see proposed amendment to IAS 34). We believe that this ED achieves the goal in a clearer way.