

AGENDA PAPER

IFRS Advisory Council Meeting

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TOPIC Interaction between the Financial Stability Board (and G20) and the IASB

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Interaction between the Financial Stability Board (and G20) and the IASB Presentation for October 2012 IFRS Advisory Council meeting



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IFRS Advisory Council meeting
London, UK
23 October 2012

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Presentation Topics

- **Background on the FSB**
 - The formation of the FSB; G20 request for FSB implementation monitoring and support for FSB accounting recommendations
- **Some examples of key FSB initiatives involving the IASB**
 - Early calls for enhanced risk disclosures, and improved standards for valuation, impairment and off-balance sheet entities; international dialogue in connection with the unique private sector Enhanced Disclosure Task Force; monitoring convergence progress






Financial Stability Board

Established in April 2009 with G20 Leaders' support




- **Comprised of (G20 & others):**
 - National & international regulatory authorities (eg, *finance ministries, central banks & securities authorities* in 24 key centers + EC; BCBS, IOSCO, IAIS)
 - International financial institutions (BIS, IMF, WB, OECD); ECB; key central bank expert groups (CGFS, CPSS); **IASB**
- **Seeks to assess & mitigate risks to financial stability; coordinate key financial regulatory policies & reforms; & monitor implementation**
- **Reports requested by the G20 Leaders**
- **Activities include support for sound international accounting & auditing**



Early work:

G7 Request to the FSF



- **G7 request to FSF in 2007 to address the market turmoil included valuation & accounting as key topics**
 - FSF WG on Market & Institutional Resilience formed; IASB was a member
- **FSF report to G7 in April 2008 was a “spark” that encouraged actions in key areas, e.g., capital, disclosure, accounting reforms**



Enhancing transparency & valuation

Among key recommendations in 2008 FSF report

- The turmoil highlighted the importance to market confidence of reliable valuations & useful disclosures of the risks associated with structured credit products and off-balance sheet entities.
- Recommended specific actions by market participants, standards setters, supervisors & regulators regarding:
 - Risk disclosure by market participants (*e.g., called for private sector action to enhance practices & develop new principles*)
 - Off-balance sheet entities (*e.g., IASB addressed this*)
 - Valuation (*e.g., IASB formed expert panel & addressed this*)
 - Transparency in securitization processes & markets



The Road to EL Provisioning - 2009

FSF/FSB Work to address Provisioning/impairment



- The incurred loss model had been ingrained in the thinking of standards setters for many years
 - Concerns that objective evidence approach improved quality of provisioning and the timing of loss recognition
 - But experience of the crisis highlighted problems
- New thinking was needed based on lessons from the financial crisis in a manner that supports reform
- FSF WG on Provisioning brought together market regulators & supervisors, standards setters & audit regulators
 - US and international perspectives fully explored
 - Both IASB and FASB fully involved, IFIAR, and BCBS
- Resulted in ways to address needs of investors while also addressing certain key prudential objectives



Loan loss provisioning-accounting

Development included BCBS, IASB, FASB, IOSCO, SEC

- “Earlier recognition of loan losses could have dampened cyclical moves in the current crisis. . . Earlier identification of credit losses is consistent both with financial statement users’ needs for transparency regarding changes in credit trends and with prudential objectives of safety and soundness.”
- **2.2.** The FASB and IASB should reconsider the incurred loss model by analysing alternative approaches for recognising and measuring loan losses that incorporate a broader range of available credit information.



Valuation – 2009 recommendations

Development included IASB, IOSCO, SEC, BCBS

- **3.4.** Accounting standard setters and prudential supervisors should examine the use of valuation reserves or adjustments for fair valued financial instruments when data or modelling needed to support their valuation is weak.
- **3.5.** Accounting standard setters and prudential supervisors should examine possible changes to relevant standards to dampen adverse dynamics potentially associated with fair value accounting.
Possible ways to reduce this potential impact include the following:
 - Enhancing the accounting model so that the use of fair value accounting is carefully examined for financial instruments of credit intermediaries.
 - Transfers between financial asset categories.
 - Simplifying hedge accounting requirements.



Transition from FSF to FSB

- In November 2008, the Leaders of the G20 countries called for a larger membership of the FSF. A broad consensus emerged toward this goal.
- As announced in the G20 Leaders Summit of April 2009, the expanded FSF was re-established as the Financial Stability Board (FSB) with a broadened mandate to promote financial stability.
- G20 Leaders *welcomed the FSF's procyclicality report's accounting recommendations & requested action by standards setters; requested accounting standard setters to work with supervisors on improved provisioning and valuation standards; and encouraged more urgent convergence activities.*
- The G20 requested that the FSB monitor implementation progress, *including on accounting.*



FSB Work Program – 2011-2012



- **FSB Chairman (2011 – present):**
Mark Carney, Governor, Bank of Canada



Svein Andresen,
Secretary General

- **Implementation**
 - Basel III (BCBS)
 - Resolution
 - Compensation
- **Continuing policy development**
 - Extension of SIFI framework
 - Shadow banking
 - OTC derivatives markets
 - Data initiatives (including LEIs), risk governance review
 - Risk disclosure, accounting and external audit



FSB Roundtable on Risk Disclosure

Basel, Switzerland, December 2011

- **Followed FSB review & involved leading financial institutions, investors, analysts, CRAs, auditors, supervisors, regulators & key standard setters**
- **Candid dialogue about risk disclosure standards & practices, needed enhancements:**
 - Risk governance & risk management strategies
 - Prioritized, summarized, relevant disclosure
 - *Credit risk*
 - *Liquidity risk*
 - *Capital adequacy & risk-weighted assets (RWAs)*
 - *Pillar 3 disclosures that are more integrated with financial reporting disclosures*
 - *Scenario & sensitivity analyses*
 - Encouraged the FSB to facilitate work by private sector to enhance risk disclosure practices
- **IFRS 7 & US SEC's MD&A principles provide a helpful foundation for improving practices**



Formation of the Enhanced Disclosure Task Force (EDTF)

- **After discussions with the FSB Plenary, the FSB:**
 - Issued a press release on risk disclosure next steps – 20 March 2012, including Roundtable summary
 - Issued a press release on the formation of the EDTF - 10 May 2012
- **Three EDTF Co-Chairs:**
 - **Hugo Bänziger**, former CRO and Member of the Management Board, Deutsche Bank
 - **Russell Picot**, Group General Manager and Group Chief Accounting Officer, HSBC Holdings plc,
 - **Christian Stracke**, Managing Director, Member of Investment Committee, and Global Head of Credit Research Group, PIMCO
- **Outreach taking place with standard setters, regulators & prudential authorities – for example:**
 - IOSCO, BCBS, IASB, FASB, IAASB, IFIAR, PCAOB, EC, SEC, etc.



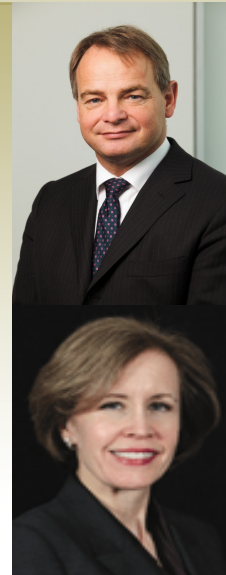
Enhanced Disclosure Task Force

- **Joint private sector initiative** - comprised of senior experts from financial institutions (CROs, CFOs & chief accounting officials), investors & analysts, CRAs, & Big 4 audit firms
- **Asked by the FSB to:**
 - To develop principles for enhanced disclosures, based on current market conditions and risks, including ways to enhance the comparability of disclosures, and
 - To identify leading practice risk disclosures presented in annual reports for end-year 2011 based on broad risk areas such as those identified in the summary of the first FSB roundtable on risk disclosures (December 2011).
- **Target is to report recommendations to the FSB in October** (which will be published)
- **Seeks to enhance risk disclosure practices** beginning with certain aspects in end-2012 annual reports, with fuller implementation in 2013 and beyond; *uniquely designed for growing voluntary implementation*



Improve Market Discipline & Transparency *IASB-FASB Convergence Efforts*

- **FSB reports to the G20 on the Boards' efforts**
- **Significant progress achieved so far**
 - Amortized cost instead of FV accounting for loans
 - Both Boards are seeking to develop a true expected loss approach for impairment
 - Improved consolidation standards & disclosures for SPEs are in place
 - Converged FV measurement standards, including valuation adjustments to avoid overstatement of income on illiquid instruments
 - Avoided off-balance sheet treatment for repos (as proposed by IASB)
 - Improved risk disclosures (albeit not all are converged)
- **Certain challenges remain in key areas**
 - E.g., impairment/"provisioning"; netting; hedge accounting; *consistent implementation of standards*





Improve Transparency & Market Discipline *Accounting (continued)*

- **FSB call for renewed effort to converge on impairment**
 - *FSB Plenary press release (11 October 2012)*: “The FSB also discussed the state of progress in achieving convergence of the standards of the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB). They recognised the progress made by the IASB and FASB on convergence in the classification and measurement of financial instruments. However, the FSB noted the absence of convergence on a standard for impairment of loans and urged renewed progress to converge on an improved standard, with provisioning based on expected losses.”



Conclusion & more information

- **FSB dialogue with IASB – has mainly involved FSB Chair, Secretary General, Senior Advisor; FSB Plenary & Steering Committee (often with FASB)**
- **FSB encourages IASB’s enhanced technical dialogue (e.g., with BCBS, IOSCO, FSB & other stakeholders)**
- **FSB press releases – e.g., recent FSB Plenary meeting (Oct. 11); on EDTF (March 20 & May 10) and external audit initiatives (March 15) – see www.financialstabilityboard.org**
- **Article on FSB Transparency Initiatives in Bank of Spain’s financial stability journal (May 2012) – see: www.bde.es/f/webbde/GAP/Secciones/Publicaciones/InformesBoletinesRevistas/RevistaEstabilidadFinanciera/12/May/Fic/ref2012223.pdf**



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Annex: FSB membership - jurisdictions *G20 jurisdictions underlined*

<u>Australia</u>	Hong Kong	Singapore
<u>Canada</u>	<u>Italy</u>	Switzerland
<u>France</u>	<u>Japan</u>	<u>United Kingdom</u>
<u>Germany</u>	Netherlands	<u>United States</u>
<u>Argentina</u>	<u>Indonesia</u>	<u>Saudi Arabia</u>
<u>Brazil</u>	<u>Korea</u>	<u>South Africa</u>
<u>China</u>	<u>Mexico</u>	Spain
<u>India</u>	<u>Russia</u>	<u>Turkey</u>

Total = 24 + EU
(Also, outreach via new
FSB Regional Groups)