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OPINION OF THE COMMITTEE ON MONETARY, FINANCIAL AND BALANCE OF PAYMENT STATISTICS

of 21 October 2004

on the IASB's Exposure Draft 7 Financial Instruments: disclosure.

1. The CMFB welcomes the opportunity to comment on the Exposure Draft (ED) 7 "Financial Instruments: Disclosures", which aims at rationalising the disclosure requirements on financial instruments in one single standard. The CMFB has assessed the possible implications of this standard for the statistics within its remit. In response to the list of questions described in the "invitation to comment", the CMFB would like to call attention to the following points.

Question 1. Disclosures related to the significance of financial instruments to financial position and performance

2. The CMFB welcomes the proposal to classify financial instruments essentially according to the method of valuation as this move will greatly improve the value of the information contained in the financial statement. It will permit to identify the relative proportion of assets valued at cost and at market (fair value). This has an analytical value in its own right and is also helpful to statisticians because of the rather different treatment to be accorded to assets according to the valuation method. Furthermore, the breakdown of the income statement and fee income and expense should be welcomed for the correct compilation of national accounts.

3. The CMFB notes that these disclosure rules are in line with the move to fair value measurement. This is only consistent with statistical standards in respect of negotiable securities, which should be recorded at market value. However, the CMFB would like to recall that for statistical purposes, loans/deposits with Monetary Financial Institutions (MFIs) should be recorded at nominal value (see previous CMFB opinion on the fair value option dated 9 July 2004).

4. Although accounting standards are in principle not directly relevant to statistical requirements, the CMFB considers that a close alignment between financial reporting requirements and statistical requirements would be desirable in order to minimise companies' reporting burden and increase the overall data quality[1].

[1] Statistical requirements are based on harmonised standards for the classification and presentation of assets and liabilities, which in turn are in line with statistical standards (ESA95 - Council Regulation (EC) 2223/96). These standards must be followed for statistical reporting purposes. ESA95 is in line with the world-wide statistical standards (SNA93).

5. In practice, since the breakdowns required by this draft standard are not sufficient for statistical purposes, the CMFB recommends giving consideration to a better articulation between accounting data and statistical data. IAS 30 (financial statements of banks, etc.) is in fact closer in line with statistical requirements than ED 7. The CMFB views, therefore, that a loss of information arising from the proposals in ED 7 should be avoided. Particularly, the current disclosure requirements of IAS 30, para. 18-25, which provide a breakdown by instrument and sector of key balance sheet items, should not disappear.

6. Instead, the CMFB would encourage further work in order to develop the balance sheet and income statement structure contained in IAS 30 and provide similar formats for non-financial entities, with the aim to increase the consistency with the statistical requirements and thereby minimise the overall companies' costs of meeting the statistical and accounting requirements. These formats could be included in "Implementation Guidance" of IAS 1.

7. In particular regarding financial institutions, IAS 30, para. 18, requires the presentation of a balance sheet that groups assets/liabilities by nature and lists them reflecting their relative liquidity. Statistical standards contain much the same requirements, however there are important differences in terms of the details. The table in the annex presents a comparison of the balance sheet presentations for financial assets and liabilities in the current IAS and the statistical requirements provided by the ESA95.

8. The table focuses on the separate components that collectively form the balance sheet framework, namely breakdowns by instrument, maturity, sector and residence of counterparty. Additional breakdowns are requested inter alia by the ECB for the purpose of MFI balance sheet statistics that are required for the construction of monetary aggregates. In turn, these aggregates belong to the statistical underpinnings of monetary policy in the euro area[2].

9. To note that whereas the draft IFRS requires residual maturity, ESA95 requires original maturity to be applied and, for MFI balance sheet statistics, periods of notice in the case of savings deposits where maturity is not a relevant concept. Furthermore, the draft IFRS does not require specific maturity bands to be applied but only offers examples[3], whereas ESA95 and MFI balance sheet statistics have very precise specifications. ESA95 requires a breakdown for securities other than shares (excluding

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[2] Cf. Regulation ECB/2001/13, as amended.

[3] These examples are provided in the Implementation Guidance (IG). A bank must provide a liquidity breakdown by residual maturity but is free to choose the maturity bands. Moreover, the bands suggested in the IG for financial assets (IG21) and financial liabilities (IG24) are different.

derivatives) of one year or less, and over one year; MFI balance sheet statistics requires a breakdown for deposits between overnight deposits; 1 and 2 years original maturity or 3-months notice and for loans between 1-year and 5-year original maturity. Precise groupings in terms of maturity bands, whether at residual or original maturity, would permit data aggregations and would ease comparisons. Moreover, the maturity bands requested by IAS 32 (para. 72) should remain applicable in ED 7.

10. Efforts towards a reconciliation concerning the other (residency, sector, instrument) breakdowns should also be possible. In particular, IAS 30 and 32 do not demand a breakdown by residency of the counterparty. The only equivalent requirement is contained in the IAS 14 where a geographical breakdown forms one of the two segments on which information should be provided. Geographical segments are defined as distinguishable components of an enterprise that is engaged in providing products and services within a particular economic environment. Apparently, the reporting institutions are free to determine the geographical segments, which may not necessarily coincide with individual countries or economic areas. As a consequence, the residency breakdown contained in IAS 14 may not fit for statistical purposes, which in turn necessitates appropriate statistical surveys.

11. Moreover, the CMFB considers that the IASB's overarching objective[4], namely to offer to investors company data that are comparable over time and across individual institutions is best achieved by reducing the number of options (e.g. for maturity bands and geographical segments) and requiring instead standard classifications such as those applied for statistical purposes. The reduction in the number of options is still in conformity with the principles-based approach in standard making and is not in conflict with the increasing emphasis in accounting on getting firms to disclose information drawn from the techniques they use to run the business.

12. **In conclusion, the CMFB suggests to bring the maturity, residency, sector and instrument groupings required by this standard as much as possible in line with the statistical requirements, since this would increase the consistency between accounting data and statistical data, would minimise the reporting burden of respondents and, most importantly, would increase the comparability between reporting institutions (which is one of the primary reasons for the introduction of International Financial Reporting Standards). As a bottom line, any further divergence should be avoided.**

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[4] According to the IASB Framework for the Preparation and Presentation of Financial Statements (cf. F.39-42), users must be able to compare the financial statements of an enterprise over time so that they can identify trends in its financial position and performance. Users must also be able to compare the financial statements of different enterprises. Disclosure of accounting policies is essential for comparability.

Questions 2. Disclosure of the fair value of collateral and other credit enhancements

13. The CMFB acknowledges a growing demand for harmonised data for macro-prudential purposes. Individual information on the most important prudential variables, e.g. non-performing loans, needs to be available in a harmonised manner in order to facilitate aggregations[5]. Therefore, the CMFB invites the IASB to consider aligning the disclosure requirements of this IFRS with those needed for macro-prudential purposes.

Question 3. Disclosure of a sensitivity analysis

14. The CMFB has no comments in this respect.

Question 4. Capital disclosures

15. The CMFB has no comments in this respect.

Question 5. Effective date and transition

16. The CMFB agrees with the proposed effective date and transition requirements, provided that reporting agents are given at least 1 year of time to implement the proposed IFRS, in order to make the administrative burden manageable. In the EU context, this implies that this IFRS should be endorsed by a EU Commission Regulation by the end of 2005.

17. As the CMFB attaches much value to the disclosure requirements of IAS 30 that ED 7 proposes to delete, the CMFB recommends that an early application of this ED is not permitted, in order to dedicate sufficient time to the reconciliation work recommended above.

Question 6. Location of disclosures of risks arising from financial instruments

18. The CMFB agrees that the disclosures proposed by the draft IFRS should be part of the financial statements. However, as mentioned above, the CMFB would welcome an IASB proposal for a standard reporting format which is currently used by several countries in their local accounting systems. In this connection the CMFB invites the IASB to give consideration to the adoption of a standard such as the XBRL taxonomy currently in preparation by a Working Group under the aegis of the International Accounting Standards Committee Foundation (IASCF). Also it would be necessary to the IASB to make the commitment to approve future changes in the taxonomy at the same pace as the standards are revised or new standards are approved.

5 The international statistical standards for reporting this information can be found in the IMF compilation guide on Financial Soundness Indicators under www.imf.org/external/np/sta/fsi/eng/2004/guide.

Question 7. Consequential amendments to IFRS 4

19. The CMFB has no comments in this respect.

Question 8. Implementation Guidance

20. The CMFB has no comments in this respect.

Question 9. Differences from the Exposure Draft of Proposed Statement of Financial Accounting Standards *Fair Value Measurements* published by the US Financial Accounting Standards Board (FASB).

21. The CMFB welcomes that consistency between accounting standards implemented in the EU and those of the US is being sought. The CMFB would welcome if other key economic areas are considered as well.

Question 10. Other comments

22. The CMFB has no objection to making this opinion publicly available. This opinion will be published on the CMFB web site.

(Signed)

J. Cordier

Chairman of the Committee on Monetary, Financial and Balance of Payments Statistics

Annex. Reporting format for financial assets and liabilities: comparison between ESA95 requirements and IAS disclosures[6]

Classification	**ESA95 requirements**	**IAS disclosures**
Instrument	<u>Assets</u>: • Monetary gold & Special drawing rights* • Currency • Transferable deposits • Other deposits • Securities other than shares • Financial derivatives • Loans • Shares and other equity (quoted/unquoted) • Mutual fund shares • Insurance technical reserves • Other accounts receivable	<u>Assets</u>: • Cash and balances with central bank • Treasury bills and other eligible bills • Securities held for dealing • Placements with, loans/advances to other banks • Other money market placements • Loans and advances to customers • Investment securities.
	<u>Liabilities</u>: • Currency* • Transferable deposits • Other deposits • Securities other than shares • Financial derivatives • Loans • Shares and other equity (quoted/unquoted) • Mutual fund shares • Insurance technical reserves • Other accounts payable	<u>Liabilities</u>: • Deposits with banks • Other money market deposits • Amounts owed to other depositors • CDs (issued) • Promissory notes/other liabilities evidenced by paper • Other borrowed funds.
Maturity	** • Short term (up to 1 year original maturity) • Long-term (over 1 year original maturity)	Relevant maturity groupings based on remaining maturity. Examples of buckets: 1 month; 3 months; 1 year; 5 years.
Sector of counterparty	• MFI • General Government • Other resident sectors: non-financial corporations, households including non-profit institutions serving households, other financial intermediaries, insurance corporations and pension funds, financial auxiliaries..	• Central bank • Bank • Customer

[6] To ease the comparison, the general disclosure requirements of IAS 1 are excluded.

Classification	ESA95 requirements	IAS disclosures
Residence of counterparty	• Domestic • Other euro area/other EU countries • Rest of the world	Geographical segments (IAS 14) – defined as distinguishable components of an enterprise that is engaged in providing products and services within a particular economic environment.

* Only applicable for National Central Banks

** Additional breakdowns requested for MFI balance sheet purposes