



Sir David Tweedie
International Accounting Standards Board
30 Cannon Street,
London EC4M 6XH,
United Kingdom

22 October 2004

- EAPB Opinion -
on the IASB Exposure Draft
ED 7 Financial Instruments: Disclosures

Dear Sir David,

The European Association of Public Banks (EAPB), which represents the interests of approximately 100 public banks and funding agencies of the European Union, would like to thank the International Accounting Standards Board (IASB) for giving it the opportunity to comment on the proposed Draft Standard "ED 7: Financial Instruments: Disclosures".

As announced in the Exposure draft, ED 7 is aimed at combining the disclosure regulations for financial instruments previously contained in different standards into one single standard and extending them to also include details concerning risk management. This process is justified by the modern developments in the areas of accounting and risk management.

The EAPB supports the IASB endeavours to bundle these disclosure obligations with the objective of the accounts conveying a picture of the asset, financial and earnings position which corresponds to the actual reality of the situation. We must however regret that the IASB is continuing the trend towards sector-independent standards - ED 7 being a further step into this direction.

It is foreseen to replace the existing disclosure obligations for banks and other financial institutions in accordance with IAS 30. We would like to stress that IAS 30 was particularly suited and adapted to the structure and business activities of banks and credit institutions. By replacing it, the IASB would no longer take account of the special correlations of the credit



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sector to the necessary extent. Indeed, financial institutions are by virtue of their business model liable to a high degree of risks from financial instruments and have to comply – in addition to accounting disclosures – with regulatory disclosure obligations which do not exist in this extent for other sectors/industries. Therefore, we strongly insist at least on allowing a sector-specific interpretation of the standard and admissibility of the “entry and breakdown” procedure recognised in practice.

We furthermore assume that the type and extent of the disclosure obligations concerning risks arising from financial instruments and in relation to risk management correlate with the content of the risk and the scope of the business transacted. The description of risks arising from financial instruments as preferred by the IASB is a purely product-related risk specification which takes insufficient account of risk-reducing correlation effects and does not correspond to the practice of the financial institutions’ internal risk management. This can give rise to misjudgements.

We regard part of the disclosure obligations as being subsequent clarifications or interpretation aids for balance sheet and profit and loss account disclosures which are only required because of the complexity and deficient nature of a number of recognition and measurement regulations. For this reason, we consider the proposed disclosure obligations as to be too extensive in part and recommend that they be amended.

Furthermore, we do not share the view according to BC20 that the disclosure obligations of ED 7 are consistent with the disclosure requirements of the Basel Committee on Banking Supervision (i.e. Basel II, Pillar 3). While ED 7 is geared to financial instruments, Basel II, Pillar 3 requires details of the risk structure of loan business and on the composition of the capital resources of financial institutions. Furthermore, the provisions can result in different consolidation groups, which considerably affects the clarity of the description for those towards whom it is directed. Where the same elements are to be disclosed under both ED 7 and Basel II, Pillar 3, we call for an exemption effect of the Basel requirements for reasons of clarity and economic efficiency.

Finally we would like to stress that the requirements under Lines 46-48 highlight the problems concerning the concept of balance sheet capital. The discussion surrounding the business assets of cooperatives in relation to IAS 32 is again a very crucial one in this perspective. The IASB should also concern itself with shareholder contributions in partnerships and shares in dormant partnerships, which are deemed balance sheet equity under certain conditions in the understanding of Continental Europe. In addition, we like to point out that internal capital targets set by management should not be disclosed. We doubt that neither the target itself nor any failure to reach them are of any worth in respect of useful information, and ask for deleting this requirement.



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Concerning additional remarks, we would ask the IASB to provide further clarification and additional information on the Draft Implementation Guidance in relation with ED 7. According to IG 5 and IG 6, the disclosure requirements under ED 7 are to be made dependent on the importance of the information. We believe that IG 5 and IG 6 should be interpreted to the effect that, from the risk perspective, "insignificant" companies of a group can be excluded from reporting. We call for the incorporation of this interpretation into the Implementation Guidance.

For the answers to the specific questions, the EAPB gives its full support to the individual contributions put forward by its members.

We are convinced that the standards would be substantially improved if these comments were given due consideration.

Should you wish to discuss any of the above mentioned points in further detail, please do not hesitate to contact us.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Schoppmann', followed by a vertical line.

Henning Schoppmann
EAPB

A handwritten signature in black ink, appearing to read 'Schwander', with a horizontal line underneath.

David Schwander
EAPB