BANQUE DE FRANCE

CL 105

LE GOUVERNEUR

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Dear Sir David

The Commission Bancaire and the Banque de France welcome the opportunity to comment on this exposure draft *ED7 Financial Instruments: Disclosures*.

We regard market discipline as a key tool to enhance financial stability and the soundness of the international financial system. As such, we fully supported the definition of disclosure requirements within the framework of the revised international solvency ratio, named as *Pillar 3*.

On the same basis, we commend the IASB for its decision to replace IAS 30 and the disclosure provisions contained in IAS 32 by this proposed ED7. We regard ED7 as a more risk-focused standard, consistent with *Pillar 3* requirements.

The Commission Bancaire and the Banque de France were involved in the drafting of the comment letters on ED7 prepared by the Basel Committee on Banking Supervision and by the Committee of European Banking Supervisors and we support their conclusions.

We would like to emphasize that externally imposed entity-specific capital requirements for regulated entities, named as *Pillar 2* in the revised framework of the international solvency ratio are also of the utmost importance for banking supervisors, as they provide for a clear, confidential and detailed framework for determining a capital target, in a constant dialogue between the regulated entity and its supervisor. We fully support the decision of the IASB not to require the disclosure of such targets, on the basis of the rationale set out in BC52 and in a manner consistent with *Pillar 3* requirements.

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Along the same line of reasoning, we would strongly recommend not to disclose breaches of externally imposed entity-specific capital requirements. By its very nature, banking supervision draws heavily on the confidentiality of the relationship between the supervisor and the banks. As supervisors are responsible for defining regulatory capital and for setting regulatory capital targets, we believe that they should be also responsible ultimately for deciding whether there is a breach of entity-specific capital requirement. Moreover, we would like to stress that the disclosure of a breach of capital requirement without the level of this requirement might be misleading for users of financial accounts and will not improve comparability between institutions. Besides, it has to be noted that Pillar 2 requirements do not consist only of quantitative capital targets, but also of qualitative objectives. Therefore, requiring the disclosure of a breach of quantitative objective might introduce an element of unfairness between the institutions.

For these reasons, we would recommend to delete the reference to externally imposed entity-specific capital requirements in paragraph 47 (d) and (e) and in paragraph IE2.

Yours sincerely,

Christian NOYER