

European Association of Co-operative Banks Groupement Européen des Banques Coopératives Europäische Vereiniqung der Genossenschaftsbanken

To: Sir Adam Van Eperen Financial Crisis Advisory Group c/o International Accounting Standards Board 30 Cannon Street London EC4M 6XH UK

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LETTER OF COMMENT NO. 51

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E-MAIL

Re: EACB Response to Request for Input of the IASB's Financial Crisis Advisory Group

Dear Sir Adam,

The European Association of Co-operative Banks, EACB, gladly takes the opportunity to respond to the request of the Financial Crisis Advisory Group's (FCAG's) for input. There is no doubt that we are currently in the middle of a very serious financial crisis. At such times, drastic action is often necessary. There has been talk of general purpose financial reporting exacerbating the crisis and of it failing to provide satisfactory warning signs. It is essential that such concerns are thoroughly investigated as a matter of high priority so that the lessons arising from the crisis are learned.

We generally support the comments made by the European Financial Reporting Advisory Group (EFRAG). However, we want to add the following remarks:

 Question 1: From your perspective, where has general purpose financial reporting helped identify issues of concern during the financial crisis? Where has it not helped, or even possibly created unnecessary concerns? Please be as specific as possible in your answers.

Fair Value Measurement, especially in inactive or disrupted markets, should be improved towards an economics based principle, less driven by the focus on exit prices at a reporting date like the existing model is.

The main goal should not be the extension of financial disclosures of IFRS. Instead simplifying and disaggregating the categorisation and measurement requirements of IAS 39 should be the main purpose. There is so much information provided in financial disclosures that the question should be raised whether users could handle this quantity any more. Furthermore we are concerned about the risk that the quantity of information diminishes its quality because useful information would be overlooked in the soaring amount of disclosures.

 Question 2: If prudential regulators were to require 'through-the-cycle' or 'dynamic' loan provisions that differ from the current IFRS or US GAAP requirements, how should general purpose financial statements best reflect the difference: (1) recognition in profit or loss (earnings); (2) recognition in other comprehensive income; (3) appropriation of equity outside of comprehensive

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income; (4) footnote disclosure only; (5) some other means; or (6) not at all? Please explain how your answer would promote transparency for investors and other resource providers.

"Through the cycle" or "dynamic provisioning" are helpful to soften the pro-cyclicality of fair value measurement. Nearly any entity that accounts in accordance with IFRS or US-GAAP has to solve problems due to the volatility and pro-cyclicality of unrealised measurement effects in their balance sheet and p&I. This was a main concern raised by entities during the IFRS SME project. To convey the usefulness and comprehensibility of "dynamic provisioning" for users of financial reporting it would be more appropriate that the amounts due to "dynamic provisioning" influence the balance sheet and p&I figures. This would incorporate the aspect of unrealised gains and losses as non-distributable amounts in a more simplified and apparent way than earmarking or footnotes as off balance sheet methods.

The improvement and simplifying of the existing loan loss provisioning should lead towards economic driven principles like those that are incorporated in the expected loss model. This would be in line with "dynamic provisioning", because both models are derived from an economical view and would allow the use of allowance / loan loss accounts in the balance sheet.

• Question 3: Some FCAG members have indicated that they believe issues surrounding accounting for off-balance items such as securitisations and other structured entities have been far more contributory to the financial crisis than issues surrounding fair value (including mark-to-market) accounting. Do you agree, and how can we best improve IFRS and US GAAP in that area?

By developing economic based principles for categorisation requirements of financial instruments the standard setters should have in mind the concerns raised by entities about the practicability of those categorisation requirements. As an example, the provisions of the held to maturity category with its tainting rule should be mentioned. Especially in times of volatile and disrupted markets the category is not flexible enough for short time reactions due to the extremely changed economic circumstances.

Question 7: Is there any other input that you'd like to convey to the FCAG?

We suggest the three following points as short term improvements: First, we would appreciate the same level playing field in IFRS and US-GAAP for the treatment of embedded derivatives and for fair value measurement purposes of liabilities. Second, we think that a discussion about the reclassification possibility of financial instruments out of the fair value option would be useful. Third, we support the educational guidance proposed by the FASB Staff Position Paper FSP FAS 115-e.

Kind regards,

Hervé GUIDER Secretary General Volker HEEGEMANN
Head of Legal Department