



FEDERATION
BANCAIRE
FRANCAISE

The Deputy Director General

Thursday, November 20th 2003

FBF response to Consultation paper : "European regulation on the application of IFRS in 2005 - Draft recommendation for additional guidance regarding the transition to IFRS"

Dear Mr Demarigny,

The French Banking Federation is pleased to have the opportunity to comment on to Consultation paper : "European regulation on the application of IFRS in 2005 - Draft recommendation for additional guidance regarding the transition to IFRS".

We believe that CESR recommendations on the transition to IFRS might improve transparency and consistency in financial information amongst European listed companies.

Though we support the general principle that information has to be provided as soon as it is available, we are actually more concerned with the quality and practicality of the disclosures than with their early availability.

The transition to IFRS is a particularly sensitive issue for financial institutions, as they are facing a specific situation as regards the application of IFRS : since the two standards (IAS 32 and 39) that have not been endorsed by the European Commission in its 2003 regulation account for the most important part of their balance sheet, the delayed publication of the final versions of these standards will make it a difficult exercise to measure the impact of the transition before the 2006 annual information.

We therefore regret that the proposal of the CESR do not take into account this specificity of financial institutions.

With regard to the consultation itself, we agree that narrative information about the transition plan given in the 2003 financial statements and updated information on this basis in 2004 will be useful for the market.

Mr Fabrice DEMARIGNY
Secretary General
CESR
11-13, avenue de Friedland
75008 Paris

Nevertheless, setting requirements for disclosures of quantitative information as soon as available may lead to a burdensome repetition of restatements for financial institutions. This would reduce the usefulness of information given and question the reliability of the information. We also believe that the “bridge approach” proposed by the consultation paper should not be recommended for the financial disclosures of banking institutions, as it might introduce more confusion than significance because of the delayed standards IAS 32 and 39.

You will find our detailed responses to the questions raised by the consultation paper in the attached appendix.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Lauzun', with a stylized flourish at the end.

Pierre de Lauzun

Question 1. Do you consider it useful that CESR Members provide recommendations to European listed companies on how to disclose financial information to the markets during the phase of transition from local GAAP to IFRS?

We agree with CESR proposal to provide recommendations on financial information disclosures during the phase of transition from local GAAP to IFRS, as we consider it will be a way of improving transparency and consistency in financial information among European listed companies.

INTRODUCTION

Question 2. Do you agree that European listed companies should be encouraged to prepare the transition from local GAAP to IFRS as early as possible?

We do not think this question is relevant in the context of standards that are to be applied from 1st of January 2004 on. Listed companies which are required to adopt IFRS according to this schedule must have already begun to prepare transition to IFRS.

Nevertheless, as far as banks are concerned, the exercise proves particularly difficult insofar as two major standards (IAS 32 and IAS 39) are not to be finalised before the first quarter of 2004. These missing standards record for 80% to 90% of the balance sheet of financial institutions, which implies that the significance of the transition to the other endorsed standards cannot but be limited.

Question 3. Do you agree that those companies should also be encouraged to communicate about this transition process? If yes, are the 4 milestones identified by CESR for such communication appropriate?

For the reasons exposed in the answer to question 2, as long as final versions of IAS 32 and 39 are not available, communication about the transition process provided by financial institutions is of low significance. We do not disagree with the principle of disclosing general information, though.

As regards the 4 milestones, we are concerned about the range of the set of disclosures that might be required by CESR recommendations for the early steps of the transition process. 2004 (annual and all the more interim financial statements) and 2005 interim financial statements should not lead to burdensome disclosure requirements as we can be sure by now that there will not be enough time elapsed to capture reliable and usable information on the impact of the transition.

PUBLICATION OF 2003 FINANCIAL STATEMENTS

Question 4. What are your views on an encouragement to listed companies to disclose narrative information about their process of moving to IFRS and about the major identifiable differences in accounting policies this transition will bring about? Do you consider it appropriate to include such information in the 2003 annual report or in the notes to the 2003 financial statements?

Again, without the impact of IAS 32 and 39, which will not be ready at the time of disclosure of 2003 annual report (macro-hedging aspects of the standards are not expected at that time), it is of limited relevance to analyse the impact of standards of lesser importance.

Nevertheless, narrative information about the transition process itself may be disclosed if not too cumbersome.

PUBLICATION OF 2004 FINANCIAL STATEMENTS

Question 5. Do you believe that listed companies should be encouraged not to wait until beginning 2006 for communicating about the impact of the transition to IFRS on the 2004 financial statements if such information is available earlier? Do you agree that quantified information in this regard should be given as soon as possible?

We are convinced that beginning 2006 will even be somewhat premature to capture the impact of the transition to IFRS on the 2004 financial statements. We believe that, as far financial institutions are

concerned, beginning 2007 will be the first date relevant for effective comparisons and analyses. In other words, only the comparison between 2006 and 2005 financial statements will provide the market with reliable and complete information, including the measurable impact of the introduction of the 2 missing standards. We therefore support a narrative information for the 2004 interim financial statements.

Question 6. Is it appropriate to refer to the Implementation Guidance published by IASB in connection with the IFRS1 for defining which quantified information should be disclosed as a result of the recommendations in § 11 and § 12? Do you believe other disclosures should be envisaged? Do you agree with inclusion of such information in the annual report or in the notes to the financial statements?

We support the use of the Implementation Guidance, though we think that the use of this guidance should be postponed to 2005 annual information.

We believe that requirements exposed in paragraph 13 should be limited to IFRS 1 requirements.

2005 INTERIM INFORMATION

Question 7. Do you agree with the principle that any interim financial information published as of 2005 by listed companies should be prepared using the accounting standards that are to be used by those companies for the 2005 year end financial reporting, i.e. IFRS, in the way indicated here under?

We agree. Nevertheless we are concerned with the practicability of requirements for comparative information in these early steps of the transition.

QUARTERLY INFORMATION FOR THE 2005 PERIOD WHERE APPLICABLE

Question 8. Do you agree that when listed companies do not elect to apply IAS 34 for quarterly information published in 2005, they should be encouraged to prepare and disclose financial data by applying IFRS recognition and measurement principles to be applicable at year end?

We recommend that there should be no mandatory application of IAS 34 *Interim Financial Reporting*. We would like to point out that since the application of IAS 32 and 39 is prospective, there should be no requirement for early application in interim information to provide comparative information.

HALF YEAR FINANCIAL INFORMATION FOR THE 2005 PERIOD

Question 9. Do you agree with the proposed encouragement for European listed companies to either fully apply IAS34 for half yearly reporting as from 2005 or, if this standard is not applied, to prepare the key half-year financial data that are to be published, in conformity with IFRS recognition and measurement principles to be applicable at year end?

Same comment as previous question.

COMPARATIVE INFORMATION PRESENTED FOR THE CORRESPONDING PRECEDING PERIOD

Question 10. CESR considered different possibilities for the presentation of comparative information for the corresponding period(s), but concluded that the above proposed solution could appropriately serve users of financial information without imposing too burdensome requirements on issuers. Do you concur with the proposed solutions? In particular, do you agree with the proposals that A) comparative figures should be provided and restated using same accounting basis as for the current year; B) previously published information for the previous period may be provided again; C) explanation of restatement of comparative figures should be given; D) in case of presentation of financial statement over 3 successive periods the restatement of the first (earliest) period could not be required; E) indicative format ("bridge approach") for the presentation of comparative information on the face of the financial statements when the first period presented is not restated ?

We disagree with A), C) and E), since information in the first half of 2004 will not be available in the I.T. because of the delay in the disclosure of a final version of IAS 32 and 39.

We particularly believe that the "bridge approach" will be confusing as items and classifications will be completely different in Local GAAP (2004) and IFRS. Moreover the practicability of this approach is questionable.

We agree with B) and D).

2005 ANNUAL FINANCIAL STATEMENTS

Question 11. Do you agree that, in addition to the presentation of comparative information in conformity with IFRS1 (i.e. prepared on the basis of IFRS provisions), it could be deemed useful to present again the comparatives prepared on the basis of previously applicable accounting standards?

We agree, but support an optional basis.

Question 12. Do you agree that, when presentation of financial statements over 3 successive periods is required, it would be acceptable not to require the restatement to IFRS of the first (earliest) period? If yes, do you agree with the indicative format ("bridge approach") for the presentation of comparative information on the face of the financial statements when the first period presented is not restated?

We agree with the first proposal. Nevertheless, we want to insist on the fact that we consider the "bridge approach" inappropriate and misleading.