EUROPEAN SAVINGS BANKS GROUP
GROUPEMENT EUROPEEN DES CAISSES D'EPARGNE
EUROPÄISCHE SPARKASSENVEREINIGUNG

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European Savings Banks Group (ESBG)

Response to the Consultation Paper on CESR's Draft Recommendation for Additional Guidance Regarding the Transition to IFRS

Consultation Paper of October 2003 (Ref. CESR/03-323b)

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Profile European Savings Banks Group

The European Savings Banks Group (ESBG) represents 25 members from 25 countries (EU countries, Norway, Iceland, Bulgaria, Czech Republic, Hungary, Latvia, Malta, Poland, Romania, Slovak Republic) representing over 1000 individual savings banks with around 66,500 branches and nearly 770,000 employees. At the start of 2002, total assets reached almost EUR 4160 billion, non-bank deposits were standing at over EUR 2012 billion and non-bank loans at just under EUR 2095 billion. Its members are retail banks that generally have a significant share in their national domestic banking markets and enjoy a common customer oriented savings banks tradition, acting in a socially responsible manner. Their market focus includes amongst others individuals, households, SMEs and local authorities.

Founded in 1963, the ESBG has established a reputation as the advocate of savings banks interests and an active promoter of business cooperation in Europe. Since 1994, the ESBG operates together with the World Savings Banks Institute (WSBI, with 109 member banks from 92 countries) under a common structure in Brussels.

1. General Remarks

The ESBG welcomes the opportunity afforded by CESR to comment on its Consultation Paper on additional guidance regarding the transition to IFRS. The document addresses some important questions, however the ESBG believes that some caution is required by CESR.

First, the ESBG is of the opinion that considering the wide range of interpretations originating from the IASB, calling for further orientations does not seem appropriate. Interpretations and explanations should accordingly be left to IAS/IFRS.

Second, Article 9 of Regulation EC/1606/2002 on the adoption of international accounting standards provides options for Member States to allow selected groups of capital market orientated companies to use IASs only from 1 January 2007. This option applies to companies using US GAAP as well as to companies whose debt securities only are admitted to trading on a regulation market. With the exception of footnote 7, however, the CESR paper does not really take these options into account. As such, CESR should clarify the situation for companies who will only use IASs from 2007.

2. Answers to specific questions

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?*

No, the ESBG does not consider such recommendations to be useful for European listed companies. The ESBG rather believes that proposing new rules above the existing IAS / IFRS framework (in particular IFRS 1 – First Time Adoption of International Financial Reporting Standards) and the relevant interpretations (SIC / IFRIC) is not particularly useful and would only lead to additional requirements and possibly diverging interpretations.

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?*

Yes, they should be encouraged to do so. The ESBG nevertheless believes that the Consultation Paper published by CESR will not necessarily facilitate this objective.

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?*

Yes, the *qualitative* description of activities (current as well as planned activities) undertaken during the transition process could be a useful source of information. In contrast, the ESBG does not believe that the disclosure of *quantitative information* prior to the use of IAS provides the final target groups with valuable information.

Furthermore, qualifying the yearly figures as “draft” could create the false impression that they are exhaustive and correct. In this respect, the ESBG believes that the 4 Milestones are only understandable within certain limits. Furthermore, the milestones proposed are based on the assumption that interim financial reporting will be compulsory, which is not the case under IAS.

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?*

As explained under Question 3, narrative information concerning the state of play, the progress made and the expected future developments regarding the transition process could be useful. Nevertheless, the description of differences to be expected in the future is of no particular use for the relevant target groups.

Additionally, the ESBG is of the opinion that voluntary statements should be included in the annual report and not in the notes to the financial statements, even if the intention is to add clarifications.

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?*

No, as described above, the ESBG does not believe that such information brings about clarification. On the contrary, it could lead to confusion, misunderstandings and unnecessary requests for further information.

The reporting requirements mentioned would imply that the company should have in place, early on, internal controls and external reporting requirements that are in accordance with IAS/IFRS. This requirement is unrealistic considering the high implementation costs involved. A company, which hopes to benefit from competitive advantages thanks to this early reporting, can in any case always include additional information in its annual report, should it so wish. A mandatory requirement in this context should be categorically rejected, since a reasonable comparison would be very difficult to draw and would not be particularly useful.

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?*

No, it is neither helpful nor productive to request quantitative information prior to 2004 (or 2006 for companies that will switch to IAS/IFRS in 2007). The value of such information is questionable, as neither the relevant information nor the appropriate data is available (see Question 5 for further information).

The rules on first time application of IAS/IFRS have been adopted by the IASB. IFRS 1 will also be, in the context of the endorsement process, part of EU law. Against this background, any requirement that goes beyond IFRS 1 should only have a voluntary character and, from the perspective of the ESBG, should not detract from the “true and fair view” principle. When a company voluntarily produces statements according to IAS/IFRS, these should be placed in the annual report or in any other place that is subject to auditing, and not in the notes to the financial statements (as mentioned in the answer to question 4).

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?*

The ESBG would like to stress that the EU Transparency Directive has not yet been adopted. It is therefore not currently certain that EU companies, whose debt securities only are traded on a regulated market, will have to publish half-yearly financial reports. The ESBG indicated in its Position Paper issued in October 2003 on the Transparency Directive that it does not support a mandatory requirement for half-yearly financial reports for all issuers of only debt securities[1].

According to IFRS 1 paragraph 2, IFRS 1 also applies to mandatory or voluntary interim financial reports. If combined with Implementation Guidance IG 37 and with IAS 34, the requirements are sufficient and therefore further interpretation by CESR is not required.

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?*

No, the ESBG believes that only the necessary and requested comparative figures should be disclosed at year end.

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?*

No; as mentioned in Question 7, the Transparency Directive has not been finalised yet and accordingly the publication of interim financial reports is not yet mandatory. Nevertheless, should there be such a requirement to disclose to the public interim financial reports, then this requirement should be in line with the IFRS requirements, in particular with IFRS 1. The additional publication of comparable half-yearly financial statements is, in the context of the first financial statements drawn up according to IFRS, not necessary.

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;

[1] The ESBG Position Paper on the proposal for a Transparency Directive is available on the ESBG Website, at the address: http://www.savings-banks.com.

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?*

In general, the ESBG shares the view that comparative information should only concern the previous year. This solution is appropriate, since it ensures that the published interim reports guarantee the comparability with the corresponding previous period and with the year-end, in line with the requirements of IFRS 1 and IAS 34.

A) Yes, the comparability of the financial statements must be guaranteed (IFRS 1.7).
B) No, this information should not be provided again, since this would create information overload without actual benefits. The information mentioned remains in any case at the disposal of interested target groups.
C) Yes, the explanation is helpful and necessary for the comprehension of the target groups (see also IFRS 1).
D) No particular comment.
E) Yes, as an alternative to A).

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?*

No, since this information is in any case available to interested addressees. Additional information that offers additional insights is doubtful, if not even counterproductive and as such should be avoided under any circumstances. In line with the recommendations made in the *IASB Framework for the Preparation and Presentation of Financial Statements*, it is essential to ensure *understandability* (IASB Framework, paragraph 25), *relevance* (IASB Framework, paragraph 26) and *usefulness of the data for the economic decisions of the addressees* (IASB Framework, paragraph 12 and IAS 1, paragraph 5).

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?*

Yes, the abovementioned description of the "opening balance" is acceptable, even if not very relevant for the ESBG Members.