



**Studies, Statistics and
Banking Supervision**
KR12 - D577
RR/RR10374.DOC

Mr Fabrice Demarigny
Secretary General
CESR

Brussels, November 20, 2003

Dear Sir,

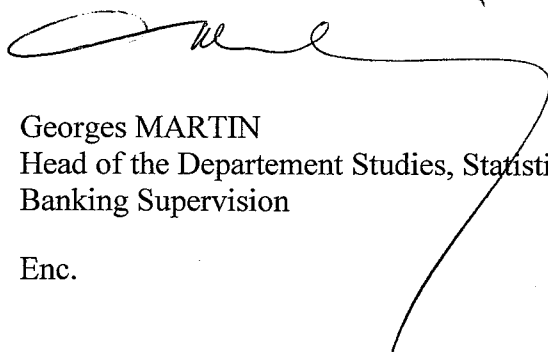
**CESR Draft Recommendation for additional guidance regarding the transition to IFRS.
Position of the Belgian banks.**

In October of this year, CESR held a consultation concerning the transition to IFRS.

The document concerned is "*European Regulation on the application of IFRS in 2005 – Draft Recommendations for additional guidance regarding the transition to IFRS*".

We would like to thank you for giving us the opportunity to express our opinion with respect to these proposals. Please find enclosed our point of view.

Yours sincerely,



Georges MARTIN
Head of the Department Studies, Statistics and
Banking Supervision

Enc.



Raf ROLLIER
Executive Assistant



**CESR. EUROPEAN REGULATION ON THE APPLICATION OF IFRS IN 2005.
DRAFT RECOMMENDATION FOR ADDITIONAL GUIDANCE REGARDING
THE TRANSITION TO IFRS
POSITION OF THE BELGIAN BANKS.**

FOREWORD & GENERAL REMARKS

The Belgian banks welcome the CESR initiative for additional guidance regarding the transition to IFRS. Transition from local Gaap to IFRS means a complete change in accounting principles.

Although we agree with most of the views of CESR, we have some fundamental remarks. These remarks mainly concern the scope of the Recommendation and the disclosure of comparative information about preceding periods in 2005.

IAS 32 and 39 are still to be endorsed by the European Commission and these standards have a major influence on the way in which banking business is being managed. Some banks have already taken investment decisions regarding the implementation systems.

Given the uncertainty and the implementation costs which have already been made, we hope that CESR will take into account the remarks of the Belgian banks.

We have tried to answer all the questions. However, some questions seemed less important in our opinion or there was little sense in answering them given the previous answers, so we did not answer these questions.

ANSWERS TO THE QUESTIONS

CONTEXT OF THE RECOMMENDATION

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?

Although we think it is useful that CESR Members provide recommendations on how to disclose financial information during the phase of transition, we believe that the recommendations should not be binding nor compulsory.

Most companies have already made investments in order to develop their systems for the purpose of disclosing financial information. Since IFRS gives no definition of the format for the disclosure of that information, these systems differ from one bank to another. If the recommendations will be obligatory, companies no longer will be able to choose how to disclose financial information and some banks may have to make new investments.

A recommendation which is not binding, is more flexible and gives companies the freedom to choose the way how to disclose financial information.

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 agree that European listed companies should be encouraged to prepare the transition as early as possible, but nevertheless we are pleading for a realistic timetable and ask for sufficient time for the implementation of our IT-systems.

Belgian banks have already taken important steps in the transition process. The fact that IAS 32 and 39 (of major significance for the financial sector) are still to be endorsed (probably in the spring of 2004) causes a lot of uncertainty for the banking sector and can slow the transition process down.

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?

Although we believe those companies should (be encouraged to) communicate about the transition process, we do not consider the four milestones identified by CESR to be appropriate, because IAS 32 and 39 still have to be endorsed. This endorsement process causes delay and hence, in our opinion, the timetable as proposed (the four milestones) becomes unrealistic for the banking sector.

1. 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?

Companies should disclose narrative information about the transition process. We think these disclosures should be reported in a free format (not imposed by national regulation).

The disclosures should contain information about the process of a rather general kind. Major differences between the current accounting policies (local Gaap) and those almost surely known to be applicable under IFRS, are not required in IFRS 1 (first time adoption). Moreover, IAS 32 and 39 have not been endorsed and so the major differences which will be disclosed, will not be complete and consequently, they can be misleading for the investors.



Given these arguments, we think it is not appropriate to make public a comparative table between local Gaap and IFRS. However, we do believe it is appropriate to describe plans and the degree of achievement in the move towards IFRS.

2. 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?

Although we think companies should communicate earlier than beginning 2006 and even if we agree that quantified information should be given as soon as possible, we believe that quantified information should not be given before the disclosure of financial information concerning the first quarter of 2005. In our opinion, quantified information can be given only when reliable quantified information is available.

We repeat that (at this stage) we cannot say anything about the impact of the transition, due to the uncertainty as for (the endorsement of) IAS 32 and 39.

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 think companies should meet the minimum requirements. Other disclosures may be admitted (in a free format) but must not be obligatory.

3. 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, yet we would like to see what will be the outcome of the discussion about the Transparency Obligations Directive and the endorsement of IAS 32 and 39. The IFRS recognition and measurement principles have been laid down in IAS 39, i.e. a standard currently under revision which causes much debate in the banking sector.

We think the result of these discussions will have a major influence on the way in which interim financial information must be disclosed and consequently, these aspects definitely have to be taken into account.



3.1. QUARTERLY INFORMATION FOR THE 2005 PERIOD WHEN 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 agree, yet we would like to see what will be the outcome of the discussion about the Transparency Obligations Directive and the endorsement of IAS 32 and 39. The IFRS recognition and measurement principles have been laid down in IAS 39, i.e. a standard currently under revision which causes much debate in the banking sector.

We think the result of these discussions will have a major influence on the way in which interim financial information must be disclosed and consequently, these aspects definitely have to be taken into account.

3.2. 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?

We agree, yet we would like to see what will be the outcome of the discussion about the Transparency Obligations Directive and the endorsement of IAS 32 and 39. The IFRS recognition and measurement principles have been laid down in IAS 39, i.e. a standard currently under revision which causes much debate in the banking sector.

We think the result of these discussions will have a major influence on the way in which interim financial information must be disclosed and consequently, these aspects definitely have to be taken into account.

3.3. COMPARATIVE INFORMATION PRESENTED FOR THE CORRESPONDING PRECEDING PERIOD(S)

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?

Some financial institutions have opted for restating local Gaap 2004. Others have decided to start a new processing of local Gaap 2004 and in these institutions local Gaap and IFRS are 2 systems which co-exist.

The choice between restating and processing – two completely different approaches – is a fundamental management decision.

As long as IAS 32 and 39 have not been endorsed, the comparative figures will not yield reliable information : both systems are hard to compare. We do not think this will stimulate the investors' confidence. The following example should make this clear :

Simulation for a credit Local Gaap vs IAS

Loan capital	100.000,00	Euro
term	10	Year
interest rate	5%	or 0,407 % monthly interest rate
monthly installment	1.055,24	
date of credit agreement	1/1/03	
loan handling revenue	220,00	Euro
Front/End fee	1.000,00	Euro

The accounting data are as follows

	<u>2003</u>	<u>2004</u>	<u>2005</u>
<u>Profit and Loss account data</u>			
<u>local Gaap</u>			
handling loan revenue	220,00	0,00	0,00
Front/End fee	-1.000,00	0,00	0,00
interest income	4.712,37	4.314,84	3.897,44
<u>Loans originated by the enterprise</u>			
amortisation charges	-127,90	-120,11	-111,25
interest income	4.712,37	4.314,84	3.897,44
<u>IAS Fair Value (5th book)</u>			
amortisation charges	-127,90	-120,11	-111,25
interest income	4.712,37	4.314,84	3.897,44
Fair Value (5th book)	5.053,49	1.255,85	-1.119,13

**Balance sheet data****local Gaap**

capital borrowed	100.000,00	0,00	0,00
capital reimbursement	-7.950,46	-8.347,98	-8.765,38
capital balance	92.049,54	83.701,56	74.936,18

Loans originated by the enterprise

92.701,65	84.233,56	75.356,93
-----------	-----------	-----------

IAS Fair Value (5th book)

97.755,14	85.489,41	74.237,80
-----------	-----------	-----------

Yield as of 31/12 of the year (hypothesis)

1 month	1,73%	2,73%	3,73%
1 year	2,04%	3,04%	4,04%
5 years	3,46%	4,46%	5,46%
10 years	4,11%	5,11%	6,11%

According to us, explanation should be given in the notes. Mentioning comparative figures (e.g. in separate columns) should be optional.

4. 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?

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?