European Banking Federation

Chief Executive

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Mr Michel Barnier
Commissioner for Internal Market and Services
European Commission
Rue de la Loi, 200
B - 1040 Brussels

Brussels, 18 December 2013

Subject*:** ***Authorisation of IFRS use for annual accounts of listed and non-listed banks and IFRS interpretations by local authorities

Dear Commissioner,

When preparing the EBF's comments on Mr Maystadt's draft report, two issues emerged from our internal discussions which appear to go beyond Mr Maystadt's mandate, but would nevertheless deserve further attention.

1. IFRS use for annual accounts at individual level

The EBF believes that one of the difficulties which the European Union faces is linked to the fact that as yet it has not succeeded in adopting a single accounting language. The EU requires listed companies to draw up their consolidated accounts in accordance with IFRS and gives Member States an *option* to allow, or require, the application of IFRS to individual annual accounts of listed companies as well as an option to allow, or require, IFRS for annual and consolidated accounts of non-publicly traded companies.

As a consequence of the fact that not all Member States exercise the above options, many banking groups are facing the obligation to use a multiple set of accounting standards that implies a reconciliation issue. This does not only create an obstacle to the integration of the EU financial markets but also significantly adds to the cost for banks' cross–border operation.

The EBF believes that all EU banks, both listed and non-listed, should have the option to apply IFRS for annual individual accounts instead of local GAAPs.

Banking regulators from some Member States would seem to oppose such a move since they consider it necessary to have the comparability of banks' individual accounts within the same jurisdiction. However, a generalised use of IFRS will increase cross-border comparability and transparency – which we believe is a matter of public interest of a higher importance than safeguarding comparability between institutions at a local level.

The absence of a common accounting language has for example a knock-on effect on solvency reporting as the usage of local GAAPs at individual level prevents the integration and comparability between a single institution's different COREP templates. Calculations give different results for the minimum required capital, the solvency ratio calculations and general COREP figures under different sets of standards.

Preventing the use of IFRS for individual annual accounts represents, in our view, an unjustified obstacle to the EU financial markets' integration while making the cross-border operation of

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multinational banks unduly burdensome. The complexity of existing financial reporting arrangements also constitute a substantial obstacle to the creation of European-wide XBRL taxonomies.

All this demonstrates that an expanded use of IFRS in individual annual accounts would represent a significant tool towards more integrated financial reporting. Also, a single accounting language may advance harmonisation in other areas such as reporting for statistical purposes and the common consolidated corporate tax base (CCCTB).

2. IFRS interpretations by local authorities

The adoption of IFRS in the EU was seen as a step forward in terms of comparability and transparency. However, there is an increasing number of examples where local authorities are issuing prescriptive Guidelines on IFRS application. While the EBF does not challenge the enforcement activities of national or European enforcers, we think that the standard setting process and enforcement should be clearly separated. If the authorities, within their enforcement work, identify issues with standards, they should report them to the IASB and IFRS IC for consideration at global level.

The quality of financial reporting can be significantly affected by the need for compliance with local Guidelines. Indeed, local banks acting as subsidiaries of various EU-based banking groups have to implement in parallel two different accounting and financial reporting processes - one for local purposes and another for group reporting purposes - although both are supposed to be IFRS-compliant. Banks which are active in third countries suffer from a similar situation when complying with statements issued by EU authorities such as the technical standards of prudential regulators that either are directly aimed at ensuring a common interpretation and implementation of IFRS or may have consequences on IFRS interpretation.

The need to maintain double financial reporting systems and processes leads to a significant negative impact in terms of operational risks and costs. A further negative impact is perceived in terms of flawed banking steering business decisions, both at local and at group level. Also, this situation may result in relevant EU-wide supervisory bodies having to deal with different "IFRS-based" reporting originating from the same reporting entity (if received both via the national regulator and via the reporting's entity parent entity).

Such situation should be avoided because it conflicts with the original objective of adopting IFRS as basis of accounting with the aim to eliminate double reporting requirements and to enhance the quality of the external financial reporting.

We stand ready to further discuss the issues raised in our letter and to provide you with examples.

Yours sincerely,

Guido Ravoet

Cc: Mr Didier Millerot, Head of Accounting Unit, European Commission
Mr Steven Maijoor, ESMA chair
Mr Andrea Enria, EBA chair
Mr Mario Draghi, ECB President