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EACB Comments on IASB Request for Views on Effective Dates and Transition Methods

31 January 2011

The European Association of Co-operative Banks (EACB) is the voice of Co-operative Banks in Europe. It represents, promotes and defends the common interests of its 28 members and co-operative banks in general.
Co-operative banks form decentralised networks which are governed by banking as well as co-operative legislation. The co-operative banks business model is based on three pillars: democracy, transparency and proximity. Through those pillars co-operative banks act as the driving force of sustainable and responsible development by placing the individual at the heart of their activities and organization. In this respect they widely contribute to the national and European economic and social objectives laid down in the Lisbon Agenda.
With 63.000 outlets and 4.200 banks, co-operative banks are widely represented throughout the enlarged European Union playing a major role in the financial and economic system. In other words, in Europe one out of two banks is a co-operative. Co-operative banks have a long tradition in serving 160 million customers, mainly consumers, retailers and SMEs. They have also developed a strong foothold in the corporate market providing services to large international groups. Quantitatively co-operative banks in Europe represent about 50 millions members, 750,000 employees with a total average market share of about 20%.

For further details, please visit www.eurocoopbanks.coop

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EACB responses to the ED questionnaire

The members of the European Association of Cooperative Banks (EACB) are pleased to comment on the IASB's Request for Views on Effective Dates and Transition published in October 2010.

Background Information

Question 1

Please describe the entity (or the individual) responding to this Request for Views.

(a) Please state whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor or other user of financial statements (including regulators and standard-setters). Please also say whether you primarily prepare, use or audit financial information prepared in accordance with IFRSs, US GAAP or both.

The European Association of Co-operative Banks (EACB) has 26 members consisting of co-operative banking groups in Europe and 2 non-European associated members (in Japan and Canada).

Our members are primarily preparers of financial statements but are also users in their credit granting activity capacities. Please consider however that our answers to the questions of the request for views are only given from a preparer perspective of financial reports.

(b) If you are a preparer of financial statements, please describe your primary business or businesses, their size (in terms of the number of employees or other relevant measure), and whether you have securities registered on a securities exchange.

The main business activities of our members are banking.

Quantitatively co-operative banks in Europe represent about 50 million members, 750,000 employees with a total average market share of about 20%.

(c) If you are an auditor, please indicate the size of your firm and whether your practice focuses primarily on public entities, private entities or both.

n/a.

(d) If you are an investor, creditor or other user of financial statements, please describe your job function (buy side/sell side/regulator/credit analyst/lending officer/standard-setter), your investment perspective (long, long/short, equity, or fixed income), and the industries or sectors you specialise in, if any.

n/a.

(e) Please describe the degree to which each of the proposed new IFRSs is likely to affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors and creditors might explain the

significance of the transactions to the particular industries or sectors they follow).

The following new IFRSs would particularly affect our members:

- *Financial Instruments*

EACB members are particularly concerned by final changes that will be made to impairment (i.e. expected loss model),hedge accounting (portfolio hedge accounting) and the offsetting project when IFRS 9 will replace the IAS 39. We are looking forward to express our position to the IASB when proposals will be exposed for comment.

Moreover, we would like to take the opportunity to recall our strong reservations about some IFRS 9 requirements for classification and measurement of financial assets. In particular, the following remain an area of concerns for EACB members:

- The "new amortized cost" category defined in IFRS 9 is too restrictive and results in unjustified volatility because many instruments managed on a long term basis (i.e. illiquid instruments) would be recorded at fair value through profit and loss.
- The concept of fair value through OCI with no recycling of gains or loss when the asset is sold is not appropriate for equity investments and does not provide any useful information to investors. Instead, we would have preferred the maintenance of the "available for sale" category, which under some circumstance would have better ensured the readability of the P&L statement.
- We strongly believe that the bifurcation of embedded derivatives from host contracts should be allowed. Furthermore, we think that there should be the same criteria to assess financial assets and financial liabilities with embedded derivative.

- *Fair Value Measurement*

EACB took part in the IASB consultation process on Fair Value Measurement. In this respect, we would like to reiterate our strong support to the IASB's choice to retain a mixed-measurement model. Therefore, we are looking forward the publication of the final standard announced for 1Q 2011.

- *Leases*

Regarding IASB proposal on Leases, our members have strong reservation on the called "right-of-use approach" that would add a lot of complexity to financial reporting without making financial reports easier to compare, neither providing more decision-useful information for users. Furthermore, since financial institutions will have to use IFRS for prudential reports in the near future, we fear that additional regulatory capital could be required in order to accommodate the right-of-use assets recognized by lessees.

- *Financial Instruments with Characteristics of Equity*

Moreover, in paragraph 4 of the request for views, it is stated that the responses to the consultation will also help the Board when it considers the effective dates and transition methods for its other projects such as *Financial Instruments with Characteristics of Equity*. Although, the members of the EACB are fully aware of the Board's October decision to postpone this project, we would like to underline its particular importance for co-operative banks (i.e. equity treatment of co-operative shares). Therefore, we will actively continue to follow this project, when it will appear again on the agenda of the Board, and we look forward to communicate with the IASB on the matter.

Preparing for transition to the new requirements

Question 2

Focusing only on those projects included in the table in paragraph 18 of IASB Request for Views:

(a) Which of the proposals are likely to require more time to learn about the proposal, train personnel, plan for, and implement or otherwise adapt?

The projects included in the table in paragraph 18 of the request for view, we consider that the proposals, which would require the most resources to be implemented in our members' organization are Financial Instruments and Leases:

- *Financial Instruments*

Considering the importance of the implementation of IFRS 9 for our members' core business and the already expected huge consequences on IT systems, this standard is requiring the most of our members' attention. However, since some proposals (i.e. impairment, hedge accounting, asset and liability offsetting) are still under discussion, our members are not in a position to fully assess the IASB transition methods proposal for IFRS 9.

- *Leases*

Regarding Leases, in our comments to the ED, we express that the new standard should become effective no earlier than 2014 in order to give preparers enough time to make the necessary adjustments to their data processing systems and contract management. Moreover, we advocate that entities should not be obliged to apply the new rules retrospectively. In fact, we consider being too burdensome in practice to collect the required data for past periods for many lease arrangements.

(b) What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?

Our members expect that the majority of the cost related to the adoption of the new standards would be the following: cost related to the development of new IT-system and the training of staff.

Question 3

Do you foresee other effects on the broader financial reporting system arising from these new IFRSs? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?

As financial institutions, our members are concerned about the interaction with IFRS and regulatory capital requirement and their potential increase. (I.e. our concerns related to the ED proposals on Leases and Impairment).

Moreover, in some European jurisdictions there might have possible conflicts with taw law and thus, any change into accounting standard would have tax consequences, which required to be carefully assessed.

Question 4

Do you agree with the transition method as proposed for each project, when considered in the context of a broad implementation plan covering all the new requirements? If not, what changes would you recommend, and why? In particular, please explain the primary advantages of your recommended changes and their effect on the cost of adapting to the new reporting requirements.

- *Leases*

See our responses above to question 2a.

Effective Dates for the new requirements and early adoption

Question 5

In thinking about an overall implementation plan covering all of the standards that are the subject of this Request for Views:

(a) Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimise the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimising disruption, or other synergistic benefits).

As preparer of financial statements our members would prefer a single date approach to reduce the need to educate users about changes in financial reporting on a piecemal basis and to ensure consistent financial reporting with industries.

(b) Under a single date approach and assuming the projects noted in the introduction are completed by June 2011, what should the mandatory effective date be and why?

- *Financial Instruments*

As proposals for impairment methodology, hedge accounting and asset and liability offsetting are still under development or in the middle of an assessment process by stakeholders, at this stage, it is rather difficult for our members to assess how long time it will take for IFRS 9 to be implemented.

However, we already know that an earlier application of IFRS 9 in 2013 with comparative information for 2012 would not to be realizable. In fact, we strongly believe that the financial sector in Europe will need at least three years time for the implementation of IFRS 9. Furthermore, for the time, we cannot identify stable interpretations of commentary literature, auditors and their chambers for the definition of business models.

Therefore, we would ask for an effective date of 1 January 2015.Moreover, our members advocate for applying a mechanism similar to the one applied for the transition to IAS 39 for first time adopters in 2005. The opening balance sheet should be restated with a reconciliation schedule between closing and opening balance sheets.

- *Leases*

See our responses above to question 2a.

(c) Under the sequential approach, how should the new IFRSs be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new IFRSs.

As indicate in 5a, EACB members support a single date approach.

Moreover, above all, considering transition to IFRS 9, we urge the IASB to consider carefully the needs of those entities that want to apply IFRS 9 as a whole rather than in stages.

(d) Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.

We do not have any specific view on the matter.

Question 6

Should the IASB give entities the option of adopting some or all of the new IFRSs before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

Generally, EACB members are supportive of the option to early adopt. In particular, those members, who will have to base the calculation of their regulatory capital on IFRS accounts, could see advantages to early apply the standards[1].

However, in the particular case of IFRS 9, not all members are convinced of the benefit of an early adoption. As stated previously, IFRS 9 is a very complex standard and entities would need time to imply it. Therefore, most of our members will not use an early adoption option.

Question 7

Do you agree that the IASB and FASB should require the same effective dates and transition methods for their comparable standards? Why or why not?

As EACB expressed in the past, we strongly believe that the convergence should always be an aim for the new standards. However, this should never override the quality aspect (which is the most important criteria).

Question 8

Should the IASB permit different adoption dates and early adoption requirements for first-time adopters of IFRSs? Why, or why not? If yes, what should those different adoption requirements be, and why?

n/a.

[1] Currently, in some European countries (e.g. in Germany), although banks are already IFRS users for their annual accounts, the calculation of their regulatory capital should be based on national GAAP. However, in 2016, our German members will have to use their IFRS accounts in the calculation of their regulatory capital. Therefore, to reach a high level of quality when implementing the new prudential requirements, some of them would like to have the opportunity to apply IFRS 9 and the new insurance standards already in 2014 on a voluntary basis only.

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