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EACB Comments on Report of the Trustees' Strategy Review

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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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General Comments

The members of the European Association of Cooperative Banks (EACB) welcome the request from the IFRS Foundation Trustees to comment on its Report on Strategy Review entitled "*IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second* Decade".

EACB has previously commented on both the Trustees' and the Monitoring Board's consultations on the Governance of the IFRS Foundation, respectively on 24 February 2011 and 8 April 2011.

EACB took note of the IFRS Foundation's intention to issue an integrated package of improvements covering the Monitoring Board and the Trustee's Strategy Review by the end of August 2011. We are convinced that a commitment to coordinate their respective efforts was necessary considering that the Monitoring Board's review focused primarily on institutional aspects of governance, particularly the composition and the respective roles and responsibilities of the Monitoring Board, Trustees and IASB, while the Trustees' initiative addressed the IFRS Foundation's mission, governance, and funding, as well as the IASB's standard-setting process, including operational aspects of due process and standard-setting oversight.

Like the EFRAG, we welcome the emphasis on high quality global accounting standards, transparency and the focus on adoption of IFRS rather than on convergence. We also agree that the quality of the standard setting process and of the resulting standards has a significant influence on the ultimate acceptability of the resulting standards in Europe. Actually, as expressed in the context of our previous comments to the Trustees and to the Monitoring Board, the fundamental question for the review is whether the current governance structure effectively promotes the standard-setter's primary mission of setting high quality, globally accepted standards as set forth in the Constitution of the IFRS Foundation, and whether the standard-setter is appropriately independent and accountable.

Moreover, as the IFRS Foundation's second decade begins, the next 18 months will be critical in determining whether the goal of a single high quality globally accepted set of accounting standards is achieved.

IFRS Foundation's mission

EACB strongly appreciates the reference to "all users" in the proposed recommendation. However, like the EFRAG we regret that the Trustees did not define more precisely who users legitimately are.

Co-operative banks, due to their inherent nature, favour long-term investors. Therefore, we support EFRAG's position that priority should be given to providing useful information to long-term investors. Long-term perspective should be an essential element of the Trustees' vision and strategy.

Moreover, EACB does not consider that the approach for IFRSs should be exclusively investor-based. Instead, we believe that financial reporting should provide information about the economic resources of an entity and the claims on those resources to all kinds of capital providers, such as equity investors, lenders and other creditors. Furthermore, an extended scope might prove to better understand and respect existing differences among business models as well.

Regarding the scope, we agree that the primary focus of the Foundation and the IASB should remain on developing standards for publicly traded private entities[1]. In particular, we agree that considering whether the IASB should work on issues not directly related to financial reporting, e.g. sustainability reporting is not appropriate. Building global standards and/or indicators to report on global sustainability is a very complex task already performed by many other international organisations. Therefore, we doubt that setting an additional framework for sustainability reporting should be part of the IASB task at all.

Furthermore, we are not convinced that developing global standards for (European) SMEs should be part of the IASB's core mission. In particular, in the EU, national accounting rules are already highly developed, both transparent and reliable. The application of the IFRS for SMEs to European cross-border large and medium-sized entities may have some advantages, but the benefits of IFRS for SMEs will usually not apply to small European companies that only rarely engage in economic activities outside of their home country. In addition, we fear that the application of the IFRS for SMES, as it is, by cooperatives will create some severe problems (e.g. equity treatment of co-operative shares).

Again, when developing international standards, we agree that the IASB should provide guidance consistent with a principle-based approach to standard-setting. For instance, our members already felt uncomfortable when they had the impression that some proposals were reflecting a more rules-based approach.

Finally, as a banking association, we welcome the proposal to enhance IASB's cooperation with regulators in order to avoid divergence between accounting and prudential requirements. While we recognise that it might not be possible to remove all differences between financial reporting and regulatory requirements, we regret that such divergences (e.g. in the area of impairment of financial assets or reporting frameworks) lead to extra burdens for preparers of financial reports. One possibility would be to formalise existing informal arrangements to include joint meetings with specifically designated organisations (i.e. Basel Committee on Banking Supervision, Financial Stability Board, IMF etc.) on a regular basis.

Governance

EACB shares the opinion that the current three-tier structure is appropriate for the organisation's mission. In this respect we agree that there is a strong need for clarifying the place and role of each body of the three-tier structure. We think that it is important

[1] Companies that offers its shares or/and bonds for sale to the general public.

to differentiate between the need for independent high quality execution of standards and the need for a strong accountability framework.

We agree with the EFRAG that communication goes beyond providing public reports. As we previously expressed, we still recommend the Trustees to develop its oversight activities further and communicate appropriately on the process and outcome of that oversight to its stakeholders.

Process and procedures used by the Foundation and the IASB

EACB agrees that a thorough and transparent due process is essential to developing high quality, globally accepted accounting standards. In this respect, EACB strongly supports the steps made by the IASB to run public consultations on its agenda on a regular basis. We are convinced that would highlight potential needs and avoid possible criticisms on the relevance of the review of standards that do not cause any significant concerns in practice. Moreover, it would notably avoid the future IASB agenda being as congested as it has been recently. Generally, stakeholders should not be faced with frequent and huge changes to standards.

Furthermore, we welcome that the Trustees retained proposals for undertaking post implementation reviews, establish formal cooperation arrangements with securities regulators without undermining the commitment to a principles-based approach (see comments above). Moreover, we welcome that the Trustees refer in the report that countries may also require some transitional period in the process of fully implementing IFRS. Actually, EACB mentioned at many occasions (i.e. discussions related to IFRS 9) that an adequate time for implementation of standards is necessary.

However, as expressed in our previous comment letter to the Trustees', we also think that it is crucial to launch impact assessment prior to the issuance of exposure drafts, giving greater consideration to the number of amendments that users and preparers of financial information can reasonably absorb within certain timeframes. EACB members equally see an added value in the IASB performing a systematic field-testing of the proposals. In addition, we believe that fundamental changes to IFRS should first be debated at a conceptual level (i.e. definition of equity, content of profit and loss and OCI). It would allow consistency of accounting principles within accounting standards.

In relation to the need to provide oversight on the due process "substance", we completely share the argument raised by the EFRAG at many occasions that final standards should only be issued when the phased projects are totally finalised, since various requirements in the individual standards are interrelated and require internal consistency.

We would like to add that the Trustees are making these recommendations at a time when a number of major economies are considering the adoption of IFRSs for their domestic economies including Japan and the United States. For the purpose of the review, the Trustees assume that these major economies will make a positive decision on the adoption of global standards. However, if such commitment should fail, we urge the Trustees to reconsider some elements of this strategy review document in particular regarding the suggested geographical distribution of the membership of the IFRS Foundation Trustees and the IASB.

Moreover, while co-operative banks are fully private entities competing in the market, they have their specific business model, which differs from commercial banks on some particular aspects (i.e. capital, governance and ownership). Therefore, we would like to stress that since IFRSs are designed for all types of companies, a high standards setting process should also allow the maintenance of differences among business models (i.e. cooperatives, partnerships etc.) and take into account their accounting issues.

We remain at your disposal for any further questions or requests for information.

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