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Banking supervision
And Accounting issues Unit
The Director

Paris, January 19th 2011

FBF Response to the EFRAG draft Comment Letter on IASB Request for views on Effective Dates and Transition Methods

Dear Mrs Flores,

The FBF is pleased to have the opportunity to respond to the EFRAG draft comment letter related to the IASB Request for views on Effective Dates and Transition Methods.

We share the view of EFRAG of a single effective date of 1st January 2015 at the earliest. However we make no difference between standards listed in the IASB Request for views - as the EFRAG does - due to their degree of interdependencies. We advocate for a "big bang" approach where all these standards should become effective on the same date as all the new standards are the cornerstones of the financial reporting under IFRSs and their provisions are closely related.

We disagree with the reasons developed by EFRAG in question 5 why collective date should be 1st January 2015 at the earliest. EFRAG focuses on the time needed to collect comparative information. We believe a three year implementation period is needed because of the significant burden to move to the new standards. Time is required in order to fully assess the impact of the new standards, to make changes to systems, to train staff and to develop communication with investors and analysts.
Moreover, we strongly disagree with full retrospective information as it would prove difficult to produce the required data and this would not provide additional useful information to the users. Due to the scope of the new standards, we face the same situation as the one occurred in 2005. Therefore, we advocate for applying a mechanism similar to the one applied for the transition to IAS 39 for first time adopters in 2005. No requirement should be made to restate comparatives. The opening balance sheet should be restated with a reconciliation schedule between closing and opening balance sheets.

Mrs Françoise Flores
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You will find in the appendix to this letter our detailed responses to the specific questions you raised in your draft comment letter.
We hope you find them useful and would be pleased to provide any further information you might require.

Yours sincerely,

Jean-Paul Caudal

Appendix

Please find hereafter an extract of our comments to the IASB Request for views in order to response to the questions raised by EFRAG.

Q2. Focusing only on those projects included in the table in paragraph 18 above:
(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?

For financial services and insurance industries, the implementation of the completed revised IFRS 9 standard will likely require the more efforts and investments as it covers the core of accounting principles applied to the financial instruments. For example, as far as the impairment of financial assets project is concerned, this phase will have an important impact on risk management and IT system development as a new approach of a loss model is to be developed. IFRS 4 is as well at significant stake in our jurisdiction as groups hold banking and insurance entities.

(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?

Given the scope of the standards to be adopted and the level of work required, adapting to the new requirements will have a broad impact on all the departments of the banking industry of which accounting, risk management, businesses, legal and treasury.
Vast resources would be needed to implement such large number of standards in a short period of time. Resources can be understood as time resources, financial resources, human resources.
Among costs expected to incur for adapting to the new requirements, entities will have to assess new accounting requirements to ensure consistent application of the new standards, train their staff, develop their IT systems in order to enable collecting new required data and to produce financial reporting, change their external communications and educate analysts.

Regarding the particular matter of disclosures, we believe that in some cases requirements of the new standards are too voluminous to be relevant. Given the example of the consolidation standard, we believe that the disclosures required related to financial structures such as special purpose entities and structured investment entities are too extensive and prove burdensome as such information might not be easily available and costs to collect appropriate data would be significant..

EFRAG's questions to constituents: Has the IASB made any tentative decisions after issuing the Exposure Draft or subsequent Staff Draft that would change your answer to the questions above?

We are not aware of any tentative decision from IASB that could change our response.

Q3. 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?

New IFRSs would have significant effects on financial information reported to supervisors. The current supervisory reporting framework is based on current IFRS. Supervisors are expected to review their requirements in due course to incorporate changes in accounting standards. Therefore, costly IT system changes would occur for financial institutions in order to allow them to meet new supervisory requirements.

Q4. 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.

We are strongly opposed to an unrealistic fully retrospective application due to the scale of changes. Restatement of past transactions would be too complex and too costly due to the high volumes of financial assets and liabilities involved and due to the hypothesis to be formulated and information to be collected in order to provide appropriate comparative financial statements. Accordingly, we suggest 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.

Q5. 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).

We advocate for a “big bang” approach where all the standards should become effective on the same date for the following reasons:

- It would maintain comparability between financial statements of entities.
- It would avoid sequential restatements of financial statements which reduce their readability during the period of adoption of the standards. We believe that this period might be long.
- Due to the scope of these new standards which are the cornerstones of the financial reporting under IFRS, their provisions are closely related. Moreover, conflicts may arise between old and new requirements. Therefore, under a sequential approach, entities might face some inconsistencies when applying new requirements.
- Cost of adopting the new reporting requirements would be far more burdensome under a sequential approach. Scope of items and transactions under the new requirements need to be assessed each time a new standard would be adopted which does not go towards economies of costs.

(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?

As all the new standards contain significant accounting changes, their implementation requires high level of work and significant time. We estimate that the implementation period may require up to three years.
Therefore, if all the new standards were to be published at the end of 2011, we believe that the effective date would not be possible earlier than 1st January 2015.

However, if some of the standards were to be issued after the expected date, then the effective date of all the standards should be postponed proportionately to the delay.

Moreover, although the Board decided to postpone discussions related to the "Financial Statement Presentation" and "Financial instruments with characteristics of equity" projects, we believe that these projects are essential elements in order to contribute to a stable platform of high quality standards. Therefore, these two projects should be implemented simultaneously and should have the same effective date of 1st January 2015.

Q7. 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?

We believe priority should be given to quality aspects of the future standards regardless of applying same effective dates and transition methods for comparable standards.