BNP PARIBAS

June, 25 2013

EFRAG
35 Square de Meeûs
1000 Brussels, Belgium
commentletters@efrag.org

Please find below BNP PARIBAS response to the EFRAG questionnaire on long-term investing activities.

Yours sincerely,

Lars Machenil

Chief Financial Officer

BNP PARIBAS

EFRAG's Public Consultation
Is there a need for specific financial reporting for long-term investing activities business models?

Question 1
Would you describe your (or one of your) business model(s) as a long-term investing business model? Please explain. If so, what is its economic purpose?

Part of our business model relates to long term investing. These activities are notably located in our insurance and also "capital development" subsidiaries.

The economic purpose for insurance investments is to ensure sufficient long term profitability to cover the risks stemming from insurance contracts and to provide shareholders with sufficient return on equity.

Our capital development activities represent a form of private equity activity which provide for financial support to small and medium entities for a sustainable growth.

Question 2
What are your long-term investing activities driven by (e.g. the need to back long-term liabilities)? What is the nature of your long-term commitments? How do you distinguish between assets held to back long-term liabilities and other assets? Are you also involved in trading activities? If so, to what extent and for what purpose?

As specified above, long term investing activities in insurance are driven by the need to back long term obligations resulting from the insurance contracts. For life insurance contracts with long duration for instance, the commitment is to be able to meet the contractual and regulatory requirements during that period of time. Ensuring the appropriate matching of the investments and the insurance liabilities is key in managing these activities.

In our capital development activities the long term investing is driven by the objective to assist SMEs in their growing strategy, through financial support, when they want to expand or restructure their activities. In practice, this is a financial partnership between the Bank and the SME where the Bank takes a minority interest in the capital of the SME. These investments are made for the economic cycle necessary to the SMEs to restructure or reach the level of development expected. They are generally part of a global relationship with our retail SME customers and complementary to other types of financial support (loans, overdrafts, bank accounts…).

These activities of long term investments are located within specific subsidiaries which do not have trading activities.

Question 3
What are the different types of assets you invest in?

The assets concerned by the investments of insurance entities are mainly fixed-income securities (e.g. corporate and government bonds) and also equities and investment properties.

Investments of capital development activities are mainly composed of equities and convertible bonds.

Question 4
How is your long-term investment strategy established and how do you report on it, for both transparency and stewardship perspectives? How do you ensure that your current or potential shareholders can make the link between how you report your investment long-term strategy and the information provided in your financial statements? Could such a link be improved? How?

Insurance activities are included in our "investment solutions" business line for which specific financial information is provided to users (current and potential shareholders). Current information tends to focus on performance and risks. To improve the link between the long-term investing strategy and financial information the accounting standards should explicitly take into account the Business Model as a key driver for accounting, subject to specific disclosures.

The very limited size of the capital development activities does not require any specific detailed information at the Group level. Related information is provided for together with the French Retail Banking activities.

BNP PARIBAS

Question 5
Do you believe the business model described above justifies a specific financial reporting treatment? If so, what should it be? Please explain how it brings relevant information to investors. Are there circumstances in which you would argue that fair value is not an appropriate measure? What other measurement attribute would you suggest and why (i.e. where a measurement basis in existing IFRS does not properly reflect the business model as described by you)? How should measurement uncertainty be dealt with in a 'long-term investment activities' business model?

Historically, our portfolio of long term investments used to be larger than it is today, also covering investments in much larger size companies.

Many factors contributed to the downsizing of these investment portfolios, including the changes in accounting treatment, as compared to the local GAAP, and the undue volatility introduced by a wider use of fair value in accounting these investments.

While this is currently more of a concern regarding the impact on own funds because under IAS39[1] most of these investments are accounted for in the Available For Sale category (fair value measurement through equity), the issue may become even more critical under the forecasted IFRS9 standard, with both a potential instability of the financial position (equity) and the financial performance (profit and loss). The following IFRS9 requirements are examples that illustrate such a heightened concern:

- all equity investments would be accounted for at fair value through profit and loss, regardless of the business model,
- the only option to account for some of these equities at fair value through other comprehensive income (i.e. equity) is overly restrictive, prohibiting the recognition in profit and loss of gains and losses realised on disposal of such investments,
- the fair value through profit and loss becomes the default category, no more ring-fenced to trading activities. Any instrument that would not be eligible to the narrowly defined amortised cost category would fall into the fair value through profit and loss category, regardless of the related business model.

These requirements combined with forthcoming changes in the regulatory framework would result in a double negative effect, potentially a disincentive for banks to provide for long-term financing, in a context where it is critical to support the European employment recovery and to boost the economies:

- a distortion of the performance, failing to reflect the actual business model regarding long term investments. For instance, while the track record of realised gains and losses is a key indicator of the performance of these activities, fair value accounting would not allow their faithful representation in the results. The use of non IFRS measures to reflect such an information is burdensome and discouraging for the business;
- dissuasive capital requirements and prudential ratios.

[1] *Financial Instruments : Recognition and Measurement*

Therefore, from an accounting perspective, we consider that the most appropriate measurement attribute to faithfully reflect the performance when the business model is to hold the investments for a long period is the cost measurement with impairment when the intrinsic value (value in use as defined in IAS36[2]) is lower than cost. The uncertainty inherent to the long term investment business model further justify prudence and the use of cost that prohibits the recognition of unrealised gains while taking into account potential losses through impairment. This also makes it fundamental to reintroduce the notion of prudence in the IFRS conceptual Framework.

Finally, we also consider that for the sake of enhanced transparency fair value information should be provided but only through disclosures in the notes to the financial statements.

Question 6
If you are an investor in entities that are involved in long-term investment activities, what is the information that is the most relevant to you? How does IFRS financial reporting contribute to those needs today? Please explain.

We believe that the needs for long-term investors are not similar to those of investors seeking short term profits. For long-term investors, we consider that the track record of realised gains and return on equity is more relevant than hanging the performance and equity of the entity to the erratic movements of the market.

[2] *Impairment of assets*