Swedish Bankers´ Association
Svenska Bankföreningen

CL 54

POSITION PAPER

4 July 2005

International Accounting Standards
Board (IASB)

Attention: Warren McGregor

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United Kingdom

IASB´s "Draft Memorandum of Understanding on the role of Accounting Standard-Setters and their relationships with the IASB" (February 2005)

Swedish Bankers´Association (Stockholm) would like to give its comments to some of the sections in IASB´s consultation paper.

6 Application of standards

6.4

In 6.4 it is stated, in the second paragraph, that "Adding disclosure requirements or removing optional treatments does not create a non-compliance with IFRSs."

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We believe, however, that it would create non-compliance. An example is IAS 1. At present, an entity should structure its Financial Statements with the purpose of presenting fairly the financial position, performance and cash flows of the entity. If national standard-setters would be allowed to restrict this freedom of choice, there is an obvious risk that the entity will not be able to present the entity in a way within IAS 1 that gives a fair presentation of its activities during the year and its financial condition at year end. An example of the effect of 6.4 is the reporting format drafted by CEBS/FinRep which will force entities to structure the balance sheet according to the measurement categories for financial instruments even though there are several banks who believe that, instead, it should be structured based on products. The choice of valuation category is just a choice to solve the problems with the mixed model approach. Instead, using product categories present fairly - in the banks′ belief - the type of business that the banks have. We would like to quote some important paragraphs in IAS 1:

> "*13.* ***Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the*** **Framework*****. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.***"

> "15. In virtually all circumstances, a fair presentation is achieved by compliance with applicable IFRSs. A fair presentation also requires an entity:

> (a) to select and apply accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. IAS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of a Standard or an Interpretation that specifically applies to an item.

> (b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

(c) to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

16. Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used or by notes or explanatory material."

As quoted above, 15 (b) requires the entity to present information that gives understandable information. If it would be allowed for national standard-setters to restrict this possibility more than what is presently required within the IASB financial reporting standards, the effect might be that it is not possible for the entities to present understandable information, especially if other comparable banks with other national standard-setters do not have the same restrictions with regard to the presentation format. There is an obvious risk that we will end up with national GAAPs again having local standard-setters moving the local entities further and further away from the basic ideas within IAS/IFRS.

7 Intepretation

7.4

In 7.4 it seems as if IASB believes that national standard-setters should be allowed to issue their own interpretations of the standards, although it is written that care should be taken to avoid non-compliance with the IASB standards. Even though one tax law only exists within one country, they should be similar in their substance. It is our belief that 7.4 will create local GAAPs. This is especially a risk since local interpretation will probably not have the same extensive due process as the IASB/IFRIC standards and interpretations. There is an obvious risk that certain interpretations will not be accepted by other stock exchanges and the idea of a common framework for financial reporting will be lost. – Our conclusion from this is that 7.4 should be withdrawn (or, as an alternative, that it should be explicitly stated that only IASB and IFRIC should be allowed to make interpretations that are considered acceptable for full IAS/IFRS compliance).

7.7

Our opinion is that 7.7 should be withdrawn for the same reasons as mentioned under 7.4 above.

SWEDISH BANKERS′ ASSOCIATION
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