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Mrs Andrea Pryde
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International Accounting Standards Board
30 Cannon Street,

London EC4M 6XH
United Kingdom

Brussels, 25 October 2004

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Dear Mrs Pryde,

ED 7 Financial Instruments : disclosures

The Belgian Bankers' Association welcomes the opportunity to comment on 'Exposure Draft 7 Financial Instruments: disclosures'. Please find below the list of our major concerns regarding the ED (a more detailed description of these can be found in the annexe) :

- We are concerned about the fact that some disclosures have a competitive and hence a confidential nature (e.g. the policies and processes for risk and capital management, capital targets set by the management,...). In accordance with the provisions in Pillar III of the Basle Accord, we would like to see that in those cases where the disclosure of some information items may seriously endanger the position of the bank, there is a possibility for the bank to be exempt from making those disclosures and for providing information in a more general way. In those cases, the bank can mention the fact that as well as the reason why these specific information items have not been disclosed.
- The development of a sensitivity analysis on a consolidated level is an important task. Its implementation should be adjusted to the requirements under Basle II/CAD III.
- As for the disclosure of risks, we are of the opinion that there is no need for these figures to be audited. In our view, they should be part of a Management Discussion and Analysis Document. An audit of the risk management would imply an evaluation of the company's strategic policy and we feel this is not one of the auditor's tasks.
- We do not support the amendments to IFRS 4 Insurance Contracts. For insurance companies it is not ideal to have further changes in their financial reporting shortly after having prepared for the implementation of IFRS 4. According to us, a final solution with respect to the content should be found before any discussion concerning disclosures.



- The banking sector must comply with external capital requirements imposed by a prudential supervisor. Disclosing a lack of compliance with these requirements could be misinterpreted and may cause panic among deposit holders and consequently initiate a run on the bank. For these reasons – and because of prudential supervision, which focuses inter alia on the banks' solvency – we see no need for a disclosure of a lack of compliance with external requirements on behalf of the banks.

A more detailed comment on these concerns is given in the annexe.

We hope these remarks will be taken into account.

Yours sincerely,

Guido Ravoet
Chief Executive Officer

Daniel Mareels
Head of the Taxation, Accounting Standards
and Prudential Regulations Department

Annexe

Question 1 - Disclosures concerning the significance of financial instruments for financial position and performance

We are in favour of the possibility – offered under ED 7, 21b – of determining whether the gains or losses include interest and dividend income. However, there should be no obligation to do so.

Question 2 - Disclosure of the fair value of collateral and other credit enhancements

No remarks.

Question 3 – Disclosure of a sensitivity analysis

The development of a sensitivity analysis on a consolidated level is an important task which could well take more time than proposed. Banks will have to develop sensitivity analyses following Pillar II of the Basle II requirements. In order to avoid any kind of redundancy, we would like to ask that the sensitivity analysis as mentioned in paragraphs 43 ff. of ED 7 can be adjusted to the Basle II/CAD III requirements.

We are of the opinion that for the development of a sensitivity analysis on a consolidated level at least the following is needed.

First of all an interest analysis has to be developed. This implies among other things the calculation of residual maturities for all instruments involved based upon the determination of maturity classes for all instruments involved. This has to be implemented in the IT-systems of the bank.

Secondly the entity specific assumptions of the analysis have to be discussed with the regulator and an agreement should be reached.

Thirdly, the main hurdle will be to harmonise this work on a consolidated level. This implies the identification and elimination of all transactions between different companies of a group in order to eliminate double counting. Also the existing maturity classes, residual maturities and repricing dates will not necessarily be the same all over the group: the harmonisation of these on group level is needed. Corrections for different currencies used are to be taken into account.

For these reasons we would favour an adjustment as for the content of the sensitivity analysis, as for the first time application with the Basle II/CAD III requirements.

Question 4 - Capital disclosures

The banking sector must comply with external capital requirements imposed by a prudential supervisor. Disclosing a lack of compliance with these requirements could be misinterpreted and may cause panic among deposit holders and consequently initiate a run on the bank. This can undermine the regulator's ability to impose external capital requirements. Although we fully

agree with the argument put forward in BC52 (c), we would like to point out that prudential supervision is not only meant to protect deposit holders. Prudential supervision also and primarily focuses on protecting the whole financial system by regulating and limiting risk exposures including systemic risks which could be harmful not only for the depositors of a single bank but also for the stakeholders (government, other financial institutions, individual lenders, enterprises, deposit holders, employers **and** shareholders) of the financial system of a particular country and beyond. Since a collapse of the financial system would have serious consequences for the shareholders or investors of all banks, there can be no doubt that protecting the financial system is also done in their interest.

For these reasons – and because of prudential supervision, which focuses inter alia on the banks' solvency – we see no need for a disclosure of a lack of compliance with external requirements on behalf of the banks.

Question 5 – Effective date and transition

The effective date of ED 7 is 1/1/2007. We appreciate the fact that this date corresponds with the overall introduction of the Basle II requirements.

An earlier application of ED 7 is encouraged (ED 7, 49). However, banks which want to apply ED 7 earlier (in order not to change their IT systems twice, once in 2005 for implementing IAS 30 and 32 and once in 2007 for ED 7), will be obliged to disclose some competitive information, whereas their competitors will not be obliged to do so. Furthermore, we doubt that – in the case of an earlier application – banks will have had enough time to make full preparations for disclosing a sensitivity analysis.

Consequently, we would like to ask that – if banks apply ED 7 earlier than the date which has been laid down – they will be exempted from the obligation to disclose those items which are risk management disclosures such as the sensitivity analysis.

Question 6 – Location of disclosures of risks arising from financial instruments

1. As for the disclosure of risks, we think that there is no need for these figures to be audited (we notice that Pillar III-requirements will not be subject to an audit obligation either). Since risk management puts into practice the strategy of the company, an audit of it would imply an evaluation of the company's strategic policy and we feel that this is not one of the auditor's tasks. So, this information actually belongs in a Management Discussion and Analysis document rather than in the annual accounts.

2. We notice that credit risk disclosures must be made for each type of financial instrument. However, the classification of instruments under Basle II is made on the basis of asset classes and this is different from the classification under IAS/IFRS. Consequently, banks will be obliged to develop matrixes in order to meet both disclosure requirements.

**Question 7 – Consequential amendments to IFRS 4**

We are of the opinion that is not adequate to amend IFRS 4 Insurance Contracts, because there is still no solution for the measurement of a ‘discretionary participation feature’ under IFRS 4. According to us, a final solution with respect to the content should be found before any discussion concerning disclosures.

Question 8 – Implementation guidance

No remarks.

Question 9 – Differences with USGAAP

No remarks.

Question 10 – Other comments

No remarks.