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## **European banks see room for improvement in IASB proposal for IAS 39 revision**

The G-20 countries have made a number of recommendations that should be implemented to enhance accounting standards. Consequently, the International Accounting Standards Board (IASB) has undertaken a revision of the IAS 39.

The European Banking Federation (EBF) supports the objective of high quality financial reporting standards but fears that the fragmented approach the IASB is taking in the revision of the IAS 39 may impact on the quality of the final standard.

The EBF also warns against the lack of coordination between the IASB and the Financial Accounting Standards Board (FASB). The latter's current tentative decisions are inconsistent with the IASB approach, which the EBF feels is more appropriate. This inconsistency, the Federation says, is putting global convergence at risk.

The need for broad coordination was further highlighted in a letter sent by Alessandro Profumo, President of the EBF and CEO of Unicredit to Fredrik Reinfeldt, President of the European Council, in advance of next week's G20 meeting. He writes that the EBF "considers as essential the cooperation of the IASB with the global regulatory community, notably the Basel Committee on Banking Supervision, to arrive at solutions that are balanced from both accounting and regulatory perspectives."

In this revision process, the EBF supports the retention of the mixed measurement model as well as the reduction of measurement categories. However, the rationale for classification of financial instruments, it says, must reflect the business model of an entity and the economics behind financial transactions. The EBF stresses that the risk management, the funding and the existence and depth of the market must also be taken into account. It firmly believes that the 'business model' should be the primary criterion for the classification and measurement of a financial instrument, rather than basing this measurement on the characteristics of the instrument. Furthermore, reclassification should be mandatory where external or internal factors can force changes in the business model.

More specifically, the EBF is concerned that more liabilities may be measured at fair value under the IASB proposal. That is of particular concern if the definition of fair value results in movements relating to own credit risk being included in profit or loss. Finally, the EBF stresses that it considers the proposed transition provisions as impractical.

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### **Note to the Editor**

Set up in 1960, the European Banking Federation is the voice of the European banking sector (EU and EFTA countries). The EBF represents the interests of some 5000 European banks: large and small, wholesale and retail, local and cross-border financial institutions