CEBS Committee *of* European Banking Supervisors

CEBS, CESR and CEIOPS publish a joint statement on the latest developments in accounting

21 October 2008

The Committee of European Banking Supervisors (CEBS), the Committee of European Securities Regulators (CESR) and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) have today published a joint statement, with their input regarding the latest developments in accounting.

The three committees acknowledge that the competence of setting, formally interpreting standards and issuing general interpretation of existing standards lies with the IASB and IFRIC, respectively. The European Commission has the competence for adopting these standards and their interpretations as envisaged under Article 3 of the IAS Regulation.

The three committees also stress the importance of appropriate and consistent application of measurement and disclosure requirements. Recent market events imply that relevant and comprehensive financial information is needed to strengthen market confidence.

All three committees have recently published their reports on fair value accounting[1] as a response to the request set out by Ecofin in its roadmap from October 2007. Since then the financial crisis has deepened and EU leaders and finance ministers through the ECOFIN Council have reacted quickly in order to restore confidence and ensure the proper functioning of the financial system.

The Ecofin Council of the 7 October 2008 underlined the necessity of avoiding any distortion of treatment between US and European banks due to differences in accounting rules. It took note of the flexibility in the application of mark to market valuation under IFRS as outlined in recent guidance from the IASB. The Ecofin strongly recommended that supervisors and auditors in the EU apply this new guidance immediately. It also considered that the issue of asset reclassification must be resolved quickly. To this end, the Ecofin urged the IASB and the FASB to work together on this issue and welcomed the readiness of the Commission to bring forward appropriate measures as soon as possible. Finally, the Ecofin expected this issue to be solved by the end of October 2008, with the objective to implement as of the third quarter, in accordance with the relevant procedures.

The three committees welcome the urgent action taken by the IASB to address the abovementioned issues and hope that the revision of the requirements on reclassification and additional disclosures in IFRS will contribute to ensure that confidence is restored and transparency enhanced in financial markets. The three committees also welcome the new regulation from the European Commission which promptly implements that change in order to enable European preparers to have a level playing field on this area both cross-sectorally and with preparers from other jurisdictions.

They support the aim to arrive at global accounting standards and therefore appreciate the solution found by the IASB to the concerns raised by EU leaders and others regarding the issue of reclassification and therefore avoiding an EU carve out on IAS 39 Financial Instruments: Recognition and Measurement.

The three committees also support the IASB statements regarding the recent fair value accounting clarifications of the US SEC Office of the Chief Accountant and FASB, and the fact that standard setters have committed to carry out further work jointly in the short run.

EU preparers, auditors and other stakeholders should take note of the IASB staff position on this SEC-FASB clarification on fair value accounting issued on 2 October 2008 which was also confirmed by the IASB in its press release on 14 October 2008. It should be highlighted that the IASB staff has reviewed that clarification and considers it consistent with IAS 39. In particular, the three committees take note and support that the clarification addresses among other issues the following topics:

- Management's internal assumptions. The use of management estimates that incorporate current market participant expectations of future cash flows, and include appropriate risk premiums is acceptable, when an active market for a security does not exist.

- Use of market quotes (eg. broker quotes or information from a pricing service) when assessing the mix of information available to measure fair value. Broker quotes may be an input when measuring fair value, but are not necessarily determinative if an active market does not exist for the security.
- The results of disorderly transactions are not determinative when measuring fair value. Distressed or forced liquidation sales are not orderly transactions. Determining whether a particular transaction is forced or disorderly requires judgement.
- Transactions in an inactive market can affect fair value measurements, they may be inputs when measuring fair value, but would likely not be determinative. The determination of whether a market is active or not requires judgement.

The three committees encourage preparers and auditors to follow this IASB staff position immediately as requested by the Ecofin at its meeting held on 7 October 2008.

According to the IASB press release on 14 October 2008, its Expert Advisory Panel is in the process of completing its guidance. The final document of the Expert Advisory Panel will include the guidance in the US Financial Accounting Standards Board Staff Position issued on 10 October 2008 on determining the fair value of a financial asset when the market for the asset is not active.

The three Committees encourage the IASB to finalise the guidance on the IAS 39 and IFRS 7 amendments as soon as possible in order to help companies and auditors in the preparation of the next interim financial statements and will monitor all new developments in this regard.

In addition, the Committees urge the IASB and the FASB to speedily issue the common guidance announced in the press release on 14 October 2008, on accounting questions arising from the US Emergency Economic Stabilization Act of 2008.

The three Committees remain ready to contribute to an appropriate and consistent application and development of measurement and disclosure requirements within their respective fields of competence. In particular, they plan to contribute on the issues of the fair value option, embedded derivatives, insurance questions, and any other issues of concern in IAS 39 and IFRS 7, in order to find appropriate solutions in the public interest, taking into account an appropriate level of transparency, as requested by the European Commission in its statement dated 15 October 2008. The three committees take note of the Commission readiness to propose further amendments to IAS 39 and IFRS 7, by all legal means, if necessary, by the end of October. In addition, the three Committees take note that the Commission considers that an in depth reflection is needed on fair value accounting, including possible procyclicality effects.

---

[1] CEBS Report on issues regarding the valuation of complex and illiquid financial instruments (CEBS ref. 2008 79) and Report on bank's transparency on activities and products affected by the recent market turmoil (CEBS 2008 76) both published on 18 June 2008, CEIOPS Report on issues regarding the valuation of structured credit products (CEIOPS-DOC-30/08) published on 19 August 2008 and CESR statement on fair value measurement and related disclosures of financial instruments in illiquid markets, CESR ref. 08-713b, published 3 October 2008.

CEBS:
Ms. Efstathia Bouli
Tel: +44 20 7382 1780
efi.bouli@c-ebs.org
www.c-ebs.org

CESR:
Ms. Victoria Powell
Tel: +33 1 58 36 43 21
vpowell@cesr.eu
www.cesr.eu

CEIOPS:
Mr. Carlos Montalvo
Tel: +44 20 7382 1780
Carlos.Montalvo@ceiops.eu
www.ceiops.eu