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**Panel 1: International Financial Reporting Standards (IFRS) – Initial Experiences**


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# International Financial Reporting Standards (IFRS)
# Initial Experiences

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## Lessons from the initial experience of IFRS

- A long and costly experience
- A questionable cost/benefit ratio
- Comparability ?
- Unresolved key issues

## Issues of concern for the near future

# The lessons : a long and costly experience

- A cultural revolution that has put accounting high on the agenda of the Board
- A 3/4 year project to apply 50 standards and the related interpretations in one shot
- A global cost of 100 million Euros for a group like BNP Paribas
- No business line, no support function escaped the exercice

# The lessons : a questionable cost/benefit ratio

- Quantification of the impact (a panel of 14 european banks)
  - On Capital and retained earnings
    - Weak (0-5 %) excluding IAS 32/39 - except 3 banks (Pensions - FRBG - Goodwill)
    - Moderate (0-10 %) for IAS 32/39 - except 4 banks (Preferred shares)
  - On Tier One Capital
    - Moderate (0-10 %) - except for 2 Italian banks
  - On earnings
    - Always positive and moderate (0-10 %) - except for 2 banks (Netherlands and Italy)
    - Principally as a consequence of non amortization of goodwill and FTA rules regarding pensions
- An opportunity to review all operations and to improve documentation and processes
- Unduly complicated processes needed to be put in place (Effective interest rate - Commissions - bad loans NPV)
- No improvement on the measure of performance for business lines
- No effect in the appreciation by the markets of capital value

# The lessons : comparability ?

- A set of standards that does not meet the objective of comparability for the financial industry
  - Fair value option
  - Collective impairment of loans portfolio
  - Presentation of the profit and loss account

- Many options offered by the First Time Application rules
  - Fixed assets
  - Actuarial gains on pension schemes
  - Day one profit

## The lessons :
## unresolved key issues for banks and insurance companies

- A push to trading rules for credit derivatives
- Rules ignore the utilisation of core deposits in the hedging of interest rate risk
- Day one profit in respect of complex financial instruments
- Mismatch introduced by IAS 39 and IFRS 4 in respect of insurance companies

# Issues of concern : convergence, consistant application, evolutions…

- Convergence applied to the impairment model
  - IASB-FASB : the same principles applied to the incurred loss model of provisioning loans portfolio
  - US - Spain - other countries : different application rules with diverging effects
- Consistant application of IFRS : urgent to improve comparability
  - Undated debt instruments with a step up clause : debt or capital ?
  - Presentation of profit and loss statements : definition of main headings
- Process of interpretation : centralisation or decentralisation ?, a situation currently not secure
  - Transparency
  - Reactivity
- Evolution of standards
  - A framework is needed
  - Fair value initiatives : the debate on relevance has not started
  - Fair value measurement : the reliability in question