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 exercise
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 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