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Mr. Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
30 Cannon Street, First Floor  
London, EC4M 6XH  
United Kingdom



**RE: 2015 Agenda Consultation**

Dear Mr. Hoogervorst:

The Institute of International Finance (IIF), via its Senior Accounting Group (SAG), welcomes the opportunity to comment on the IASB's work plan for the next three years through the *2015 Agenda Consultation* paper (Consultation).

The SAG appreciates the fact that the Consultation provides a comprehensive picture of the IASB's projects, reflecting the different stages of the standard-setting process through research, standard-setting, maintenance and implementation projects.

This response to the Consultation highlights key areas where we feel the IASB should focus its work, which are particularly important to the banking industry. While our messages reiterate those already expressed in previous response letters, we hope that they will be useful for the IASB.

While every project has its importance in its own right, from a banking industry perspective we consider the following as the most important:

- Dynamic Risk Management
- Disclosure
- Financial Instruments with Characteristics of Equity

#### *Dynamic Risk Management*

Interest rate risk management is a fundamental element of a bank's risk management, aiming to mitigate the potential volatility of the net interest rate margin of an institution, as well as to protect the institution from negative effects of changes in interest rates. Since today's hedge accounting requirements do not reflect many aspects of interest rate risk management, the SAG believes that the *Dynamic Risk Management* project undertaken by the IASB should remain a priority, notwithstanding the magnitude of the challenges faced.

As previously noted, the SAG welcomes the IASB's decision first to consider the entire scope of interest rate risk management before working on an accounting approach for recognition and measurement that could better meet the objectives of financial reporting.

This exploration should of course take into account the results of the Basel Committee's current reexamination of interest rate risk in the banking book.

We therefore reiterate our offer to explore with both the IASB and other interested parties whether there might be fora that could be established to help the IASB in advancing in the first phase of its project.

### *Disclosure*

The SAG believes the *Disclosure Initiative* should also be pursued as a priority by the IASB. The SAG welcomes that the IASB has already completed a very helpful first step by amending *IAS 1*; however, its work should be sustained in order to fully address the strong messages received from users that disclosure could be better targeted and from preparers on disclosure overload. The aim should be to enhance the usefulness of financial reporting as a tool for communication.

As discussed in 2014, in assessing the disclosure requirements, it is not only important to avoid duplication and overlap of disclosure in the financial statements and in the annual report as a whole, but to look at the overall flow of disclosures reaching market participants, including not only the annual report but also other information sources, such as interim and regulatory reports and others arising from outside the formal accounting framework.

Making appropriate allowance for cross referencing and the use of technological navigation tools should avoid inadvertently expanding the scope of audit, which should be kept clear and the costs and burdens of audits proportionate.

The SAG welcomes the set of multiple projects within the *Disclosure initiative* such as the *Principles of Disclosure*, which aim at identifying and developing a set of principles that could help the IASB better set disclosures requirements in IFRS and help entities make better judgements about what information to disclose and how to disclose it.

The SAG also welcomes the IASB's commitment to engaging with the FASB on its *Disclosure Initiative* to ensure accounting consistency as much as possible.

However, as also suggested in 2014, the IASB should play a leadership role in defining disclosure concepts and working toward maximizing coordination of disclosure requirements. To that end, the SAG urges the IASB to increase the pace of delivery of the various projects within its *Disclosure Initiative*. The SAG believes that the discussion on principles has gone on for too long and should be managed in such a way that pragmatic decisions can be made by amending as a priority the accounting standards, similarly to what has been undertaken by the FASB on disclosure with regards to fair value measurement.

### *Financial Instruments with Characteristics of Equity*

Banks' issuance of long-term debt instruments with characteristics of both debt and equity have been, and are continuing to, increase in response to regulatory requirements such as Basel III. The forthcoming FSB Total Loss Absorbing Capacity (TLAC) framework will require substantial amounts of bank debt to be capable of "bail-in" by conversion or write down in resolution.

This is an area where there is and will be more and more financial innovation; hence the SAG believes that there is an urgent need to consider how to classify such financial instruments to meet the information needs of investors, lenders and other creditors.

To that end, the SAG welcomes the *Financial Instruments with Characteristics of Equity* project and believes it should be a priority for the IASB not only to consider whether the existing definitions of equity and liability meet those information needs, but also to deal with current inconsistency between the definition of a liability in the *Conceptual Framework for Financial Reporting* and IAS 32<sup>1</sup>.

### *Conclusion*

In light of the FSB's recent statement<sup>2</sup> that reiterates "its support for the objective of achieving a single set of high-quality global accounting standards", the SAG would also like to reiterate its long-standing position that international accounting consistency is highly desirable for firms active in global markets, to enhance comparability; to avoid misunderstanding of the effects of different standards by the press, academics and others; to avoid unnecessary burdens on issuers and investors active in global markets; and to ensure consistent alignment with international prudential regulatory standards.

To that end, the SAG welcomes the IASB's commitment to organizing joint sessions with the FASB to ensure that accounting consistency is achieved to the extent possible.

The SAG is pleased to support the IASB in its further work, and we stand ready to assist wherever possible.

Very truly yours,



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<sup>1</sup> Inconsistencies arise from the share-settlement clauses of the definition of financial liabilities (instruments are classified as liabilities even though obligations that an entity must settle, or may have the right to settle, by issuing its own equity instruments, do not meet either the existing or the proposed Conceptual Framework's definition of a liability) and the exceptions for puttable instruments contained in paragraphs 16A–16D.

<sup>2</sup><http://www.financialstabilityboard.org/2015/09/meeting-of-the-financial-stability-board-in-london-on-25-september/>