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29 September 2014

Ref.: BAN/AKI/HBL/PPA/ATO

Dear Mr Hooijer

Re: FEE comments on European Commission's consultation on the potential effects of the Country by Country Reporting (CBCR) under the Capital Requirements Directive IV (CRD IV)

- (1) FEE (the Federation of European Accountants, www.fee.be) is pleased to provide you below with its overall comments on the potential effects of CBCR under the CRD IV.
- (2) FEE welcomes the European Commission's initiative to publicly consult on the potential implications of the CBCR under the CRD IV. FEE does not have the expertise to contribute to most specific questions in the consultation however FEE would like to take this opportunity to raise some issues that it believes are relevant for this consultation.
- (3) FEE identifies four main issues:
 - a. Overlap of the CBCR and Financial Reporting;
 - b. The potential costs to preparers.
 - c. The CBCR only addresses specific stakeholders; and
 - d. The CBCR requirements are not clear.

- (4) FEE points out that a company that reports under IFRS should already disclose information for its reportable segments in its financial statements under the requirements of IFRS 8 – Operating Segments. An entity is required to present one major report either using geographical or operational factors. If the primary report the company prepares is the one using geographical factors, then it should include the amount of tax expense/income [paragraph 23 (h)] per reportable segment (and under most national GAAP similar requirements exist).
- (5) Despite the fact that reportable segments do not necessarily represent a single country (since the threshold for identifying a reportable segment is based on revenue, profits or assets and not on countries) it is highly probable that there would be a certain overlap of the requirements between IFRS 8 and CBCR reporting. FEE also argues that the disclosures related to the reportable segments of an entity under the IFRS 8 requirements present to the general users of the financial statements all material financial information. In addition to administrative burdens, cost may also be increased by the terms used in the requirements that lack legal specificity and may be a source of uncertainty.
- (6) In addition, FEE raises the issue of increased cost for preparers due to potential duplication of reporting. As explained above some information is already available under other financial reporting requirements, however in order to prepare the reports under CBCR, entities would most probably need more disaggregated information. Such information would be costly to prepare since preparers would need to invest in new systems, in new processes and in man-hours. In this respect, it should also be noted that it is fairly common for banks to operate through branches in other European countries, which might not necessitate the preparation of country-specific financial and other information.
- (7) FEE regards that the currently proposed requirement to disclose the profit before taxation, the tax on profit and subsidies on a country-by-country basis as having little intrinsic benefit for the potential users of the information. This information is, by itself, insufficient to obtain an accurate appreciation of the entity's compliance with local tax laws. It is interesting to note that the OECD's recently released guidance on country-by-country reporting of tax information (Action 13 of the BEPS project) requires disclosure of far more information and, even with this additional information, it is intended only to provide high-level information for the purposes of risk assessment. The current requirements under discussion will result in the public dissemination of a low level of "raw data" that will not permit stakeholders to draw meaningful conclusions and that will be susceptible to misinterpretation. Conversely, aiming at disclosing all necessary elements would, with no doubt, lead to a significant data overload that would not necessarily reduce the scope for confusion and misinterpretation but would certainly make the cost outweigh the benefits.
- (8) Finally, FEE would also like to indicate that the requirements of the directive are not clear and that they need a fair amount of interpretation in order to be able to be applied by financial institutions in a way that fosters consistency and enables comparison. FEE raised these points in its letter¹ to the European Banking Authority (EBA), dated 18 February 2014, asking for clarifications on a number of matters, largely unanswered up to this date.

¹ FEE's letter to EBA can be found in the appendix

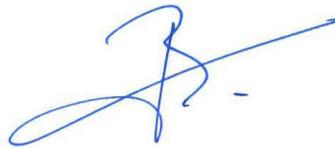
- (9) Due to the lack of clarity of the CBCR requirements and the terms on which they are based, banks' auditors might not be in a position to perform the necessary audit procedures. Those procedures require a reporting framework or at least a benchmark that the auditor could (i) use to assess managements' assertions; and (ii) refer to in the auditor's report. Such a framework or benchmark does currently not exist and if the requirements are not adequately clarified, they are open to different interpretations. In this respect, we refer again to our letter (see also paragraph (8) above) to the European Banking Authority (EBA), dated 18 February 2014, asking for clarifications on a number of matters.

For further information on this letter, please contact Pantelis Pavlou, Manager, from the FEE Team on +32 2 285 40 74 or via e-mail at pantelis.pavlou@fee.be.

Yours sincerely,

A handwritten signature in blue ink, consisting of several loops and a long horizontal stroke at the bottom.

André Killesse
President

A handwritten signature in blue ink, featuring a large, stylized initial 'B' followed by a horizontal line.

Olivier Boutellis-Taft
Chief Executive



Federation of European Accountants
Fédération des Experts comptables Européens

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18 February 2014

Ref.: BAN/AKI/PKR/JPL

Dear Ms. Vaillant,

Re: FEE letter on country-by-country reporting requirements under Article 89 of the Capital Requirements Directive IV (2013/36/EU)

FEE (the Federation of European Accountants, www.fee.be) has taken good note of the key provisions including the country-by-country reporting requirements as stated in Article 89 of the Capital Requirements Directive IV (CRD IV Directive) of 26 June 2013.

Article 89 of the CRD IV Directive stipulates that from 1 January 2015 European Union Member States shall require institutions to disclose by Member State and by third country where they have an establishment, on a consolidated basis for the financial years:

- a. Name(s), nature of activities and geographical location;
- b. Turnover;
- c. Number of employees on a full time equivalent basis;
- d. Profit or loss before tax;
- e. Tax on profit or loss;
- f. Public subsidies received.

Institutions must disclose the information referred to under paragraphs (a), (b) and (c) for the first time on 1 July 2014. By 1 July 2014, all global systemically important institutions authorised within the EU shall submit to the European Commission the information referred to in paragraphs (d), (e) and (f) on a confidential basis.

Furthermore, it is stated that the information referred to above under Article 89 (items a-f) will be audited in accordance with the EU's Accounting Directive (2013/34/EU) and shall be published, where possible, as an annex to the annual financial statements or, where applicable, to the consolidated financial statements of the institution concerned.

FEE is therefore particularly concerned about these new requirements and would like to request the European Banking Authority to clarify certain outstanding points which stem from these requirements, as indicated below.

Definitions of reportable items

The disclosure requirements use terms which need to be defined to ensure consistency of disclosures provided by banks and audited by their auditors. We would like to highlight that the definition of turnover in the banking context, as opposed to the standard corporate world, is unclear and subject to various interpretations. The definition thus requires clarification, as well as its encompassed scope.

We have the same interrogations concerning income tax. Does it contain only current tax expense or also deferred tax? If deferred tax is included, does it comprise only the profit or loss element, or also changes in deferred tax recognised in other comprehensive income? Alternatively, should it include only the tax cash-flows made in the relevant period?

Location of disclosures and audit consequences

Should or could the country-by-country reporting requirements be included in the notes to the financial statements, which represent an inherent part of these statements, or does the requirement asks to design a new separate annex to the financial statements?

Country of transaction, scope of disclosures and intragroup transactions

It is expected that transactions will be attributed to the country of the unit of the group that is party to the transaction. How should intra-group cross-border transactions and consolidation adjustments be treated? How should the impact of associates and joint-ventures on the reported figures be dealt with?

Timing of disclosures and period covered – implementation

The legislation refers to the following deadlines: "*on 1 July 2014*" and "*from 1 January 2015*". It is not clear whether these dates define the reporting deadline or the period covered by the reporting. We would assume that the disclosures need to cover a predefined period and that the legislation requires to present them as an annex to financial statements. Since financial statements are issued on an annual basis, the period covered should ideally cover one year. Therefore, a clarification if the "*on 1 July 2014*" deadline refers to a reporting deadline, and that the period reported is expected to be the year 2013, would be greatly appreciated.

If it is indeed the case, we would also need an explanation on how these would be annexed to a set of financial statements, since the latter will have normally been issued. We would also need clarification whether the term “*from 1 January 2015*” means that the full disclosures should cover the year 2015 and be presented as an annex to the 2015 financial statements or, alternatively, whether it means that 2014 disclosures are mandated and should be disclosed as an annex to the 2014 financial statements published after 1 January 2015.

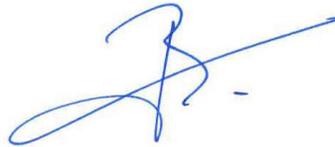
We thank you very much in advance for the clarifications you will be providing us.

For further information on this matter, please contact Ms. Hilde Blomme, FEE Deputy CEO, on +32 2 285 40 77 or via e-mail at hilde.blomme@fee.be.

Yours sincerely,



André Killesse
President



Olivier Boutellis-Taft
Chief Executive