



Accounting Standards Board

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Dear Mr Pearson

European Commission Services Staff Working Document on Possible Further Changes to the Capital Requirements Directive (CRD)

I am writing with the comments of the UK Accounting Standards Board (ASB) in response to the suggested provisions in the above Staff Working Document concerning through-the-cycle expected loss provisioning.

The ASB is not commenting on the individual questions in the Staff Working Document, but would like to highlight some general observations of the implications of the proposals for financial reporting which are of concern to us.

The Staff Working Document notes that the International Accounting Standards Board (IASB) is planning to issue an exposure draft on the impairment of financial assets in October 2009, including consideration of an expected loss model and "stresses" that the Commission services are not intending to prejudge the decisions of the IASB. However, the ASB is concerned that such decisions are in effect being prejudged given the Commission's working assumption that the introduction of through-the-cycle expected loss provisioning as a prudential measure would be in parallel become acceptable under international accounting standards. We note the Commission's view that such a provision would be built up "above the line" and would therefore have an impact on accounting profit. In our view, that would be incompatible not only with current accounting requirements, but also with the expected loss model being developed by the IASB.

We are also concerned at the suggestion in the document that off-balance sheet items, which do not meet the definition of a liability under International Financial

Reporting Standards (IFRS), might be captured under the formula for through-the-cycle expected loss provisioning.

The ASB also notes the Commission's intention to publish a proposal for a Directive in October 2009 ie in advance of the IASB coming to a final view on whether to change the current incurred model for loan loss provisioning.

The ASB believes that the best way for the prudential regulators of credit institutions to address pro-cyclicality is through prudential filters, not through seeking to impose financial reporting requirements and so potentially usurp the responsibility of the IASB.

Should you have any queries regarding our response please contact me, or David Loweth (Technical Director), on +44 20 7492 2420 or by email d.loweth@frc-asb.org.uk.

Yours sincerely



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