FÉDÉRATION BANCAIRE FRANÇAISE

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FBF COMMENTS ON THE BCBS CONSULTATIVE DOCUMENT: REGULATORY TREATMENT OF ACCOUNTING PROVISIONS – INTERIM APPROACH AND TRANSITIONAL ARRANGEMENTS.

The French Banking Federation (FBF) represents the interests of the banking industry in France. Its membership is composed of all credit institutions authorized as banks and doing business in France, i.e. more than 390 commercial, cooperative and mutual banks. FBF member banks have more than 38,000 permanent branches in France. They employ 370,000 people in France and around the world, and service 48 million customers.

The French Banking Federation is pleased to have the opportunity to comment on the consultation paper related to regulatory treatment of accounting provisions, interim approach and transitional arrangements.

The interaction between accounting framework and capital regime should be reviewed in order to reflect changes introduced to the existing impairment standards with IFRS 9 and with the CECL model under USGAAP, as well as changes made to the regulatory framework since 2009 and ongoing changes in response to the financial crisis.

We support transitional arrangements that would provide the necessary time to conduct such comprehensive review of the regulatory treatment and allow an extensive dialogue between regulators and the banking industry to understand all the possible implications of the proposed changes. We strongly advocate for a complete neutralisation of the prudential impact on own funds from the move to an expected credit loss model in order to limit the additional volatility of own funds and until an appropriate permanent regulatory solution has been found.

For jurisdictions applying IFRS 9, the transition regime should be implemented from 1st January 2018 when the new accounting standard applies and until 1st January 2020 when the corresponding US accounting standard (CECL) becomes effective. It should consist in a total freezing of the incremental impact of an expected loss model in the financial statements. The transitional amount should be added back to CET1 capital until a permanent solution has been agreed upon. It is crucial to ensure a level playing between jurisdictions that apply expected loss accounting impairment models that come into force with two different timelines. Thus, any distortion of competition with US banks for whom the CECL standard will not come into effect before 2020 should be avoided.

This could not definitively be achieved with a phasing mechanism introduced during this period. Indeed, the transition period should not introduce any phasing before there is clarity on how the prudential framework will be amended in a long term. Retaining a phasing before the long-term solution for the prudential framework is found would imply for banks to recognise the full end-point prudential impact of the expected losses. This would lead to disclose inaccurate information to the users of financial information. In addition, the implementation of the long-term solution will require to provide a new phasing mechanism following the existing one with the consequent risk of additional volatility in own funds.

Should the final framework be in place by 2020, the phasing as envisaged by the Basel Committee could then be adopted during the implementation period of the final long-term solution which would make more sense given the phasing would take place on the basis of a real impact.

As to the calculation, if we recognise the simplicity and the ease of implementation of approach 1, its major drawback being static is that it would not appropriately address the potential volatility in own funds which could stem from the accounting model. Thus, we believe that the conceptual basis of the approach 3, i.e. dynamic approach of the measure notably, is more relevant. Indeed, the approach 3 would consider the effects of volatility which can be induced either from the IFRS model or the CECL one. The transitional adjustment amount would change through time and it would better reflect the size of the loan portfolios as it would be based on the stock of ECL provisions at each reporting date.

Finally, to address the drawbacks of the approach 3, further improvements could be envisaged in order to address both ECL components of IFRS 9 and CECL versus current incurred accounting provisions. Besides, to avoid diversity in practice the definition of specific and general credit risk adjustments should be clarified in the context of the expected loss models.