



Conseil national de la Comptabilité



EFRAG
European Financial Reporting Advisory Group

Financial reporting issues arising from the sub-prime crisis and subsequent market turmoil

Over the last twelve months, many capital and other financial markets have experienced considerable difficulties. These difficulties, which would appear to be the result of problems that started in the US subprime mortgage sector in 2007, have had a number of consequences, both for companies and for markets. Steps are now being taken to re-establish confidence.

At such times, it is essential that appropriate action is taken to ensure that the interests of European stakeholders are looked after properly. As a result, some pan-European commentators have asked EFRAG what, if anything, it intends to do to safeguard the European interest. National commentators in Europe have been asking their national standard-setters the same question.

The Chairs of EFRAG, the ASB in the UK, the CNC in France and the GASB in Germany have discussed this matter and have agreed views on the issue. They therefore thought it would be helpful to issue a joint statement explaining their position.

The ASB, CNC, EFRAG and GASB take very seriously the questions that are being asked about financial reporting as a result of the current market turmoil. While we do not believe that financial reporting has caused the crisis as some have claimed, we do believe it is essential that a comprehensive review is carried out of existing external financial reporting requirements to determine whether any of those requirements has intensified some or all of the problems that have arisen. It is also essential that any weaknesses identified in the financial reporting requirements are addressed and improvements made as a matter of priority.

A number of bodies have carried out work on this subject and have suggested that the main areas worth exploring further are:

- The consolidation model, particularly in the context of SPEs.
- Derecognition and the disclosures provided about off-balance sheet items, particularly those items that were near to being recognised.
- The requirement to measure many financial instruments at fair value, how that requirement should be applied particularly in illiquid markets
- The disclosures that should be provided to support the measure used.

In response to the credit crisis, the IASB has undertaken to carry out and complete in a timely fashion work on all these areas. It has also undertaken to consider whether other improvements in IFRSs are necessary in the light of recent experience.

In our view, the IASB should be the body that first responds to the accounting issues arising as a result of the current market turmoil.

However, if the IASB is to be able to move quickly and with confidence, it is important that it receives timely and high quality advice from bodies such as ourselves. Therefore, we will follow closely the IASB's work and on a timely basis provide advice and other comments to help the IASB complete its work effectively and quickly, and evaluate and respond to any other relevant proposals on the subject that might affect financial reporting.

In this situation we recognise and accept that it might be necessary for the IASB to adopt some sort of modified due process in developing its response.

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