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CONSULTATION ON AMENDMENT OF THE EXECUTIVE ORDER ON FINANCIAL REPORTS

The Danish Financial Supervisory Authority has submitted a draft amendment of the Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. (the "Executive Order") for consultation along with guidance notes. The amendments are aimed at adapting the rules for financial reporting by Danish credit institutions under Danish rules to the new International Financial Reporting Standard, IFRS 9, which will take effect in the EU on 1 January 2018.

One of the main objectives of the new standard is to adjust the model for recognition of credit losses, which during the financial crisis resulted in institutions recognising "too little, too late". With the adjusted model, impairment charges must be made for *expected* credit losses instead of *realised* losses, and this must be done on the basis of a current assessment of whether the credit risk on the individual loan has risen substantially since the loan was first recognised.

The new loan impairment model will be incorporated into the Danish rules in the form of a new Annex 10 to the Executive Order and guidance notes. Like the existing Danish approach, the international standard will be specified in a number of rules and guidelines, reducing the scope for management estimates of impairment charges.

Danmarks Nationalbank notes that the new loan impairment model requires complex changes to accounting policies. It will presumably take some time for international practice to be established in this area. Consequently, and since the guidelines in the existing Annex 10 must be considered to have contributed to a high degree of credibility in the financial reporting of Danish credit institutions, Danmarks Nationalbank supports a continuation of the current approach in the new Annex 10. This will encourage institutions to continue to exert an appropriate degree of prudence when making accounting estimates.

At the same time, Danmarks Nationalbank finds it important that Denmark closely monitors the development of new international practice in accordance with IFRS 9 and the international guidelines, and that the Danish rules are benchmarked and evaluated relative to practice in other EU member states. Danmarks Nationalbank proposes inserting a provision to this effect into the Executive Order, e.g. stipulating that such evaluation of the Danish rules should be performed in two years' time. That would provide a basis for assessing whether it would be useful to amend the Danish rules with a view to ensuring full alignment with international practice, thereby increasing the comparability of financial statements across national borders.

A well-founded adjustment of the rules against that background, so that the managements of Danish institutions have the same scope for making accounting estimates as those of other European institutions, could contribute to simplifying financial regulation and strengthening the basis for cross-border competition. In general, Danmarks Nationalbank also finds that such adjustments are sound. However, it is important to emphasise that the core elements of robust regulation of the financial sector must be in place first. In addition to capital requirements and stable funding requirements, it is essential that all credit institutions can be resolved – without major adverse implications for the economy and financial stability.

Yours sincerely,

Karsten Biltoft