Liberté • Égalité • Fraternité
RÉPUBLIQUE FRANÇAISE

Conseil National de la Comptabilité

3, Boulevard Diderot
75572 PARIS CEDEX 12

Téléphone **01 53 44 52 01**

Télécopie **01 53 18 99 43/01 53 44 52 33**

Internet http://www.cnc.minefi.gouv.fr

Mel jean-francois.lepetit@cnc.finances.gouv.fr

Le Président

JFL/MPC
N° 538

PARIS, 7TH NOVEMBER 2008

IASB
30 Cannon Street

LONDON EC4M 6XH
UNITED KINGDOM

Re : Exposure Draft of Proposed Improvements to International Financial Reporting Standards 2008

Dear Sir or Madam,

I am writing on behalf the Conseil National de la Comptabilité (CNC) to express our views on the above-mentioned Exposure Draft. Our answers to the issues are set out in the Appendix to this letter. To summarize, we agree with most of the proposals in the Exposure-Draft. Our main areas of disagreement are as follows.

- IAS 38 *Intangible Assets* - Measuring the fair value of an intangible asset acquired in a business combination

The CNC subscribes to the fact that there is a need for clear guidance in IFRS on how to measure intangible assets in a business combination. However, the CNC questions why reinstate partial guidance which was previously included in the appendix B of IFRS3 and which was deleted when IFRS3 has been revised (IFRS3R) instead of reinstating the whole guidance.

The CNC is not in favour of including the proposed amendment at the present time, and considers that such an analysis and additional discussions should be directly undertaken within the fair value measurement project.

However, with this regards, the CNC considers that the fact the effective date of IFRS3R precedes the issue of the fair value measurement project is regrettable.

- IAS 39 *Financial Instruments: Recognition and Measurement* – Scope exemption of business combination contracts

We would like to understand the rationale behind this amendment in so far as the “Basis for conclusions” do not explain the proposed scope well enough, and we consider that a wider discussion should take place, notably regarding options.

- IAS 39 *Financial Instruments: Recognition and Measurement* – Bifurcation of an embedded foreign currency derivative

The CNC is in favour of maintaining the initial wording, because we consider the proposed amendment does not result in greater clarity.

We hope you find these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,

Jean-François Lepetit

Appendix

IFRS 2 ***Share-based Payment*** **- Scope of IFRS 2 and revised IFRS 3**

The CNC concurs with the objective of the proposed amendment which confirms that the contribution of a business on formation of a joint venture and common control transactions are not within the scope of IFRS 2 even though they do not meet the definition of a business combination in IFRS 3 as revised in 2008.

Besides, the CNC has no particular objection to the Board's proposal amendment as described in the exposure draft.

IFRS 5 ***Non-current Assets Held for Sale and Discontinued Operations*** **- Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations**

The Conseil National de la Comptabilité agrees that there is a need for clarity as to what are the disclosure requirements for non-current assets classified as held for sale and discontinued operations.

As up to date, IFRS 5 requires disclosures for non current assets. Some individual standards require additional disclosures for non current assets. Furthermore other standards explicitly exempt non-current assets held for sale and discontinued operations from otherwise required disclosures. At the same time, other standards remain silent if their disclosures apply to assets held for sale or not.

For clarity reasons, we would recommend to gather all requirements for the disclosures regarding assets held for sale and discontinued operations in IFRS 5.

On the substance of the amendment, we question if some of the disclosures of IAS 12 and IAS 19 might not be helpful for discontinued operations (on curtailment on pension funds notably). We would recommend further analysis.

IFRS 8 ***Operating Segments*** **- Disclosure of information about segment assets**

We support the conclusion of the Board. However, we consider that the proposed clarification should be made through the standard, not in its Basis for Conclusion. We would recommend amending paragraph 23 of IFRS 8.

IAS 7 ***Statement of Cash Flows*** **- Classification of expenditures on unrecognised assets**

We support the proposed amendment.

However, we note that major conceptual issues which underlie the amendment are currently being addressed by the IASB in other projects :

- definition of an asset (work on the issue is being undertaken by the IASB as part of the revision of the conceptual framework),
- presentation of the financial statements : link between the different statements, flexibility as to the presentation of the statements to better reflect the reality of the business (a Discussion Paper has just been issued).

IAS 18 *Revenue* - Determining whether an entity is acting as a principal or as an agent

- Question 1 – General comment on Board's proposal

The CNC agrees with the IASB's view that "determining whether an entity is acting as a principal or an agent depends on facts and circumstances and requires judgement" and that "an entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or rendering of services".

However, the CNC is concerned with the phrasing in the proposal where it states that "**features** that, individually or in combination, **indicate** that …"(*emphasis added).* We believe this may lead some to consider that the features provided in the amendment are decisive.

In addition, the CNC notes that the proposal states that "one feature indicating that the entity is acting as an agent **is** that the amount that the entity earns is predetermined" (*emphasis added),* but does not include any examples of additional indicators to be considered in identifying whether an entity is acting as an agent. Although the CNC understands that the Board's intention is not to put emphasis on this particular indicator, we are concerned that the current drafting could lead some to give too much weight to this indicator when exercising their judgement to identify whether an entity is acting as an agent or not.

Therefore, the CNC believes that the IASB should clarify in the amendment that the exercise of judgement should be based on a comprehensive assessment of all indicators available and that the examples of indicators provided in the amendment should not be considered all-inclusive.

The CNC also believes that providing in the amendment one unique list of example indicators, thereby not distinguishing between indicators that may be considered when determining whether an entity is acting as a principal from indicators that may be considered when determining whether an entity is acting as an agent, will help overcome any ambiguity that it is the required assessment of facts and circumstances that is all important. Accordingly, we suggest redrafting the proposal as follows (starting from "features", new text being underlined and deleted text being struck through) :

Examples of indicators ~~Features~~ that, individually or in combination, may indicate that on balance an entity is acting as a principal include:

(a) Whether the entity has the primary responsibility for providing the goods or services to the customer or for fulfilling the order, for example by being responsible for the acceptability of the products or services ordered or purchased by the customer;

(b) Whether the entity has inventory risk before or after the customer order, during shipping or on return;

(c) Whether the entity has discretion in establishing prices, either directly or indirectly, for example by providing additional goods or services;

(d) Whether the entity bears the customer's credit risk;

(e) Whether the amount the entity earns is not predetermined.

~~An entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. One feature indicating that an entity is acting as an agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.~~

In addition, as set out in the Agenda Paper 6A discussed during the October 2007 Board, when reviewing the guidance proposed by the staff that could be included in the Appendix to IAS 18, the

IFRIC favoured high-level guidance, generally consistent with US GAAP, with non-weighted indicators and without illustrative guidance. In this context, the CNC considers that the IASB should make clear in the Basis of Conclusions to the proposal whether or not this aim has been achieved and to what extent, by identifying specifically the remaining differences, if any.

The CNC also recommends the Board to provide in the Basis for Conclusions :

- the elements considered by the Board in reaching the conclusion that "an entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services" (BC3);
- the rationale for not including all the indicators provided by the EITF 99-19 in the proposed amendment.

- Question 2 – Proposed transition provisions and effective date

The CNC notes that the exposure draft does not specify any transitional period or effective date for this proposal, probably due to the fact that the proposed amendment applies only to the Appendix of IAS 18 (which is not part of the standard). However, the CNC believes that this proposed amendment may result in changes in practice for some entities. As a consequence, for the purpose of clarification, we recommend that the Board specifies the transitional provisions and effective date for this amendment.

- Question 3 – Specific question

See our answer to question 1

IAS 36 *Impairment of Assets* - Unit of accounting for goodwill impairment test

The CNC agrees with the proposed amendment.

IAS 38 *Intangible Assets* - Additional consequential amendments arising from revised IFRS 3

The CNC understands the intent of the IASB to rationalize the fact that the guidance in IAS 38 should be consistent with the changes introduced to IFRS 3 R.

However, in its current drafting, the proposal exposure draft seems to limit the separability criterion of assets from goodwill only to the cases in which two intangible assets are linked and do not seem to take into account the situations in which an intangible asset can be identified only with a property, plant or equipment.

The CNC considers that the proposed drafting *("If an intangible asset is separable only with another intangible asset the acquirer may recognize the group of intangible assets as a single asset")* may be inconsistent with the application guidance IFRS3R.B32b. Indeed, IFRS3R.BC32b provides the explicit example of a power plant licence (i.e. an intangible asset) that cannot be sold or transferred separately from the acquired power plant. This application guidance specifies that an acquirer may recognize the fair value of the power plant as a single asset for financial reporting purposes if the useful lives of those assets are similar.

The CNC considers that the separability criterion of assets from goodwill should deal with situation in which an intangible asset could be identifiable only with a property plant or equipment

The CNC recommends this should be made clear and if the intention of the IASB was not to limit the scope, in this case the CNC suggests including the term "for example" at the beginning of the sentence "If an intangible asset is separable only with another intangible asset".

IAS 38 *Intangible Assets* - Measuring the fair value of an intangible asset acquired in a business combination

The CNC subscribes to the fact that there is a need for clear guidance in IFRS on how to measure intangible assets in a business combination. However, the CNC questions why reinstate partial guidance which was previously included in the appendix B of IFRS3 and which was deleted when IFRS3 has been revised (IFRS3R) instead of reinstating the whole guidance.

The CNC is not in favour of including the proposed amendment at the present time, and considers that such an analysis and additional discussions should be directly undertaken within the fair value measurement project.

However, with this regards, the CNC considers that the fact the effective date of IFRS3R precedes the issue of the fair value measurement project is regrettable.

IAS 39 *Financial Instruments: Recognition and Measurement* – Scope exemption of business combination contracts

The CNC does not support the proposed amendment for the following reasons.

We would like to understand the rationale behind this amendment in so far as the “Basis for conclusions” does not explain the proposed scope well enough.

It also appears that the proposed amendment only deals with “forward contracts” and does not go into “in-substance forward contracts”. It seems important to us to address the accounting treatment of the “in-substance forward contracts” since there are diversity in practice, especially when some of the “in-substance forward contracts” result in a business combination.

Furthermore, while we acknowledge that scope exclusions generally cannot be applied by analogy as they are an exception from the underlying principle of an IFRS, we wonder why such an exemption is not granted to contracts that result in an investment in an associate accounted for under IAS 28 *Investments in Associates.* IAS 28.20 states that “the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting the acquisition of an investment in an associate.” We consider it useful if the IASB would clarify why this scope exemption is not granted to investments in associates.

More importantly, considering the complexity of the accounting treatment of options in the context of business combinations, the CNC considers that a wider discussion should take place. This is why the CNC does not currently agree with merely a partial examination of a wider issue.

IAS 39 *Financial Instruments: Recognition and Measurement* – Application of the fair value option

The CNC agrees with the IASB’s proposed amendment which clarifies the standard.

IAS 39 ***Financial Instruments: Recognition and Measurement*** **– Cash flow hedge accounting**

The CNC agrees with the proposed amendment.

IAS 39 ***Financial Instruments: Recognition and Measurement*** **– Bifurcation of an embedded foreign currency derivative**

The CNC does not support the proposed amendment.

We would like to understand the motivation behind this amendment and the introduction of the concept of functional currency. We note that the factors listed in BC19 to the proposed amendments do not match with the "functional currency" approach taken in the actual amendment. Therefore, we believe that the objective of this amendment is unclear.

In addition, we believe the approach taken is not appropriate in all circumstances and represents a significant change from current practice.

Currently, when determining whether a currency is commonly used in contracts to buy or sell non-financial items, the trade balances of the economies concerned are analyzed, and based on the results of these analyses entities determine whether or not it is necessary to bifurcate an embedded derivative.

The amendments now effectively propose a different approach by looking at the indicators of a functional currency in IAS 21 *The Effects of Changes in Foreign Exchange Rates* and hence, looking at the entity, not the economic environment it operates in – the approach currently taken in IAS 39.

While we believe that the outcomes of both analyses could be identical in some situations, the results could be different in others.