MAZARS

**International Accounting Standards Board**
30 Cannon Street
London EC4M 6XH
United Kingdom

9 November 2008

Dear Sir/Madam,

**Exposure Draft of proposed Improvements to IFRSs**

Mazars welcomes the opportunity to comment on the Exposure Draft of proposed Improvements to IFRSs published in August 2008. Our comments are presented below.

**Proposed amendment to IFRS 2**

We agree with the Board's proposal, as well as the proposed effective date.

**Proposed amendment to IFRS 5**

We agree with the Board's proposal, as well as the proposed effective date.

**Proposed amendment to IFRS 8**

We agree with the Board's proposal to eliminate an unintended difference from US practice under SFAS 131. However, we believe amending the BC is not sufficient. Indeed, the existing wording in § 23 of IFRS 8 may lead to the conclusion that a measure of segment assets is a required disclosure, whether or not such information is provided to the chief operating decision maker.

We are of the view that the IASB should amend § 23 of IFRS 8 to state clearly that a measure of segment assets is a required disclosure only when such information is provided to the chief operating decision maker. The alignment of the standard with the amended BC will avoid any misunderstanding.



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**Proposed amendment to IAS 7**

We agree with the Board's proposal to state that only an expenditure that results in a recognised asset can be classified as a cash flow from investing activities. We also note, as indicated in BC6, that the Board concluded that this proposal, if confirmed, would better align the classification of cash flows from investing activities in the statement of cash flows and the presentation of recognised assets in the statement of financial position, would reduce divergence in practice and, therefore, would result in financial statements that are easier for users to understand.
We also agree with the proposed effective date.

We note that practice differs for the classification of cash flows for interests capitalised according to IAS 23. Indeed, current IAS 7 (§ 31 s.) allows such cash flows to be classified as either operating, investing or financing activities, as long as it is classified in a consistent manner from period to period.

We believe the Board should also amend IAS 7 (§ 31 s.) in order to indicate that interests capitalised according to IAS 23, should be classified as investing activities. Indeed, as noted by the Board in BC6, this amendment would better align the classification of cash flows from investing activities in the statement of cash flows and the presentation of recognised assets in the statement of financial position. It would be all the more useful as IAS 23 Revised in 2007 prescribes the capitalisation of interests for qualifying assets.

Lastly, we note that practice also differs for the classification of cash flows such as interests and dividends, due to options allowed in IAS 7 (§ 31 s.).

**Proposed amendment to IAS 18**

We agree with the Board's proposal to include in the appendix of IAS 18 guidance on determining whether an entity is acting as a principal or as an agent. We also agree 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.

We believe the Board should clarify in the guidance that:

- Whether an entity is acting as an agent or a principal depends on the substance of the transaction rather than the form of the sale contract ;

- Features listed in the guidance are examples among others, none of them being presumptive or determinative ;

- Features are not always conclusive, thus requiring considering the relative strength of each feature depending on the nature of the sale transaction.

We are of the view that there are more indicators that could be listed in the guidance. The US EITF 99-19 "Reporting revenue gross as a principal versus net as an agent" includes more examples indicating that the entity is a principal, specifically:
- The company changes the product or performs part of the service;
- The company has discretion in supplier selection;
- The company is involved in the determination of product or service specifications.

With all the efforts to have US GAAP converge with IFRS, it may be worthwhile to include all the items listed per the EITF into the IAS 18 appendix.

We are concerned that the wording in the guidance may lead to the conclusion that any one of the features listed will automatically result in a principal relationship. Accordingly, we also propose to amend the wording of the guidance as follows:
- "Features that, individually or in combination, **would normally indicate** that an entity **may be** acting as a principle include:…".
- "One Feature that **would normally indicate** that an entity **may be** acting as an agent is that the amount the entity earns is predetermined…".

We believe the Board should clarify when the guidance becomes effective.

**Proposed amendment to IAS 36**

We agree with the Board's proposal, as well as the proposed effective date.

**Proposed amendment to IAS 38: additional consequential amendments arising from revised IFRS 3**

We agree with the Board's proposal, as well as the proposed effective date.

However, we question the need to duplicate in IAS 38R the application guidance in IFRS 3R. We note that duplication is incomplete, and might lead to inconsistency. Indeed, the wording in IAS 38 could lead to the conclusion that only a group of intangible assets may be recognised as a single asset separately from goodwill. We believe this is not the case, because IFRS 3R (Appendix B, § B32 (b)) allows an acquirer to recognise as a single asset an intangible asset and a tangible asset if the useful lives of those assets are similar. We believe the Board should clarify this matter.

**Proposed amendment to IAS 38: measuring the fair value of an intangible asset acquired in a business combination**

We agree with the Board's proposal.

However, we note that the guidance provided in current IFRS 3 (Appendix B B16) on how to determine fair values of identifiable assets and liabilities in a business combination was deleted in IFRS 3R. We question whether guidance on valuation techniques for intangible assets acquired in a business combination should be included in IAS 38. We believe clear guidance on how to determine fair value and valuation techniques should be provided in the context of the "Fair value measurement guidance" project.

We also believe that there should be a hierarchy in the valuation techniques presented in IAS 38.

We are in the view that this amendment should apply on the same date as IFRS 3R as it relates to business combinations and it allows to retain a similar effective date for both amendments to IAS 38.

**Proposed amendment to IAS 39: scope exemption of business combination contract**

We do not agree with the Board's proposal.

We understand that the annual improvement process is designed to deal with miscellaneous and non-urgent matters. We consider that the proposed amendment does not meet these requirements and should be dealt with through an amendment to IAS 39.

It is our opinion that restricting the § 2(g) to forward contracts may have important consequences. Indeed, as mentioned by the Board, there is diversity in practise regarding the application of the exemption in § 2(g). On the bases of this §, some entities exclude from the scope of IAS 39 put or call options which could lead to a business combination in the future. Thus, these contracts, which may have a fair value, are not always recognised as derivatives in the financial statements.

Should the IASB maintain this amendment, we ask the Board to clarify whether synthetic forward (put and call options) should be within the scope of IAS 39.

We note that an entity shall apply this amendment prospectively for annual periods beginning on or after 1 January 2010. Thus, we understand that put or call options, excluded from the scope of IAS 39 and existing at the opening balance of the period beginning on or after 2010, will have to be recognised in the balance sheet as derivatives measured at fair value, with effect in equity. We believe the Board should clarify that point.

Lastly, we believe the Board should provide clear and complete guidance on how to account for put and call options related to subsidiaries and associates (notably put on minority shareholders).

**Proposed amendment to IAS 39: application of the fair value option**

We agree with the Board's proposal, as well as the proposed effective date.

**Proposed amendment to IAS 39: cash flow hedge accounting**

We agree with the Board's proposal, as well as the proposed effective date.

**Proposed amendment to IAS 39: bifurcation of an embedded foreign currency derivative**

We support the Board's proposal to clarify what the "economic environment" is in determining whether a currency is commonly used in contracts to buy or sell non-financial items and therefore is closely related to the host contract.

We agree with the Board that contracts denominated in the foreign currencies listed in BC19 are likely to be integral to the contractual arrangement. However, we believe the wording proposed in § AG33(d)(iii) is not consistent with BC19 and might not achieve the objective of the Board. Indeed, it is our view that "a currency that has one or more of the characteristics of a functional currency, as set out in § 9 of IAS 21, of a substantial party to the contract" might not cover all the cases listed in BC19.

Accordingly, we would suggest that the proposed amendment in AG33(d)(iii) be incorporated in § AG33(d)(i), without any amendment to current § AG33(d)(iii).

We agree with the proposed effective date.

We would be pleased to discuss our comments with you and remain at your disposal should you require further clarification or additional information.

Yours sincerely

**Michel Barbet-Massin**
*Head of Accounting Principles Department*