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Le Président

JFL/MPC
N° 546

PARIS, 15TH DECEMBER 2008

IASB
30 Cannon Street

LONDON EC4M 6XH
UNITED KINGDOM

Re : Exposure Draft – Improving Disclosures about Financial Instruments - Proposed amendments to IFRS 7

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.

The CNC welcomes the proposals of this Exposure-Draft, and our detailed answers to the issues are set out in the Appendix to this letter.

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 : Responses to individual questions

Fair value disclosures

Question 1

Do you agree with the proposal in paragraph 27A to require entities to disclose the fair value of financial instruments using a fair value hierarchy? If not, why?

The CNC agrees with the proposal in paragraph 27A.

Question 2

Do you agree with the three-level fair value hierarchy as set out in paragraph 27A? If not, why? What would you propose instead, and why?

The CNC agrees with the three-level fair value hierarchy as set out in paragraph 27A.

The CNC notes that fair value measurement considerations as described in IAS 39.48, IAS 39.49 and IAS 39.AG 69 to AG 82 are different from the three-level fair value hierarchy as set out in the ED. The IAS 39 standard is based on market liquidity whereas the three level hierarchy is based both on the valuation techniques and the observability of market data.

The CNC notes that level 2 will result in a broad and heterogeneous category. Level 2 will encompass both financial instruments actively traded but not listed, such as plain vanilla swaps or options, and financial instruments not traded on active markets but whose fair value is determined using a model based on observable market data.

In this respect, the Board should explain in its Basis for Conclusions the rationale for disclosing the fair values based on the SFAS 157 hierarchy rather than on the active / non active status of markets as per the valuation rules in IAS 39.

The CNC would like also to stress that these proposals should be considered by the Fair Value Measurement project in order to ensure the consistency of the proposals concerning disclosures. However, these proposals should not preclude the outcomes of the discussions on this project as far as measurement is concerned.

Question 3

Do you agree with the proposals in:

(a) paragraph 27B to require expanded disclosures about the fair value measurements recognised in the statement of financial position? If not, why? What would you propose instead, and why?

The CNC agrees with the information required in paragraph 27B concerning the level 3 available-for-sale financial assets and the level 3 financial assets designated at fair value through profit and loss.

For level 3 financial assets held for trading, the CNC agrees with the required information and in particular with paragraphs 27B (b) i, et 27B (c) which specify that information on unrealised total gains and losses for the period must be disclosed. Since unrealised gains/losses are less observable than realised gains and losses, we agree that this information should be conveyed in the financial statements.

In addition, the CNC considers that this information is relevant for level 3 financial assets for which a Day 1 reserve would generally be amortised.

The CNC also observes that the distinction between realised and unrealised results might not correspond to the manner all trading assets are managed. Namely, in some cases, only the net trading gains or losses (realised and unrealised) are currently monitored.

We agree with the ED (last paragraph in 27B) that when necessary, especially when trading financial instruments are managed together within the same book, the CNC notes that information on gains and losses might be useful to provide for all such instruments, whatever their level is, and not only for level 3 financial instruments.

(b) paragraph 27C to require entities to classify, by level of the fair value hierarchy, the disclosures about the fair value of the financial instruments that are not measured at fair value? If not, why? What would you propose instead, and why?

The CNC agrees with the provisions put forward in paragraph 27C.

However, we suggest that additional qualitative information should be disclosed regarding parameters that are critical when measuring the fair value of the financial assets reclassified from the trading or AFS category to the loans and receivables category according to the amendment to IAS 39 on reclassification dated October 13, 2008. This additional information is necessary to allow users to better assess the fair value of such reclassified financial assets.

- ***Other matters***

The CNC would like the Board to clarify the following topics:

- In paragraph 27A, the CNC suggests that the first and last lines be amended in order to clarify the meaning of the term *« significance of the inputs »;*

- In paragraph 27B (d), *"significance shall be judged with respect to profit or loss**, and** total assets or total liabilities" (emphasis added).* The CNC considers that those two criteria should not be systematically cumulative, but on the contrary, the significant nature should be estimated in relation to relevant factors.

Liquidity risk disclosures

Question 4

Do you agree with the proposal in paragraph 39(a) to require entities to disclose a maturity analysis for derivative financial liabilities based on how the entity manages the liquidity risk associated with such instruments? If not, why? What would you propose instead, and why?

The CNC agrees with the proposal in paragraph 39(a). Nevertheless, please see our response to question 5.

Question 5

Do you agree with the proposal in paragraph 39(b) to require entities to disclose a maturity analysis for non-derivative financial liabilities based on remaining expected maturities if the entity manages the liquidity risk associated with such instruments on the basis of expected maturities? If not, why? What would you propose instead, and why?

The CNC agrees with the proposal in paragraph 39(b) which relies on the way financial risks (liquidity and interest rate risks) are being managed internally.

However, the CNC considers that a different distinction than stated in the Exposure Draft could be considered. The distinction in the proposed amendment to IFRS 7 is based on the nature of the financial liability (derivative/non derivative). The CNC suggests an alternative distinction based on management intent: trading versus non-trading activities. Accordingly, the liquidity risk on all financial liabilities (including derivative and non-derivative financial liabilities) classified as held for trading could be disclosed based on the paragraph 39(a) of the amendment.

As a consequence, the CNC would propose to modify paragraphs IAS 39.39 a, and b, as follows (new text being underlined) :

39(a) maturity analysis for derivative financial liabilities <u>and financial liabilities classified as held for trading</u> that is based on how the entity manages the liquidity risk associated with such instruments ;

39(b) a maturity analysis for non-derivative financial liabilities <u>and financial liabilities not classified as held for trading</u> that shows the remaining contractual maturities for such financial liabilities. If the entity manages liquidity on the basis of expected maturities, it also shall disclose the remaining expected maturities for those financial liabilities.

- ***Other matters***

The CNC considers that the information concerning maturity about financial liabilities as currently proposed in the amendment does not provide a comprehensive information on the liquidity risk when liquidity is managed on a net basis.

Therefore, we propose to include the guidance in paragraph B11E regarding the maturity analysis of the financial assets in the standard itself so that this information be compulsory.

Moreover, the scope of the amendment should be clarified to specify whether instruments for which the host contract is not a financial instrument and which contain an embedded derivative are covered by the amendment. Indeed there is still uncertainty about the fact that the embedded derivative is captured in the maturity analysis.

Question 6

Do you agree with the amended definition of liquidity risk in Appendix A?

If not, how would you define liquidity risk, and why?

The CNC does not agree with the amended definition of liquidity risk since financial liabilities settled by a variable number of entity's own shares are excluded. In addition, financial liabilities with a settlement alternative are not clearly scoped by the definition.

Consequently, we propose to modify the amended definition as follows (new text being underlined and deleted text being struck through):

"The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that could be ~~are~~ settled by delivering cash or another financial asset or a variable number of entity's own shares.

Effective date and transition

Question 7

Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?

The CNC agrees with the proposed effective date.

Question 8

Are the transition requirements appropriate? If not, why? What would you propose instead, and why?

The CNC considers the transition requirements appropriate.