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PARIS, 26 TH FEBRUARY 2008

Le Président
JFL/MPC

n° 106

Project Manager on ED of Proposed Amendments to IFRS 1 and IAS 27

IASB

30 Cannon Street

London EC4M 6XH

United Kingdom

Re : Exposure Draft of Proposed Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – *Cost of an investment in a Subsidiary, Jointly Controlled Entity or Associate*

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 questions are set out in the Appendix.

The CNC agrees with the proposed approach, but has nevertheless concerns with the amendment as it is currently drafted.

The CNC agrees with abandoning the cost method set out in IAS 27 where pre-acquisition dividends are paid out of retained earnings, because, for practical reasons, in this case, the cost of complying with this requirement outweighs its benefits. However, where pre-acquisition dividends are paid out on identifiable reserves, such as issue premiums, the CNC believes that the cost method should be maintained.

Regarding dividends recognised as income, the CNC agrees with this proposal only for practical reasons. Nevertheless, we have some conceptual concerns relating to revenue recognition, because we consider this method consists of recognising in income dividends coming from retained earnings, arising from previously recognised profits.

Regarding the consequential proposed impairment test on the related investment, the CNC does not support the requirement that a systematic impairment test of the investment is performed each time dividends are paid. In many cases, it will be obvious that no impairment has arisen and therefore a systematic impairment test would not be justified. Instead, we suggest that the payment of an unusual dividend should be considered only as an indicator and added to the list in IAS 36.

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

Yours sincerely,

Jean-François Lepetit

Responses to the invitation to comment

Question 1—Deemed cost

The exposure draft proposes to allow an entity, at its date of transition to IFRSs in its separate financial statements, to use a deemed cost to account for an investment in a subsidiary, jointly controlled entity or associate. The exposure draft proposes that an entity may choose as the deemed cost of such investments either the fair value or the previous GAAP carrying amount of the investment at the entity's date of transition to IFRSs.

Do you agree with the two deemed cost options as they are described in this exposure draft? If not, why?

We agree with the two deemed cost options as they are described in this exposure draft.

Question 2—Change in scope

The exposure draft proposes that the deemed cost option should be available for the initial measurement of investments in jointly controlled entities and associates when an entity adopts IFRSs in its separate financial statements.

Do you agree with the proposal to allow the deemed cost option for investments in jointly controlled entities and associates? If not, why?

We agree with the proposal to allow the deemed cost option for investments in jointly controlled entities and associates.

Questions 3 and 4—Cost method

The exposure draft proposes to delete the definition of the 'cost method' from IAS 27. Additionally, the exposure draft proposes to amend IAS 27 to require an investor to recognise as income dividends received from a subsidiary, jointly controlled entity or associate in its separate financial statements. The receipt of this dividend requires the investor to test its related investment for impairment in accordance with IAS 36 Impairment of Assets.

Question 3

Do you agree with the proposal to delete the definition of the cost method from IAS 27? If not, why?

The CNC agrees with abandoning the cost method set out in IAS 27 where pre-acquisition dividends are paid out of retained earnings, because, for practical reasons, in this case, the cost of complying this requirement outweighs its benefits. In this case, restating pre-acquisition retained earnings is time-consuming and difficult.

However, where pre-acquisition dividends are paid out on identifiable reserves, such as issue premiums, the CNC believes that the cost method should be maintained.

The CNC notes that the distributions and particularly dividends concerned by the amendment are not clearly defined in the supporting material. We mention that distributions could be of different nature, commercial laws defining what could be distributed. Other components of equity than retained earnings are often distributed in European countries. Those pre-acquisition distributions are very often easily identifiable, because unusual.

Question 4

Do you agree with the proposed requirement for an investor to recognise as income dividends received from a subsidiary, jointly controlled entity or associate and the consequential requirement to test the related investment for impairment? If not, why?

Regarding dividends recognised as income, the CNC agrees with this proposal only for practical reasons. Nevertheless, we have some conceptual concerns relating to revenue recognition, because we consider this method consists of recognising in income dividends coming from retained earnings, arising from previously recognised profits.

Regarding the consequential proposed impairment test on the related investment, the CNC does not support the requirement that a systematic impairment test of the investment is performed each time dividends are paid. In many cases, it will be obvious that no impairment has arisen and therefore a systematic impairment test would not be justified. Instead, we suggest that the payment of an unusual dividend should be considered only as an indicator and added to the list in IAS 36.

Question 5—Formation of a new parent

The exposure draft proposes that in applying paragraph 37(a) of IAS 27 to the formation of a new parent, the new parent should measure cost using the carrying amounts in the separate financial statements of the existing entity at the date of the formation.

Do you agree with the proposed requirement that, in applying paragraph 37(a) of IAS 27, a new parent should measure cost using the carrying amounts of the existing entity? If not, why?

We believe that this subject should be dealt subsequently with the "common control transactions" project.

Question 6—Transition

The exposure draft proposes that the amendments to IFRS 1 and IAS 27 shall be applied prospectively.

Do you agree that prospective application of the proposed amendments to IFRS 1 and IAS 27 is appropriate? If not, why?

We agree that prospective application of the proposed amendments to IFRS 1 and IAS 27 is appropriate.

Others remarks

Comments on IAS 18.32

We note the consequential amendment of IAS 18 regarding dividend on an ordinary equity investment which should be treated as income.

Nevertheless, whilst this amendment relates only to investments in a subsidiary, jointly controlled entity or associate, we wish to point out that we would not support the extension of the impairment test to other equity investments, and particularly those classified in available for sale portfolios.

Comments on IAS 21.49

The CNC does not support the proposed amendment on IAS 21. 49 which deals with consolidated accounts, and not individual ones. We consider that when the payment of a dividend represents part of a disposal, the corresponding cumulative amount of the exchange differences shall be recognised in profit or loss on disposal.

Consequently, we suggest to maintain the sentence "*The payment of a dividend is part of a disposal only when it constitutes a return of the investment*".