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Le Président

JFL/MPC

N° 3

PARIS, 21ST JANUARY 2009

Mr. Stig Enevoldsen
EFRAG
13-14 Avenue des Arts

1210 BRUSSELS
Belgium

Re : Exposure Draft of Proposed Amendments to IFRIC 9 and IAS 39 “Embedded Derivatives”

Dear Stig,

Please find enclosed for your information the CNC Comment Letter on the Exposure Draft of Proposed Amendments to IFRIC 9 and IAS 39 “Embedded Derivatives”

The CNC generally supports the EFRAG comments.

Regarding your specific question on paragraph 7A of the ED, the CNC is not aware of situations where the use of hindsight in applying the requirements of EFRAG’s proposed paragraph 7A would be a concern.

Regarding the effective date and transitional requirements, the CNC notes that EFRAG thinks that they should be drafted so as to have the effect that the clarifications in the ED will be applicable as of the earliest date on which such reclassifications become possible (ie 1 July 2008). The CNC believes it is unclear what would be the consequences for interim financial statements in this case that were published before the proposed amendment.

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

Yours sincerely,

Appendix

Question 1

The exposure draft clarifies that an entity must assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid (combined) financial asset out of the fair value through profit or loss category.
Do you agree with that clarification? If not, why? What would you propose instead, and why?

The CNC agrees with this clarification.

Question 2

The exposure draft requires the assessment to be made on the basis of the circumstances that existed when the entity first became a party to the contract.
Do you agree with that proposal? If not, why? What would you propose instead, and why?

The CNC agrees that the assessment should be made on the basis of the circumstances that existed when the entity first became a party to the contract.

The CNC would like also to point out that this assessment should also be made when there is a change in the term of the contract that significantly modifies the cash flows that otherwise would be required under the contract. We suggest this clarification to be added to the proposed amendment.

Question 3

The exposure draft proposes that if the fair value of an embedded derivative that would have to be separated cannot be reliably measured, the entire hybrid (combined) financial instrument must remain in the fair value through profit or loss category.
Do you agree with that proposal? If not, why? What would you propose instead, and why?

The CNC agrees with the proposal.

However, we note that the interaction between the amended IAS 39.12 and the retained IAS 39.13 (which currently requires that if an embedded derivative requires separation and the entity "is unable to determine reliably the fair value of an embedded derivative" then its fair value should be determined by deducting the fair value of the financial host contract from the fair value of the entire financial instrument) could be clearer. Specifically, it should be clearer whether an entity may reclassify a financial asset even though it cannot reliably measure the embedded derivative but can reliably measure the entire financial instrument and the financial host contract.

Also we believe the amended IAS 39.12 may not entirely reflect the intent of the Board as described in paragraph BC8 (reproduced below):

> The Board also considered another issue related to a reclassification of a hybrid (combined) financial asset out of the fair value through profit or loss category. If the fair value of the embedded derivative that would have to be separated cannot be reliably measured, the Board decided to propose clarifying that the hybrid (combined) financial asset in its entirety should remain in the fair value through profit or loss category. The Board noted that the proposed clarification to paragraph 12 would prevent reclassification of a hybrid (combined) financial

asset out of that category between financial reporting dates, and hence avoid a requirement to reclassify the hybrid (combined) financial asset back into the fair value through profit or loss category at the end of the financial reporting period.

It appears from BC8 that the Board was addressing a situation where the entity could fair value the embedded derivative at the date of reclassification, but could not fair value the embedded derivative at the end of the first financial reporting date immediately after reclassification. The Board's intent appears to prohibit reclassification at the reclassification date because at the end of financial reporting period the financial asset would have to be designated as at fair value through profit or loss even this is the classification category it has been reclassified from. If this was the intention of the Board we believe IAS 39.12 could be clearer as this paragraph as currently drafted could be read as only applying to situations where the embedded derivative cannot be fair valued at the date of reclassification.

We also note IAS 39.50A should be amended. This paragraph currently states that a financial instrument cannot be reclassified into the fair value through profit or loss category. However, IAS 39.12 clearly states that if an entity is unable to measure an embedded derivative separately after acquisition the entity must "designate the entire hybrid (combined) contract as at fair value through profit or loss". Therefore, in limited circumstances the standard requires financial instruments to be reclassified to fair value through profit or loss after initial recognition.

Question 4

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 5

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

The CNC suggests that the proposed amendment mentions whether there is a requirement to restate financial statements for interim periods ending before 15 December 2008.

Jean-François Lepetit