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Paris, 4 December 2009

Le Président

JFL/IGG/VR

N°98

IASB

30 Cannon Street

LONDON EC4M 6XH

UNITED KINGDOM

Re : IASB ED /2009/11 Improvements to IFRSs

Dear Madam, dear Sir,

I am writing on behalf of the CNC to comment on the IASB ED /2009/11 Improvements to IFRSs.

While the CNC concurs with the objectives set out for the majority of the proposed amendments, the CNC has many concerns about the way the clarifications have been addressed as part of the annual improvement project. Our main areas of disagreement are as follows :

- **Disagreement with substantially modifying a current accounting treatment**

The CNC does not support the proposed amendment to IAS 27 § 38b that replaces "in accordance with IAS 39" with "at fair value trough profit and loss". This change, which no longer permits an investment to be accounted for, in accordance with IAS 39, as an available for sale financial asset with changes in fair value through other comprehensive income, narrows down the accounting choice available under existing IFRS without any explanation.

From a process standpoint, the CNC considers that amendments included in an "Annual improvements project" should be restricted to clarifications where redrafting is necessary due to unintended inconsistencies and divergences of interpretation in practice.

Hence, the CNC believes that an annual improvement project is not a suitable process to substantially modify an existing accounting treatment, all the more if the rationale for this change is not provided in the basis for conclusion of the proposed amendment.

- **Disagreement with introducing in a narrow context, new principles that are neither defined within the current Framework nor within the current standards**

The CNC does not believe that an annual improvement project is a suitable process to introduce new concepts such as :

- "economic phenomenon" within IAS 8 § 10b ;
- “pro rata share of net assets in the event of liquidation” within IFRS 3 § 19.

The CNC is concerned with the fact that the introduction of new concepts that are neither defined within the current Framework nor within the current standards is likely to lead to more practical interpretation difficulties.
Furthermore, the CNC considers that the measurement of non controlling interest has only been addressed as part of the issue related to the measurement of non controlling interest resulting from a partial acquisition of an entity.

The CNC considers that wider discussions should take place in order to consider the consequences of these specifics issues in wider projects.

Regarding the amendments proposed to IAS 8, the CNC considers that it is unacceptable to propose changes based on a text that has not even been published yet.

- **Disagreement with the way the amendments are currently drafted as they highlight many practical applications difficulties**

The CNC has some concerns with the way some amendments have been currently redrafted as they may be confusing, contradictory and, even maybe, unintended :

- IFRS 3 - Contingent consideration from a business combination that occurred before the effective date of the revised IFRS : *" the deletion of the scope exception means that IAS 39 would apply to* <u>*ALL*</u> *contingent consideration ".* This drafting is inconsistent with the fact that some contingent consideration may be accounted for in accordance with IAS 37.
- IAS 27- Impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor : " *an entity shall account for investments in subsidiaries, jointly controlled entities and associates either* <u>*at cost*</u> *or at fair value through profit or loss,* <u>*EACH*</u> *in accordance with IAS 39 ”.* This drafting is inconsistent with the spirit of IAS 39 and the current IFRS 9 project.
- IAS 1- Statement of changes in equity : the change proposed applies to all components of the statement of changes in equity as opposed to only the breakdown of the components of other comprehensive income which was intended to be clarified thus leading to an entity potentially being able to choose to disclose all changes in the notes, and depriving the statement of changes in equity of its substance, and/or, in some cases, shifting it altogether in the notes.
- In several cases the way the transition proposals are drafted is likely to lead to more practical difficulties (Please refer to issues developed in question 2).

- IFRS 3 - Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS. The proposed amendment refers to paragraphs of old IFRS 3 that no longer exist in IFRSs as published in the Bound Volume and therefore also as endorsed in Europe.
- In several cases, the piling up of various layers of transition provisions as well as the reference to the " retrospective " or " prospective " application of other standards does not facilitate the reading and makes unclear how the transition provision should be applied in practice.

Our detailed answers to the Exposure Draft’s questions are set out in the Appendix 1 to this letter.

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

Yours sincerely,

Jean-François Lepetit

APPENDIX 1

Answer to the Exposure Draft’s specific questions

Question 1 : Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft ? If not, why and what alternative do you propose ?

- **IAS 27- Impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor**

The CNC agrees that, according to the current standards, it is not clear whether in its separate financial statements, the investor should determine impairment to investments in subsidiaries, jointly controlled entities and associates in accordance with IAS 36 or IAS 39.

The CNC notes that according to the explanation provided in the exposure draft as an introduction of the amendment and in the paragraphs of the basis for conclusion BC1-BC3, the purpose of this amendment is to clarify that in the separate financial statement an investor should apply the provisions of IAS 39 to test its investments in associates or in jointly controlled entities for impairment.

The CNC does not support this amendment for the following reasons :

The CNC disagrees with narrowing down the accounting choice available under existing IFRS without any explanation.

1. Indeed, the CNC would like to emphasize that beyond this clarification, which is needed, the way the amendment is currently drafted, replacing in IAS 27 § 28 b) " in accordance with IAS 39 " with " at fair value through profit or loss ", substantially modifies the accounting treatment for investments in subsidiaries, jointly controlled entities and associates, in separate financial statements.

The CNC is wondering what the underlying rationale is for this amendment which no longer permits an investment to be accounted for, in accordance with IAS 39, as an available for sale financial asset with changes in fair value through other comprehensive income. The CNC is not convinced it is appropriate to restrict the way in which an entity currently applies IAS 39 to such investments.

In more general terms, the CNC considers that amendments included in an " Annual improvements project " should be restricted to clarifications when redrafting is necessary due to divergences of interpretation in practice. Hence, the CNC believes that an annual improvement project is not a suitable process to substantially modify a current accounting treatment and more especially if the rationale for this change is not provided in the basis for conclusion of the proposed amendment.

2. Furthermore, the CNC has some concerns with the way IAS 27 § 38 has been currently redrafted " *an entity shall account for investments in subsidiaries, jointly controlled entities and associates either <u>at cost</u> or at fair value through profit or loss, <u>EACH</u> in accordance with IAS 39 ".* The CNC notes that According to IAS 39 § 45c the measurement "at cost" is not the core principle but an exception for investments in unquoted equity instruments (and some related derivatives). Therefore we would understand the amendment to mean that if the investment is listed it would have to be measured at fair value through profit and loss.

3. Moreover, the CNC considers that having a dual model approach (an impairment model in accordance with IAS 36 for the consolidated financial statements and an impairment model in accordance with IAS 39 for the separate financial statements) i) will create practical concerns, ii) will give rise to possible unjustified effects between the two sets of accounts. For these reasons, the CNC disagrees with the decision made by the Board of the IASB and would prefer to apply an impairment measurement on the basis of IAS 36.

- **IFRS 3 (2008) - Measurement of non controlling interest**

While the CNC agrees with the basic principle in IFRS 3R to provide clarification and a specific guidance for the accounting for non-controlling interests, the CNC is concerned that this has only been addressed as part of the issue related to the measurement of NCI that are recognized in the statement of financial position of the acquirer as a result of a partial acquisition of an entity.

The CNC notes that historically, there has been much debate about whether non-controlling interests include options (share based payment transactions) and equity components in convertible debt instruments. The CNC acknowledges that the new definition of minority interests which name was changed to become non-controlling interest, may have widened the scope of instruments to be included in NCI and that it is now clear from IFRS 3R.BC1 (ED Annual improvements) that the IASB views these instruments as non-controlling interests. However, the CNC is not convinced that this is the way this should be done:

1. **The CNC would have preferred that the Board address the accounting for such instruments as part of an overall project on the accounting for NCI** that includes also the accounting for puts on minority interests. At a minimum, we think that the clarification regarding the scope of the definition should be made directly in the standard itself and preferably in IAS 27 rather than in the basis for conclusions, which are not an integral part of IFRS.

2. **The concept referring to a “pro rata share of net assets in the event of liquidation” is a new concept that does not exist elsewhere**; IAS 27.19 only refers to the “present ownership interests” when determining the allocation basis between the parent and non-controlling interest for the profit or loss and change in equity. The CNC does not believe this is the appropriate way to introduce this new concept.

Should the Board decide to pursue this amendment, the CNC strongly recommends it to address the following issues:

(a) Accounting treatment for preferred shares

We understand from the proposed wording « non-controlling interest that are present ownership instruments and entitle their holders to a pro rata share of the entity's net assets in the event of liquidation », that the only instruments that would be measured at fair value or proportionate share of the acquiree's identifiable net assets would be common shares. Hence preferred shares would not satisfy such a definition and would not be eligible to such an option if they include specific features regarding the redemption terms in the event of liquidation (for example if they give rise to a proportionate share that is subject to a maximum value corresponding to the nominal value of the shares). It would be useful for the Board to confirm whether this was their intention

(b) Specification on the measurement basis required by IFRS

Furthermore, the proposed amendment requires that instruments that are not present ownership should be measured either « at fair value or other measurement basis as required by IFRS ». When referring to « other measurement basis as required by IFRS », the amendment should specify at what date this measurement should take place (presumably at the date of the business combination).
In particular, we note that paragraph BC1 indicates that the equity component of a convertible instrument shall be measured in accordance with IAS 32. However, IAS 32 requires that the equity component be measured at the date of issuance as the residual of the proceeds of issuance over the fair value of the liability component. The equity component is not subsequently re-measured. While the reference to the measurement in accordance with IAS 32 may be interpreted as requiring the determination of the fair value of the convertible instrument as a whole on the date of the business combination with measurement of the equity component as the difference between the fair value of the instrument as a whole and the fair value of the liability component, other interpretations are possible including the measurement of the equity component as established when the convertible was issued (ie at its historical amount). Further clarification is required on this matter.

The difficulty in interpreting the reference to « other measurement basis as required by IFRS » extends to other equity instruments such as options and warrants that are normally subject to IAS 32 but for which IAS 32 is silent in terms of measurement. Does this mean that these instruments would necessarily be measured at fair value ?
We think that the amendment may have some impacts on the way the impairment test should be performed for cash-generating units with goodwill and non-controlling interest of such a nature and we believe that such impacts have not been correctly anticipated.
The guidance under IAS 36 clearly indicates that the impairment loss is allocated between the parent and the non-controlling interest on the same basis as that on which profit or loss is allocated. If this guidance makes sense when NCI is entitled to a proportionate share of the net asset and profit or loss, it seems that it is unworkable when NCI are not present ownership instruments.

Example :

Group A holds a wholly owned subsidiary that has issued an option for CU 50 (before the acquisition by A). The goodwill group A has recognized as a result of the BC amounts to CU 550 which includes the goodwill (CU 50) attributed to the holder of the option (option fair valued in accordance with the proposed amendment).

It is assumed that the subsidiary is a CGU and that the recoverable amount of the goodwill determined according to IAS 36 amounts to 300. As the impairment loss should be allocated to the parent and non-controlling interests on the same basis of the present ownership interest the total should be attributed to the parent (100%).

We would assume that part of the goodwill related to the NCI would have also been impaired. However for which amount ?

- **IFRS 3 - Un-replaced and voluntarily replaced share based payment awards**

The CNC agrees with the proposed amendment. However, as the purpose of this amendment is to require an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transaction in the same way, regardless of whether it is obliged to or chooses to replace them, the CNC wonders whether it is relevant to maintain in B56 the distinction between the two situations, as the distinction no longer seems to exist.

Hence the CNC suggests to remove, in B56, the following paragraph which might add more confusion :

~~"If the acquirer is obliged to replace the acquiree awards, either all or a portion of the market-based measure of the acquirer's replacement awards shall be included in measuring the consideration transferred in the business combination. The acquirer is obliged to replace the acquiree awards if the acquiree or its employees have the ability to enforce replacement. For example, for the purposes of applying this requirement, the acquirer is obliged to replace the acquiree's awards if replacement is required by:~~

~~(a) the terms of the acquisition agreement;~~

~~(b) the terms of the acquiree's awards; or~~

~~(c) applicable laws or regulations."~~

Furthermore, it would appear more appropriate to clarify IFRS 3 § 30 by adding (new text underlined) " in accordance with the method in IFRS 2 share-based payment <u>at the date of the business combination</u> ". Indeed, IFRS 2 would not necessarily require a revaluation.

- **IFRS 3 - Transition requirement for consequential amendments of IFRS 3 to IFRS 7, IAS 32 and IAS 39 for contingent consideration from a business combination that occurred before the effective date of the revised IFRS**

The CNC concurs with the objective of the proposed amendment which confirms that IFRS 7, IAS 32 and IAS 39 do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008). Indeed, the CNC notes that IFRS 3 (as revised in 2008) deleted the provisions of IFRS 7 §3c, IAS 32 § 4c and IAS 39 § 2f without any transition provisions. Therefore, some constituents consider that the provisions of IFRS 7, IAS 32 and IAS 39 should be applied for all contingent consideration which is not consistent with the spirit of the revised IFRS 3 which is to be applied prospectively.

However, the CNC notes that the way BC4 is currently drafted : " the deletion of the scope exception mean that IAS 39 would apply to all contingent consideration from business combinations with an acquisition date earlier than the application date of the revised IFRS 3 " is not consistent with IFRS 3 58 bii) which indicates that " contingent consideration classified as an asset or a liability that is not within the scope of IAS 39 shall be accounted for in accordance with IAS 37 or other IFRSs as appropriate ”. The CNC recommends BC4 to be redrafted in order to address this inconsistency.

Moreover we have some practical concerns for the preparers of the financial statements with the way the amendment is currently drafted and we consider that it would be more appropriate to include directly in the standards the old considerations of IFRS 3 (2004) related to business combinations that are being referred to (Please refer to issues developed in question 2).

- **IAS 27- Transition requirements for consequential amendments of IAS 27 to IAS 21, IAS 28 and IAS 31.**

The CNC agrees with the objective of the proposed amendments which clarify that the consequential amendments from IAS 27 made to IAS 21, IAS 28 and IAS 31 apply prospectively.

However, the CNC has many concerns about the way the transition proposals are drafted and considers that is likely to lead to more practical interpretation difficulties.

(Please refer to issues developed in question 2)

- **IAS 28- Partial use of fair value for measurement of associates**

The CNC is in favour of the view adopted by the IASB which utilizes a two-step approach (Step 1: identify all direct and indirect interests held in the associate. Step 2 : determine the appropriate measurement model for each portion of the investment according to the scope exception in IAS 28 § 1) for the following reasons :

- this approach preserves the characteristics of the business purpose for which the different investments in the associate were made (a portion of the investment may be held for strategic purposes, while another portion of the investment may be held as an economic offset to insurance liabilities or other purposes),

- with reference to the consistent application of IAS 8 § 13, different categories of investments in an associate (investments supporting insurance contracts and investments not supporting insurance contracts) can have different accounting methods applied to them,

- the other alternative view which implies to first identify all direct and indirect interests held in the associate by either the parent or any of its subsidiaries and then, in a second step apply IAS 28 to the entire investment in the associate could create accounting mismatches.

However, the CNC questions whether this analysis is not likely to affect the presumption of significant influence when an investor holds directly or indirectly 20 per cent or more of the voting power of the investee. Indeed, when a parent company holds directly or indirectly 25 % of an entity held for 19 % by a venture capital organization or a mutual fund and for 6 % by a non capital organization, the CNC considers that in assessing whether the parent company has significant influence, the presumption as defined in IAS 28 § 6 should not be maintained.

Furthermore, the CNC is wondering why ED/2009/11 "Annual improvement to IFRS" does not extend the issue to interests in joint ventures as IAS 31 § 1 includes the same scope exception as IAS 28 § 1 for jointly controlled entities held by venture capital organizations or mutual fund, unit trusts and similar entities including investment-linked insurance funds.

- **IFRS 7 Financial instruments - Clarification of disclosures**

We agree with most of the proposed amendments with the exception of the following proposals :

1- Requirement for disclosures of the financial effect of collateral held as security and other credit enhancements in paragraph 36(b)

IFRS 7 (§ 37(c)) currently requires to disclose a description of collateral held by the entity as security and other credit enhancements and, unless impracticable, an estimate of their fair value. This disclosure is limited to financial assets that are either past due or impaired.

The Board proposes to introduce, instead of this current requirement, a disclosure of the financial effect of collateral in respect of the amount that best represents the maximum exposure to credit risk. This disclosure would be required for all financial assets.

The CNC considers that the effect of collateral and other credit enhancements is more useful in case of past due or impaired assets than for all financial assets. Indeed, the effect of collateral has a significant impact on the assessment of cash flows that the entity is expected to collect in case of doubtful assets whereas such effect on expected cash-flows is usually not material for sound assets. Moreover, it is more relevant to focus on past due and impaired assets than to dilute this information for each class of financial assets mixing sound and doubtful assets.

In addition, providing the effect of collateral for each class of financial assets instead of only past due and impaired financial assets is very burdensome and will be difficult to apply in practice since this information is not always (or easily) available even for prudential reporting.

Therefore, the CNC recommends that the Board remove this proposal and require the disclosure of the effect of collateral only for past due and impaired financial assets.

2- Clarification that the requirements in paragraph 38 apply only to the foreclosed collateral held at the reporting date

The Board’s proposals clarify that an entity shall disclose the nature and carrying amount of assets held at the reporting date and obtained by taking possession of collateral.

The CNC considers that information on assets held and obtained from guarantees is relevant when those assets are not readily convertible into cash. In this case, the entity holds illiquid assets (usually non-financial assets) that it did not choose to invest in and due to adverse events. Therefore, information focused on these particular assets is relevant. However, when assets are readily convertible into cash and are still held by the entity, the circumstances under which these assets were obtained are not useful as information on risks related to each class of financial instruments (required by other disclosure according to IFRS 7) is appropriate and sufficient.

Moreover, it is difficult in practice to distinguish between assets (for instance within the trading book) by origin since this information is not used for internal reporting purposes.

Therefore, we recommend that the Board require disclosure on collateral obtained and still held at the reporting date only for assets not readily convertible into cash.

- **IAS 1- Clarification of statement in changes in equity**

Objective of the amendment

The ED indicates in its introduction that the objective of this amendment is « to state explicitly that an entity shall present the components of changes in equity either in the statement of changes in equity or in the notes ”.

The CNC however had understood the origin of the amendment to be to aim at clarifying that the components of changes in equity related to other comprehensive income items could be presented either in the statement of changes in equity or in the notes, under IAS 1 § 106(d). Such understanding seems to be confirmed by the basis for conclusion in BC1.

The CNC notes that, in accordance with the objective stated in the introduction, IAS 1 § 106 is modified to state that all components of changes in equity may be presented either in the statement of changes in equity or in the notes. The staff paper the decision was based upon did indicate that, should entities make different choices about the items they would want to disclose in either place, “a drawback would be that too much flexibility might impair the comparability of the presentation of the statement of changes in equity across entities” (Agenda Paper 4C §19, February 2009 Board Meeting). Taken a step further, should an entity choose to present all components of changes in equity in the notes, the CNC considers that that would actually result in moving the statement of changes in equity into the notes, thus contradicting IAS 1 § 10-11, where the list of the items comprised in a complete set of financial statements is defined and it is stated that “all of the financial statements in a complete set of financial statements shall be presented with equal prominence”… The CNC doubts that such was the Board’s intention.

The CNC therefore suggests that a simple sentence be added at the end of § 106 that would state, to reflect the original objective of the amendment, that an entity may choose to present the breakdown of components of changes in equity related to other comprehensive income items either in the statement of changes in equity or in the notes.

Additional amendment regarding disclosure of dividends

The ED further proposes to amend IAS 1 § 107 " to remove a redundancy based on the amendment to § 106(d) ". The amendment in effect removes the option to present the amounts of dividends recognised as distribution to owners either in the statement of changes in equity or in the notes, the redundancy being with § 106 (a) regarding the " total amounts attributable to owners of the parent and to non-controlling interests " for which that option would be provided according to the original amendment proposed.

The CNC would recommend that the IASB reconsider whether 'dividends' is synonymous with 'distribution to owners', as should it not be the case, the result could be that the amount of dividends attributable to owners is not disclosed at all.

- **IAS 8 - Change in terminology to the qualitative characteristics**

The objective of the amendment is to align IAS 8 with the terminology changes made in the " forthcoming conceptual framework that will replace the Framework for the Preparation and Presentation of Financial Statements ".

The review of the Framework is a joint project between the IASB and the FASB that has been broken down in phases. The changes referred to here would come from the second chapter of the revision on qualitative characteristics.

The CNC understands that the IASB has decided that the chapters will be effective under IFRS as soon as published whereas the FASB intends to make the Framework effective only when all chapters are issued. In view of the timeframe over which the project is expected to run, the CNC has concerns regarding these divergent approaches in terms of convergence, and especially with adopting the Framework in stages in terms of the implications regarding internal consistency of the standards, as indicated in our answer to the exposure draft on the Framework Phase A.

Notwithstanding that concern, the CNC notes that Chapter 2 on Qualitative Characteristics has, to date, not yet been published (and was not even available as a near-final draft when the annual impairments were issued in August 2009) although our understanding was that the IASB's intention was to have it published by the end of Q3 2009. Under the circumstances, without knowing the final text, the CNC cannot support the amendments proposed, all the more since they take for granted new principles that are not defined in the current Conceptual Framework. For instance, amendments to IAS 8 deal with the new notion of "economic phenomenon" whereas there is not any definition in the current Conceptual Framework ; besides, they delete the notions of "prudence" and "materiality" that are still strong principles in the current Conceptual Framework.

- **IAS 34 – Interim financial reporting**

The CNC agrees with the amendment proposed that emphasises the disclosure principles in IAS 34. However, in this respect, the CNC would like to point out the redundancy between paragraphs 15 and 15C. We would therefore suggest that § 15C be deleted with the first sentence of § 15C moved back to § 15B at the beginning, where an equivalent sentence was deleted, and the second sentence of § 15B deleted altogether.

We also wonder what rationale the Board has followed in § 15B in the differences which appear regarding individual items listed, some of them to be disclosed if significant changes occur and others only when changes occur. The CNC suggests that references to ‘significant’ be removed as it is already understood in the principle in § 15.

We would also suggest that the Board add the word ‘financial’ before asset in § 15B(l) as we consider that the Board’s intention was to have those disclosures for those types of assets.

Regarding the items added to the list of guidance, the CNC understands the necessity of adding such guidance in the current context, especially since equivalent information has also recently been mandated under US GAAP in interim reports. However, on a wider scale, the CNC considers that it would be useful for the Board to take a step back regarding disclosures and undertake a principle-based approach project with respect to disclosures. The CNC notes that the FASB has undertaken such a project and we would like to encourage both Boards to work together on this project.

- **IAS 40 – Investment property**

In answer to your question 5, the CNC considers that this issue should be addressed as part of a separate project, or, at a minimum rethought through and re6exposed, as the rationale of the amendment does not appear clearly.

The basis for conclusions argues about inconsistencies between IAS 40 § 58 and IAS 40 § 56. IAS 40 § 58 is clear in that it requires investment property, regardless of the measurement option taken, to be transferred to inventories upon a change of use consisting of development with a subsequent view to sell. We note, in this respect that question 5 of the invitation to comment states that the objective is to “remove the requirement to transfer investment property carried at fair value to inventory when it will be developed for sale”.

On the other hand IAS 40 § 56 requires an investment property, when measured at cost to be reclassified as held for sale if the IFRS 5 criteria for such classification are met. We note that there is no requirement to classify the investment property as held for sale when the investment property is measured at fair value, although we note that § 76(c) on disclosures indicate that, when the fair value model is used, the assets classified as held for sale are to appear in a movements reconciliation schedule, which is another inconsistency. The CNC questions whether there is an inconsistency between § 56 and § 58 as the classification criteria for held for sale, since they require that the sale of the property occur in its current state, differ from the criteria for a change in use referred to in § 58 which imply development to be performed on the property with a subsequent view to sell and is, in our view a change in business model with respect to the asset, unlike situations of investment property under construction or investment property that is redeveloped for continued use as an investment property.

The CNC therefore would suggest that the standard be reviewed and its rationale and internal consistency reassessed.

Regarding the additional IFRS 5 disclosures the Board would require even when the criteria for classification as held for sale are not met, the CNC could only agree to such an extension of the disclosures if the amendment regarding inventories is pursued, since there would otherwise be no way to know from the statement of financial position that there is a change in use for the property. The CNC considers that the change of use, ie the transfer to inventories, to be decision-useful information on the face of the balance-sheet.

Should the amendments be pursued, the CNC also notes that § 60 was not amended to delete references to "or inventories" and "or IAS 2".

- **IFRIC 13 - Fair value of award credit**

The CNC agrees with the proposed amendment.

Question 2 : Do you agree with the proposed transition provision and effective date for the issue as described in the exposure draft ? If not, why and what alternative do you propose?

The CNC has several areas of concern about the way the transition proposals are drafted and considers that is likely to lead practical difficulties. In several cases it is not clear to us what the intention of the IASB actually is. In order to diminish the number of questions that the IASB/IFRIC will receive on transition of IFRSs, the CNC strongly recommends the IASB to clarify how prospective or retrospective transition ought to be actually applied.

Some illustrative examples from the exposure draft are mentioned below :

- IAS 28 - Partial use of fair value for measurement of associates.

Paragraph 41E does not specify if the amendment should be applied retrospectively or prospectively. In the absence of specific guidance, the CNC notes that this amendment should be made retrospectively in accordance with IAS 8. It would be useful for the Board to confirm whether this was their intention.

- IAS 28 - Transition requirements for consequential amendments of IAS 27

Paragraph 41 B is proposed to be amended as follows : " An entity shall apply the amendment to IAS 28 § 35 retrospectively for annual periods beginning on or after 1 July 2009 ".

IAS 28 § 35 indicates that " an investment in an associate shall be accounted for in the investor's separate financial statements in accordance with paragraphs 38-43 of IAS 27 "

IAS 27 § 45A indicates that the amendment to IAS 27 § 38 in May 2008 shall be applied prospectively from the date at which it first applied IFRS 5.

The CNC would like to emphasize that the reference to the paragraphs of other standards do not facilitate the reading of the rules. Furthermore, for this particular case, we do not understand how the *" prospective application from the date at which is first applied IFRS 5 "* has to be articulated with the *"retrospective application "* stipulated in paragraph 41B.

- IFRS 5 - Application of IFRS 5 in loss of significant influence over an associate or a jointly controlled entity

Paragraph 44C indicates that : " *an entity shall apply the amendment to paragraph 8A for annual periods beginning on or after 1 January 2010 (earlier application is permitted) However, an entity shall not apply the amendments for annual periods beginning before 1 July 2009 unless it also applies IAS 27 (as amended in May 2008). An entity shall apply the amendments <u>prospectively from the date at which it first applied IFRS5</u>, subject to the transitional provisions in paragraph 45 of IAS 27 (amended May 2008).* “

We do not understand what the intention of the IASB actually is.

- IFRS 3 - Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS.

The proposed amendment refers to paragraphs 32-35 of old IFRS 3 as revised in 2004. The CNC would like to point out that those paragraphs are neither available on the IASB website which only includes the standard as currently issued, nor in the IFRS Bound volume since the 2008 version, nor in the IFRS3 as endorsed in Europe. In more general terms, the CNC wishes to emphasise that when a standard is being revised with specific transitions (prospective application, differed date of first application), the preparers will have some difficulties to identify and to apply the accounting treatment required as the old standards in force are no longer available.

For this particular issue, in order to resolve the potential legal implications due to the reference to paragraphs that are no longer endorsed in Europe, the CNC considers that it would be more appropriate to include directly in the standards the old considerations of IFRS 3 (2004) related to business combinations that are being referred to.

Question 3

The Board proposes changes to IAS 34 Interim Financial Reporting to emphasise its disclosures principles. It also adds to the guidance to illustrate better how to apply these principles. The Board published an ED Fair Value Measurement in May 2009. In that ED, the Board proposes that all the fair value disclosures required in IFRS7 Financial Instruments : Disclosures for annual financial statements should also be required for interim financial statements ?

Do you agree that this proposed amendment is likely to lead more useful information being made available to investors and other users of interim financial reports ? If not, why? What would you propose instead and why ?

See question 1.

Question 4

The Board proposes changes to IAS 34. Do you agree that amending IAS 34 to require particular disclosures to be made in interim financial statements is a more effective way of ensuring that users of interim financial statements are provides with useful information ? If not, why? What approach would you propose instead and why?

See question 1.

Question 5

The board proposes to amend IAS 40 Investment Property to remove the requirement to transfer investment property carried at fair value to inventory when it will be developed for sale, to add a requirement for investment properly held for sale to be displayed as a separate category in the statement of financial position and to require disclosures consistent with IFRS5. Do you agree that the proposed amendment should be included within Improvements to IFRSs or should a separate project be undertaken to address this issue ? If you believe a separate project should be undertaken , please explain why?

See question 1.