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Paris, the 8th March 2012

Madame Françoise FLORES
Chairman
EFRAG –European Financial Reporting Advisory Group
35 Square de Meeûs
B – 1000 BRUSSELS

Re : EFRAG Draft endorsement advices on consolidation standards (IFRS 10, 11, 12, IAS 27R and IAS 28R)

Dear Mrs Flores,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned draft endorsement advices.

As a preliminary remark, the ANC considers that, IFRS 10,11, 12, IAS 27 and IAS 28 are so interrelated that the endorsement (or not) of these standards should be assessed as a whole package. So is the future amendment on investment entities, which will be up for consideration by the EU soon.

The ANC is strongly concerned by the major changes made to the current consolidation standards which proved to be robust (in Europe) during the recent financial crisis. Why change a few years after the adoption of standards meant to be the best without – to the contrary- evidence of weakness?

The IASB did not demonstrate that these new standards bring a real improvement to the current ones :

- the ANC notes that there is no evaluation of the economic consequences for financial institutions of the shift (in IFRS 10) from a “risk and reward” concept to an “ability to control” concept on structured entities. Some financial institutions may inappropriately deconsolidate certain structured entities although they are exposed to a majority of risks and rewards ;
- the elimination of proportionate consolidation (by IFRS 11) will prevent European entities from properly portraying the performance of their business model, especially when joint ventures represent a major part of their activity.

The field tests performed by the IASB or EFRAG did not adress the assessment of the economic consequences of such changes. This can be partially explained by the lack of clear concepts and guidance which make preparers and auditors face practical difficulties to apply these new standards (so that many ask to defer the mandatory application date).

In other words, we are moving from principles known to be robust to other principles with uncertain effect. Why such change in the area known to be one of the most critical in international accounting? Convergence should not lead to weakening the accounting standards.

As detailed in Appendix, with these new standards not meeting either the relevance nor the comparability criteria, the ANC is not in a position to support the endorsement of these standards by the European Union as proposed by EFRAG. We consider, on balance, that the European Commission should not endorse the package (new consolidation standards and the related amendments) as currently stated. Incidentally, if the mandatory effective date of these standards was to be debated, for the above reasons, this date should be deferred after 2014 (targeting a single date for all major new standards).

Our detailed comments on the draft endorsement advices are set out in Appendices I and II to this letter.

If you have any questions concerning our comments, we would be pleased to discuss them.

Yours sincerely,

Jérôme HAAS

Appendix I - IFRS 10 (and related IFRS 12 disclosures)

General comments

As a preliminary remark, the ANC considers that, in the context of the global financial crisis, the current consolidation model based on both IAS 27 and SIC 12 seems to have resisted quite well compared to others and did not raise any major issues.

As already expressed in our comment letter to ED10 in March 2009, the ANC remains unconvinced that the new proposed control concept will always result in the right entities being consolidated. The risk is that certain structured entities under SIC 12 would no longer be consolidated under the new standard.

While the objective of introducing a unique model for consolidation may be welcome, the new prominence given to the “ability to control” concept above the risks and rewards concept used in the consolidation of structured entities will impair the relevance of the consolidated assets and liabilities reported by an entity. On a project interracting with the consolidation standard, we note that the IASB quite rightly and responsibly decided in 2010 not to move forward with its proposal on derecognition of financial assets and liabilities based on “control” instead of “risks and rewards” following the numerous concerns received. We are therefore concerned about the unintended consequences of this new consolidation standard which impairs the level of relevance of IFRS 10.

In addition, as mentionned by EFRAG (App. II par. 79), the degree of judgement implied by the new concepts introduced by IFRS 10 (see details in the detailed comments below) is so high that it can lead to inconsistency and diversity among entities. Therefore, the ANC considers that IFRS 10 will not enhance comparability.

Hence, we concur with one of the dissenting TEG members that “contrary to its aim, IFRS 10 is not suited to improve relevance and comparability in financial reporting”.

Moreover, the difficulties raised by IFRS 12 (IFRS 10 related disclosures) have been under-estimated by EFRAG and legitimate a deferral of the mandatory effective date of the consolidation package. Besides, these new disclosure requirements will raise significant initial and recuring costs.

With the new standard not meeting either the relevance nor the comparability criteria, the ANC is not in a position to support the endorsement of this standard by the European Union as proposed by EFRAG. We consider, on balance, that the European Commission should not endorse this new standard and the related amendments as currently stated.

Detailed comments

1 *EFRAG's initial assessment of IFRS 10 is that it meets the technical criteria for endorsement. In other words, it is not contrary to the principle of true and fair view and it meets the criteria of understandability, relevance, reliability and comparability. EFRAG's reasoning is set out in Appendix 2 of IFRS 10 - EFRAG's Initial Assessments.*

(a) *Do you agree with this assessment?*

☐ *Yes* ☒ *No*

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

(b) *Are there any issues that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of IFRS 10? If there are, what are those issues and why do you believe they are relevant to the evaluation?*

The ANC disagrees with EFRAG's initial assessment of IFRS 10 regarding the following criteria :

Relevance

As a preliminary remark, the ANC considers that, in the context of the global financial crisis, the current consolidation model based on both IAS 27 and SIC 12 seems to have resisted quite well compared to others and did not raise any major issues.

As already expressed in our comment letter to ED10 in March 2009, the ANC remains unconvinced that the new proposed control concept will always result in the right entities being consolidated. The risk is that certain structured entities under SIC 12 would no longer be consolidated under the new standard.

While the objective of introducing a unique model for consolidation may be welcome, the new prominence given to the "ability to control" concept above the risks and rewards concept used in the consolidation of structured entities will impair the relevance of the consolidated assets and liabilities reported by an entity. Namely, as illustrated in our above-mentioned comment letter to ED 10 regarding the emphasis of the power cirteria, the ANC still considers that "once decisions have been identified in the operation of the structured entity that influence returns and that the power to decide is shared amongst different stakeholders, putting emphasis on the criterion of power to direct activities may be interpreted as a possible reason for not consolidating an entity and is concerned that the current wording might be used for structuring opportunities".

Besides, on a project interracting with the consolidation standard, we note that the IASB quite rightly and responsibly decided in 2010 not to move forward with its proposal on derecognition of financial assets and liabilities based on "control" instead of "risks and rewards" following the numerous concerns received. We are therefore concerned about the unintended consequences of this new consolidation standard which impairs the level of relevance of IFRS 10.

On the opposite, the ANC believes that the new control model may lead to undue consolidation of mutual funds by a fund manager with its parent company having a minority interest in the fund. The consolidation of mutual funds would not be economically relevant when the fund manager, by law or contractual agreement, acts in the best interest of the investors. We therefore concur with the dissenting TEG members that "IFRS 10 would lead to inappropriate consolidation of a potentially large number of investment funds and thereby inappropriately grossing up balance sheets of companies", principally banks and insurers.

As a consequence, the ANC considers that IFRS 10 does not meet the relevance criterion.

Comparability

As mentionned by EFRAG (App. II par. 79), the degree of judgement implied by the new concepts introduced by IFRS 10 is so high that it can lead to inconsistency and diversity among entities. For instance, regarding the relevant activities concept, it is highly difficult and judgemental to determine who has power over an entity when there are multiple activities that significantly affect an investee's returns and when these activities are directed by different investors. Those investors may have different views on which activities most significantly affect the returns of the investee (parragraph 13 of IFRS 10). Therefore, the ANC considers that IFRS 10 will not enhance comparability.

We also concur with one of the dissenting TEG members that, for instance, "the criterion "exposure to variability of returns" (paragraphs B71 and B72 of the application guidance in IFRS 10) is highly judgemental and not practicable to distinguish between a fund manager and a principal".

As a consequence, the ANC considers that IFRS 10 does not meet the comparability criterion.

Conclusion

Overall, the ANC considers that IFRS 10 does not meet the criteria for endorsement.

2 *EFRAG is also assessing the costs that are likely to arise for preparers and for users on implementation of IFRS 10 in the EU, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used to complete the assessment.*

3 *The results of the initial assessment of costs are set out in paragraphs 4 to 42 of Appendix 3 of IFRS 10 - EFRAG's Initial Assessments. To summarise, EFRAG's initial assessment is that all preparers will incur additional costs to implement the requirements in IFRS 10, and for some preparers (particularly companies in the banking industry and insurance industry), the initial costs of implementation and conducting the required analysis will be significant, with ongoing costs being less significant and decreasing over time. Furthermore, EFRAG's Initial Assessment is that IFRS 10 is unlikely to result in significant costs for users.*

Do you agree with this assessment?

☒ *Yes* ☐ *No*

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be?

Preparers will need to analyse one-by-one all entities in which they have an involvement to assess whether these entities fall into their scope of consolidation. This review is very time-consuming and preparers will often need to obtain more information (for instance, the removal rights in a mutual fund) to perform this analysis during the first application but also for the purpose of the continuous reassessment.

Moreover, significant ongoing costs will be incurred in order to collect and provide all new disclosures required by IFRS 12 regarding both consolidated and unconsolidated structured entities. The information requested by IFRS 12 for unconsolidated structured entities may be highly difficult to obtain by preparers . These difficulties and the time necessary to set up new information systems to collect and provide this information legitimates a deferral of the mandatory date of the consolidation package.

4 *In addition, EFRAG is assessing the benefits that are likely to be derived from IFRS 10. The results of the initial assessment of benefits are set out in paragraphs 43 to 54 of Appendix 3 of IFRS 10 - EFRAG's Initial Assessments. To summarise, EFRAG's initial assessment is that preparers and users are likely to benefit from IFRS 10. In particular in areas where current IFRSs was silent or contained limited guidance, the new requirements should enhance consistency of application and increase comparability for users, in a significant way.*

Do you agree with this assessment?

☐ *Yes* ☒ *No*

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG's endorsement advice?

Consistently with our comment on paragraph 1 above, while introducing a unique model for consolidation may be welcome, we remain unconvinced by the relevance of a model giving prominence to the "ability to control" concept. Therefore, we disagree with EFRAG's assessment and consider that IFRS 10 has limited benefits.

5 *EFRAG's initial assessment is that the benefits to be derived from implementing IFRS 10 in the EU as described in paragraph 4 above are likely to outweigh the costs involved as described in paragraph 3 above*

Do you agree with this assessment?

☐ *Yes* ☒ *No*

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG's endorsement advice?

Overall, the ANC considers that significant implementation costs (see comments on paragraph 3 above) will not be outweighed by the limited benefits (see comments on paragraph 4 above) resulting from the application of IFRS 10.

Appendix II - IFRS 11

General comments

As already expressed in our comment letter to ED9 in January 2008, the ANC remains convinced that the elimination of proportionate consolidation as a method of accounting for all joint ventures will prevent entities to faithfully represent the economic substance of certain of these arrangements, which are seen by entities as an extension of their main operating activity. A consequence of this elimination is that key operating information on the joint venture activities such as turnover, operating result, joint assets and liabilities will not be presented in the primary financial statements but in the notes. These entities will thus not be able to properly portray the performance of their business model. This will result in less relevant financial information to users and preparers may be obliged to compensate in the notes, for instance through segment information (IFRS 8) at increasing costs (due to keeping track of numbers under both methods).

Moreover, this new standard could have undesirable consequences on the business strategy of entities for which joint ventures represent a major part of their activity or a strategic means of development, especially in some emerging countries.

We also note that the new classification guidance between joint operations and joint ventures will require extensive judgement (see details in the appendix of this letter) and will raise practical difficulties, leading to diversity in practice and thus impairing comparability.

Hence, we concur with the dissenting TEG members that disagree with the elimination of proportionate consolidation.

With the new standard not meeting either the relevance or the comparability criteria, the ANC is not in a position to support the endorsement of this standard by the European Union as proposed by EFRAG. We consider, on balance, that the European Commission should not endorse this new standard and related amendments as currently stated.

Detailed comments

6 *EFRAG's initial assessment of IFRS 11 is that it meets the technical criteria for endorsement. In other words, it is not contrary to the principle of true and fair view and it meets the criteria of understandability, relevance, reliability and comparability. EFRAG's reasoning is set out in Appendix 2 of IFRS 11 - EFRAG's Initial Assessments.*

(a) *Do you agree with this assessment?*

☐ *Yes* ☒ *No*

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

(b) *Are there any issues that are not mentioned in Appendix 2 of IFRS 11 - EFRAG's Initial Assessments that you believe EFRAG should take into account in its technical evaluation of IFRS 11? If there are, what are those issues and why do you believe they are relevant to the evaluation?*

The ANC disagrees with EFRAG's initial assessment of IFRS 11 regarding the following criteria :

Relevance

As already expressed in our comment letter to ED9 in January 2008, the ANC remains convinced that the elimination of proportionate consolidation as a method of accounting for a joint venture will prevent entities to faithfully represent the economic substance of these arrangements, which are seen by entities as an extension of their main operating activity. A consequence of this elimination is that key operating information on the joint venture activities such as turnover, operating result, joint assets and liabilities will not be presented in the primary financial statements but in the notes. These entities will thus not be able to properly portray the performance of their business model. This will result in less relevant financial information to users and preparers may be obliged to compensate in the notes, for instance through segment information (IFRS 8) at increasing costs.

Moreover, this new standard could have undesirable consequences on the business strategy of entities for which joint ventures represents a major part of their activity or a strategic means of development, especially in some emerging countries.

We therefore concur with the dissenting TEG members that "the consolidated financial statements will not fully reflect operations and underlying performance" of companies using joint ventures and that "the elimination of proportionate consolidation for interests in joint arrangements classified as joint ventures will result in a loss of relevant information to users".

As a consequence, the ANC considers that IFRS 11 does not meet the relevance criterion.

Comparability

We note that the new classification guidance to distinguish joint operations from joint ventures will require extensive judgement and will raise practical difficulties, leading to diversity in practice and thus impairing comparability. For instance, assessing “other facts and circumstances” (paragraphs B29-B33 of the application guidances in IFRS 11), especially those related to the output provided to the parties, may be highly judgemental. In addition, the way assets, liabilities, revenue and expenses from a joint operation should be recognised under IFRS 11 (i.e. based on ownership interest or on percentage of purchased output for instance) is not clear enough and could therefore lead to diversity in practice.

We therefore concur with one of the dissenting TEG members that “the lack of guidance in IFRS 11 would force preparers to apply an extraordinary level of judgement” and that “this would inevitably generate diversity in practice and hence the comparability criterion would also be undermined”.

As a consequence, the ANC considers that IFRS 11 does not meet the comparability criterion.

Conclusion

Overall, the ANC considers that IFRS 11 does not meet the criteria for endorsement.

7 *EFRAG is also assessing the costs that are likely to arise for preparers and for users on implementation of IFRS 11 in the EU, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used to complete the assessment.*

The results of the initial assessment of costs are set out in paragraphs 7 to 40, 46 to 51 and 56 to 71 of Appendix 3 of IFRS 11 - EFRAG’s Initial Assessments. To summarise, EFRAG’s initial assessment is that:

(a) IFRS 11 is likely to result in incremental one-off costs for preparers, which for some preparers could be significant. Preparers that expect to be most affected are (1) those that have interests in joint operations structured through a separate vehicle, which were previously accounted for under the equity method, and (2) those that present only separate financial statements and have interests in joint operations structured through separate vehicle;

(b) The incremental ongoing costs will not be significant for most of preparers. However, the ongoing costs could be significant for some preparers; in particular those that have interests in numerous joint operations structured through separate vehicle and that present only separate financial statements; and

(c) IFRS 11 is unlikely to result in significant costs for users.

Do you agree with this assessment?

☒ *Yes* ☐ *No*

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be?

We agree that IFRS 11 is likely to result in significant costs for some preparers, notably those involved in joint operations for which the implementation of the new standard is complex and requires changes in the information systems.

Moreover, ongoing costs will be significant for preparers involved in joint ventures due to the need to keep dual information for management purposes and disclosures based on proportionate consolidation (IFRS 12 but also IFRS 8) and for consolidated financial statements according to the equity method.

8 *In addition, EFRAG is assessing the benefits that are likely to be derived from IFRS 11. The results of the initial assessment of benefits are set out in paragraphs 41 to 44, 52 to 54, and 72 to 75 of Appendix 3 of IFRS 11 - EFRAG's Initial Assessments. To summarise, EFRAG's initial assessment is that IFRS 11 will provide significant benefits for users and some benefits for preparers.*

Do you agree with this assessment?

☐ *Yes* ☒ *No*

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG's endorsement advice?

Consistently with our comment on paragraph 7 above, we disagree with EFRAG's assessment and consider that IFRS 11 will have very limited benefits.

9 *EFRAG's initial assessment is that tthe benefits to be derived from implementing IFRS 11 in the EU as described in paragraph 9 of above are likely to outweigh the costs involved as described in paragraph 8 above*

Do you agree with this assessment?

☐ *Yes* ☒ *No*

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG's endorsement advice?

Overall, the ANC considers that significant implementation costs (see comments on paragraph 8) will not be outweighed by the limited benefits (see comments on paragraph 9 above) resulting from the application of IFRS 11.