MAZARS

ED Improvements to IFRSs
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

24 November 2009

Exposure Draft *Improvements to IFRSs*

Dear Sir / Madam,

Mazars welcomes the opportunity to comment on the Exposure Draft *Improvements to IFRSs* published in August 2009. Detailed analysis of each proposed amendment included in the Exposure Draft is attached to this letter.

We appreciate the efforts made by the IASB to pursue its objective of clarifying and improving consistency between standards through minor amendments. We agree with most of them, even if we believe some clarifications or corrections are needed.

The only exceptions to our overall opinion on the exposure draft are the two following amendments that, in our view, should be completely out of the scope of annual improvements projects:

- Regarding the objective to provide clarification for the accounting for non-controlling interests, we are concerned that this complex issue has only been addressed as part of the issue related to the measurement of non controlling interests at acquisition date only, and without providing enough guidance. Rather than clarifying the accounting treatment of non controlling interests at acquisition date, we recommend the Board to address the accounting for such instruments as part of an overall project on the accounting for non controlling interests that also includes accounting for put on non controlling interests.

61, rue Henri Regnault - 92075 Paris - La Défense Cedex
Tel : +33 (0)1 49 97 60 00 - Fax : +33 (0)1 49 97 60 01 - www.mazars.fr

Mazars
Société Anonyme d'Expertise Comptable et de Commissariat aux Comptes
Capital de 8 320 000 euros - RCS Nanterre 784 824 153 - Siret 784 824 153 00232 - APE 6920Z
Siège social : 61, rue Henri Regnault - 92400 Courbevoie - TVA intracommunautaire : FR 07 784 824 153

Praxity
MEMBER

- Regarding the impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor, we are concerned that the proposal is introducing significant changes in IAS 27. The wording envisaged by the Board implies that no alternative to cost or fair value through profit and loss is possible, thus excluding available for sale category without any justification. We disagree with this proposal. As far as the impairment is concerned, we agree with the Board's analysis to deal it with IAS 39. Nevertheless, the amendment as drafted does not reflect this sole objective and may also be understood as restricting the use of cost only for unquoted subsidiaries, since the use of cost must be in accordance with IAS 39.

For these two amendments, we recommend the Board to address them as parts of two separate projects.

We would be pleased to discuss our comments with you and stay at your disposal should you require further clarification or additional information.

Yours sincerely,

Michel Barbet-Massin
Head of Financial Reporting Technical Support

Proposed amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards

The Board proposes to amend IFRS 1 to clarify:
- that if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34 it explains those changes and updates the reconciliations required by paragraph 24(a) and (b).
- that the scope of the exemption in paragraph D8 that permits a first-time adopter to use a revaluation basis as 'deemed cost' when an event such as a privatisation triggers a revaluation at or before the date of transition to IFRSs.

We agree with the proposals.

Proposed amendments to IFRS 3 Business Combinations (as revised in 2008): measurement of non-controlling interests

The Board proposes to amend paragraph 19 of IFRS 3 to clarify that the choice of measuring non-controlling interest either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets applies only to instruments that are currently entitled to a proportionate share of the acquiree's net assets. Other instruments that meet the definition of non-controlling interest should be measured at fair value or in accordance with other applicable IFRSs.

We do not agree with the proposal. We believe this issue should not be in the scope of the annual improvements process because of its complexity. Moreover, this amendment needs to be clarified, regarding the split of non controlling interests (referred after as "NCI"), its measurement and the impact on impairment tests.

<u>Complexity of the amendment</u>
It is a complex issue while the annual improvements process is normally reserved for straight forward modifications that are just clarifications. In this case, we believe that this proposed amendment goes way beyond.
Moreover, 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. We do not believe this is the appropriate way to introduce this new concept.

<u>Lack of clarity</u>
We also believe that this amendment lacks of clarity, regarding the split of NCI, their measurement and the impact on impairment tests.

1. Split of NCI into two categories
It is key to define clearly what types of NCI are eligible for choice, and what types of NCI are to be accounted for either at fair value or in accordance with other applicable IFRSs (but without a choice).
In practice, it is not necessarily easy to determine what constitutes a present ownership instrument that entitles its holders to a pro rata share of the entity's net assets in the event of liquidation ("minority interest") beyond common shares.
For example, it is not clear how to analyze some type of preferred shares whose redemption amount would be capped in the event of liquidation. It would therefore be beneficial to provide guidance on how to assist companies in this regard.

2. Measurement of NCI that are not minority interest
We understand from the proposed amendment that instruments which are not present ownership should be measured either « at fair value or other measurement basis as required by IFRS », and that is not a free option. However, we believe this should be clarified.
Furthermore, it should be clarified what these other measurement basis are, as well as examples.
Also, 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 the case of the equity component of a convertible instrument, which shall be measured in accordance with IAS 32 (§ BC1), we understand that it should be measured as the difference between the fair value of the convertible instrument as a whole and the fair value of the liability component at the date of the business combination. However, as the equity component is not subsequently re-measured, other interpretations are possible regarding the measurement of the equity component and further clarification appears necessary on this matter.
The same question also applies to options and warrants that are normally covered by IAS 32 but for which IAS 32 is silent in terms of measurement. Should these instruments necessarily be measured at fair value, determined at the acquisition date?

3. Impact on impairment testing
The clarification brought by the amendment leads to the question of the allocation of cash flows between the parent and the non controlling interest.
In practice, it is not clear how impairment losses should be allocated for cash-generating units with goodwill and non-controlling interest that are not present ownership instruments.
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. Even if this guidance makes sense when a 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. There is therefore a need for clarification.

Recommendation

Even if we agree with the objective to provide clarification for the accounting for non-controlling interests, we are concerned that this has only been addressed as part of the issue related to the measurement of NCI at the acquisition date only, and without providing enough guidance.

Rather than clarifying the accounting treatment of NCI at acquisition date, we recommend 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 written puts on non controlling interests. This issue is very complex and should not be addressed through the annual improvements process.

Proposed amendments to IFRS 3 Business Combinations (as revised in 2008): Un-replaced and voluntarily replaced share based payment awards

The Board proposes to amend the application guidance in IFRS 3 (to require the acquirer to apply paragraphs B57-B62 to all share-based payment transactions that are part of a business combination).

We agree with the proposed amendment. Nevertheless, since the objective of the amendment is to align the accounting treatment between voluntarily and mandatory replaced share based payment awards, there is no longer any need to maintain this distinction. As a consequence, we suggest the removal of the following sentences in paragraph B56 of IFRS 3R:

> ~~"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."~~

Proposed amendments to IFRS 3 Business Combinations (as revised in 2008): 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 Board proposed to amend the effective date paragraph in the amendments made to IFRS 7, IAS 32 and IAS 39 to clarify that those standards do not apply to contingent consideration that arose from business combinations whose acquisition dates preceded the application of IFRS 3.

We agree with the proposed amendment since it is consistent with the prospective application of the revised IFRS 3.

However, we suggest that the provisions related to contingent consideration that were included in former IFRS 3 (as revised in 2004) be included in IFRS 3R (for example in a new paragraph 66A), rather than referred to in paragraph 103D. It would be much easier and clearer for preparers rather than having to go through different versions of the standard, and would avoid potential legal issues arising when former versions of standards are withdrawn.

In addition, many contingent consideration arrangements related to purchases of non controlling interests were treated by analogy with contingent consideration related to business combinations. As a consequence, we suggest that the wording be modified in order to also include these additional arrangements when the purchase of non controlling interests occurred prior to the date of application of IAS 27R and IFRS 3R.

Proposed amendment to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Application of IFRS 5 to loss of significant influence over an associate or loss of joint control in a jointly controlled entity

The Board proposes to clarify that an entity classifies as held for sale its interest in an associate or a jointly controlled entity when it is committed to a sale plan involving loss of significant influence or joint control.

We agree with the proposal which is consistent with the revised IFRS 3 and its consequential amendments.

Proposed amendment to IFRS 7 Financial Instruments: Disclosures about the nature and extent of risks arising from financial instruments

The Board proposes that additional disclosures should be included in IFRS 7 about the nature and extent of risks arising from financial instruments.

We support the Board's proposal to emphasise the interaction between qualitative and quantitative disclosures in order to provide more useful information on entity's exposure to users of financial statements.

However, even if we agree with the requirement of §36 a), we however encourage the Board to require disclosing information about the total credit risk exposure of the entity (sum of (i) the carrying amount of asset for which the carrying amount is a good estimate of the maximal credit exposure and (ii) the amount of maximal credit risk exposure detailed in the disclosure).
In addition, we believe that information required in §36 b) regarding description and financial effect of collateral and other credit enhancements should be disaggregated to impaired financial assets and non-impaired financial assets.

Proposed amendment to IAS 1 Presentation of Financial Statements: Clarification of statement of changes in equity

The Board proposes to amend IAS 1 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 to the financial statements.

We do not agree with the proposals as currently drafted although we support the Board's intention.

The Board proposes to state at the beginning of paragraph 106 that the disclosures regarding the statement of changes in equity can be presented either in the statement or in the notes. We believe the proposal is confusing. Indeed, as currently drafted, all changes in equity may be presented in the notes while we understand that the Board wanted to limit its proposal to changes of other comprehensive income.

The Board also proposes to amend paragraph 107 of IAS 1 to remove a redundancy regarding disclosure of dividends. We do not believe that paragraph 107 was redundant with paragraph 106(d). In accordance with paragraph 106(d), an entity should disclose the total amount of distributions to owners which includes dividends but also other operations such as redemption of shares. Removing partially paragraph 107 would allow entities to provide only the total amount of distribution to owners and not the dividends recognised as distributions, which is also a useful piece of information for users of financial statements.

Recommendation
We recommend the Board to clarify what minimum information should be included in the statement of changes in equity and what can be disclosed either in this statement or in the notes. We also recommend the Board not to modify paragraph 107.

Proposed amendment to IAS 8 Accounting Policies, Changes in Accounting, Estimates and Errors: Change in terminology to the qualitative characteristics

The Board proposes to amend IAS 8 to be consistent with the terminology changes made in the forthcoming conceptual framework that will replace the Framework for the Preparation and Presentation of Financial Statements.

We disagree with the proposals since terminology changes referred to the conceptual framework in-progress project. As of today, the final chapter on the phase A objective and qualitative characteristics of the conceptual framework has not been published yet. As a consequence, we are not able to judge whether the terminology changes in IAS 8 are relevant.

Recommendation
We recommend the Board to address this issue only after the publication of the final chapter on the phase A objective and qualitative characteristics of the conceptual framework.

Proposed amendments to IAS 27 Consolidated and Separate Financial Statements: Impairment of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor

The Board proposes to clarify that in its separate financial statements the investor shall apply the provisions of IAS 39 to test its investments in subsidiaries, jointly controlled entities and associates for impairment.

We support the Board's objective to clarify that an investor should apply the provisions of IAS 39 to test its investments in subsidiaries, jointly controlled entities and associates for impairment in its separate financial statements. We agree with the Board's analysis to deal it with IAS 39. Nevertheless, we disagree with the proposed amendment as currently drafted since it introduces significant changes in the standard that are way beyond this objective.

Amendment beyond the scope of annual improvements process
We acknowledge that it is currently not clear whether in its separate financial statements, the investor should determine impairment in accordance with IAS 36 or IAS 39, and there is a need for useful guidance. We understand that the Board's objective is to deal this impairment tests with IAS 39. We agree with this objective. However, some changes in the wording appear to go way beyond the stated objective.
First, the amendment modifies "in accordance with IAS 39" into "at fair value through profit and loss", thereby suggesting that these investments cannot be accounted for as available for sale assets.
Secondly, the addition of "each in accordance with IAS 39" suggests that the "cost" basis referred to in paragraph 38a can only be used when the very strict conditions of IAS 39 are met (§ AG81).
Finally, the underlying rationale for these changes is not apparent in the basis for conclusion.

Recommendation
We consider that amendments included in an "annual improvements project" should be restricted to the clarification about when redrafting is necessary due to divergent interpretation in practice whereas substantial changes require a normal due process. As drafted, the proposed amendment appears to be a significant change to IAS 27. If the objective to restrict the use of cost for subsidiaries in separate financial statement and to exclude the available for sale measurement is not what the Board intended, we recommend the Board redrafting its proposal in order to clarify only impairment provisions.
We also recommend the Board to review the proposed amendment to ensure consistency with the IAS 39 replacement project.

Proposed amendments to IAS 27 Consolidated and Separate Financial Statements: Transition requirements for amendments arising as a result of IAS 27 (as amended in 2008)

The Board proposes to clarify that the amendments as a result of IAS 27 made to IAS 21, IAS 28 and IAS 31 require prospective application.

We agree with the objective of the proposed amendments to clarify that the consequential amendments from IAS 27 made to IAS 21, IAS 28 and IAS 31 apply prospectively. However, we recommend the Board to provide additional guidance on this clarification, as it is not always clear how these amendments should actually be applied.

Proposed amendment to IAS 28 Investments in Associates: Partial use of fair value for measurement of associates

The Board proposes to amend IAS 28 to clarify that different measurement bases can be applied to portions of an investment in an associate when part of the investment is designated at initial recognition as at fair value through profit or loss in accordance with the scope exception in paragraph 1 of IAS 28.

We agree with the proposed amendment, since it better reflects the business model of the group. It seems reasonable that even at group level the fair value through profit or loss shall be applied to the portion of an investment held by the subsidiaries to which the scope exclusion of IAS 28 applies. However, we believe the Board should extend this analysis over investments designated at initial recognition as at fair value through profit or loss in accordance with the scope exception in paragraph 1 of IAS 31.

Proposed amendment to IAS 34 Interim Financial Reporting: Significant events and transactions

The Board proposes an amendment to emphasise the disclosure principles in IAS 34 and to add further guidance to illustrate how to apply these principles.

We agree with the proposal. The amended section of IAS 34 is better structured and better support the core principle of interim financial reporting. Nevertheless, we believe that some minor corrections should be made.

<u>Corrections needed</u>
Nevertheless, since this principle is more clearly stated in paragraph 15, we believe that paragraph 15C is redundant with paragraph 15. We recommend the Board to remove this paragraph 15C.
Regarding the proposed changes in paragraph 15B, we agree to reflect some IFRS 7 disclosures requirements in the types of events or transactions for which disclosures would be required. We recommend the Board to add the word "financial" in paragraph 15B(l) to clarify its intention:

> "changes in the classification of **<u>financial</u>** assets as a result of a change in the purpose or use of those assets".

Proposed amendment to IAS 40 Investment Property: Change from fair value model to cost model

The Board proposes to remove the requirement to transfer investment property carried at fair value to inventory when it will developed for sale, to add a requirement for investment property held for sale to be displayed as a separate category in the statement of financial position and to require disclosures consistent with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

We support the Board to address the inconsistency in IAS 40 which requires, in the case of a commencement of development with a view to sale of an investment property, to transfer it to inventories (IAS40.57) and to classify it as held for sale. We agree with the proposed amendment not to transfer these investment properties to inventories.
We believe that selling investment properties is different than the activity of an estate agent. As a consequence, the sale is economically dissimilar and should be accounted for differently. Moreover, we believe that providing disclosures similar to those required by IFRS 5 gives useful information for the user of financial statements about the intended sale of investment property.

Nevertheless, we recommend the Board to reflect the proposed amendment in paragraph 60:

> "For a transfer from investment property carried at fair value to owner occupied property ~~**or inventories**~~, the property's deemed cost for subsequent accounting in accordance with IAS 16 ~~**or IAS 2**~~ shall be its fair value at the date of change in use."

Proposed amendment to IFRIC 13 Customer Loyalty Programmes: Determination of fair value

The Board proposes to amend IFRIC 13 to clarify the meaning of the term "fair value".

We agree with the proposed amendment.