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CONSEIL NATIONAL DE LA COMPTABILITE
3, BOULEVARD DIDEROT
75572 PARIS CEDEX 12

Phone	**33 1 53 44 52 01**
Fax	**33 1 53 18 99 43/33 1 53 44 52 33**
Internet	www.finances.gouv.fr/CNCompta
E-mail	antoine.bracchi@cnc.finances.gouv.fr

CHAIRMAN

PARIS, SEPTEMBER 16, 2002

SIR DAVID TWEEDIE
CHAIRMAN IASB
30, CANNON STREET
LONDON, EC4M 6XH
UNITED KINGDOM

AB/CV

N°573

Dear Sir David,

The Conseil National de la Comptabilité is pleased to comment on the Exposure Draft "Improvements to International Accounting Standards". Our comments on the proposed improvements are detailed on a standard-by-standard basis in the following pages.
In arriving at our comments we have considered discussions at EFRAG and in our answer we have not repeated detailed comments when we fully agree with EFRAG's answer on the specific point, in such cases we simply refer to EFRAG's answer.
We would also like to take this opportunity to share with you some major concerns we have on the schedule of the IASB's projects.

Nearly all the French listed companies we have consulted in arriving at our comments have insisted on the fact that, in the context of the first-time application of the IFRS in 2005, they will inevitably be facing major issues with the implementation of the IASB's new projects.
Companies that are in the scope for the adoption of IFRS on January 1, 2005, are in a difficult position not only due to the tremendous efforts that have to be made and the important resources that have to be dedicated to the project but also and mainly because of the continuously moving accounting environment.
Based on the last agenda published by the Board, several projects, whose content is not known as of today, will become applicable before the end of 2005. This means, that, on January 1, 2004, companies wanting to prepare an opening balance sheet using IFRS, might not be able to do so because all applicable standards will not have been released yet.
In order to allow European companies to complete their conversion process in the most effective and efficient way, it is critical to ensure that the number of fundamental changes to be introduced between 2003 and 2005 is limited to those that are urgently needed because no standard exists yet or because the change is likely to facilitate the adoption of IFRS.

In particular, the reporting performance project will introduce fundamental changes to the existing requirements in IAS 1. These changes are so critical that it does not seem realistic to think that a first time adopter will be able to implement such a standard by 2005.
In France, major concerns have been expressed regarding the implementation of the Reporting Performance project, by both the preparers of the financial statements and also the users such as banks or financial analysts who think they will not be a position to perform relevant analysis immediately and will need time for training and getting accustomed to the new performance reporting rules.
As a result we recommend that the implementation of the Reporting Performance standard be postponed to a date later than 2005.

If you would like further clarification on the points raised in this letter I would be happy to discuss these further with you.

Yours sincerely,

Antoine Bracchi

IAS 1, *Presentation of Financial Statements*

Question 1

Do you agree with the proposed approach regarding departure from a requirement of an International Financial Reporting Standard or an Interpretation of an International Financial Reporting Standard to achieve a fair presentation (see proposed paragraph 13-16)?

Response
Whilst we strongly agree with the "override" provision, we disagree with the proposed approach. We believe there should not be alternative treatments based on the regulatory framework of the country where the statements are issued. We therefore fully agree with EFRAG's position and additional comments.

Based on the above, we recommend deletion of the words "if the relevant regulatory framework requires or otherwise does not prohibit such a departure" at the end of the proposed revised paragraph 13 as well as the deletion of paragraph 15. Further, we propose reinstatement of principle that "inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used or by notes or explanatory material" (old paragraph 12).

Question 2

Do you agree with prohibiting the presentation of items of income and expense as "extraordinary items" in the income statement and in the notes (see proposed paragraph 78 and 79)?

Response
We agree with the principle of prohibiting the presentation of "extraordinary items" in the income statement or in the notes.
However we share EFRAG's concerns that items currently erroneously included under "extraordinary items" may in the future be presented under a caption called "unusual" items (or equivalent) and we therefore:

- Support EFRAG's recommendation that the following be included in paragraph 78: "items for which disclosure is considered necessary (see paragraph 80) should not be presented on the face of the income statement under a general descriptive caption such as "non-recurring", "unusual", "abnormal" or the like. Instead their nature should be immediately understandable from the title of the caption on the face of the income statement;
- Recommend that other non-recurring elements be presented in the notes only;
- Recommend that the use on the face of the income statements of subtotals such as "income before non-recurring items" or "operating income before unusual items" should be prohibited.

We also support the EFRAG's position on the fact that it is premature to delete the line "operating profit" from the minimum requirements of income statement formats.

We are well aware that presentation issues are dealt with under the current project on reporting performance. However, as mentioned above in our letter, we have serious concerns about the timetable of such project and we strongly recommend postponing the implementation of the Reporting performance standard after 2005. It is therefore essential that existing IFRS provide a minimum guidance regarding the format of financial statements. This is critical to ensure comparability between companies reporting under IFRS. In that context, we suggest that the "result of operating activities" be maintained in the minimum requirements of income statement format. We understand that this concept is difficult to define. If no consensus is actually achievable on the definition, companies should be required to disclose in the notes to the accounts how they have determined such "result of operating activities", and be required to use a consistent approach throughout the periods.

<u>Question 3</u>
Do you agree that a long term financial liability due to be settled within twelve months of the balance sheet date should be classified as a current liability, even if an agreement to refinance, or to reschedule payments, on a long term basis is completed after the balance sheet date and before the financial statement are authorized for issue?

<u>Response</u>
We agree with this proposed change.
We agree with EFRAG's comment on the need for additional information in the notes and the need for clarification in IAS 10.

<u>Question 4</u>
Do you agree that :

(a) a long term financial liability that is payable on demand because the entity breached a condition of its loan agreement should be classified as current at the balance sheet date, even if the lender has agreed after the balance sheet date, and before the financial statements are authorized for issue, not to demand payment as a consequence of the breach (see proposed paragraph 62)?

<u>Response</u>
Yes. We agree with this proposed change.

(b) if a lender was entitled to demand immediate repayment of a loan because the entity breached a condition of its loan agreement but agreed by the balance sheet date to provide a period of grace within which the entity can rectify the breach and during that time the lender cannot demand immediate repayment, the liability is classified as non current if it is due for settlement without that breach of the loan agreement, at least twelve months after the balance sheet date and :

a. the entity rectifies the breach during the period of grace ; or
b. when the financial statements are authorized for issue, the period of grace is incomplete and it is probable that the breach will be rectified (see proposed paragraphs 63 and 64)?

<u>Response</u>
Yes. We agree with non-current classification if the breach is rectified within the grace period or when, at the date the financial statement are authorized for issue, it is probable that the breach will be rectified.
We share EFRAGs view on the appreciation of the probability, and especially when the breach is a result of a going-concern problem.

We also recommend that additional information on all specific covenants whose breach might turn long-term debts into short-term debt (for example, covenants based on the credit rating of the company) be required in the notes to the financial statements. We are aware that such disclosures on specific covenants are already required by IAS 32, § 49 (j). However, because of the importance of the matter, we believe the requirement for disclosure of IAS 32 should be made more stringent. We suggest therefore introducing a reference to IAS 32 within IAS 1.

<u>Question 5</u>
Do you agree that an entity should disclose the judgments made by management in applying the accounting policies that have the most significant effect on the amounts of the items recognized in the financial statements (see proposed paragraphs 108 and 109)?

<u>Response</u>
Yes, we agree with the general principle that management should disclose the judgements made in applying the accounting policies that have the most significant effect on the amounts of the items recognized in the financial statements. However, we share EFRAG's concern that such a general statement might lead to "boiler plate" disclosure and we therefore recommend that more specific disclosure requirements should be added to those individual standards which require judgements of this nature in their application.

Question 6

Do you agree that an entity should disclose key assumptions about the future, and other sources of measurement uncertainty, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year (see proposed paragraphs 110-115)

Response

Yes, we agree. We consider that the users of financial statements need to be provided with information about the key assumptions that were used by management when preparing the financial statements.

We share EFRAG's concern about the lack of clarity of paragraphs 110 though 115 about the specific information which needs to be disclosed and we also recommend that guidance be provided by means of examples on a standard-by-standard basis.

Other comments

We also support EFRAG's main other comments which relate to the following topics :

- Statement of responsibility for the preparation and presentation of the financial statements (EFRAG's comment #1): we think it is really not the right time to delete current paragraph 6 which states that the board of directors is responsible for the preparation of financial statements. It should be re-instated.
- Difficulties related to the "undue cost and effort" concept (EFRAG's comment #4): we are afraid that the “undue costs and efforts” concept is extremely judgemental and that the way the exemption is drafted in the standard appears almost like an option to apply or not the IFRS. The exemption needs to be redrafted to make it clear that it is not an open option. The concept would need additional guidance as to how it should be applied: some examples of what can be considered as “undue cost and effort” and what cannot be, could usefully be provided.
- Disclosure of the number of employees (EFRAG's comment #5): we have noticed that the requirement to disclose the number of employees is deleted in the ED. We thing that this information, although not financial, is useful and should be re-instated in the management report or financial review, in due course.
- Publication of illustrative financial statements structure (EFRAG's comment #9): we recommend that the Appendix “Illustrative Financial Statements Structure” which has been deleted be reinstated, as it is important guidance.
- Minimum content of the income statement (EFRAG's comment #11): the wording of line items (f) and (h) is unclear; the words “profit and loss” and “net profit and loss” do not represent the conceptual difference of the two lines, one being the global net income of all the companies part of the group, the other being the part of that result which belongs to the shareholders of the head company. The wording of lines (f) and (h) should therefore be revised to convey this difference.

  Proposition: (g) “total profit and loss before minority interest” and (h) “Profit (loss) attributable to shareholders”.

IAS 2, *Inventories*

Question 1

Do you agree with eliminating the allowed alternative of using the last-in, first out (LIFO) method for determining the cost of inventories under paragraphs 23 and 24 of IAS 2?

Response

The elimination of the allowed alternative of using last in, first out method for determining the cost of inventories under paragraph 23 and 24 of IAS 2 proposed by the IASB gave rise to a lot of debates.

Based on the fact that the general approach of the IASB is to privilege the balance sheet rather than Performance Reporting certain could see some of the reasons which lead the IASB to eliminate the last in first out method. However others consider that existing remaining alternative choices or new proposed alternative choices should be eliminated before the last in first out method is.

On balance it is felt that the existing choice of IAS 2 could be kept.
Convergence with the U.S. standard was considered in arriving at this position.

Question 2

IAS 2 requires reversal of write-downs of inventories when the circumstances that previously caused inventories to be written down below cost no longer exist (paragraph 30). IAS 2 also requires the amount of any reversal of any written-downs of inventories to be recognized in profit or loss {paragraph 31) ?
Do you agree with retaining those requirements?

Response

Yes, we agree.

Other comments

Paragraph 1(c) of IAS 2 has been changed to extend the scope exception to non-producers' inventories of agricultural and forest products and mineral ores, such as brokers and dealers whose inventories are measured at net realisable value in accordance with well-established practices. We believe the scope exception should be extended to inventories of any commodities that are measured at net realisable value in accordance with well-established practices and not only to agricultural, forest or mineral products.

IAS 8, ***Accounting policies, Changes in Accounting estimates and errors***

Question 1

Do you agree that the allowed alternative treatment should be eliminated for voluntary changes in accounting policies and corrections of errors, meaning that those changes and corrections should be accounted for retrospectively as if the new accounting policy had always been in use or the error had never occurred (see paragraphs 20,21, 32 and 33)?

Response

a) Voluntary changes in accounting policies

Yes, we agree with eliminating optional accounting treatment as far as voluntary changes in accounting policies are concerned.

b) Errors

No, we do not agree with the IASB's proposition.

We support EFRAG's recommendation on retaining a distinction and between the fundamental and other material errors. We also share EFRAG's view on the respective accounting treatments proposed for these two types of errors.

Question 2

Do you agree with eliminating the distinction between fundamental errors and other material errors?

Response

No, we do not agree. See our response to question 1.

Other comments

We support the EFRAG's comments on the following topics

- The "undue cost and effort" concept does not seem appropriate when it comes to the preparation and presentation of restated comparative information (EFRAG's comment #2)
- The selection of accounting policies should be made by reference to understandability and comparability in addition to relevance and reliability (EFRAG's comment #3)

IAS 10, *Events After the Balance Sheet Date*

We support the proposed change. See also answer to Q3 of IAS 1.

IAS 15, *Information Reflecting the Effects of Changing Prices*

We support the withdrawal of IAS 15

IAS 16, *Property, Plant and Equipment*

<u>Question 1</u>
Do you agree that all exchanges of items of property, plant and equipment should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably? (see paragraphs 21 and 21A)?

<u>Response</u>
No, we do not agree with the proposed change.
We believe that accounting for exchange of tangible assets cannot be dealt with a limited improvement to IAS 16 as it is part of a much broader issue – accounting for exchange of non-monetary assets which we believe should be dealt with comprehensively in a separate project which would need to cover all exchanges of assets (barter transactions, intangibles, services,…).

<u>Question 2</u>
Do you agree that all exchanges of intangible assets should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably (Note that the Board intends to retain the policy in IAS 18, Revenue, prohibiting the recognition of revenue from exchanges or swaps of goods or services of a similar nature and value.)?

<u>Response</u>
No, we do not agree.
Please see our response to question 1.

<u>Question 3</u>
Do you agree that depreciation of an item of property, plant and equipment should not cease when it becomes temporarily idle or is retired from active use and held for disposal (see paragraph 59)?

<u>Response</u>
We agree with that proposal as far as assets becoming temporarily idle.
For assets being retired from active use and held for disposal, we share EFRAG's position. Such an asset should no longer be depreciated but an adjustment should be made to reflect the impaired value.

Other comments

1- We support EFRAG's comments on the following topics

- Distinction between incidental income (paragraph 17B) and net proceeds from selling items when bringing the asset to the necessary location and condition (paragraph 15b). As noted in EFRAG's comment #1, such a distinction will be difficult to make and we suggest treating the net proceeds the same way as incidental income.
- Annual revision of residual value. We share EFRAG's concerns exposed in their comment #3 that the revision of residual value at each balance sheet date leads to a mixture between historical cost and fair value and rises conceptual issues. Besides, requiring an annual revision of residual value is impracticable. We support EFRAG's proposal to remove the requirement for annual reassessment of residual value when there are no indications of impairment.

2- Capitalisation of costs

We agree that although the principles are clear about what has to be expensed or capitalized in theory, these principles might be hard to implement. We are concerned that the "cost of opening a new facility" mentioned in paragraph 17, or the "cost incurred while assets capable of operating in the manner intended by the management have yet to be brought into use or are operated at less than their full capacity" might not be easily distinguishable from other costs that have to be activated. We therefore suggest providing additional guidance on these concepts.

3- Component approach

We are concerned that the component approach described in IAS 16 lacks guidance. The only criteria provided by the standard at this stage to identify components are the similarity of useful lives and pattern of benefits provided to the entity. The concept would be more practicable if the Board provided additional criteria for the identification of components.

Also we have interrogations on the link between the application of the component approach and the allocation of residual value. Should there be as many residual values as there are different components? We would like to point out the fact that in some situations the residual value of an asset is not equal to the sum of the residual values of the different components of the asset. We believe the standard should provide additional guidance on the allocation of residual value to components.

4- Cost of dismantling and removing an asset.

We also have interrogations on paragraph 20A of the exposure draft. Paragraph 20A states that "the cost of an item of property, plant and equipment under paragraph 15 includes the cost of dismantling and removing the asset and restoring the site on which that asset is located. These costs may be incurred when the asset is initially acquired or in subsequent periods, and, in either case, are depreciated over the remainder of the asset's useful life. They are measured in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets."

It is clear that initial recognition should follow the rules stated by IAS 37 in paragraphs 36 through 52, but we have questions on the accounting treatment of subsequent changes in provisions.

We understand that the unwinding of the discount effect would be recognised as a financial cost, in accordance with paragraph 60 of IAS 37 : "Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as borrowing cost".
However, we are not clear regarding the accounting treatment of subsequent changes in estimations: paragraph 59 of IAS 37 states that "provisions should be reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed." When such a revision is made, will this impact the value of the asset initially recognised as a counterpart or will this be recognised in the income statement?

When the Board discussed the issue during its October 2001 meeting, it reached the following conclusion: "the cost of acquisition of property, plant and equipment should include the estimated cost of dismantling and removing the asset and restoring the site, where that cost is recognised as a provision and represents either of the following: the initial carrying amount of the provision and the changes in the initial carrying amount of the provision that represent additional obligations unrelated to inventory or other production costs, or reflect changes in the estimated amount or timing of cash flows to settle the provision." We suggest that this guidance relating to subsequent changes is provided in IAS 16.

5- Cost of dismantling and removing an asset : subsequent change in timing of cash flows.
When the initial carrying amount of a provision representing the cost of dismantling and removing an asset is modified because the timing of cash flows to settle the obligation has changed, how should the new discounted impact be determined? The standard should make it clear whether in that situation, the rate used to reflect the timing of cash flows is the rate determined when the provision was originally calculated or a rate determined at the date of the change.

IAS 17, *Leases*

Question 1

Do you agree that when classifying a lease of land and buildings, the lease should be split into two elements - a lease of land and a lease of buildings? The land element is generally classified as an operating lease under paragraph 11 of IAS 17, Leases, and the building element is classified as an operating or finance lease by applying the conditions in paragraphs 3 to 10 of IAS 17.

Response

Yes, we agree, even though in some situations, it might not be possible to split the lease between a lease of a land and a lease of a building.

We support the suggestion made by EFRAG in order to clarify paragraph 11B.

Question 2

Do you agree that when a lessor incurs initial direct costs in negotiating a lease, those costs should be capitalised and allocated over the lease term? Do you agree that only incremental costs that are directly attributable to the lease transaction should be capitalised in this way and that they should include those internal costs that are incremental and directly attributable?

Response

Yes, we agree with the proposed change.

However, we share EFRAG's view that the concept of incremental costs needs clarification, and that additional examples could be usefully provided.

If it is not precisely defined, the concept of incremental cost might lead to distortion between companies which use external services, and can capitalise external costs and companies which have developed internal competencies and which can only capitalise certain costs.

IAS 21, *The Effects of Changes in Foreign Exchange Rates*

Question 1

Do you agree with the proposed definition of functional currency as "the currency of the primary economic environment in which the entity operates" and the guidance proposed in paragraph 7-12 on how to determine what is an entity's functional currency?

Response

Yes, we agree with the proposed definition.

Question 2

Do you agree that a reporting entity (whether a group or a stand alone entity) should be permitted to present its financial statements in any currency (or currencies) it chooses?

Response

Yes, we agree that a reporting entity should be permitted to present its financial statements in any currency. However, we support EFRAG's recommendation to add a disclosure requirement to explain the reasons why the reporting currency is not the functional currency of the entity or of its parent if this is the case.

Question 3

Do you agree that all entities should translate their financial statements into the presentation currency (or currencies) using the same method as is required for translating a foreign operation for inclusion in the reporting entity's financial statements {see paragraphs 37 and 40)?

Response

Yes, we agree.

Question 4

Do you agree that the allowed alternative to capitalize certain exchange differences in paragraph 21 of IAS 21 should be removed?

Response

Yes, we agree for the reasons explained in the basis for conclusion.

Question 5

Do you agree that

(a) goodwill and

(b) fair value adjustments to assets and liabilities

that arise on the acquisition of a foreign operation should be treated as assets and liabilities of the foreign operation and translated at the closing rate (see paragraph 45)?

Yes, we agree that goodwill and fair value adjustments to assets and liabilities should be treated as assets and liabilities of the acquired entity.

Other comments

1- EFRAG's comment #1

We support EFRAG's comments on the recognition of exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation.. We do not agree with the different treatment in the separate financial statements and in the consolidated financial statements.

2- Inconsistencies between IAS 21 and IAS 39

We have noted that the conversion method for monetary and non-monetary items described in IAS 21 might result in inconsistencies in the accounting for available-for-sale instruments according to IAS 39.

According to IAS 21, monetary items have to be revaluated at closing rate, and non-monetary items have to be revaluated either at closing rates if they are financial instruments accounted for at fair value, or at historical rate if they are maintained at cost.

Financial instruments accounted for as available for sale according to IAS 39 can either be monetary items (bonds) or non-monetary items (shares). Based on the provisions of IAS 21, certain financial instruments classified as available for sale will be revalued at closing rates while other instruments from the same category will be translated at historical rate.

IAS 24, *Related Party Disclosures*

Question 1

Do you agree that the Standard should not require disclosure of management compensation, expense allowances and similar items paid in the ordinary course of an entity's operations (see paragraph 2)?

Response

Yes, we agree that IAS 24 should not require disclosure of management compensation, expense allowance and similar items paid in the ordinary course of the business.
We believe these disclosures should be dealt with in the financial review.

Question 2

Do you agree that the Standard should not require disclosure of related party transactions and outstanding balances in the separate financial statements of a parent or a wholly-owned subsidiary that are made available or published with consolidated financial statements for the group to which that entity belongs?

Response

Yes, we agree.
In France however, it is rare that the separate financial statements of wholly-owned subsidiaries are made available or published exactly at the same time as the parent or the consolidated financial statements of the group to which they belong.

Other comments

1- Definition of a related party

We consider that the standard should provide additional guidance on how to identify related parties when the entity is a group, a parent company, a subsidiary. More generally, can the following be considered as related parties : minority interests, shareholders or key managers in subsidiaries, associates and jointly controlled entities?

2- Paragraph 11

Paragraph 11 of the exposure draft provides a list of parties that cannot be considered as related. It should be made clear in the standard that this list is illustrative only.

IAS 27, *Consolidated and Separate Financial Statements*

Question 1
Do you agree that a parent need not prepare consolidated financial statements if all the criteria in paragraph 8 are met?

Response
Yes, we agree for reasons explained in the basis conclusions.
We support the proposition of EFRAG to include the word "intermediate" to broaden the exemption.

Question 2
Do you agree that minority interests should be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity (see paragraph 26)?

Response
Yes, we agree with this proposition.

Question 3
Do you agree that investments in subsidiaries, jointly controlled entities and associates that are consolidated, proportionately consolidated or accounted for under the equity method in the consolidated financial statements should be either carried at cost or accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement, in the investor's separate financial statements (paragraph 29)?
Do you agree that if investments in subsidiaries, jointly controlled entities and associates are accounted for in accordance with IAS 39 in the consolidated financial statements, then such investments should be accounted for in the same way in the investor's separate financial statements (paragraph 30)?

Response
We do not agree with the first proposition.
We fully support EFRAG's position on this question and would like to maintain the option to account for an investment using the equity method as well.

We agree that investments in subsidiaries, jointly controlled entities and associates accounted for in accordance with IAS 39 in the consolidated financial statements, should be accounted for in the same way in the investor's separate financial statements.

Other comments

We support EFRAG's comments on the following topics :
- SIC 33 (EFRAG's comment #1) : the dispositions of SIC 33 that have been incorporated in paragraph 12B and 15A are incomplete.
- Inconsistency between IAS 27, paragraph 3 and IAS 28, paragraph 29 (EFRAG's comment #3): how should an investment in an associate be accounted for in the separate financial statements of an investor: at cost or according to IAS 39 , as required by IAS 27, or using the equity method, as indicated in IAS 28?

IAS 28, *Accounting for investments in associates*

Question 1
Do you agree that IAS 28 and IAS 31, Financial Reporting of Interests in Joint Ventures, should not apply to investments that otherwise would be associates or joint ventures held by venture capital organisations, mutual funds, unit trusts and similar entities if these investments are measured at fair value in accordance with IAS 39, Financial Instruments: Recognition and Measurement, when such measurement is well-established practice in those industries (see paragraph 1)?

Response
Yes, we agree. However, we support EFRAG's recommendation to include a definition of "venture capital organizations" in the standard and we recommend that "when such measurement is well-established practice in those industries" be deleted from the standard as we strongly believe that application of IFRS should be independent of local regulations or practices.

Question 2

Do you agree that the amount to be reduced to nil when an associate incurs losses should include not only investments in the equity of the associate but also other interests such as long-term receivables (paragraph 22)?

Response

No, we do not agree. We believe that the existence of collaterals should first be considered before reducing other interests to nil.

IAS 33:

Question 1
Do you agree that contracts that may be settled either in ordinary shares or in cash, at the issuer's option, should be included as potential ordinary shares in the calculation of the diluted earnings per share based on a rebuttable presumption that the contract will be settled in shares?

Response
Yes, we agree.

Question 2
Do you agree with the following approach to year-to-date calculation of diluted earnings per share (as illustrated in Appendix B, examples 7 and 12)?

- ***The number of potential ordinary shares is a year-to-date weighted average of the number of potential ordinary shares included in each interim diluted earnings per share calculation, rather than a year to date weighted average of the number of potential ordinary shares weighted for the period they were outstanding (ie without regard for the diluted earnings per share information reported during the interim period).***

Yes, we agree.

However, we believe that the illustrative examples are clearer than the paragraphs of the standard they are supposed to be illustrating (especially paragraph 45).
We suggest that paragraph 45 be redrafted to expose clearly in the body of the standard the methodology used in examples 7 and 12.

- ***The number of potential ordinary shares is computed using the average market price during the interim periods reported upon, rather than using the average market price during the year to date period.***

Yes, we agree.
Please see our comment on the illustrative examples above.

- ***Continently issuable shares are weighted for the interim period in which they were included in the computation of diluted earnings per share, rather than being included in the computation of diluted earnings per share (if the conditions are satisfied) from the beginning of the year to date reporting period (or from the date of the contingent share agreement if later).***

Yes, we agree.
Please see our comment on the illustrative examples above.

<u>Other comments</u>

Paragraph 3 should state that entities that choose to disclose EPS should calculate and disclose EPS in accordance with IAS 33.

A cross-reference between the illustrative examples in Appendix B and the illustrated paragraphs of the standard would be useful.

IAS 40

Question 1

Do you agree that the definition of investment property should be changed to permit the inclusion of a property interest held under an operating lease provided that:
the rest of the definition of investment property is met; and
the lessee uses the fair value model set out in IAS 40, paragraphs 27-49?

Response

No, we do not agree.

The changes proposed go further beyond a simple improvement project and are deep conceptual modifications that should be dealt with in the global project on accounting for leases.

Question 2

Do you agree that a lessee that classifies a property interest held under an operating lease as investment property should account for the lease as if it were a finance lease?

Response

No, we do not agree.

See our response to question 1.

Question 3

Do you agree that the Board should not eliminate the choice between the cost model and the fair value model in the Improvements project, but should keep the matter under review with a view to reconsidering the option to use the cost model in due course?

Response

Yes, we agree that the Board should not remove the option at this stage and should keep the matter under review.