GENERALE

LE DIRECTEUR FINANCIER
ET DE LA STRATÉGIE

27 September 2002

Sir David Tweedie
Chairman IASB
30 Cannon St
London EC4M 6XH
United Kingdom

Sir,

Re: Exposure Draft on Proposed Improvements to International Accounting Standards

Thank you for sending us the exposure draft on proposed improvements to the IAS. This project constitutes a considerable amount of work, and I do hope it will help clarify the accounting for financial instruments.

As a general comment, we want to emphasise that we consider important that the IASB set of standards remains consistent. We have noted that some of the proposed "minor" changes are also subject to discussions under other projects in progress (amendments to IAS 32 and IAS 39, Performance Reporting, Revenue Recognition, etc.). We are concerned that finalisation of the Improvements project may pre-empt possible discussions and different outcomes on those issues whilst these other projects are still in progress. We would therefore recommend to the IASB that no important changes be made under the Improvements project concerning those items until the discussions on the other projects have been considered and completed (e.g. presentation of the income statement, exchanges of property, plant and equipment, residual values, etc.).

Although not specifically related to the Improvements project, we also want to express to the IASB our general support for principle-based standards as opposed to detailed standards.

If you have any queries regarding our comments, please do not hesitate to contact Véronique de La Bachelerie at 33 (1) 42.14.49.86.

Yours faithfully,

Hervé SAINT-SAUVEUR
Senior Executive Vice President,
Chief Financial Officer

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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 paragraphs 13-16)?

We are supportive of a true and fair view-override principle in the IASB's literature (to be used in extremely rare cases). We disagree, however, with the proposal that the ability to override an IFRS requirement should be subject to authorisation by "*the relevant regulatory framework*" (see IAS 1.13 and IAS 1.15). We believe that international accounting standards should not be subject to constraints by any national regulations.

Question 2

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

We disagree. We believe that the proposed elimination of extraordinary items from the income statement is premature while the project on Performance Reporting is in process. The issue of whether or not to disclose such items in the income statement should be dealt with under that latter project.

We also disagree with the proposed elimination of the requirement to present 'operating profit or loss'. Although it is not a defined term in the IASB literature, many companies (and particularly financial institutions) present this line item and we consider it to be useful information for the users of the financial statements. Instead of the proposed change and to enhance the information given to users, we would suggest that the IASB require an enterprise to disclose how it determined its 'operating profit or loss'.

For financial institutions, we understand that the presentation of items in the income statement will be dealt with under the project on Deposit-Taking, Lending and Securities Activities. We recommend that this latter project consider the requirements in IAS 1, to avoid any duplication. Also, as mentioned above, consideration should be given to the interaction of the proposed amendments with the project on Performance Reporting so that decisions under the Improvements project do not pre-empt or conflict with possible conclusions under the Performance Reporting project.

Question 3

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 statements are authorised for issue (see proposed paragraph 60)?

We assume that IAS 1.54-64 do not apply to an entity which is presenting its financial statements in order of liquidity (e.g. when it provides more relevant and reliable information – see IAS 1.49 and IAS 1.52), such as financial institutions. Please confirm our understanding.

For financial institutions, we understand that the presentation of items in the financial statements will be dealt with under the project on Deposit-taking, Lending and Securities Activities. We recommend that this latter project consider the requirements in IAS 1, to avoid any duplication. Also, as mentioned above, consideration should be given to the interaction of the proposed amendments with the project on Performance Reporting so that decisions under the Improvements project do not pre-empt or conflict with possible conclusions under the Performance Reporting project.

Question 4

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 authorised for issue, not to demand payment as a consequence of the breach (see proposed paragraph 62)?

(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 noncurrent if it is due for settlement, without that breach of the loan agreement, at least twelve months after the balance sheet date and:

(i) the entity rectifies the breach within the period of grace; or

(ii) when the financial statements are authorised for issue, the period of grace is incomplete and it is probable that the breach will be rectified (see proposed paragraphs 63 and 64)?

Same comment as at Question 3.

Question 5

Do you agree that an entity should disclose the judgements made by management in applying the accounting policies that have the most significant effect on the amounts of items recognised in the financial statements (see proposed paragraphs 108 and 109)?

We do not support the proposed disclosure requirements in IAS 1.108-109. They are not sufficiently clear to understand the level of detail required to be disclosed. We are concerned that the objective sought by this type of disclosure might not be achieved and that companies may produce 'boiler plate' disclosure. We consider that information on the risks associated with an entity's business (and possibly the judgements made by management in the financial statements) would be better included in a Directors' report or MD&A. We understand that the IASB has a research project to consider disclosure requirements for a MD&A. It would be appropriate to consider the proposed disclosures under that project.

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 amounts of assets and liabilities within the next financial year (see proposed paragraphs 110-115)?

We have difficulty understanding the type of information that would be disclosed under the proposed requirement. Whilst we would agree that it is appropriate to disclose information on how specific risks have been addressed in the financial statements and the sources of uncertainty about those specific risks, we would disagree with a requirement to disclose in the financial statements general macroeconomic assumptions used by the management that are used for forward-looking estimates. We consider that this type of information should better be included in a Directors' report or MD&A.

In addition, we have concerns about the quantification of some of the proposed required information. Some information may be commercially sensitive or subject to confidentiality under our profession ethics. For example, we may have access to confidential information showing an impairment of our loans for a major client but the information about the client's credit deterioration may not yet be known to the public. Detailed public disclosure of the extent to which we have recognised an impairment of our loans for this client could create conflicts with our duty to keep the client's state of affairs confidential.

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?

We agree.

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 write-down of inventories to be recognised in profit or loss (paragraph 31). Do you agree with retaining those requirements?

We concur with the proposal to keep the requirement for write-down reversals and their recognition in profit or loss. This is consistent with the valuation principles contained in the IAS literature that an impairment does not establish a new cost basis for an asset and that estimates should be adjusted under new circumstances.

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)?

We agree.

Question 2

Do you agree with eliminating the distinction between fundamental errors and other material errors (see paragraphs 32 and 33)?

We disagree. We consider the distinction between fundamental errors and other material errors to be pragmatic and useful, and that prior years' financial statements should be restated only for fundamental errors, i.e. in those rare cases where the errors in the financial statements of one or more prior periods were so pervasive that the financial statements can no longer be considered to have been reliable at the date of their issue. As for errors that are not fundamental, it is appropriate to recognise them in profit or loss in the period when they are discovered. If those errors are of such size, nature or incidence, IAS 1.80 will require disclosure of their nature and amount in order to provide an understanding of the entity's financial performance. We consider that those requirements are sufficient.

Additional comments

IAS 8.6(c) – We disagree with the requirement that an enterprise should consider the *"pronouncements of other-standard setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature, and accepted industry practices, to the extent, but only to the extent that these are consistent with IAS 8.6 (a) and (b)"*. We believe that this sentence should form part of a guidance but not of an authoritative literature. In addition, this requirement would be difficult to implement, due to the diversity of existing accounting literature world-wide of which we assume an entity would be required to be aware. For example, would literature in languages other than English need to be considered?

IAS 10 Events After the Balance Sheet Date

We agree with the proposed changes.

IAS 15 Information Reflecting the Effects of Changing Prices

We agree with the proposed withdrawal of IAS 15.

IAS 16 Property, Plant and Equipment

Question 1

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)?

We disagree with the proposed change because it does not result from a consistent and thorough analysis of all types of exchange transactions (such as an exchange of non-monetary assets, financial assets or financial liabilities), which, in our views, should be treated consistently. The proposed treatment would not be consistent with the treatment of exchange transactions under IAS 18, Revenue Recognition, and also with the exchange between an existing borrower and lender of debt instruments under IAS 39, Financial Instruments: Recognition and Measurement. We believe that the treatment of exchange transactions is a major project by itself that should not be overlooked. We consider that it is premature to make such a change whilst the IASB has not progressed on the project on Revenue Recognition.

Question 2

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? (See the amendments in paragraphs 34-34B of IAS 38, Intangible Assets, proposed as a consequence of the proposal described in Question 1.) (Note that the Board has decided not to amend, at this time, the prohibition in IAS 18, Revenue, on recognising revenue from exchanges or swaps of goods or services of a similar nature and value. The Board will review that policy later in the context of a future project on the Recognition of Revenue.)

Same comment as above.

Question 3

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)?

We agree.

Additional comments

IAS 16.6 and IAS 16.46 – Residual values

We question why changes are proposed to the definition and the requirements for residual values in calculating depreciation. We disagree with the proposed changes:

- to the definition of residual value: the use of a '*current value on disposal*' rather than an '*expected value at the end of the asset's useful life*'. We assume that the reference to a 'current value' presupposes determining residual values by reference to a market (the term 'current value' is not defined). Market information and assumptions are not always available. 'An expected value' definition allows the use of an entity's assumptions (such as in determining value in use or an entity-specific value). We believe that this measurement should be permitted and it is also consistent with the current IAS literature.
- reflecting upward changes in residual values. This requirement anticipates a move to the use to a larger extent of fair value measurements for property, plant and equipment. In addition, this requirement may mean that for an item that may gain value over time (such as old buildings in France), depreciation is not/no longer recognised. The proposed change is not minor and would require further consideration. We do not support such a move as long as conceptual discussions on measurement bases for items in the financial statements have not yet taken place. Finally, frequent changes to residual values (which are likely to occur) will create implementation issues for EDP systems to deal with, to enable the computation of adjusted depreciation. We are not convinced that the benefits of the proposed change are worth its cost.

Our comments also apply to the proposed changes to IAS 38, Intangible Assets. The proposed changes to residual values may lead to no amortisation being recognised at inception or while an intangible asset is used. Whilst we do not disagree that some intangible assets may not be amortised, we consider that this issue should be dealt with in the IASB project on Business Combinations.

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 buildings element is classified as an operating or finance lease by applying the conditions in paragraphs 3-10 of IAS 17.

The proposed change will affect current practice in France significantly since lease contracts usually do not distinguish the land and building components. However, we do not disagree with it but we consider that clarification in IAS 17.11A of "*unless title to both elements is expected to pass to the lessee by the end of the lease term*" is needed. For instance, this situation could be illustrated by the example in IAS 17.8(b) (there is a purchase option that will probably be exercised).

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?

We agree that initial direct costs in negotiating a lease should be capitalised and allocated over the lease term. However, we have the following comments on the proposed requirement:

- capitalisation of internal direct costs is inconsistent with the requirements for the cost initially recognised for a financial instrument under IAS 39, Financial Instruments: Recognition and Measurement. We disagree that such an inconsistency should be introduced (we also operate leasing activities – we thus do not understand why a different treatment should apply to these activities compared to our financial activities, where these two activities are in fact very similar). Therefore, the Standard should clarify the initial direct costs eligible for capitalisation ; such clarification should take into account the nature of these costs rather than their internal or external characteristic.
- in leasing activities, it is sometimes difficult to allocate direct external costs to individual leases. For example, some commissions paid to agents are based on volumes and are not related to specific lease contracts. The Standard is unclear as to how this situation should be handled.

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 paragraphs 7-12 on how to determine what is an entity's functional currency?

We agree.

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) that it chooses?

We agree.

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)?

We agree.

Question 4

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

We agree.

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)?

We agree.

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)? 'Management' and 'compensation' would need to be defined, and measurement requirements for management compensation would need to be developed, if disclosure of these items were to be required. If commentators disagree with the Board's proposal, the Board would welcome suggestions on how to define 'management' and 'compensation'.

We disagree that there should be no requirement to disclose the compensation of top management (i.e. those managers for whom remuneration is determined by a remuneration committee of the Board – normally the Board of Directors in a one tier system or the Board of Management in a two tier system) paid in the ordinary course of an entity's operations. Compensation comprises salaries, bonuses and the value of share options, together with other benefits.

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 (see paragraph 3)?

We agree.

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?

We agree.

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)?

We agree.

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)?

We agree that investments in subsidiaries, associates and joint ventures should be carried at cost or accounted for under IAS 39 in the separate financial statements of the investor. Therefore, we agree with the proposed elimination of the use of the equity method in the separate financial statements of the investor.

We also 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.

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)?

The term 'venture capital organisation' is not defined and we question whether the proposed treatment would apply, for example, to the venture capital activities of financial institutions. This needs to be clarified.

We do not support the proposed changes to IAS 28 and IAS 31 which would require that investments that otherwise would be associates or joint ventures held by venture capital organisations, mutual funds, unit trusts, and similar entities be measured at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss.

Our preferred treatment is to account for all investments in associates or joint ventures using the equity method (or proportionate consolidation for joint ventures), without making a distinction depending on the type of industry in which the parent company operates.

Finally, should the IASB ultimately decide that investments that otherwise would be associates or joint ventures held by venture capital organisations, mutual funds, unit trusts, and similar entities be measured at fair value in accordance with IAS 39, we disagree that changes in fair value should be recognised in profit or loss. To some extent, venture capital investments are more akin to available-for-sale financial assets rather than held-for-trading financial assets. The proposed changes are inconsistent with the treatment of available-for-sale financial assets, for which changes in fair value are recognised in equity. We do not see the reasons why a different treatment would be introduced.

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)?

We do not agree. An equity investment should not be reduced below zero. Financial assets (loans, receivables, etc.) due from an associate should be separately assessed for impairment under IAS 39, Financial Instruments: Recognition and Measurement. If there are risks and uncertainties about potential future outflows with respect to an associate, these should assessed under IAS 37, Provisions, Contingent Liabilities and Contingent Assets.

IAS 33 Earnings Per Share

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 diluted earnings per share based on a rebuttable presumption that the contracts will be settled in shares?

We agree. However, we note an inconsistency with the proposed requirements in the revised Standards on Financial Instruments to classify an instrument as equity when the issuer has the right to settle in cash or shares.

Question 2

Do you agree with the following approach to the 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 (i.e., without regard for the diluted earnings per share information reported during the interim periods).**
- **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.**
- **Contingently issuable shares are weighted for the interim periods 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).**

We agree.

Additional comments

As a general note, we recommend that the IASB reconsider IAS 33's requirements in the light of the new requirements on share-based payments once approved and the progress on the project on Performance Reporting.

IAS 40 Investment Property

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?

We agree that it is appropriate to maintain the current option to measure investment property under the cost or the fair value models.