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Le Président

JFL/MPC
N° 1

PARIS, 15 JANUARY 2009

IASB
30 Cannon Street
LONDON EC4M 6XH
UK

Re : Exposure Draft of Proposed Amendments to IFRS 7 "Investments in Debt Instruments"

Dear Sir or Madam,

I am writing on behalf of the Conseil National de la Comptabilité (CNC) to express our views on the above-mentioned Exposure Draft. Our answers to the issues are set out in the Appendix to this letter.

We are opposed to the proposed amendment.

We understand that it is not feasible to review accounting for impairments of financial assets, including impairment of debt instruments classified as 'available for sale' without a full due process. However, we consider that the proposals in this Exposure Draft fails meeting the initial objective of providing more information regarding impairment losses on those financial assets since it does not require to separately disclose on impaired available-for-sale debt instruments. Additionally, we do not consider the proposals have a clear objective since the proposals do not illustrate the profit or loss effect and carrying values of all financial assets had they been classified differently, nor do they show the effect on impairment losses of applying different impairment loss models. Without a clearly identified objective that responds to an identified demand from users for specific information we cannot support the proposals as drafted.

We consider that this Exposure Draft with the disclosure of the profit or loss amount that would have resulted under the 'fair value scenario' for investments in debt instruments is a further step towards full fair value accounting, in particular for the banking book. As already mentioned in our previous comment letters, we strongly disagree with this approach to accounting for all financial instruments.

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

Yours sincerely,

Jean-François Lepetit

Appendix

Question 1

The exposure draft proposes in paragraph 30A(a) to require entities to disclose the pre tax profit or loss as though all investments in debt instruments (other than those classified as at fair value through profit or loss) had been (i) classified as at fair value through profit or loss and (ii) accounted for at amortised cost.

Do you agree with that proposal? If not, why?

The CNC does not agree with the proposal.

1/ The proposals in this Exposure Draft do not give a correct answer to providing more information regarding impairment losses on financial available-for-sale assets.

This proposed amendment comes from the discussions at the round-table meetings. As reported in paragraph BC4, the requests raised at those meetings were to provide a break-down of the impairment losses recorded for available-for-sale debt instruments between the incurred loss portion and the remainder of the fair value change. The proposed disclosures in the Exposure Draft does not permit the user of financial statement to retrieve that information.

2/ We consider that this Exposure Draft with the disclosure of the profit or loss amount that would have resulted under the 'fair value scenario' for investments in debt instruments is a further step towards full fair value accounting, in particular for the banking book.

As already mentioned in our previous comment letters, we strongly disagree with the fair value measurement basis for all financial instruments.

3/ The CNC is not in favour of disclosing pro-forma profit or loss amount under "as if" scenarios that are significantly different from the accounting policies retained to produce financial statements hence introducing some confusion rather than explanation of the financial position at the closing date.

We believe the proposals would only introduce some confusion about entities' P&L especially since the information given is partial. We note indeed that comparisons with the actual P&L would be difficult or impossible since according to the ED entities would only show partial impacts had they classified differently only some of their financial instruments (excluding held for trading assets, equity instruments held and financial liabilities).

Also the P&L impacts showed would be contradictory with the classification currently required and applied according to IAS 39 given the characteristics of the instruments and the capacity and intent of the entity, the latter being generally in line with the business purpose of holding such investments. We would therefore question the relevance of a pro-forma information prepared under new measurement principles that do not correspond to the intent of the entity.

Moreover, requiring disclosure of profit information based on an alternative measurement attribute not consistent with the way the instruments are managed would create a precedent and would be confusing to users leading them to choose between two figures.

4/ Regarding the way of determining the pre tax profit or loss amounts, we consider that the amendment is not precise enough and not relevant since elements linked to the debt instruments are not considered.

The amendment is not precise enough regarding the amounts of financial assets which have to be taken into consideration to evaluate the profit and loss amount in particular when there are movements during the period (new contracts, sales, ...).

Furthermore, if hedging derivatives, financial liabilities and other instruments or contracts linked to the debt instruments (such as participating insurance contracts) are not taken into consideration, we consider that the pro-forma profit and loss is only partially determined, because this approach does not correspond to the way assets and liabilities are managed, which limits the benefits of this proposal.

We consider also that the notion of 'amortised cost' need clarifications, in particular for impaired 'available-for-sale financial assets'. For these assets, following the impairment loss, a new amortised cost has to be determined as mentioned in IAS 39.AG93. In this context, we consider necessary to mention if for those impaired financials assets, 'amortised cost' corresponds to the original amortised cost or if it is the one subsequent to the impairment loss.

Finally, the concept of debt instrument needs to be defined as it potentially conflicts with its meaning under IAS39.AG36 and would be different from loan assets, trade receivables and deposits held in banks.

What would you propose instead, and why?

We consider that the only following useful information about impairment losses for available-for-sale debt instruments would be the following disaggregated information relating to impairment losses recorded in the income statement for the reporting period between :

(i) the incurred loss portion—determined in the same way as for debt instruments measured at amortised cost using the incurred loss model; and

(ii) the remainder of the fair value change.

This information improves transparency of the fair value decline in debt instruments classified as available for sale and permits comparison with the incurred losses recognised for debt instruments accounted for at amortised cost.

Given the timing, this information could be disclosed for annual periods beginning on or after 1 January 2009.

Question 2

The exposure draft proposes to require disclosing the pre-tax profit or loss amount that would have resulted under two alternative classification assumptions.

Should reconciliations be required between profit or loss and the profit or loss that would have resulted under the two scenarios? If so, why and what level of detail should be required for such reconciliations?

The CNC does not agree with the proposal, for the main reason that we are not in favour of disclosing the pre-tax profit or loss amount that would have resulted under two alternative classification assumptions (please refer to our answer to question 1).

Question 3

The exposure draft proposes in paragraph 30A(b) to require entities to disclose for all investments in debt instruments (other than those classified as at fair value through profit or loss) a summary of the different measurement bases of these instruments that sets out (i) the measurement as in the statement of financial position, (ii) fair value and (iii) amortised cost.

Do you agree with that proposal? If not, why? What would you propose instead, and why?

The CNC does not agree with the proposal.

The CNC has a number of concerns.

1. The objective of the proposed disclosures is not clear as neither it encompasses all debt instruments nor focus specifically on impaired AFS debt instruments.
2. The proposed disclosures require some application guidance with regard to its preparation.

   First of all, we do not understand :

   - the difference between the 'carrying amount in the statement of financial position' and the 'amortised cost' which have to be disclosed for 'loans and receivables' and 'held-to-maturity investments' in the 'amortised cost' column ;
   - the difference between the 'carrying amount in the statement of financial position' and the 'fair value' which have to be disclosed for 'available-for-sale financial assets' in the 'fair value' column ;

   We assume that the amounts should be similar.

   Secondly, we consider that 'amortised cost' as prescribed needs clarifications, in particular for impaired 'available-for-sale financial assets'. As already mentioned, we consider necessary to specify if for those impaired financials assets, 'amortised cost' corresponds to the original amortised cost or if it is the one subsequent to the impairment loss.

What would you propose instead, and why?

Please refer to our answer to question 1.

Question 4

The exposure draft proposes a scope that excludes investments in debt instruments classified as at fair value through profit or loss.

Do you agree with that proposal? If not, would you propose including investments in debt instruments designated as at fair value through profit or loss or those classified as held for trading or both, and if so, why?

Because we do not support the proposed amendment, we cannot give an answer to this question. Nevertheless, should the proposed amendments be confirmed, the CNC agrees with the scope exclusions for debt instruments classified as at fair value through profit or loss.

Question 5

Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?

The CNC does not agree with the proposed effective date.

We do not support rushing the proposed amendments through and applying an effective date of annual periods ending on or after 15 December 2008.

We believe there is insufficient time for many entities, particularly those with calendar year-ends, to provide the proposed disclosures as required by the effective date. The amount of work needed to provide the disclosures is significant, for example when determining the amortised cost for AFS debt instruments that have previously been subject to impairment losses.

Backdating the effective date of application of standards should only be proposed where amendments clarify something which the IASB clearly intended in the first place.

Additionally, bearing in mind that IFRS is applied mainly by listed groups, we believe this effective date is likely to pose significant practical difficulties for such preparers with 31-December year-ends.

Question 6

Are the transition requirements appropriate? If not, why? What would you propose instead, and why?

The CNC does not support the proposed amendment. Notwithstanding, if such amendment should be adopted, the CNC considers that any amendment of this kind, particularly adopted in a fast process, should have transitional requirements which exempt preparers from producing comparative information.