

Date  
21 November 2008

Le Président

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Européens  
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Dear Sir David,

**Re: IASB Exposure Draft of proposed Improvements to IFRSs**

1. FEE (Fédération des Experts Comptables Européens - Federation of European Accountants) is pleased to submit its comments on the IASB Exposure Draft of proposed Improvements to IFRSs (the "ED").
2. FEE as a founding organisation of EFRAG has also contributed to the EFRAG consultation process by submitting its views on the EFRAG Draft Comment Letter through the FEE comment letter to EFRAG dated 19 November 2008. We have considered EFRAG's Draft Comment Letter in the present response and reference to it is made where relevant.
3. Like in EFRAG's Draft Comment Letter, we agree with most of the proposals in the ED. Where we find that there is need for further clarification or if we have specific comments, we have detailed these for each issue in the appendix to this letter.
4. The main concerns that we have regarding the proposals are summarised below.

**Issue 3: IFRS 8 *Operating Segments* - Disclosure of information about segment assets**

5. We agree with EFRAG that the proposed amendment should not be achieved by changing the Basis for Conclusions accompanying IFRS 8 only and that a change also needs to be made to the standard itself. Our detailed comments on this issue are presented in paragraphs 14 to 17 of this letter.

**Issue 4: IAS 7 *Statement of Cash Flows* - Classification of expenditures on unrecognised assets**

6. We believe that the amendment as currently presented does not include sufficient explanations to support the proposal that only expenditures that result in a recognised asset can be classified as a cash flow from investing activity. In principle, we would encourage the IASB not to amend IAS 7 by including additional rules. We recommend the IASB not to amend IAS 7 at this stage, as we believe the question of classification of cash-flows in the statement of cash-flows should be addressed in a more comprehensive way in the IASB's project on financial statement presentation.

**Issue 5: IAS 18 Revenue - Determining whether an entity is acting as a principal or as an agent**

7. We do not think that whether an entity has exposure to “the significant risks and rewards” associated with the sale of goods or the rendering of services should be presented as a more important feature than whether an entity has the “primary responsibility” for providing the goods or services to the customer or for fulfilling the order. The proposed amendment (i.e. adding example 21) to the appendix of IAS 18 appears to imply that “the significant risks and rewards” would come first and that the “primary responsibility” could then serve as an additional feature. We consider that the “primary responsibility” should be considered first to determining whether an entity is acting as a principal or as an agent. Our detailed comments on this issue are presented in paragraphs 20 to 27 of this letter.

**Issue 8: IAS 38 Intangible Assets - Measuring the fair value of an intangible asset acquired in a business combination**


8. Like in EFRAG’s Draft Comment Letter, we are not convinced that the proposed amendment represents a significant improvement to IAS 38. Hence, we agree with EFRAG’s draft response in principle that the proposed amendment may not be necessary.

**Issue 12: IAS 39 Financial Instruments: Recognition and Measurement - Bifurcation of an embedded foreign currency derivative**

9. We agree with EFRAG that the current proposed wording will not establish the necessary clarity for determining whether a non-financial contract contains a separable embedded foreign currency derivative and consequently we question the need for the proposed amendment as part of the annual improvements project. Hence, we agree with EFRAG that it would be preferable to retain the current wording of in AG33 (d)(iii) of IAS 39 or to develop a more principles-based approach.
10. Our responses to the questions in the Invitation to comment Section of the ED are contained in the Appendix to this letter.

We would be pleased to discuss any aspect of this letter that you may wish to raise with us.

Yours sincerely,



Jacques Potdevin  
President

Ref: ACC/JP/SS-LF

**Appendix: Responses to the questions in the Invitation to comment - IASB Exposure Draft of proposed Improvements to IFRSs**

**Issue 1: IFRS 2 *Share-based Payment* - Scope of IFRS 2 and revised IFRS 3**

11. We agree with EFRAG's draft comments and the proposed amendment to paragraph 5 of IFRS 2 to confirm that the contribution of a business on formation of a joint venture and common control transactions are not within the scope of IFRS 2 even though they do not meet the definition of a business combination in IFRS 3 *Business Combinations* (as revised in 2008).

**Issue 2: IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* - Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations**

12. We agree with EFRAG's draft comments and the proposed amendment to IFRS 5 to clarify that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations and that disclosures in other IFRSs do not apply to such assets (or disposal groups) unless those IFRSs specifically require disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations.
13. However, we think that with the proposed amendment IFRS 5 may still not be clear regarding the disclosures that would be required. In particular, there appears to be some contradiction between paragraph 5.5A and paragraph 5.BC4 of the ED, since the latter notes that there is no need to repeat the disclosures that are normally provided in the other notes about assets and liabilities that are not within the scope of the measurement requirements of IFRS 5 but are included within a disposal group, unless they better enable users to evaluate the financial effects of discontinued operations and disposals of non-current assets. It remains unclear which disclosures need to be made. We recommend that the Board further clarifies the circumstances under which the disclosures in the other notes would suffice. We suggest the inclusion of an illustrative example to improve the understandability and application of the requirements in this respect.

**Issue 3: IFRS 8 *Operating Segments* - Disclosure of information about segment assets**

14. We agree with EFRAG and the proposed amendment to the Basis for Conclusions accompanying IFRS 8 to clarify its view on the disclosure of segment assets.
15. We support EFRAG and the IASB on ensuring that IFRS and US GAAP are harmonised on this issue. The objective of the amendment to ensure that segment assets should be disclosed only when they are amongst the information presented to the Chief Operating Decision Maker (CODM) is consistent with the management approach in IFRS 8.
16. We agree with EFRAG, as detailed in its Draft Comment Letter, that the proposed amendment should not be achieved by changing the Basis for Conclusions accompanying IFRS 8 only and that a change also needs to be made to the standard itself.
17. We suggest amending paragraph 23 of IFRS 8 to read "An entity shall report a measure of profit or loss, assets and liabilities for each reportable segment, if such amount is regularly provided to the chief operating decision maker."

**Issue 4: IAS 7 *Statement of Cash Flows* - Classification of expenditures on unrecognised assets**

18. We believe that it would be preferable to have a full debate on this issue before amending again IAS 7.

**Appendix: Responses to the questions in the Invitation to comment - IASB Exposure Draft of proposed Improvements to IFRSs**

19. In addition, we believe that the amendment as currently presented does not include sufficient explanations to support the proposal that only expenditures that result in a recognised asset can be classified as a cash flow from investing activity. In principle, we would encourage the IASB not to amend IAS 7 by including additional rules. We recommend the IASB not to amend IAS 7 at this stage, as we believe the question of classification of cash-flows in the statement of cash-flows should be addressed in a more comprehensive way in the IASB's project on financial statement presentation.

**Issue 5: IAS 18 Revenue - Determining whether an entity is acting as a principal or as an agent**

20. We agree with EFRAG that there is uncertainty on this issue and additional guidance is welcome.
21. We believe that dealing with this matter by including material in an appendix is appropriate in this case since this is consistent with the approach in IAS 18.
22. However, we are not convinced that practical difficulties encountered on this topic will be resolved by the proposed guidance as it does not establish sufficiently clearly the determinative principle to be used in making an assessment of the role played by an entity. More specifically, we do not think that whether an entity has exposure to "the significant risks and rewards" associated with the sale of goods or the rendering of services should be presented as determining by itself that the entity is acting as principal even if this feature may be indicative that this is the case. We consider that having the "primary responsibility" for providing the goods or services to the customer or for fulfilling the order is determinative that the entity is acting as a principal. The proposed amendment (i.e. adding example 21) to the appendix of IAS 18 appears to imply that "the significant risks and rewards" would be determinative and that the "primary responsibility" could then only serve as an additional factor of the role of principal.
23. We consider that the "primary responsibility" should be assessed to determine whether an entity is acting as a principal or as an agent. As part of this assessment, consideration is given to "the significant risks and rewards" as a feature to help determining whether an entity is acting as a principal or as an agent.
24. The proposed amendment specifies "an entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services" (page 26 of the ED). It also includes "one feature indicating that an entity is acting as an agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer". We think it would be preferable to state that the features used to determine whether an entity is acting as principal should be reversed to determine whether an entity is acting as an agent.
25. In addition, whether the entity bears the customer's credit risk is in our opinion less significant than the other features listed in the proposed example 21 to the appendix of IAS 18.
26. We note that the ED does not propose transition provisions and an effective date for the proposed amendment to the appendix of IAS 18. While we understand that the reason for this is likely to be that the amendment only affects an appendix to a standard, we also note that this may result in changes in practice for some entities. Therefore, we recommend that the IASB includes the transitional provisions and effective date for this amendment for the avoidance of doubt, for example in the basis for conclusions.

**Appendix: Responses to the questions in the Invitation to comment - IASB Exposure Draft of proposed Improvements to IFRSs**

**The Board proposes to include in the Appendix of IAS 18 *Revenue* guidance on determining whether an entity is acting as a principal or as an agent. What indicators, if any, other than those considered by the Board should be included in the guidance proposed?**

27. We think that the ability (i) to be involved in determining the specifications or characteristics of the product/service or (ii) to select suppliers may serve as additional indicators to be considered in determining whether an entity is acting as a principal or as an agent. We recommend the IASB to include these indicators as additional features in the guidance proposed.

**Issue 6: IAS 36 *Impairment of Assets* - Unit of accounting for goodwill impairment**

28. We agree with EFRAG and the proposed amendment to paragraph 80(b) of IAS 36 to make it clear that the required unit for goodwill impairment in IAS 36 is not larger than the operating segment level as defined in paragraph 5 of IFRS 8 before the permitted aggregation.
29. We think there may be a potential issue when an impairment has to be recorded as a result of a reallocation. In particular, we find that it is not clear how such an impairment would need to be accounted for, whether it should be in profit or loss or equity. It would be helpful if the IASB could clarify this issue further.
30. Furthermore, we note that an issue may arise if impairment testing was only performed up to a segment level, based on either the entity's primary or the entity's secondary reporting, and in accordance with IAS 14, as the respective entities would have to account for impairments in profit or loss also where there is no change in the entities' economic position. This may be confusing for users of financial statements rather than relevant.

**Issue 7: IAS 38 *Intangible Assets* - Additional consequential amendments arising from revised IFRS 3**

31. We agree with EFRAG's draft comments and the proposed amendment to IAS 38 to make clear that, if an intangible asset is separable only with another asset, it must still be recognised separately from goodwill.
32. We agree with EFRAG that the same effective date should apply for all the amendments proposed in the ED (with earlier adoption permitted, as usual).

**Issue 8: IAS 38 *Intangible Assets* - Measuring the fair value of an intangible asset acquired in a business combination**

33. We note no significant issues arising with the proposed amendment to IAS 38 (to paragraph 40 to clarify that an entity can use multiples, and to paragraph 41 to make it clear that it is not intended to be restrictive).
34. However, like in EFRAG's Draft Comment Letter we are not convinced that the proposed amendment represents a significant improvement to IAS 38. Hence, we agree with EFRAG's draft response in principle that the proposed amendment may not be necessary. We consider that such matter should be considered within the fair value measurement project.

**Appendix: Responses to the questions in the Invitation to comment - IASB Exposure Draft of proposed Improvements to IFRSs**

**Issue 9: IAS 39 *Financial Instruments: Recognition and Measurement* - Scope exemption of business combination contracts**

35. We agree with EFRAG and IASB's conclusions that this scope exemption should apply only to binding contracts. Like in EFRAG's draft response, we share the IASB's reasoning in reaching its conclusions.
36. Regarding the wording suggested by EFRAG in paragraph 44 of its Draft Comment Letter, we think that replacing "forward contract" by "binding contract" may better achieve the objective of the proposed amendment, and we see no need for the additional sentence suggested "while, for example, necessary regulatory and legal processes are being completed) obligating".
37. Furthermore, we consider that it would be useful if the IASB would clarify the reasons for excluding investments in associates from the exception granted to the acquisition of a subsidiary.

**Issue 10: IAS 39 *Financial Instruments: Recognition and Measurement* - Application of the fair value option**

38. We agree with EFRAG and the proposed amendment to clarify that the fair value option in paragraph 11A of IAS 39 applies only to financial instruments within the scope of IAS 39 that contain embedded derivatives.

**Issue 11: IAS 39 *Financial Instruments: Recognition and Measurement* - Cash flow hedge accounting**

39. We agree with EFRAG and the proposed amendment to paragraphs 97 and 100 of IAS 39 to clarify that the gains or losses on the hedging instrument should be reclassified from equity to profit or loss in the period that the hedged forecast cash flows affect profit or loss. We agree with EFRAG's draft response that the wording of paragraph 97 needs to be improved.
40. We think the proposed wording of "the hedged item" would work. We are not aware of any examples of contracts for which there could be difficulties arising with interpreting paragraph 97 if it was amended this way.

**Issue 12: IAS 39 *Financial Instruments: Recognition and Measurement* - Bifurcation of an embedded foreign currency derivative**

41. We agree with EFRAG, as detailed in its Draft Comment Letter, that the current proposed wording will not establish the necessary clarity for determining whether a non-financial contract contains a separable embedded foreign currency derivative and consequently that the proposed amendment is not helpful. Hence, we agree with EFRAG that it would be preferable to retain the current wording of in AG33 (d)(iii) of IAS 39 or to develop a more principles-based approach.