MAZARS

Improvements to International Financial Reporting Standards
Comment Letter
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

11 January 2008

Dear Sir/Madam,

Exposure Draft of proposed Improvements to International Financial Reporting Standards

Mazars welcomes the opportunity to comment on the Exposure Draft of proposed Improvements to International Financial Reporting Standards (referred to as "Proposed Annual Improvements"). Our general comments are given below. Detailed responses to the specific questions included in the Exposure Draft are attached to this letter.

We fully support the IASB's initiative to implement an annual process to deal with non-urgent, though necessary, minor amendments to IFRSs. Indeed, such a collective publication of amendments process once a year is less burdensome and improves consistency between standards.

However, going through the forty-one proposed amendments, we consider some of them are not minor changes to current IFRSs and we disagree with some of them. Not entering into detail on the issues we do not consider as minor, the issues we do not agree on are:

- ✓ Question 4 regarding IAS 1 and the disclosure required to state compliance with IFRSs;
- ✓ Question 28 regarding IAS 38 and the accounting treatment for advertising and promotional activities;
- ✓ Question 30 regarding IAS 39 and the definition of a derivative.

Moreover, we believe that IFRIC clarifications and wordings for rejection, to the extent that they were already commented upon, are minor amendments, whereas in some cases modifying definitions or replacing words to ensure terminology consistency between standards may raise issues that ought to be dealt within a separate exposure-draft.

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Therefore we recommend that the Board sets out criteria to determine if an amendment is part of the omnibus annual exposure-draft or should be dealt with through a specific standard revision project. An amendment that may have a significant impact will benefit from being reflected upon on its own, instead of being part of numerous other minor changes. We believe this will improve the quality of IFRSs.

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

Yours sincerely

Michel Barbet-Massin
Head of Financial Reporting Technical Department

Appendix

Detailed responses to the specific questions included in the Exposure Draft

IFRS 1 First-time Adoption of International Financial Reporting Standards

Issue 1: Restructuring of IFRS 1

Question 1:

Do you agree with the Board's proposed restructuring of IFRS 1? If not, why?

We agree with the proposed amendment.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Issue 2: Plan to sell the controlling interest in a subsidiary

Question 2:

Do you agree with the proposal to add paragraph 8A to IFRS 5 to clarify that assets and liabilities of a subsidiary should be classified as held for sale if the parent has a sale plan involving loss of control of the subsidiary? If not, why?

We agree with the principle that loss of control of a subsidiary entails reclassification as "held for sale" of the whole investment in the subsidiary, as long as the criteria set out in IFRS 5 are met. This amendment confirms the IFRIC decision of March 2007.

However, the IFRIC also proposed to clarify the paragraphs relating to the presentation of discontinued operations in the income statement. The IFRIC noted that a disposal group classified as held for sale will also be a discontinued operation if the criteria of paragraph 32 of IFRS 5 are met, even if the entity maintains a continuing involvement in the former subsidiary through the detention of a residual interest. In our opinion such a clarification is important to ensure consistency. Thus, we wonder why the IASB did not consider clarifying this point. Since we feel that IFRS 5 is rather difficult to implement, being really precise and exhaustive would help both users and preparers.

IFRS 7 Financial Instruments: Disclosures

Issue 3: Presentation of finance costs

Question 3:

The Board proposes to amend paragraph IG13 of IFRS 7 Financial Instruments: Disclosures to resolve the potential conflict with IAS 1. Do you agree with the proposal? If not, why?

We agree with the proposed amendment.

IAS 1 Presentation of Financial Statements

Issue 4: Statement of compliance with IFRSs

Question 4:

Do you agree with the proposal to require an entity that cannot make an unreserved statement of compliance with IFRSs to describe how its financial statements would have been different if prepared in full compliance with IFRSs? If not, why?

Stating as in IAS 1.16 that "An entity shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs" clearly shows the IASB's will that financial statements be prepared in respect of a high quality set of standards. We fully support this objective.

However, we believe the IASB is not in a position to address cases where an entity is not able to make an unreserved statement of compliance to IFRSs, because such a situation means that financial statements' quality is at stake.

We fear that such a disclosure as stated in IAS 1.16A might be interpreted as a way to "cherry picking" as long as a reconciliation is provided. Once again, the quality and comparability of financial information will then not be achieved.

We also feel that non compliance to a high quality set of standards cannot be brushed aside by mere disclosures.

Finally, we are of the opinion that this issue is rather a political issue that ought to be dealt with by local regulators. We strongly believe that this draft amendment is driven from SEC requirements regarding US GAAP/IFRS reconciliations.

Issue 5: Current/non-current classification of convertible instruments

Question 5:

Do you agree with the proposal to clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current? If not, why?

We agree with the proposed amendment. Indeed, the settlement of a liability by the issue of equity instruments does not entail an outflow of cash, cash equivalent or other assets. Therefore, there is no liquidity risk and the classification as current of such a liability is not relevant.

Issue 6: Current/non-current classification of derivatives

Question 6:

Do you agree with the proposal to amend the examples in paragraphs 68 and 71 of IAS 1 to remove the potential implication that financial assets and financial liabilities that are classified as held for trading in accordance with IAS 39 are required to be presented as current? If not, why?

We agree with the need to clarify that financial assets classified as "held for trading" in accordance with IAS 39 may not automatically be presented as current, which seems to be a widely spread interpretation nowadays.

However, we would appreciate that IAS 1 be more explicit as to what "held primarily for the purpose of trading" really means, by reference to what is included in the "held for trading" category, as defined by IAS 39.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Issue 7: Status of implementation guidance

Question 7:

Do you agree with the proposal to amend paragraphs 7, 9 and 11 of IAS 8 to clarify the status of implementation guidance? If not, why?

We agree with the proposed amendment.

IAS 10 Events after the Reporting Period

Issue 8: Dividends declared after the end of the reporting period

Question 8:

Do you agree with the proposal to amend paragraph 13 of IAS 10 to clarify why a dividend declared after the reporting period does not result in the recognition of a liability at the end of the reporting period? If not, why?

We agree with the proposed amendment.

IAS 16 Property, Plant and Equipment

Issue 9: Recoverable amount

Question 9:

Should the definition of recoverable amount in IAS 16 be amended to remove the perceived inconsistency with 'recoverable amount' used in other IFRSs? If not, why?

We agree with the proposed amendment.

Issue 10: Sale of assets held for rental

Question 10:

Do you agree with the proposal to amend paragraph 68 of IAS 16 and paragraph 14 of IAS 7? If not, why?

We agree with the proposal to include in revenue the proceeds of the sale of assets held for rental when such a practice is part of the ordinary activities of the entity.

We understand that this accounting treatment is subject to the classification of the assets held for rental and about to be sold as inventories. However, such a change in classification raises several issues that are not addressed in the proposed amendment or in the basis for conclusions. We therefore think it would be appropriate to add disclosures to explain:

- ✓ that the change in use must be clearly evidenced (as required in IAS 40.57 (b) for investment properties);
- ✓ the reason why the sale of these assets should not be accounted for under IFRS 5.

IAS 17 Leases

Issue 11: Classification of leases of land and buildings

Question 11:

Do you agree with the proposal to amend paragraphs 14 and 15 of IAS 17 to eliminate a perceived inconsistency between the specific classification guidance for leases of land and buildings and the general lease classification guidance in IAS 17? If not, why?

We do not agree with the proposed amendment as we believe IAS 17.14 and BC 8 are clear enough and need not to be modified. Moreover, the IFRIC had already discussed this issue and had decided not to add this item to its agenda in March 2006 as it did not expect significant diversity in practice.

Indeed, IAS 17.14 clearly emphasizes that "normally" leases of land should not be classified as finance leases if title is not expected to pass to the lessee at the end of the lease. In BC 8, the Board had already rejected the approach that would consist in deleting the requirement that lease of land be "normally" classified as operating leases.

We find that the proposed basis for conclusions do not explain sufficiently why the Board changed its mind as it refers neither to BC 8 nor to the IFRIC decision of March 2006.

Issue 12: Contingent rents

Question 12:

Do you agree with the proposal that contingent rent relating to an operating lease should be recognised as incurred? If not, why?

We agree with the proposed amendment.

IAS 18 Revenue

Issue 13: Costs of originating a loan

Question 13:

Do you agree with the proposed amendment to the guidance on IAS 18 to explain that the definition of the transaction costs to be applied to the accounting for financial asset origination fees are those defined in IAS 39? If not, why?

We agree with the proposed amendment. Moreover, we would also modify § 14(a)(ii) of the appendix to ensure consistency.

IAS 19 Employee Benefits

Issue 14: Curtailments and negative past service cost

Question 14:

A. *Do you agree that IAS 19 should be amended to clarify that when a plan amendment reduces benefits for future service, the reduction relating to future service is a curtailment and any reduction relating to past service is negative past service cost? If not, why?*

We understand that a plan amendment that reduces benefits for future service entails both negative past service cost and curtailment. In our opinion, a negative past service cost, being effective at the date the plan amendment occurs, should be recognised at once in the income statement (contrary to a positive past service cost that would be recognised on a straight-line basis over the average period until the benefits become vested). Indeed, we do not believe the entity will receive downgraded services from employees over the remaining vesting period.
Thus, we believe that the same accounting treatment should be applied to both negative past service costs and curtailment.

If the same accounting treatment is to be applied to negative past service costs and curtailment in the case of a plan amendment that reduces benefits for future service, we are of the opinion that making a distinction between them is not useful.

If the Board wants to maintain that negative past service costs are accounted for over the remaining vesting period, then we think that additional guidance or illustrative examples are necessary to distinguish them from curtailment.

B. *Do you agree that the Board should delete the following sentence from paragraph 111 of IAS 19: "An event is material enough to qualify as a curtailment if the recognition of a curtailment gain or loss would have a material effect on the financial statements."? If not, why?*

We agree with the proposed amendment.

Issue 15: Plan administration costs

Question 15:

Do you agree with the proposal to amend the definition of return on plan assets in paragraph 7 of IAS 19 to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the measurement of the defined benefit obligation? If not, why?

We agree with the proposed amendment.

Issue 16: Replacement of term 'fall due'

Question 16:

Do you agree with the proposal to replace in IAS 19 the term 'fall due' with the notion of employee entitlement in the definitions of short-term employee benefits and other long-term employee benefits? If not, why?

We agree with the proposed amendment.

Issue 17: Guidance on contingent liabilities

Question 17:

Should the reference in IAS 19 to recognising contingent liabilities be removed? If not, why?

We agree with the proposed amendment.

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

Issue 18: Consistency of terminology with other IFRSs

Question 18:

Do you agree with the proposal to conform terminology used by IAS 20 to the equivalent defined or more widely used terms? If not, why?

We agree with the proposed amendment.

Issue 19: Government loans with a below-market rate of interest

Question 19:

Do you agree with the proposed amendments to IAS 20 to clarify that the benefit of a loan received from a government with a below-market rate of interest should be quantified by the imputation of interest in accordance with IAS 39? If not, why?

We agree with the proposed amendment.

IAS 23 Borrowing Costs

Issue 20: Components of borrowing costs

Question 20:

Do you agree with the proposal to amend paragraph 6 of IAS 23 to reference to the guidance in IAS 39 Financial Instruments: Recognition and Measurement relating to effective interest rate when describing the components of borrowing costs? If not, why?

We agree with the proposed amendment. However, we think that the effect of hedges should also be taken into account to determine borrowing costs in cases when hedge accounting is applied and hedge relationship is effective.

IAS 27 Consolidated and Separate Financial Statements

Issue 21: Measurement of subsidiary held for sale in separate financial statements

Question 21:

Do you agree with the proposal to require investments in subsidiaries that are accounted for in accordance with IAS 39 in the parent's separate financial statements to continue to be accounted for on that basis when classified as held for sale (or included in a disposal group that is classified as held for sale)? If not, why?

We agree with the proposed amendment.

IAS 28 Investments in Associates

Issue 22: Required disclosures when investments in associates are accounted for at fair value through profit or loss

Question 22:

Do you agree with the proposal to clarify the disclosures required of an investor in an associate that accounts for its interest in the associate at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss? If not, why?

We agree with the fact that information on significant restrictions on the ability of associates to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances, is useful information that ought to be given for investments accounted for under IAS 28 as well as for investments excluded from IAS 28 in accordance with IAS 28.1.

However, we think it would be more appropriate to include such a disclosure in a specific paragraph in IAS 39 than in a paragraph in IAS 28 that specifically relates to an exclusion to the standard itself and therefore to all its requirements.

Issue 23: Impairment of investment in associate

Question 23:

Do you agree with the proposal to amend paragraph 33 of IAS 28 to clarify the circumstances in which an impairment charge against an investment in an associate should be reversed? If not, why?

We understand that the proposed amendment considers that an impairment charge against an investment in an associate should not be allocated to goodwill because goodwill is not separately accounted for under the equity method. Therefore, the reversal of the impairment charge is possible.

We agree with the possibility to reverse impairment losses on investments accounted for under the equity method, as we consider that an entity should be able to reverse impairment losses whatever the item, i.e. even for available for sale equity instruments and goodwill.

However, we note that current IAS 28.31, IAS 28.32 and IAS 28.33 refer to IAS 39 to determine whether the recognition of impairment losses is required. We find that such reference to IAS 39 may still be misinterpreted as implying that impairment of investment accounted for under IAS 28 should follow the accounting treatment of equity instruments available for sale for which impairment cannot be reversed. Therefore, we suggest IAS 28 be amended to state explicitly that reference to IAS 39 concerns <u>only</u> the indicators of impairment and <u>not</u> the accounting treatment for impairment recognition/derecognition.

IAS 29 Financial Reporting in Hyperinflationary Economies

Issue 24: Consistency of terminology with other IFRSs

Question 24:

Do you agree with the proposal to update the description of historical cost financial statements in paragraph 6 of IAS 29 and to conform terminology in IAS 29 to the equivalent defined or more widely used terms? If not, why?

We agree with the proposed amendment.

IAS 31 Interests in Joint Ventures

Issue 25: Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss

Question 25:

Do you agree with the proposal to clarify the disclosures required of a venturer in a jointly controlled entity that accounts for its interest in the jointly controlled entity at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss? If not, why?

Our comments are similar to those expressed in answering to question 22.

IAS 34 Interim Financial Reporting

Issue 26: Earnings per share disclosures in interim financial reports

Question 26:

Do you agree with the proposal to amend paragraph 11 of IAS 34 to require the presentation of basic and diluted earnings per share only when the entity is within the scope of IAS 33? If not, why?

We agree with the proposed amendment.

IAS 36 Impairment of Assets

Issue 27: Disclosure of estimates used to determine recoverable amount

Question 27:

Do you agree with the proposal to amend paragraph 134(e) of IAS 36 to require the same disclosures to be given for fair value less costs to sell as are required for value in use when discounted cash flows are used to calculate fair value less costs to sell? If not, why?

We agree with the proposed amendment.

IAS 38 Intangible Assets

Issue 28: Advertising and promotional activities

Question 28:

A. Do you agree that IAS 38 should emphasise that an entity should recognise expenditure on an intangible item as an expense when it has access to the goods or has received the services? If not, why?

B. Do you agree that paragraph 70 of IAS 38 should be amended to allow an entity to recognise a prepayment only until it has access to the related goods or has received the related services? If not, why?

We disagree with the proposed amendment and we consider it is far from a minor amendment. Indeed, the proposed changes refer to a wider issue which deals with the distinction between expenses and assets and encounters the accounting issue of prepayments.

Moreover, BC 4 analyses payment in advance for goods or services as an asset which is the right to receive those goods or services. We believe that such an analysis may not be consistent with current standards that deal with a right of use that is not considered as an asset (IAS 17 - Leases for example).

Therefore we would rather suggest that the IASB waits until a comprehensive standard on expenses is discussed and published before amending IAS 38.

Issue 29: Unit of production method of amortisation

Question 29:

Do you agree with the proposal to remove the last sentence of paragraph 98 of IAS 38 regarding the amortisation method used for intangible assets? If not, why?

We agree with the proposed amendment.

IAS 39 Financial instruments: recognition and measurement

Issue 30: Definition of a derivative

Question 30:

Do you agree with the proposal to amend IAS 39 by removing from the definition of a derivative the exclusion relating to contracts linked to non-financial variables that are specific to a party to the contract? If not, why?

We disagree with the proposed amendment to the definition of a derivative. We understand that the annual improvement process is designed to deal with miscellaneous and non-urgent matters. We consider that the proposed amendment does not meet that objective and should be dealt with through an amendment to the standard. Before this amendment is published, we strongly recommend that an assessment of potential consequences be performed. It is our opinion that amending the definition of a derivative may have tremendous consequences as many existing financial instruments have a link to a specific non-financial variable (i.e. added value linkers, covenants…). These financial instruments are not recognised as derivatives according to current IAS 39.

We disagree in principle since the Board does not present any rationale for amending the current definition. We were unable to understand why the Board considered the linker to a specific non-financial variable was "unnecessary in determining whether a contract within the scope of IAS 39 is a derivative" (BC2).

Lastly, we disagree with the proposed amendment from a true and fair view standpoint. Amending the current definition will result in many financial instruments being recognised as financial derivatives at fair value. We firmly believe that fair value is not an appropriate method for contracts that are not negotiated on an active market and which conditions are very specific to one party to the contract. As the conditions are specific to one party there will be no generally accepted method to calculate fair value readily available on the market. That is to say all fair value calculations for that type of derivatives will rely significantly on assumptions of the management. We believe that it does not meet the definition of fair value as set out in IAS 39.

Issue 31: Reclassification of derivatives into or out of the classification of at fair value through profit or loss

Question 31:

Do you agree with the proposal to amend IAS 39 to clarify definitions of a financial instrument classified as held for trading? If not, why?

Do you agree with the proposal to insert in IAS 39 paragraph 50A to clarify the changes in circumstances that are not reclassifications into or out of the fair value through profit or loss category? If not, why?

We agree with the proposed amendment.

Issue 32: Designating and documenting hedges at the segment level

Question 32:

Do you agree with the proposal to amend paragraph 73 of IAS 39 to remove the references to segments and segment reporting? If not, why?

We agree with the proposed amendment.

Issue 33: Applicable effective interest rate on cessation of fair value hedge accounting

Question 33:

Do you agree with the proposal to amend paragraph AG8 of IAS 39 to clarify that the revised effective interest rate calculated in accordance with paragraph 92 shall be used, when applicable, for the purposes of the remeasurement of the financial instrument in accordance with paragraph AG8? If not, why?

We agree with the proposed amendment.

Issue 34: Treating loan prepayment penalties as closely related embedded derivatives

Question 34:

Do you agree with the proposal to amend paragraph AG30(g) of IAS 39 to clarify that prepayment options, the exercise price of which compensate the lender for loss of interest by reducing the economic loss from reinvestment risk, as described in paragraph AG33(a), are closely related to the host debt contract? If not, why?

We agree with the proposed amendment.

IAS 40 Investment Property

Issue 35: Property under construction or development for future use as investment property

Question 35:

The exposure draft proposes to include property under construction or development for future use as an investment property within the scope of IAS 40. Do you agree with the proposal? If not, why?

The proposed amendment consists of including within the scope of IAS 40 properties that are being constructed or developed for future use as investment properties. Such an amendment intends to improve consistency between properties purchased for the purpose of constructing a future investment property, and existing properties that are redeveloped.

We agree on the proposed amendment. Nevertheless, for entities that account for their investment properties at cost, we feel that there remains a difference in the accounting treatment between a purchased property for the purpose of redevelopment and a property already used as investment property and that is being redeveloped. Indeed, the newly purchased investment property will only be depreciated from the date it is available for use in the manner intended by the management, whereas depreciation will go on for the existing investment property under redevelopment, in accordance with IAS 16.55.
We are of the opinion that such a difference must be dealt with and we suggest depreciation ceases for investment properties under redevelopment during the redevelopment period.

Issue 36: Consistency of terminology with IAS 8

Question 36:

Do you agree with the proposal to conform terminology used in paragraph 31 of IAS 40 to the terminology used in IAS 8? If not, why?

We agree with the proposed amendment.

Issue 37: Investment property held under lease

Question 37:

Should paragraph 50(d) of IAS 40 be amended to clarify the accounting for investment property held under a lease? If not, why?

We agree with the proposed amendment.

IAS 41 Agriculture

Issue 38: Point-of-sale costs

Question 38:

Do you agree with the proposal to replace the terms "point-of-sale costs" and "estimated point-of-sale costs" in IAS 41 with "costs to sell"? If not, why?

We agree with the proposed amendment.

Issue 39: Discount rate for fair value calculations

Question 39:

Do you agree with the proposed amendment to IAS 41 to permit either a pre-tax or a post-tax discount rate to be used according to the valuation methodology used to determine fair value? If not, why?

We agree with the proposed amendment and we assess that the value is a fair value and not a value in use as defined in IAS 36.

Issue 40: Additional biological transformation

Question 40:

Do you agree with the proposal to remove the exclusion of "additional biological transformation" from paragraph 21 of IAS 41? If not, why?

We agree with the proposed amendment. However we are of the opinion that some guidance is required:

- ✓ as to how to measure a biological asset that has not reached maturity at the closing date and for which no active market exists. Indeed, we think that even if the impacts of transformation of biological assets are taken into account to determine net cash flows, measurement might still be burdensome.
- ✓ as to how to account for the obligation to replant, if any.

Issue 41: Examples of agricultural produce and products

Question 41:

Do you agree with the proposed amendments to the examples in paragraph 4 of IAS 41? If not, why?

We agree with the proposed amendment.