

Paris, 24th September 2002

Dear Sir,

The AFEP-AGREF appreciates the opportunity to offer its views on the proposals in the “Exposure Draft on the First-time Application of IFRSs” and to set out the position expressed by its members.

There are some issues we would like to bring to your attention.

Effective dates of standards (Question 4)

The transition to IAS/ IFRSs, in 2005, for thousands of European listed companies is a major and historical event. It involves many significant changes in financial reporting, especially for international companies. Due to the necessity to anticipate those changes, the AFEP-AGREF believes that virtually all standards effective in 2005 should be known by the end of 2003.

With the possible exception of the convergence project with FAS 141 and 142 (see below), this implies that no new standard should become operative in Europe in 2004 and 2005.

As far as the IASB Reporting Performance project is concerned, changes, if any, should be applied prospectively and become effective only after the period of adoption in the European Union (i.e. in 2006 at the earliest). As this major project may use new presentation concepts and criteria and, therefore, have a substantial impact on the communication between market participants, it is essential to achieve global and simultaneous convergence, as well as to use the appropriate procedures provided for in the IASC Foundation Constitution (including the publication of a Draft Statement of Principles or other document for public comment (1) and field tests (2) on a world scale).

(1) IASC Foundation Constitution – July 2002 § § 31 and 32 (b)

(2) Id. § 32 (f)

Sir David Tweedie
Chairman of the Board
30, Cannon Street
London,
EC4M 6XH, United Kingdom

Impairment Approach for Goodwill and Intangible Assets with an Indefinite Life (Question 4)

The AFEP-AGREF welcomes the decisions by the IASB to seek convergence between the newly adopted FAS 141 *Business Combinations* and FAS 142 *Goodwill and Other Intangible Assets* and the IASB related standards.

In particular the AFEP-AGREF agrees with the Board that more useful information would be provided under an impairment approach than from amortisation of goodwill and intangible assets with an indefinite useful life.

Therefore, the AFEP- AGREF believes it is essential that the Board revises the current amortisation requirements and adopts the impairment approach before the future standard on First-time Application becomes effective.

Specific transitional provisions should be developed in respect of intangible assets.

In particular, concerning intangible assets with an indefinite life, contrary to the treatment detailed in § BC43, an entity should not adjust the accumulated amortisation since the date of a business combination that is recognised under previous GAAP ; as those assets would be tested for impairment at the date of transition to IFRSs.

Prior Derecognition of Financial Instruments (Question 4)

Although the period of adoption in the European Union is 2005, the paragraph BC24, based on the June 2002 Exposure Draft of improvements to IAS 39, proposes that an entity shall recognise, under IFRSs, financial assets (including loans and receivables) or financial liabilities derecognised under the entity's previous GAAP.

This proposal diverges from the transitional provision in IAS 39.172 (a) according to which the recognition and derecognition policies followed for periods prior to the effective date of IAS 39 should not be reversed.

The AFEP- AGREF disagrees with the IASB proposal and requests deletion of the exception mentioned in paragraph BC 24 for the following reasons :

- It should be noted that financial information is used in contracts or agreements as conditions or criteria and that, *before the date of adoption (2005), the application of local GAAP will be mandatory for financial information purposes*. The early application of IAS 39, which has no legal value, could neither achieve the consistent measurement policies nor the legal certainty expected by parties to transactions.
- Furthermore, the IASB currently is contemplating the revision of the recognition principles in IAS 39. Although the new principles still are unknown and the future provisions will be adopted in 2003 at the earliest, *it would then be necessary, in 2005, to retrospectively assess events and circumstances, which would be detrimental to the reliability of information*. In addition, it would be contrary to the underlying Board assumption that it is possible to collect well in advance the information needed.

- Last, it should be underlined that the future standard on First-time Application of IFRSs is designed to apply when an entity first states explicitly that its financial statements comply with IFRSs, whenever the date of adoption may be. According to the IASB proposal, *every entity likely to apply IFRSs in the future should then draw up a second set of accounts according to IFRSs and reflect subsequent changes*. Even if the transition to IFRSs results from a legal or regulatory change.

Comparative information (Question 2)

Paragraph 29 sets out that “To comply with IAS 1, *Presentation of Financial Statements*, an entity’s first IFRS financial statements shall include *at least one year* of comparative information under IFRS. If the first IFRS financial statements include more than one year of comparative information, that additional comparative information shall comply with IFRSs”.

The AFEP- AGREF is of the view that the IASB standards should not require more than one year of comparative information under IFRSs. It should be emphasized that IAS 1.38 does not require «at least one year of comparative information”, but comparative information “in respect of the previous period”. Therefore, to satisfy IAS 1, it is necessary to refer only to the previous year.

Consequently, the information relating to the year preceding the period of adoption (2004 in the European Union) will be provided both according to IFRS and previous GAAP.

The AFEP- AGREF believes that the paragraph on Comparative Information in the standard on First-time Application should read as follows : “An entity’s first IFRSs financial statements shall include comparative information under IFRSs in respect of the period preceding the period of adoption.”

A requirement to include comparative information for more than one year would raise great difficulties, in particular in the context of the first-time application of a set of standards:

- *Practical difficulties* : it would involve keeping in place two reporting systems, which is costly and unrealistic for a period of more than one year ;
- *Difficulties relating to the ongoing evolution of standards and to the large-scale of changes*: in this context, it is not relevant to generalise the principle that it is possible to collect the necessary information more than one year in advance and to retrospectively assess events and circumstances under a new set of standards.
- *Difficulties relating to a lack of legal certainty* : In most cases, in particular in the European Union, IASB standards will be applicable only after a legal approval process and publication.
For example, in the European Union, it is unlikely that the standards and interpretations can be approved and published in the Community languages before 2003.

Reversal of an impairment loss for assets impaired at the date of transition (Question 2)

Paragraph 7 of the Exposure Draft requires an entity's opening IFRSs balance sheet to comply with all the recognition and measurement requirements of IFRSs. In consequence, as set out in paragraph 11 of the Exposure Draft, except as described in paragraphs 13-24, an entity shall in its opening IFRSs balance sheet apply IFRSs in measuring all recognised assets and liabilities.

This is necessary to ensure that it contains high-quality information that is comparable over the periods presented and provides a sound base for the entity's subsequent accounting under IFRSs.

In line with those objectives, the AFEP-AGREF believes it would be useful to refer explicitly in the standard to IAS 36, *Impairment of Assets* with regard to the treatment of assets impaired at the date of transition to IFRSs. In particular, the standard should indicate that *subsequent* reversals should follow the treatment set out in IAS 36 paragraphs 104, 107 and 109. This point is currently rightly addressed in the Implementation Guidance IG35.

The AFEP-AGREF would be pleased to discuss these comments further.

Yours sincerely,

Patrick Rochet
Director General

AFEP - AGREF

**ASSOCIATION FRANCAISE DES ENTREPRISES PRIVEES
ASSOCIATION DES GRANDES ENTREPRISES FRANCAISES**

The purpose of the Association Française des Entreprises privées – Association des Grandes Entreprises Françaises (AFEP-AGREF) is to present the views of large French companies to European Union institutions and other international organisations and the national authorities, mainly with regard to the drafting of non-sectoral legislations (on the economy, taxation, company law, financial information, competition, social and environmental matters...).

Given the importance of these European legislative documents (directives and regulations) which are subsequently incorporated into national law, it is essential for companies to be present on the spot when they are being drawn up. So AFEP-AGREF, whose headquarters are in Paris, also has a Brussels office.

The AFEP-AGREF represents at present the top eighty French private sector companies. The market capitalisation of the AFEP-AGREF member companies amounted in 2001 to 900 bn euro, with more than 3 million employees, and combined turnover of over 700 bn euro.

The Presidents of the member companies are actively and directly involved in the definition of the main lines of economic and social policy to be submitted to the European and national authorities, they decide on the most appropriate course of action to promote companies' growth in a world market economy.

As a genuine force for generating new proposals, the AFEP-AGREF is also a prime forum for contacts between member companies and key economic players, which consult the Association in particular when they are considering plans for reform or regulations. Senior officials in the European Union and French administrations, as well as senior representatives of private bodies, regularly take part in meetings organised at the headquarters of the Association, enabling direct and constructive dialogue to take place.

The President of AFEP, who expresses the position of the AFEP-AGREF on French questions, is Mr. Bertrand COLLOMB. The President of AGREF, who expresses the position of the AFEP-AGREF on European questions, is Mr. Patrick ROCHET.

Contact person for Financial and Accounting Information:

Francis Desmarchelier
Director of Financial and Accounting Information
Tel. : +33 1 43 59 85 22
Fax : +33 1 40 74 03 65
infofin@afep.com