

**Sir David TWEEDIE**  
**Chairman IASB**

**IASB**  
30 Cannon Street  
LONDON EC4M 6XH  
UK

*JK/SJ/10.2002/190*

*RE : Exposure draft on First Time Application*

Paris, Thursday October 31<sup>st</sup>, 2002

Dear Sir,

We would like to thank you to give us the opportunity to comment the exposure draft on First-time application.

Please find enclosed the answer on this subject that ACTEO and MEDEF have prepared jointly.

Should you wish further comments or developments, please let us know and we would promptly answer to your requests.

Yours sincerely,

**ACTEO**

**Philippe CROUZET**  
Le Président

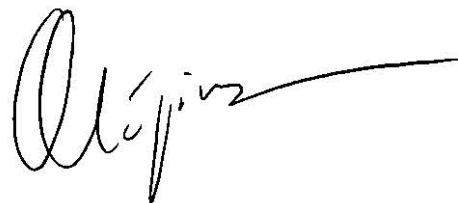
P/O **Jean KELLER**



Le Délégué Permanent

**MEDEF**

**Agnès LEPINAY**



Le Directeur des Affaires Economiques, Financières et Fiscales



Association pour la participation des  
entreprises françaises à l'harmonisation  
comptable internationale



Mouvement  
des Entreprises de France  
**MEDEF**

**Exposure Draft :**

**First Time Application  
Of  
International Financial Reporting Standards**

## General comment

Adopting IFRS as a new primary basis of accounting is a large-scale project that requires long-term in advance preparation and that implies heavy changes in companies procedures and information systems. Accordingly and as stated in the basis for conclusions to the present exposure-draft (§ BC 13 and BC 84), the Board's assumption is that companies " will begin planning on a timely basis" that is "well in advance".

There are however heavy issues not yet dealt with by the Board that seriously impair such a well in advance planning process. **We therefore strongly recommend to the Board that no amendment or new IFRS be issued after December 31, 2003, of which implementation would become mandatory before December 31, 2005.**

## QUESTIONS

### QUESTION 1

*The proposed IFRS would apply when an entity first adopts International Financial Reporting Standards (IFRSs) as its new basis of accounting, by an explicit and unreserved statement of compliance with all IFRSs (paragraphs 1-5 and paragraphs BC4-BC10 of the Basis for Conclusions). Is this an appropriate description of the circumstances when this proposed IFRS should apply ? If not, what changes would you suggest, and why ?*

We welcome §2 as setting a sound basis for defining what the scope of first-time adopters should be, that is entities that include for the first time in a set of financial statements made public an explicit and unreserved statement of compliance with IFRS.

We however dissent on the following issues:

#### **Auditors' qualification**

However, we do not agree with the exclusion described in §3, c). An entity that made an explicit and unreserved statement of compliance with IFRS in financial statements on which the audit report is qualified should, in our opinion, qualify as a first-time adopter when:

- the auditors' qualification clearly negate the unreserved statement of compliance with IFRS in an area where First-time application IFRS identifies a need for an exception,
- **and** the entity has never in the past published any unqualified financial statements including an explicit and unreserved statement of compliance with IFRS.

An entity that satisfies those criteria is indeed no different from an entity that would have issued financial statements including a reserved statement of compliance to IFRS leading auditors to qualify their report on that account. We believe that two entities having issued comparable financial information should be dealt with in the same manner.

## **Subsidiaries**

We also recommend that paragraph 5 of the Standard (which deals with first-time adopter subsidiaries of which accounts have been consolidated in compliance with IFRS) be clarified in order to explicitly reflect paragraph BC63. We would also suggest that this paragraph be presented as a specific exemption to paragraph 7 (what it really is) instead of being presented as a scope item. Furthermore we consider that this exception should be applied wherever “no objection has been received – within a span of time prior to the issuance of financial statements and after the question has been raised – from the minority shareholders”. We indeed consider that in many cases it will be impracticable to obtain the unanimous agreement of the minority as currently proposed by paragraph 5(a).

## **Clarification of §2 d)**

In our opinion, “other external users” should be defined and hence restricted. We suggest that this paragraph reads as follows:

“b) prepared financial statements under IFRS, without making them available in accordance with financial market regulator requirements”.

## **QUESTION 2**

*The proposed IFRS proposes a requirement that an entity shall prepare its opening IFRS balance sheet using accounting policies that comply with each IFRS effective at the reporting date for its first IFRS financial statements. Paragraphs 13-24 propose limited exemptions from this requirement. Are all of these exemptions appropriate ? Should the Board amend any of these exemptions or create any further exemptions (paragraphs BC11- BC89) ? If so, why ?*

We support the proposed IFRS general requirements, that is:

- the use of the same set of accounting principles, from the transition date on,
- the use of the accounting principles applicable at the reporting date (please refer to our general comment above),
- the alternative set out for the entities, to either apply all IFRS fully retrospectively (§13) or use all exceptions provided (§ 14- 24).

It should however be made clear in § 14 that the list of exemptions is exhaustive.

We however believe some other exemptions should be introduced.

## **1- Borrowing costs**

In accordance with their national standards, entities may have reported borrowing costs as part of the acquisition cost of some tangible assets but not all of them. Whether the entity retains the benchmark or the alternative treatment authorised in IAS 23, restating cost information is necessary. This however involves cumbersome efforts. Retaining fair value as deemed cost also.

We therefore suggest that IAS 23 be applied prospectively, in accordance with transition provisions included in that statement. Wherever the treatment of borrowing costs is the sole different component in the cost of acquisition of tangible assets, we indeed believe that previous cost bases are the most relevant.

## **2- Tangible assets : approach by components**

Where the component approach involves a change in accounting policies, implementing such an approach is one of the major changes that the conversion to IFRS implies. It therefore constitutes, in our opinion, an "undue cost or effort" issue.

We have experienced in some conversion projects that there is indeed a huge, tremendous effort involved in:

- splitting all existing tangible assets into components,
- determining a sound deemed cost for each of those (whether fair value is used).

We therefore recommend that first-time adopters be exempted from implementing the component approach retrospectively, as of the transition date.

Moreover, where the issue is most critical, companies used to account for a provision for major overhauls and repairs which does not comply with IAS 37 requirements.

Those provisions cannot be derecognised unless the component approach is implemented.

For those businesses involved in this issue, we recommend, as a transition provision, that companies be allowed to present their previously reported provision for major overhauls and repairs in deduction to tangible assets, for a span of time to be defined. During that time, new tangible assets would be accounted for in full compliance with IAS 16 component approach and no additional provision expense would be accrued. At the end of the derogatory delay or at any point in time when the company would be ready to do so (remaining tangible assets would have been appropriately split into components), appropriate disclosures and reconciliation of data would be provided.

### 3- Hedging

We do not support the prospective treatment as proposed. Implementing IAS 39 as to hedging may involve great changes in company practices and information systems.

In our opinion prohibiting retrospective designation to avoid cherry-picking is not a sensible decision, since companies may enter market transactions in order to obtain the desired effect on their accounts. It should indeed be recalled that many national standards do not require derivative recognition.

We recommend that IAS 39 be implemented, with appropriate documentation and effectiveness as of the date of transition. Companies will hence concentrate on preparing high-quality information in relation to hedging on a prospective basis. That is, in our opinion, how users of financial statements will best be served.

### 4- Other issues

As companies are still, at best, in the early stages of their conversion project to international standards, we believe that we may not have identified all areas where the use of a supplementary exemption would reduce the burden of the conversion process without impairing the comparability and reliability of the accounts presented. Therefore we recommend that either the IFRIC or an Implementation Guidance Committee be responsible for dealing with implementation issues submitted by companies or their auditors.

### QUESTION 3

*Paragraphs 28-37 of the proposed IFRS deal with presentation and disclosure requirements (see also paragraphs BC90-BC97). Are all of these disclosures appropriate ? Should the Board require any further disclosures or eliminate or amend any of the proposed disclosure requirements ? If so, why ?*

We agree that disclosures requested are useful to the user of financial statements and therefore support them.

We however disagree with § 29. We agree with the Board that displaying carelessly several years of comparative data could be misleading. However we feel that this information is useful to the user of financial statements, if captions are adequately labelled as “compliant with IFRS” and “compliant with former GAAPs”. Should the Board consider such a carefully labelled presentation not sufficient to ensure no misinterpretation by users, we suggest that the Board requests the year of transition to be presented in two columns aside, one in compliance with former GAAPs and hence comparable to the year(s) before, the other in compliance with IFRS and hence comparable to the reporting period.

Such a presentation is, in our opinion, of educational interest to the users of financial statements, especially in regard to the information included in the notes. It should help investors to understand step by step, item by item, the magnitude of the change in the primary basis of accounting.

#### **QUESTION 4**

*Do you have any other comments on the Exposure Draft ?*

We believe that Implementation Guidance should form an inseparable part of the standard and that it should be included in the same booklet. This would allow official publication and translation by the European Commission and help sound and comparable implementation throughout, not only Europe, but also the whole world.

#### **OTHER COMMENTS**

*Negative goodwill (Appendix B 1 e))*

First-time application standard being designed to address any first-time application in the future should be worded in such a manner that only exceptions to current accounting standards be specified.

We therefore suggest that e) be rewritten as “negative goodwill should be dealt with in accordance with business combination requirements applicable at the reporting date”.

A note to the examples should clearly state that the requirements identified are in accordance with the requirements applicable when the standard was issued.