



31 October 2002

Sir David Tweedie  
International Accounting Standards Board  
30 Cannon St  
London EC4M 6XH  
United Kingdom

**Re: Exposure Draft ED 1: First-Time Application of International Financial Reporting Standards.**

Dear Sir David,

We are pleased to provide our comments on the above Exposure Draft which reflect joint deliberation between ourselves and Société Générale.

We generally support the proposals in the Exposure Draft. However, we have key concerns regarding the requirements for financial instruments, mainly related to the non-grandfathering of prior derecognition transactions. We explain in the attached appendix our concerns and we also include additional comments on the Exposure Draft.

To enable an implementation of quality of IFRS by 2005, we also have concerns about the timetable for the finalisation of current IASB projects that will lead to IFRS that will become applicable in 2005. We recommend that IFRS that will be applicable in 2005 should be approved at the latest before the end of 2003, to allow sufficient time to prepare for their implementation.

In some cases, we can understand that some critical projects may be finalised in 2004 (instead of 2003) and be applicable in 2005. One example would be Phase I of the Business Combination project. However, we have concerns about the timetable of some other projects, such as the project on Performance Reporting. If an IFRS on this latter topic were to be implemented by 2005, we have concerns that companies will not have sufficient time and resources to prepare for both the conversions to IFRS and a major change in the way financial information is presented to the users of financial statements. Should the project be finalised before 2005, we recommend that an implementation date should be scheduled for later than 2005.

financial statements in 2005 using different sets of standards, and therefore showing different reconciliations to IFRS. We recommend that the IASB considers carefully the effective date of future IFRS applicable in 2005.

If you have any queries regarding our comments, please do not hesitate to contact me at 33 (0)1 40 14 29 28.

Yours faithfully,

Philippe BORDENAVE  
*Chief Financial Officer*

*Cc: Conseil National de la Comptabilité*

**Appendix 1**  
**Comments on ED 1 – First-Time Application of IFRS**

**Question 1**

**The proposed IFRS would apply when an entity first adopts 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?**

*An ‘unreserved’ statement that the financial statements are in compliance with IFRSs*

Paragraph 2 states that “*an entity’s first IFRS financial statements are the first annual financial statements in which the entity adopts International Financial Reporting Standards (IFRSs) as its basis of accounting, by an explicit and unreserved statement in those financial statements of compliance with IFRSs.*”

Paragraph 2(a)(iii) and the requirement for an ‘unreserved’ statement of compliance seems to imply that, if an entity is declaring in its note on accounting policies compliance with IFRS as its basis of accounting except for a specific IFRS requirement, it would be treated as a first-time adopter only when it decides to become fully compliant. Under paragraph 3(c), if an entity declares full compliance with IFRS without exception but the auditors qualified their audit report, the entity would not be considered to be a first-time adopter. As a result, one may question what would happen if an entity claims compliance with IFRS for the first-time (e.g. because European law requires the use of IFRS in 2005), but the auditors qualified their audit report? What would be the status of such an entity (first-time adopter or not)? Is it appropriate that the response differs depending on whether an entity states non-compliance with a requirement or not? Under the example just described, it does not seem appropriate to us that the entity would not be treated as an IFRS issuer just because it did not comply with one or more requirements. Therefore, we suggest deletion of the term ‘unreserved’ in paragraph 2, and consequential amendments throughout the Standard.

In addition, paragraph 3(c) states that an entity does not adopt a new basis of accounting when it “*presented financial statements in the previous year that contained an explicit and unreserved statement of compliance with IFRSs, but the auditors qualified their audit report on those financial statements.*” We believe that this reference to auditors’ opinion is inappropriate in an accounting standard.

*Subsidiaries*

We find paragraph 5 confusing and believe it could be redrafted and the proposals simplified such that if a subsidiary is a first-time adopter it would have a choice between:

- (a) applying the exemptions in paragraphs 16-24 of the Standard on First-Time Application of IFRS;
- (b) restating all transactions retrospectively, using the current version of IFRS including all of their transitional provisions (see paragraph 13) in accordance with the “SIC 8-approach”; or

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- (c) using the IFRS compliant reporting package sent to its parent company, i.e. including the effect of exemptions that the parent company may have used when it applied IFRS for the first time (for example, taking the case of a subsidiary that is a first-time adopter in 2008, whose parent company was a first-time adopter in 2005 and for which the subsidiary has prepared a reporting package for consolidation purposes since 1 January 2004 using the exemptions in the Standard – this reporting package would differ from that which would apply under a SIC 8 approach and that which would apply under a first-time adopter approach using the exemptions, since this would mean for example a resetting to zero of the corridor in accounting for unrecognised actuarial gains and losses).

From an implementation perspective, if the IASB decided to keep paragraph 5, we recommend that paragraph 5(b) be amended so that, instead of requiring the unanimous agreement of minority shareholders in treating a subsidiary as a first-time adopter for recognition and measurement purposes, there should be a requirement so that no minority shareholder objects to not treating the subsidiary as a first-time adopter for recognition and measurement purposes. Where minority shareholding is widely spread out, it may be impossible to obtain the agreement of all minority shareholders whereas it may be possible to ask for objections.

#### *Other comments*

We believe that paragraph 2(b) needs clarification. For example, for the purpose of a specific commercial transaction, a third party may have requested IFRS financial statements to be prepared. Would the entity not qualify as a first-time adopter then?

## **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 exemptions appropriate? Should the Board amend any exemptions or create any further exemptions (paragraphs BC11-BC89)? If so, why?**

We support the general principle in paragraph 7 that an entity should use the same accounting policies for the IFRS periods presented in its first IFRS financial statements and that those policies should comply with each IFRS effective at the reporting date.

We also agree that entities should be permitted to use the exemptions set out in paragraphs 16 to 24. However, we do not understand why, if an entity applies one exemption, it is required to apply them all. For example, if an entity uses the exemption for Business Combinations, the Standard does not explain why it should also apply the 'fresh start' approach to actuarial gains and losses arising from defined benefit plans.

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#### *Revalued property, plant and equipment exemption*

In the 1990s, financial institutions in France were permitted by the Banking Supervisor to revalue their buildings. To avoid special taxation that would have occurred if these revaluations had been recognised in the individual company financial statements of those financial institutions, wholly owned group subsidiaries entered into internal transactions to purchase the assets at revalued amount. On consolidation and to achieve the desired results, the Banking Supervisor authorised that the internal profit included in the carrying amount of those assets was not eliminated on consolidation as long as the profit was recognised in equity directly instead of the income statement.

Paragraph 17 grants an exemption to restatement for revalued items of property, permitting such revalued amounts to be treated as « deemed cost » under IFRSs at the date of the revaluation. We would like to ensure that the revaluations in the consolidated financial statements described above, although in the form of internal transactions, qualify for exemption under the Standard.

#### *Employee benefits exemption*

We are concerned that the exemption for the accounting of defined benefit plans in paragraph 22 does not also apply to past service costs. We believe that the restatement of past service costs under IAS 19 can be very burdensome and costly. The information relating to prior years amendments may be difficult to collect and the calculations complicated to perform. We consider that it is pragmatic and relevant to measure a defined benefit obligation at the date of transition as the difference between the present value of the defined benefit obligation and the fair value of any plan assets. Therefore, the exemption in paragraph 22 should also apply to past service costs.

#### *Financial instruments*

##### Restatement of prior derecognition transactions

We believe that prior derecognition transactions that occurred before the revised Standard becomes effective should be grandfathered. This grandfathering should be included in this Standard on First-Time Application of IFRS.

We disagree with the view expressed in paragraph 21 of the proposed revised Preface that “*the fact that financial reporting requirements evolve and change over time is well understood and would be known to the parties when they entered into the agreement. It is up to the parties to determine whether the agreement should be insulated from the effects of a future IFRS, or, if not, the manner in which it might be renegotiated to reflect changes in reporting rather than changes in the underlying financial conditions*”. Renegotiations are not so easy and can be costly to implement, particularly in the case of prior derecognition transactions. To ensure preparers and users are not hindered in negotiations by the possibility that future new or revised accounting standards may change the current accounting treatment, we strongly believe that transactions undertaken within a certain accounting context should not need to be restated upon a change in accounting requirements.

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For prior derecognition transactions, we also truly believe that the exercise required to assess whether they should be restated would require undue costs and efforts. We believe that it would be very difficult or impossible to determine on a retrospective basis, especially for complex securitisation transactions, what is the fair value of:

- the different components of a transferred asset;
- the servicing asset/liability to recognise.

In addition, in some cases, some securitisation transactions have led to the derecognition of financial assets that are held by funds that are not under the control of our groups. If these prior derecognition transactions had to be restated (because of some continuing involvement such as a call option), it may be extremely difficult to obtain information on the carrying amounts of the financial assets that should be restated because the funds are not under the control of the enterprise. Furthermore, they may use accounting policies other than IFRS and have lost track of information that would allow restatement.

If the requirement for a restatement of all prior derecognition transactions was kept, we believe that the Board should consider the adoption of reasonable transitional provisions (nature and timing).

In addition, we understand that recognition/derecognition principles should apply on a consistent basis to both a transferor and a transferee. We believe that the Board should indicate that, if prior derecognition transactions are grandfathered for the financial statement of a transferor, a consistent accounting treatment should apply for the transferee, i.e. prior transactions would not be restated in the financial statements of the transferee.

Finally, if any grandfathering is given on the derecognition of financial assets, this grandfathering should also apply to transactions where SPEs have been used, so that the grandfathering would also apply to the consolidation of the SPE's assets.

#### **Appendix C: Hedge Accounting**

We do not believe that the guidance in Appendix C is sufficiently clear. In particular:

- (a) we have noted that the requirements for compulsory adjustments of the carrying amounts of the hedging instruments and the hedged items for hedging relationships under previous GAAP that would no longer qualify under IAS 39, are generally not well understood;
- (b) what would happen if under previous GAAP, the entity used hedged items and/or hedging instruments that no longer qualify as hedged items and/or hedging instruments? What adjustments should be recognised at the date of transition for this hedging transaction previously recognised under local GAAP?

We recommend adding some simple illustrations explaining the accounting entries required under various scenarios at the date of transition and immediately after the date of transition.

**Question 3**

**Paragraphs 28-37 of the proposed IFRS deals 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?**

*Comparative information*

Paragraph 29 states 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 IFRSs. If the first IFRS financial statements include more than one year of comparative financial information, that additional information shall comply with IFRSs.”*

In addition, the Glossary in Appendix D states that the **date of transition to IFRSs** is *“the beginning of the earliest period presented in an entity’s first IFRS financial statements.”*

Some securities regulations require more than one year of comparative information. This is the case in France where two years of comparative information are required. To restate more than one year of comparative information by 2005, particularly when we yet do not know what will be the IFRS that will be applicable at that date, is an impossible task.

We urge the IASB to take a position that is consistent with IAS 1, Presentation of Financial Statements, and to allow entities presentation in the same document of only one year of comparative IFRS restated information and additional comparative information using another basis of accounting (for example, the 2005 financial statements would present information related to 2005 and 2004 under IFRS and to 2004 and 2003 under French GAAP). As a result, paragraph 29 and the definition of the ‘date of transition to IFRSs’ should be amended so that they do not impose a restatement of all comparative information presented. Instead the definition of the ‘date of transition to IFRSs’ could be changed to refer to *“the beginning of the comparative period for the financial year immediately preceding.”*

*Cash flow statements*

Under French GAAP, we prepare a ‘Statement of Sources and Application of Funds’, an example of which is included in Appendix 2. 2005 will be the first period for which we will be preparing a cash flow statement in accordance with IAS 7, *Cash Flow Statements*. We would like to understand, since the statement we currently prepare and the statement we will be preparing under IFRSs are so different, the extent to which we will need to explain the differences between these two statements to meet the requirement of paragraph 32 in the First Time Application Standard.

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#### **Question 4**

##### **Do you have any other comments on the ED?**

##### *Appendix B – paragraph B1(e) – Negative goodwill*

We understand that the Appendix proposes to prohibit the recognition of negative goodwill by first-time adopters. We believe this is not a correct interpretation of the current IAS literature as it stands at the moment. We are concerned that the proposal pre-empts the final outcome of the project on Business Combination for which an Exposure Draft is yet to be published and still to be commented upon.

As a result, we recommend the IASB to give careful consideration to the co-ordination of the timetables for the finalisation of the projects on First-Time Application of IFRS and Business Combinations.



## **Appendix 2**

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#### **Example of BNP Paribas ‘Statement of Sources and Application of Funds’**

# TABLEAU DE FINANCEMENT CONSOLIDE

En millions d'euros	2001	2000	1999
<b>Ressources en capitaux permanents</b>			
<b>Capitaux propres :</b>			
<b>Ressources nouvelles en provenance de l'exploitation :</b>			
Résultat net part du groupe et intérêts minoritaires	4 415	4 552	1 647
Dotations nettes aux comptes d'amortissements	577	528	425
Dotations nettes aux comptes de provisions	1 557	1 081	460
Résultats des sociétés mises en équivalence	(228)	(317)	(19)
<b>Total des ressources nouvelles en provenance de l'exploitation</b>	<b>6 321</b>	<b>5 844</b>	<b>2 513</b>
Distribution externe	(1 157)	(1 120)	(941)
Variation nette liée aux opérations sur le capital et les réserves :			
Sur la part du groupe	(2 008)	(2 514)	7 205
Sur les intérêts hors groupe	(25)	(618)	1 789
<b>Augmentation des ressources en capitaux permanents</b>	<b>3 131</b>	<b>1 592</b>	<b>10 566</b>
<b>(Diminution) augmentation des fonds pour risques bancaires généraux</b>	<b>(5)</b>	<b>(1)</b>	<b>2</b>
<b>Augmentation (diminution) des dettes subordonnées</b>	<b>1 293</b>	<b>(232)</b>	<b>3 719</b>
<b>Augmentation des ressources en capitaux permanents</b>	<b>4 419</b>	<b>1 359</b>	<b>14 287</b>
<b>Autres ressources :</b>			
Augmentation (diminution) des opérations interbancaires	24 041	(34 818)	123 970
Augmentation des dépôts de la clientèle	43 219	23 874	31 520
Augmentation (diminution) des dettes représentées par un titre	12 138	(1 374)	41 462
Augmentation des provisions techniques des entreprises d'assurance	1 112	6 369	23 704
Augmentation (diminution) des autres comptes financiers	25 723	(11 368)	38 826
<b>Augmentation (diminution) des autres ressources</b>	<b>106 233</b>	<b>(17 317)</b>	<b>259 482</b>
<b>Augmentation (diminution) de l'ensemble des ressources :</b>	<b>110 652</b>	<b>(15 958)</b>	<b>273 769</b>
<b>Emplois :</b>			
Augmentation (diminution) des prêts interbancaires	51 319	(27 082)	90 842
Augmentation des prêts consentis à la clientèle	5 551	18 689	66 758
Augmentation (diminution) des opérations sur titres	57 007	(17 957)	70 347
Augmentation des placements des entreprises d'assurance	1 565	6 716	24 802
(Diminution) augmentation des immobilisations financières	(7 050)	2 487	17 836
Augmentation des immobilisations corporelles et incorporelles	2 260	1 189	3 184
<b>Augmentation (diminution) de l'ensemble des emplois :</b>	<b>110 652</b>	<b>(15 958)</b>	<b>273 769</b>