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N° **694**

PARIS, 31th October 2002

SIR DAVID TWEEDIE

CHAIRMAN

INTERNATIONAL ACCOUNTING STANDARDS BOARD

30 CANNON ST

LONDON EC4M 6XH

UNITED KINGDOM

Dear Sir David

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

The Conseil National de la Comptabilité ("CNC") is pleased to comment on the above Exposure Draft ED 1 issued by International Accounting Standard Board. We would like to express our pleasure to have worked with you on the First Time Application project. We would also like to express our general satisfaction with the outcome of ED 1. We list in Appendix 1 our comments for consideration in the preparation of the final Standard.

As you know, all listed European companies are currently actively preparing for the IFRS conversion before 2005. In preparing for this implementation, our constituents have expressed the following concerns that we want to share with you.

To enable an implementation of quality of IFRS by 2005, there are 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.

There are also concerns about IFRS that may become applicable at an interim period during 2005 and the possible preparation of interim financial reporting and annual 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 questions concerning our comments, please contact Mr Antoine Bracchi or Ms Laurence Rivat (+33 1 55 61 67 60).

Regards,

A handwritten signature in black ink, appearing to read 'A. Bracchi', is written over a horizontal line. Below the line, the name 'Antoine BRACCHI' is printed in a sans-serif font.

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?

We are supportive of the proposed requirements, except for the treatment of subsidiaries in paragraph 5.

Subsidiaries

We are confused about what is proposed to be achieved by the requirements in paragraph 5. It seems that the requirements do not clearly reflect the intent in ED 1.BC63, which we understand is to ease the subsequent transition to IFRS of an entity that is preparing reporting packages to a parent that applied the Standard on the First-Time Application of IFRS (and so, applied some exemptions in the proposed Standard in its first IFRS financial statements, including in the subsidiary's reporting package). We consider that the requirements should be simplified to clearly state which alternatives are offered to a subsidiary that is a first-time adopter of IFRS, depending on whether the parent company prepared first IFRS financial statements using the 'SIC 8 approach' or the Standard on the First-Time Application of IFRS. In any case, we believe that the objectives stated in ED 1.BC16 (including achieving comparability between different entities adopting IFRS for the first time at a given date) should apply equally to any entity, whether it is a parent entity or a subsidiary.

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:

- clarification is needed on whether an entity would be considered a first-time adopter if it stated in its most recent previous financial statements that "*the financial statements comply with all IFRS, except for*". We are uncertain whether such an entity falls under the scope exemption in paragraph 2(a)(iii). In our view, such an entity should not be treated as a first-time adopter – the entity should already be considered to be an IFRS issuer;
- 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 but that, if they choose to make use of the exemptions, they should use them all rather than cherry picking the ones they wish to apply. This minimises the number of options and improves comparability.

Comparative information

ED 1.29 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 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."*

In France, the securities regulator requires two years of comparative information to be included in the financial statements (e.g. 2005, 2004 and 2003). We acknowledge the concerns expressed by some that the restatement of more than one year of comparative information by 2005, particularly when entities do not know yet what will be the IFRS that will be applicable at that date, would be extremely challenging.

We recommend that the IASB contacts IOSCO to find out how this issue should be addressed, so that a solution can be found that is applicable regardless of the jurisdiction of a first-time adopter and the date of adoption of IFRS.

Option to restate using current versions of IFRS including transitional provisions

We note that paragraph 13 states that if an entity does not use the exemptions *"it shall apply the IFRS that were effective in each period and may therefore need to consider superseded versions of IFRS if later versions require prospective application."* We believe the Standard should make it clear whether this means that all relevant superseded versions of all IFRS and transitional arrangements have to be applied (we assume it means all). We understand that, if an entity chooses to do so, it could restate its financial statements using IFRS effective at the reporting date and apply the transitional provisions in those Standards to transactions that occurred before the IFRS became effective. In practice, this may mean looking at superseded versions of IFRS if an IFRS effective at the reporting date results from a revised Standard and includes transitional provisions.

We also recommend that paragraph I3 of the Introduction to the Standard reflects clearer the requirements in paragraph 13.

List of exemptions

It is unclear whether paragraph 14 sets out a limited list of exemptions or the principles underlying possible exemptions. In some cases, some may argue that implementation of paragraph 14(b) allows for additional exemptions that are not listed in paragraph 14. If it is the intention of the IASB that the list is limited to the exemptions listed in paragraph 14, this should be clearly stated.

Acquisition of lease contracts via business combinations

It seems that ED 1.20(a) and ED 1.IG11 contradict one another. It is not clear whether IAS 17 should be applied retrospectively to lease contracts acquired as a result of a business combination.

ED 1.20(a) states that *"immediately following the business combination, the carrying amount under previous GAAP of assets and liabilities acquired in that business combination shall be their deemed cost under IFRSs at that date if IFRSs require a cost-based measurement of those assets and liabilities."*

However, ED 1.IG11 states that *"at the date of transition to IFRSs, a lessee or lessor classifies leases as operating leases or finance leases on the basis of circumstances existing at the inception of the lease (IAS 17, paragraph 10)."*

We are unsure as to which paragraph takes precedence and request clarification either in Appendix B, Business Combinations or the implementation guidance on lease classification as to whether lease contracts acquired in a business combination are treated in accordance with paragraphs ED 1.IG11-IG13 or not. We believe that the treatment set out in the implementation guidance should be applicable whether or not the lease results from a business combination.

As an additional point, ED 1.BC 41 also seems to contradict ED 1.20-21 since it states that if *"an entity did not recognise a particular asset or liability under previous GAAP at the date of the business combination, its deemed cost under IFRSs will be zero."*

Decommissioning and site restoration costs

ED 1.IG10 provides guidance on recognising decommissioning and site restoration costs. According to this paragraph, differences arise in the carrying amount of the provision and the amount included in the carrying amount of the asset due to “items such as depreciation, and when applicable, impairment losses.”

The Basis for Conclusions, however, states that these differences are also caused by the unwinding of the discount because of the passage of time (ED 1.BC 66).

This inconsistency is confusing and IAS 16, Property, Plant and Equipment, is also subject to interpretation in this regard. We request clarification in IG10 as to the appropriate treatment of decommissioning and site restoration costs that should be included in the cost of an asset at the date of transition.

Accounting for previously derecognised financial instruments

We agree in principle with the retrospective treatment of the derecognition transactions of financial assets or liabilities or parts thereof that were derecognised under previous GAAP but would not have been derecognised under IAS 39.

However, we note that, in practice, it may be very difficult to implement. Fair valuing of retained components of financial assets or financial liabilities (for example servicing assets and liabilities) derecognised under previous GAAP is a notable example. Implementation guidance to assist entities with the application of the retrospective treatment of prior derecognised transactions at the date of transition would be useful and welcome.

Split accounting for compound instruments

The Exposure Draft requires retrospective bifurcation of the debt and equity components of a financial instrument based on the information available at issue or contract date, and classification of the components either as financial liabilities or equity instruments in accordance with the substance of the contractual arrangements.

We do not see the relevance for full retrospective application of “split accounting” where the financial instruments are no longer outstanding, i.e. have already been settled.

Hedge accounting

We do not believe that the guidance in Appendix C on hedging is sufficiently clear. In particular, 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 (the implications of application of ED 1.C3(a)). 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.

We are also unsure as to 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 under IAS. Guidance as to the adjustments to be recognised at the date of transition for this hedging transaction previously recognised under local GAAP is needed.

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?

Yes we believe the proposed disclosures are adequate.

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.

Implementation Guidance

We find the Implementation Guidance very useful and we would appreciate that it follows the IFRS in the same booklet instead of being separated from it.