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Chairman

JH

n°156

Paris, the 21st October 2011

David SIDWELL

Chairman of

the Due Process Oversight Committee

IFRS Foundation

30 Cannon Street

LONDON EC4M 6XH

UNITED KINGDOM

Dear Sir,

I am writing on behalf of the Autorité des Normes Comptables (ANC), following our review of the IASB exposure-draft of annual improvements ED/2011/2.

The ANC acknowledges that the Trustees do not involve themselves with the technical substance of the proposed amendments and therefore does not intend to comment those here. However, the ANC considers that some of the issues identified in the amendments are in fact due process issues and thus warrant being submitted to the Trustee's Due Process Oversight Committee Indeed ED 2011/2, Improvements to IFRS proposes to replace paragraphs dealing with the "purpose of financial statements" as stated in current IAS 1, *Presentation of financial statements* by paragraphs dealing with the "purpose of financial reporting" as stated in the *revised Conceptual Framework*. The ANC thinks that such a major change does not enhance the quality of the standard and therefore is not consistent with the limited objective assigned to the annual improvements process. This is confirmed by our analysis provided hereafter of the proposed amendments against the enhanced criteria for the IASB's annual improvements process that were approved by the Trustees in February 2011.

The amendments introduce new concepts and do not clarify existing IFRSs

The proposed change does not clarify unclear wording in existing IFRSs, nor do they provide guidance. On the contrary, they remove some existing concepts in IFRSs (i.e. purpose of financial statements, reference to performance and stewardship) and introduce some new concepts (i.e. "financial report" and "financial reporting").

As a matter of fact, the proposed amendment would result in the disappearance of fundamental concepts currently included in IAS 1, of which the definition of the purpose of financial statements in the IFRSs, whereas all standards are supposed to deal with items included in the financial statements. Moreover, the proposed changes imply the disappearance of the notion of "financial

performance” as a central part of financial statements, whereas the Trustees acknowledge in their 2011 Strategy review¹ its prominent role and *IAS 1 Staff Exposure draft*² published in July 2010 still referred to it. It also entails the removal of the reference to stewardship while even the *revised Conceptual Framework* acknowledges that decision-useful information includes information needed to assess stewardship³.

At the same time, the proposal introduces in the standards some wider ill-defined concepts. Indeed, the proposed amendments introduce the terms of “financial reporting” and “financial reports” that are broader than financial statements, as they include for example the Management commentary report. According to the Board, in the basis for conclusion of the Exposure draft, the changes would avoid confusion and translation difficulties for the same concepts. Nevertheless, we do not think that “purpose of financial statements” and “objective of financial reporting” embrace the same concepts. Moreover regarding translation matters, we expect more difficulties for “financial reporting” and “financial report” than with “financial statements”. We therefore conclude that the amendment does not help clarify existing IFRS.

The amendments do not correct conflicts

The proposed changes do not correct conflicts or oversight between existing requirements of IFRSs. Firstly because the revised Conceptual Framework is not an IFRS. Secondly, because the purpose of financial statements as currently stated in IAS 1 does not conflict with the objective of financial reporting as stated in the revised Conceptual Framework, considering financial statements as a part of financial reporting.

The amendments are not well defined

We do not think that the proposed amendments are well-defined as the concepts of financial report and financial reporting remain undefined in the Conceptual Framework. We understand the IASB is supposed to set the boundaries of financial reporting in Phase E of the Conceptual Framework project that has not yet started.

There is no need to make the amendment sooner than an IASB project would

We also think that there is no need to make an amendment faster than amending IAS 1 via the *Financial Statement Presentation project*. Moreover, given the nature of the amendments proposed, it would have been more appropriate for the conceptual framework due process documents to identify these consequential amendments than to attempt such change through the annual improvements process.

¹ “A1. In carrying out the IFRS Foundation’s mission as the standard-setting body, the IASB should develop financial reporting standards that provide a faithful presentation of an entity’s financial position and performance.”, *IFRSs as the global standard : Setting a strategy for the Foundation’s second decade, Report of the IFRS Foundation Trustees’ Strategy Review*, April 2011.

² “Financial statements are a structured representation of the financial position and financial performance of an entity.”, *Staff Draft of IAS 1 Exposure draft*, paragraph 8, July 2010.

³ See also Basis for conclusions BC1.28 of the revised Conceptual Framework. “The Board decided not to use the term stewardship in the chapter because there would be difficulties in translating it into other languages. Instead, the Board described what stewardship encapsulates. Accordingly, the objective of financial reporting acknowledges that users make resource allocation decisions as well as decisions as to whether management has made efficient and effective use of the resources provided.”

Finally, we think that IASB's test of the amendments against the criteria for annual improvements (see staff paper attached), which have not identified any of the issues listed above, departs from the quality we would have expected of such an analysis

We hope you find these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,



Jérôme Haas

P.J : ANC's comment letter to the IASB on ED/2011/2

APPENDIX - Extract of the IASB staff paper on "Testing proposed Annual Improvements against new criteria", May 2011

Agenda paper 2

IASB Staff paper
Appendix B

Issues to be included in the Improvements to IFRSs next exposure draft	Improvement 65A(a):		Narrow and well-defined purpose 65A(b)	Conclusion on a timely basis 65A(c)	Current or planned Board project 65A(d)
	Clarification 65A(a)(i) change an existing principle, or introduce a new principle into IFRSs.	Correction 65A(a)(ii)			
IAS 1 - Enhanced consistency with the Conceptual Framework published in September 2010	change an existing principle, or introduce a new principle into IFRSs.	Updating IAS 1 to be consistent with the Conceptual Framework will ensure that preparers and the Board will be applying the same concepts with the same meaning and words. The proposed amendment does not change an existing principle, or introduce a new principle into IFRSs.	The proposed amendment is for enhanced consistency purposes and should ensure application of the same concepts with the same meaning and words. No consequential amendment to other IFRSs was identified.	Yes	Addressing the issues discussed in an annual improvement is faster than amending IAS 1 via the Financial Statement Presentation project.



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Hans HOOGERVORST

Chairman

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LONDON EC4M 6XH

UNITED KINGDOM

Re : IASB ED /2011/2 Improvements to IFRSs

Dear Sir,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the proposed improvements to IFRSs included in the IASB exposure-draft ED/2011/2.

The Autorité des Normes Comptables (ANC) approves the IASB's initiative of issuing each year an Exposure Draft of proposed minor changes to existing IFRSs in order to enhance the quality of the standards. Nevertheless, the ANC has concerns regarding some amendments which are hereafter commented upon.

Improvements to IAS 1, *Presentation of Financial statements*

The ANC has strong concerns regarding the replacement of the objective of financial statements by the objective of financial reporting. Moreover, the ANC thinks that such major changes cannot be addressed through the annual improvements process. Our main areas of disagreement are as follows:

On the substance of the proposed amendments to replace “objective of financial statements” by “objective of financial reporting”

The ED 2011/2, Improvements to IFRS proposes to replace paragraphs dealing with the “purpose of financial statements” as stated in current IAS 1, *Presentation of financial statements* by paragraphs dealing with the “purpose of financial reporting” as stated in the *revised Conceptual Framework*.

Such change would result in the disappearance of fundamental concepts currently included in IAS 1. The definition of the purpose of financial statements in the IFRSs would disappear whereas all standards are supposed to deal with items included in the financial statements. Moreover, the proposed changes imply the disappearance of the notion of “financial performance” as a central part of financial statements, whereas the Trustees acknowledge in their 2011 Strategy review¹ its prominent role and *IAS 1 Staff Exposure draft*² published in July 2010 still referred to it. It also entails the removal of the reference to stewardship while even the *revised Conceptual Framework* acknowledges that decision-useful information includes information needed to assess stewardship³.

Furthermore, whereas I am fully aware that the wording is derived from the *revised Conceptual Framework*, I wish to express major concerns on the objective of financial reporting as stated in the proposed amendments:

- Management needs for financial information are ignored whereas financial information should be a major tool for monitoring the business and communicating to shareholders.
- The focus is on providing information about the entity’s economic resources and claims, which is at odds with the needs of users of financial reports, who essentially want to understand the business and performance of the entity.
- Stewardship should also be included as one of the main objectives of financial reporting.

In other words, the exclusive focus put on financialisation has gone too far and has led to insufficient attention given to the reliability of accounts as a fair representation of the business.

The proposals also introduce in the standards some wider ill-defined concepts. Indeed, the proposed amendments introduce the terms of “financial reporting” and “financial reports” that are broader than financial statements, as they include for example the Management commentary report⁴. Moreover, these new terms remain undefined as the IASB is supposed to set the boundaries of financial reporting in Phase E of the Conceptual Framework project that has not yet started. A standard referring to an ill-defined concept could therefore lead to misinterpretation and controversy.

Practically, as the IASB’s remit in Europe is on financial statements only, the insertion of the wider concepts of “financial report” and “financial reporting” in the international accounting standards would entail some legal implications. The consistency with other European regulations would have also to be reviewed as, for example, the “annual financial report” is already well defined in the Transparency Directive⁵.

¹ “A1. In carrying out the IFRS Foundation’s mission as the standard-setting body, the IASB should develop financial reporting standards that provide a faithful presentation of an entity’s financial position and performance.”, *IFRSs as the global standard : Setting a strategy for the Foundation’s second decade, Report of the IFRS Foundation Trustees’ Strategy Review*, April 2011.

² “Financial statements are a structured representation of the financial position and financial performance of an entity.”, *Staff Draft of IAS 1 Exposure draft*, paragraph 8, July 2010.

³ See also Basis for conclusions BC1.28 of the revised Conceptual Framework “ The Board decided not to use the term stewardship in the chapter because there would be difficulties in translating it into other languages. Instead, the Board described what stewardship encapsulates. Accordingly, the objective of financial reporting acknowledges that users make resource allocation decisions as well as decisions as to whether management has made efficient and effective use of the resources provided.”

⁴ See IN4 « management commentary lies within the boundaries of financial reporting », Management commentary practice statement, IASB, December 2010.

⁵ “The annual financial report shall comprise (a) the audited financial statements; (b) the management report; and (c) statements made by the persons responsible within the issuer (...)”, Directive 2004/109/EC, Article 4

According to the Board, in the basis for conclusion of the Exposure draft, the changes would avoid confusion and translation difficulties for the same concepts. Nevertheless, for the reasons listed above, we do not think that “purpose of financial statements” and “objective of financial reporting” embrace the same concepts. Moreover regarding translation matters, we expect more difficulties for “financial reporting” and “financial report” than with “financial statements”.

Finally, although financial reporting and financial statements are not the same, we do not see any contradiction between the current objective of financial statements in IAS 1 and that of financial reporting as per the recently published conceptual framework and therefore consider that the change proposed is not warranted.

On the decision to include such amendments as part of the annual improvement process

For the reasons above, it is our view that the nature of the proposed amendments in order to replace “objective of financial statements” by “objective of financial reporting” in IAS 1 does not enhance the quality of the standard and therefore is not consistent with the limited objective assigned to the annual improvements process. This is confirmed by our analysis provided hereafter of the proposed amendments against the enhanced criteria for the Board's annual improvements process that were approved by the Trustees in February 2011.

The proposed changes do not clarify unclear wording in existing IFRSs, nor do they provide guidance. On the contrary, they introduce new concepts (i.e. “financial report” and “financial reporting”) that are not well defined in IFRS and remove some others (i.e. purpose of financial statements, reference to performance and stewardship).

The proposed changes do not correct conflicts or oversight between existing requirements of IFRSs. Firstly because the revised Conceptual Framework is not an IFRS. Secondly, as previously mentioned, because the purpose of financial statements as currently stated in IAS 1 does not conflict with the objective of financial reporting as stated in the revised Conceptual Framework, considering financial statements as a part of financial reporting.

We do not think that the proposed amendments are well-defined as the concepts of financial report and financial reporting remain at this stage undefined in the Conceptual Framework. Defining such concepts will necessarily involve a lot of debate and time.

Lastly, as regards to the fourth of the Trustees' criteria, we think that there is no need to make an amendment faster than amending IAS 1 via the Financial Statement Presentation project.

Moreover, given the nature of the amendments proposed, it would have been more appropriate to follow the standard due process, for example by indentifying these consequential amendments as part of the conceptual framework's consultation documents, than to attempt such change through the simplified annual improvements process.

Improvements to IAS 32

Whilst the ANC agrees that income tax effects should be dealt with in IAS 12, and therefore agrees with the proposed amendment, the ANC is concerned that this amendment does not solve the inconsistency as regards the income tax effects of dividend distributions that exists within IAS 12.

Indeed, IAS 12. 52B indicates that the income tax consequences of dividends are recognised in profit or loss whereas IAS 12. 58(a) could be understood to mean that the income tax effects arising from transactions or events which are recognised outside profit or loss, which a dividend distribution would be considered to be, should be recognised outside profit or loss. It would therefore be useful for the IASB to clarify its intention on this subject.

Improvements to IFRS 1

Without disagreeing with the proposed improvements, the ANC is concerned that 'improvements' are regularly made to IFRS 1, with the effect that the standard may become more complex to apply. Without questioning the appropriateness of the requests made by new-adopting jurisdictions, the ANC wonders whether IFRS 1 would be in need for a re-think to avoid having to perpetually add changes to it.

We hope you find these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,



Jérôme Haas