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Chairman

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n°127

Paris, the 16th October 2012

Hans HOOGERVORST
Chairman
IASB
30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

Re : IASB ED/2012/1 Improvements to IFRSs

Dear Mr Hoogervorst,

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/2012/1.

The Autorité des Normes Comptables (ANC) approves the IASB's initiative to 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 IFRS 2

The ANC has concerns with the IFRS 2 proposed amendment.

First of all, the ANC considers that the suggested amendment modifies the definition of a performance condition. The existing standard IFRS 2 describes a performance condition in its Appendix A as conditions which require the counterparty to complete a specified period of service and specified performance targets to be met (such as a specified increase in the entity's profit over a specified period of time). In this definition, the period of service does not necessarily correspond to the period of time during which the performance target has to be met. Contrary to this description, the proposed amendment defines a performance condition as “a vesting condition that requires: (a) the counterparty to complete a specified period of service; and (b) specified performance targets to be met while the counterparty is rendering the service required in (a)”. This proposal introduces the fact that the period of service should be equal or greater than the period on which performance targets have to be met. The ANC notes that this modification is not explained nor justified in the Basis for Conclusions.

However the ANC understands that such proposal corresponds to the current interpretation of the existing standard by auditors and preparers and that it therefore would merely confirm existing practice.

For share plans which require a period of service shorter than the period of achievement of the performance target, the ANC considers that the proposed amendment should clarify that it is a non-vesting condition as of the grant date and that the accounting treatment of a non-vesting condition has to be applied over the whole vesting period.

Another concern for the ANC is that the Basis for Conclusions addresses several concerns regarding the definitions of a performance condition and a service condition in BC3 to BC7. The answers are provided only in the Basis for Conclusions. The ANC considers that these answers should be included in the proposed standard itself.

Furthermore, the ANC considers that the definition of a service condition is not consistent with BC7. Indeed, the proposed definition states that “regardless of the reason”, if the counterparty ceases to provide service during the vesting period, it has failed to satisfy the condition. The criterion “regardless of the reason” is too vague and could encompass other cases than the employee's failure to satisfy the service condition. The other cases could be for example the cancellation or the settlement of the share plans. Therefore, the ANC recommends that the criterion “regardless of the reason” should be replaced by “regardless of the reason for which the employee is leaving”.

Improvements to IAS 12

The Board received a request to provide guidance in circumstances on how an entity determines, in accordance with IAS 12, whether to recognise a deferred tax asset when the entity:

- has a deductible temporary difference relating to an unrealised loss on debt instruments that are classified as available-for-sale financial assets that are measured at fair value;
- has the ability and intention to hold the instruments until the loss reverses (which may be at their maturity); and
- has insufficient taxable temporary differences and no other probable taxable profits against which the entity can utilise that deductible temporary difference.

The Board concluded and proposed to amend the standard as follows:

- The assessment of whether to recognise the tax effect of a deductible temporary difference as a deferred tax asset has to be made as a combined assessment of all temporary differences that, when they reverse, will give rise to deductions against the same type of taxable income;
- Taxable profit against which an entity assesses a deferred tax asset for recognition is the amount preceding any reversal of deductible temporary differences; and
- An action which does not create or increase taxable profit does not qualify as a tax planning opportunity.

The ANC does agree with these conclusions regarding concerns about unrealised loss on debt instruments that are classified as available-for-sale financial assets measured at fair value and when the entity has the intention to hold these instruments until the loss reverses.

However, the ANC has concerns as to the scope of this proposed amendment. Indeed, it reflects the tentative conclusions that the Board reached when it analysed deferred tax assets arising from unrealised losses on available-for-sale debt instruments but it is not limited in scope to those deferred tax assets and so may also be relevant for deferred tax assets resulting from other transactions and events. The ANC recommends that the Board ensure that those proposals do not raise additional issues.

In addition, the ANC has noted that the second example is provided to clarify what action could qualify as a tax planning opportunity as indicated in BC9. However, the conclusion of this example is inconsistent with the conclusion stated in the first example and could lead to misinterpretation. Indeed, the first example explains that for assessing the recognition of a deferred tax asset, the entity has to compare the deductible temporary difference with its probable future taxable profit before deducting the amount resulting from the reversal of the deductible temporary difference. That means if the future taxable income is not a loss, the future taxable income before deducting the amount resulting from the reversal of the deductible temporary difference will be at least equal to the reversal of the deductible temporary difference and in this case, the entity could recognise a deferred tax asset.

Improvements to IAS 1

The ANC believes that the proposal regarding IAS 1 should be clarified. Indeed, the notion “at the same or similar terms” is too vague and needs to be framed by precise and detailed criteria. For example, an entity expects and has the discretion to refinance a loan, which is based on a variable interest rate, with the same lender for at least twelve months after the reporting period. If the refinancing of this loan requires a fixed interest rate, could the entity classify it as non-current? Without such clarification, the ANC cannot take an informed position on this proposal to amend IAS 1.

Improvements to IFRS 3

The ANC acknowledges that contingent consideration, in most cases in practice, correspond to a financial instrument. Contingent consideration could also be settled by the transfer of assets other than financial instruments : the definition of a contingent consideration as described in the appendix A of the standard does not specify that a contingent consideration is always a financial instrument.

The ANC considers that the proposed amendment could create confusion : the proposed deletion could lead to understanding that a contingent consideration is always a financial instrument. If such is the IASB’s intention, the ANC considers that additional outreach work is required before deleting the reference to “IAS 37 or other applicable standards” in IFRS 3. In this case, the ANC would not support this improvement. If it is not the IASB’s intention, improved wording of the amendment and clarification is warranted.

Furthermore, the ANC herewith would like to remind the IASB of its opposition to the existing accounting requirements of IFRS 3 for the subsequent measurement for contingent consideration.

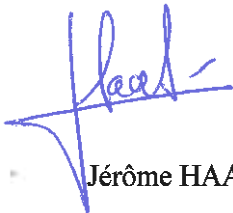
Extract of the CNC comment letter on the Exposure-draft of Proposed Amendment to IFRS 3 *“We believe contingent consideration is mainly used in business combinations where acquirer and seller cannot agree on the fair value of the acquiree. We therefore consider that the fair value of contingent consideration will be very difficult to determine reliably at the acquisition date. This will be the case where, for example, the contingency relates to the value of the business acquired or where the acquiree is a start up or an early stage business. Requiring a value to be determined at acquisition date may result in unreliable and inappropriate measurement of the acquiree.”*

Taking into account all these comments, the ANC recommends that the Board reconsider the accounting for contingent consideration during the intended post implementation review of IFRS 3 (i.e: recognition, initial and subsequent measurement of all contingent consideration categories).

The ANC supports the other improvements proposed (IFRS 8 *Operating Segments*, IFRS 13 *Fair Value Measurement*, IAS 7 *Statement of Cash Flows*, IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*, IAS 24 *Related Party Disclosures*, IAS 36 *Impairment of Assets*).

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

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'J Haas', with a large, stylized flourish extending downwards and to the left.

Jérôme HAAS