IASB – International Accounting
Standard Board
30 Cannon Street
London EC4M 6XH
United Kingdom

5 September 2012

Dear Sir or Madam,

Re: Exposure Draft: annual improvements to IFRSs 2010-2012 cycle

We appreciate the opportunity to comment on the Exposure Draft *Annual improvements to IFRSs 2010-2012 cycle*.

We have comments on six of the proposed changes to IFRSs.

IFRS 3 Business Combinations: Accounting for contingent consideration in a business combination.

We disagree with the IASB proceeding with this proposed change which suggests that an entity will only need to consider whether contingent consideration is a liability or an equity instrument when the contingent consideration is a financial instrument on the basis of the requirements of IAS 32 Financial Instruments: Presentation alone. Whilst we appreciate that the reference to IAS 37 in IFRS 3 may not be appropriate, we consider that the reference to "other applicable standards" should not be deleted.

We also note that IFRS Interpretations Committee has a current project looking at contingent payments for the separate purchase of property, plant and equipment and intangible assets. It has also been approached to revisit the current accounting for contingent consideration associated with in-process R&D intangible assets purchased via a business combination. The issue was discussed at its meeting in May 2012 when a tentative decision was taken to align the accounting for subsequent contingent consideration associated with intangible assets arising from a business combination with the proposals emerging from the Leases project in which any change in the minimum lease payments attributable to the lease liability should be reflected in the carrying amount of the right of use asset.

We therefore believe that the Board should firstly undertake a wider study of the accounting for contingent consideration across all relevant standards, possibly in conjunction with the post-implementation review of IFRS 3.

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We agree with EFRAG's proposal that the Board should align IAS 39 to the requirement in IFRS 9 regarding the accounting for own credit risk on financial liabilities measured at fair value. We believe that users of the financial statements of entities that do not apply IFRS 9 early would benefit from this improvement in financial reporting.

IFRS 8 Operating Segments: Aggregation of operating segments & Reconciliation of the total of the reportable segments' assets to the entity's assets

We do not agree that the proposed additional paragraph 22(aa), which appears to be second-guessing the judgement of management, will provide information that is useful for investors. We are also not convinced by the arguments put forward by the IASB in the Basis for Conclusions where it is stated that the "Board thinks" that it would help users (Framework OB2: "existing and potential investors, lenders and other creditors") to understand the reasons why operating segments have been aggregated. We believe that the reason should be already clear to users, as IFRS 8 explains that such segments exhibit similar long-term financial performance due to similar economic characteristics.

We are therefore under the impression that the proposed amendment has been drafted from an enforcer's perspective, and do not believe that this should be the basis for developing accounting standards, and is contradictory to the Framework.

We also note that the amendment would create an unnecessary divergence from US GAAP (Topic 280), which is as such surprising, because the other proposed amendment to IFRS 8 (paragraph 28(c)) has been drafted to overcome an existing divergence between the two standards.

IFRS 13 Fair Value Measurement: Short-term receivables and payables

In general, we do not believe that the IASB should propose any amendments to an IFRS that only affect the Basis for Conclusions. In this specific instance the change is unnecessary because there is already a general materiality principle governing IFRSs.

IAS 1 Presentation of Financial Statements: Current/non-current classification of liabilities

We have two comments on this proposal.

We would prefer that reference is made to the derecognition guidance in IAS 39 rather than creating similar wording which may or may not result in the same outcome; in our view the principle is that if derecognition cannot be avoided within 12 months then the obligation should be current.

Use of the term "with the same lender" may result in divergence. Loans can be sold to third parties or transferred between companies with the same ultimate parent, and we do not believe that a change of lender in such circumstances should affect the accounting outcome.

IAS 7 Statement of Cash Flows: Interest paid that is capitalised

We disagree with the proposed change to IAS 7.16(a) and 33. The capitalisation of borrowing costs in accordance with IAS 23 is, in line with the Framework, on an accruals basis; it does not represent a cash flow and therefore should be excluded from the cash flow statement.

Any attempt to "shoehorn" the IAS 23 accounting outcome into the cash flow statement will inevitably involve an arbitrary allocation of cash paid for the period, particularly if IAS 23.14 is the appropriate accounting whereby an entity applies a weighted average interest rate to determine the interest to be capitalised for that period and is limited as to the amount that can be capitalised. Another example that would require such allocation is "interest free" loans issued at a discount, requiring the calculation of an interest element for accounting purposes. The problem is exacerbated because (as is proposed in IAS 7.33A) an entity's interest paid could potentially have to be classified between all three activities (operating, investing and financing).

We do not believe that this will provide more useful information, in fact it would mislead a user trying to understand an entity's cash generation and utilisation.

Interest expense is only one element of borrowing costs, which also include finance charges related to finance leases and some exchange differences (IAS 23.6). The proposed amendment to IAS 7.16(a) would scope in all these elements and we believe the issue highlighted above in relation to interest may also apply to these other elements.

IAS 12 Income Taxes: Recognition of deferred tax assets for unrealised losses

We agree with the principles behind the proposed amendments in paragraphs 27A and 29(a)(i). We also agree with the conclusion of the example following paragraph 29. However, we do not think that the analysis in the example following paragraph 30A properly reflects the principles of paragraph 29(a).

According to paragraph BC1 of the ED, the IFRS Interpretations Committee was asked to provide guidance about deferred tax assets for debt instruments in the context of IAS 39, whereas the example in the ED is based on the IFRS 9 classification of financial assets and the use of the fair-value option. We think this introduces an unrealistic element into the example which is unhelpful and could result in confusion.

Under IAS 39 the available-for-sale (AFS) category of financial assets is a default category which an entity may choose to use or be forced to use when, for example, a pool of assets held to maturity is tainted by sales. Paragraph IAS 12.26(d) confirms that when the tax base of an asset held at fair value exceeds its carrying amount a deductible temporary difference arises. The question is therefore whether it is probable that "taxable profit will be available, against which the deductible temporary difference can be utilised" (IAS 12.24).

Notwithstanding the allocation of a debt instrument to the AFS category, an entity may have the intention to hold the asset until maturity within the scope of its asset-

management strategy. A reduction in the market value of a debt instrument is frequently the result of changes in views on technical factors such as interest-rate movements or illiquidity, which are of no consequence to the asset's underlying value. If, as in the case of the example, the entity expects to receive all the contractual cashflows from the asset, the full value of the asset (that is, the full tax base) will be recovered by maturity, the temporary deductible difference will reverse and there will be no tax-deductible loss. The temporary nature of such an unrealised loss appears to be confirmed by IAS 39, which deals with this in other comprehensive income.

In contrast, the example in the Exposure Draft seems to assume that the asset will be sold when still in a loss position, and that the resultant crystalised capital loss for tax purposes will not be able to be offset by a crystalised capital gain, since none will be available. However, the probability test and condition of paragraphs 24/29(a) will actually be satisfied, since the reversal of the unrealised loss will in fact be sufficient to absorb that potential deductible loss i.e. it is probable that the entity will not need to have "sufficient taxable profit" available, as no loss will be realised. In other words, the full carrying amount of the asset will be recovered through use.

In this situation, the alternative condition of paragraph 29(b) is, in our view, irrelevant, and the insertion of the new paragraph 30A is unnecessary.

We remain at your disposal should you wish to discuss this subject further.

Yours sincerely,

Jérôme P. Chauvin
Director
Legal Affairs Department
Internal Market Department