acteo Association pour la participation des entreprises françaises à l'harmonisation comptable internationale

Mouvement des Entreprises de France MEDEF

A F E P

Association Française des Entreprises Privées

IASB
30 Cannon Street
London EC4M 6XH
UK

Paris, lundi, 31 janvier 2011

Re: ***Request for View: "Effective Dates and Transition Methods"***

We would first of all like to express our strong support for this request for views, and thank the Board for giving us the opportunity to be fully involved in this forthcoming and very challenging turning point for financial reporting.

We believe that we are about to face some very fundamental changes, which could be just as significant and disruptive as those experienced in 2005, when IFRS was initially implemented in France and Europe.

In this context, we agree with the Board that all possible efforts should be made in order to ease this new "transition phase", first in the preparation of financial reporting, and then in the communication to the market.

Because we believe that all these new or amended standards are likely to deeply impact companies' reporting and the way we communicate to the market, we urge the Board to adopt a <u>single effective date approach</u>, and to grant companies a minimum of four year implementation period.

Should you require further comment or explanation, please do not hesitate to contact us.

ACTEO	AFEP	MEDEF
Patrice MARTEAU	**Alexandre TESSIER**	**Agnès LEPINAY**
Chairman	Director General	Director of economic and financial affairs

Part 1 –Background information

ACTEO is Association for the participation of French companies in the harmonisation of international accounting (preparer organisation)

AFEP - "Association des Entreprises Privées" – represents at present more than 90 of the top private sector companies operating in France. The purpose of AFEP is to present the views of large French companies to international institutions and bodies, and to the French authorities, mainly with regard to the drafting of non-sectoral legislation, notably on financial affairs.

MEDEF is the French Business Confederation:of entrepreprises

Part 2 –Preparing for transition to the new requirements

We agree that a full retrospective application is likely to provide the most useful information to users as it facilitates the year-to-year comparison. However, as already stated in the responses made to various exposure drafts, such application is always very costly and in some cases impracticable.

Please also note that French listed entities filing a "Document de reference" with the securities regulator (registration document being potentially a part of a prospectus), need to provide two prior periods, instead of the one normally required by IFRS. In the case of a change in accounting policy, this means an additional balance sheet for the beginning of the first comparative period presented. This leads to two restated balance sheets for IFRS and three in the Document de reference.

In addition, entities listed in US as foreign registrants are required to present income statements for two prior periods on an obligatorily restated basis and four prior periods in the Selected Financial Data section of the 20-F. These requirements make retrospective application more costly.

We agree that in some cases, a full retrospective application would not be so difficult to apply. It could be the case for "Post Employment Benefit" and "Presentation of Items of OCI".

On the other hand, we believe that for all the other new requirements, the implementation will be much more challenging and the cost for a full retrospective application may not exceed the benefits. This will surely be the case with new standards dealing with revenue recognition, lease contracts and consolidation, for which we call for **a limited** retrospective application, i.e. only financial reporting periods presented for comparative purposes should be restated (and it should not be required to restate all amounts as if the standards had always been in force). We are aware that it could cause some distortions in the forthcoming financial reporting however it is, in our opinion, the only reasonable transition that it can be required.

The summary below gives an overview on the main issues that one could face with the transitional provisions proposed in this request for view.

Please note that the following comments are written under the assumption that all the requirements stated in the exposure draft will remain in the final standard. However we believe that some of the identified difficulties can be avoided if the Board changes some of its preliminary decisions. This is the reason why we urge the Board to keep in mind, in its future deliberations, both the benefits and the difficulties for retrospective application. Substantial changes made in the standards should strictly be limited to the ones that cannot be avoided and the ones that clearly represent a step-change in the quality of financial reporting.

Revenue Recognition

Our analysis of the process required to implement the ED's approach is that the following will be required for each current contract in the transition period:

- Verify whether the contract should have been combined with other contracts on the principle of price interdependence and deal with subsequent contract modifications in line with the ED;
- Consider the need to segment contracts into different performance obligations and apply the new requirements for warranties, renewal options etc.;
- Determine an estimate of variable price using a probability-weighted average based on historical data; reconstitute the historic credit risk of customers and any subsequent changes in them, distinguishing between those that should be reflected in revenue and those that should be presented elsewhere in the income statement;
- Identify the historic « stand-alone » price of the individual elements of the contract (some of which may have been in place for many years) in order to allocate the transaction price across the performance obligations
- Make the conversion from accounting for movements on the basis of invoicing to one based on the expected consideration taking into account credit risks, and concurrently modify internal control procedures in line with this;
- Adjust revenue to reflect the effects on the timing of the recognition of revenue;
- Adjust deferred tax balances for any consequential change; and
- Finally, adjust revenue hedging techniques to reflect different timing and content of revenue.

At the current stage of development of this project, we are not convinced that the proposed changes represent a sufficiently clear improvement in the accounting for revenue under IFRS to justify the expected high costs of implementation. We do not think that it can be justified on the grounds of convergence. We would urge the IASB to address any perceived weaknesses in IAS 11 and IAS 18 by means of targeted marginal amendments to those standards.

Leases

We support the simplified retrospective approach that the ED has proposed but we strongly believe that the Board should first amend its proposal regarding the accounting model. We can hear the criticism that some abuses have occurred in the past due to a too "rule-based" application of the former standard, that is not inherent to IAS 17 per se, rather to the application of US guidance in an IFRS context, potentially in opposition with the IAS 17 more principle-based approach.

However, we do not think that is a valid reason to impose a very burdensome process on all lease contracts, where small benefits are expected in most cases. Therefore we invite the Board to consider seriously our alternative model as proposed in our comment letter, since it has the advantages of both keeping the current model for lessors and restricting the impact on lessees to what we consider as really useful and necessary for users

Consolidation

Foremost, we would like to understand the reason why the Board has finally decided to require the full retrospective application as stated in the staff draft, in contradiction with what it had decided in the exposure draft. Moreover, the transition proposals in the staff draft are not clearly stated. This could be misleading and likely to impair comparability.

In this context, we suggest that the Board adopts a limited retrospective application, i.e. the reporting entity should apply IFRS 3 to all investees who were not previously consolidated, with a deemed acquisition date, back-dated to the earliest period presented.

Financial instruments

We agree that in principle retrospective application should be the objective. However we think that the Board should also take into account the developments concerning impairment and hedge accounting prior to finalising the transition provisions for the whole project. The exposure draft on hedge accounting has just been published and it is premature for us to comment on the relevance of a prospective application as proposed in the document.

However, we note that paragraph 36A of IFRS 1 (June 2003) provided relief to first-time adopters in that the entity could elect for the deemed date of transition for IAS 39 to be the beginning of its first reporting period under IFRS, and therefore comparative information was not required to be restated. We think that this might provide a valuable relief for some entities and urge the Board to consider whether such relief accompanied by suitable disclosures might be appropriate for the complete suite of revised standards for financial instruments.

In addition, we think that the effective dates and transition provisions of standards which are closely related should be consistent. As an example of this, we would cite IFRS 9, IFRS 4, Hedge accounting and any recognition or measurement effects of the Fair Value Disclosures standard.

Insurance contracts

We agree that it would be quite difficult, if not impossible, to recreate the residual margin in accordance with new requirements for all existing contracts. However, we strongly disagree with the proposed transition requirements as they lead to the resetting at zero of the residual margin for all insurance contracts existing at the transition date. We suggest, therefore, to the extent that the full retrospective application is not practicable, that the approach proposed by the staff be retained, that is, to determine a margin (to be presented separately from the residual margin) on transition as the difference between the carrying amount of the liability immediately before transition, and the present value of the fulfilment cash-flows at that date. This difference should be limited to a floor of zero (that is, not recognised as a negative amount).

It may be not an ideal solution but we think it is better than a model that would prevent insurers from reporting their whole performance over the periods following the introduction of the new standard.

Part 3 –Effective dates for the new requirements, early adoption and international convergence considerations

As previously stated, we believe that we are about to face some very fundamental changes, which could be just as significant as those experienced in 2005, when IFRS was initially implemented in France. In this respect, it is crucial, for both internal and external purposes, that all these fundamental changes are well anticipated, understood and explained.

In fact as mentioned in our previous answer in part 2, a limited retrospective application is in most cases the solution that offers the best cost/benefit balance, meaning that all previous financial statements presented for comparison will be restated. This kind of exercise should only be done once in order to prevent our users from misunderstanding these changes and their impact on financial reporting.

One of the main objectives of the IFRS is the comparability across entities but also the year-to-year comparability. If each year a new important standard (or amendment) is adopted with a restatement of prior periods, it is more likely that the users will lose all the benefits they were expecting to make from these new requirements. For this reason, we strongly support a single date approach. We think that the 2005 implementation in the European Union was successful because it was a big-bang approach.

However, this is not the only reason. Entities should not be viewed only as mere preparers, but the business management should be considered as the users of financial reporting for decision making. A stable set of financial reporting should also be supplied to the managers so they can properly evaluate their performance and hence help them make the right decisions for the future. A series of continual major restatements can lead to confusion and hinder managements' capacity to understand the business.

Finally, from the point of view of the preparers, we believe that a single approach would facilitate the transition, as it would be perceived as a new "IFRS transition project" and all the required resources would most likely be allocated.

Under this single date approach, we advocate that the date for mandatory adoption should be set in 2015 for the following reasons:

- To provide companies with enough time to implement new requirements.
  The IASB should leave companies enough time to:
    - gather all the information (more specifically in the case of a full retrospective application),
    - improve existing systems or develop new ones (more likely in the case of revenue recognition, leases, financial instruments and insurance contracts),
    - train accounting and operational staff/management to understand the new standards and their impact on all the entity's transactions
    - validate new accounting schemes with auditors

- To provide the management with enough time to explain the forthcoming changes and their expected effects on the entity's financial reporting to their external users. For the first IFRS transition in 2005, the management had conducted some educational sessions in order to inform the analysts and the other external users about the expected effects on financial reporting. We believe that they may have to repeat this exercise, since the announced changes are significant and wide-ranging.

- In our view, the major objective of a true International GAAP is to create a "level playing field" for all entities in capital markets across jurisdictions by enhancing comparability and reducing the cost of compliance with accounting standards. We therefore think it is important not to place the current IFRS-compliant entities at a disadvantage compared with the future adopters like North America by imposing major and potentially disruptive changes on the former before the latter are fully committed to converged GAAP. Many of the changes under consideration here have been driven by an objective of convergence with the USA, without any real need in many cases for substantial change for current IFRS entities. One must not underestimate the magnitude of this task and accompanying cost that this exercise could entail. We thus think that the least penalising approach for current IFRS-compliant entities is to adopt a big-bang approach with a timing consistent with that of the major new adopters.