FEDERATION
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The Director General delegate

Paris, March 17th, 2009

FBF response to Exposure Draft 10 Consolidated Financial Statements

Dear Sir David,

The French Banking Federation is pleased to have the opportunity to comment on Exposure Draft 10 "Consolidated Financial Statements"

We welcome the objectives of the ED to develop a single principle of consolidation within the scope of IAS27 and SIC12 and to improve the disclosure requirements about consolidated and unconsolidated entities.

However we have some concerns on this project. In response to the global financial crisis, the consolidation project was adopted under a fast-track process. We support the initiative regarding certain elements such as disclosures to be provided to users of financial statements. However, we believe that the implementation of IAS 27 and SIC 12 is globally satisfactory and does not justify urgency to reconsider the principles of those standards. We have found regrettable the lack of discussion to evaluate how to improve the existing standards and what is not working so well.

Therefore we believe that the current project should be split in two: a short term one dealing in priority with additional disclosures and a long term one assessing the conceptual definition of control and the coordination with the other IASB projects (like the "derecognition" project for example).

Regarding the particular matter of disclosures, we believe that requirements of the draft standard are too voluminous to be relevant and that the details provided should be left under the judgment of the entity as it is set out in the application guidance.

Sir David TWEEDIE
Chairman
International Accounting Standards Board
30, Cannon Street
London EC4M 6XH
United Kingdom

18, rue La Fayette 75440 Paris cedex 09 • Tél. : 01 48 00 52 52 • Fax : 01 42 46 76 40 • Minitel : 3617 AFB1 • www.fbf.fr
A Bruxelles : rue de Trèves, 45 • B-1040 Bruxelles • Tél. : 32 2 280 16 10 • Fax : 32 2 280 30 11

For those reasons, we are not convinced that the current project will improve significantly the existing standard. Our answers to the exposure draft are detailed in the Appendix to this letter.

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

Yours sincerely,

Pierre de Lauzun

APPENDIX

DEFINITION OF CONTROL

Question 1

Do you think that the proposed control definition could be applied to all entities within the scope of IAS 27 as well as those within the scope of SIC-12? If not, what are the application difficulties?

Question 2

Is the control principle as articulated in the draft IFRS an appropriate basis for consolidation?

Before answering to questions 1 and 2, we question about the lack of previous debate related to the objectives of consolidation financial statements, the needs of users' information and the improvement on the existing consolidation standards. Moreover, we believe that this project should be better coordinated with the other IASB projects and in particular the Derecognition project.

We support the control principle focusing on the power to direct activities, the right to obtain returns and the necessary link between both. However, to appreciate whether a reporting entity has control over another, we believe that an analysis in substance of the relationship between these entities should be favoured. This analysis should be conducted to evaluate whether the reporting entity is significantly exposed to risks of the other entity and whether it benefits from the variability of the returns in all circumstances.

ASSESSING CONTROL

Question 3

Are the requirements and guidance regarding the assessment of control sufficient to enable the consistent application of the control definition? If not, why not? What additional guidance is needed or what guidance should be removed?

We support the aim of the ED to state principles rather bright-lines rules. However, we are not convinced that the guidance proposed in the ED will ensure a consistent application of the control definition. We have noticed difference of meanings whether the other entity is a structured entity or not. For example, the variability of returns is approached in paragraph 11 then its assessment is defined in paragraphs 19 and 20 before being detailed more specifically for structured entities in paragraph 33. In the same way, related arrangements are considered in paragraphs 17 and 18 whereas the paragraph 37 is devoted to structured entities.

We are also disconcerted by the structure of the ED where principles and guidance are dissipated within the draft standard, the basis for conclusions or the guidance. Some elements of the Basis for conclusions can be considered as guidance. As they are not part of the standard, they will not be accessible easily to a large public which is detrimental to a fair implementation and interpretation of the draft standard. We therefore suggest reading the EFRAG comments related to that question and giving examples when the control requirements are not clear.

We welcome several positive initiatives of the ED such as the distinction between an agent and a principal even if further analysis should be provided, related arrangements which give clarifications on SIC 12, additional guidance on protective rights when assessing the impact of veto rights on control over an entity, the principle that control is not shared so that only one party can control an entity.

Question 4

Do you agree with the Board's proposals regarding options and convertible instruments when assessing control of an entity? If not, please describe in what situations, if any, you think that options or convertible instruments would give the option holder the power to direct the activities of an entity.

We welcome the proposal of the ED that a reporting entity should consider whether the power to obtain voting rights achieved through holding options or convertibles instruments gives it the current power to direct the activities of another entity. It should not only focus on rights to be currently exercisable for them to have an impact on the assessment of the control.

Question 5

Do you agree with the Board's proposals for situations in which a party holds voting rights both directly and on behalf of other parties as an agent? If not, please describe the circumstances in which the proposals would lead to an inappropriate consolidation outcome.

We are pleased to see that the ED addresses control in the case of a reporting entity holding voting rights both directly and on behalf of other parties as an agent.
However, real situations are often not as so simple. Therefore, we would have preferred an approach in substance where the indicators listed in the ED would only be mentioned as factors to take into consideration when assessing the control of an entity on another entity.

We would like to point out that application guidance related to dual role (paragraph B11) is presented in the guidance relating to agreements with other vote holders rather than the agency relationship guidance. Concerning paragraph 31, we believe that it should also refer to paragraph B11 as it describes relevant facts and circumstances to be considered for assessing the control of a structured entity.

The wording of paragraph B7 should be redrafted in order to make it clearer that the existence of a performance fee does not disqualify the relationship between the agent and the principal as long as it does not disqualify the fact that the agent is still clearly acting on the behalf of the principal.

If we consider a reporting entity managing mutual funds on behalf of investors and on its own and the ED principles, the reporting entity might consolidate the mutual funds as it could use its power to direct the activity of the fund to generate returns. However, because the reporting entity as an agent acts in the best interests of investors, we consider that the power to direct the activities should not be taken into consideration when assessing control and therefore the reporting entity should not consolidate the mutual fund. In our view it would not be economically relevant.

STRUCTURED ENTITIES

Question 6

Do you agree with the definition of a structured entity in paragraph 30 of the draft IFRS? If not, how would you describe or define such an entity?

We do not understand the need to give a specific definition to a structured entity as the aim of the ED is to provide a single definition of control that can be applied to all types of entities. Providing such a specific definition of a structured entity has lead to develop two sets of criteria control depending on the characteristic of the entity, which could be detrimental to a consistent application of the general definition of control.

The only aim of such a definition of a structured entity should be to provide a scope for the particular disclosures that are required for non-controlled structured entities in which the reporting entity has involvement. For this purpose, we are in favour of a positive definition of structured entities which gives the attributes that are adequate to identify such entities rather than a definition which only purpose is to include all entities not already addressed in the ED. Without such a precision in the definition, reporting entities will encounter hard debates about the scope of the particular disclosures to be issued regarding these structured entities.

Question 7

Are the requirements and guidance regarding the assessment of control of a structured entity in paragraphs 30-38 of the draft IFRS sufficient to enable consistent application of the control definition? If not, why not? What additional guidance is needed?

We found difficult to assess how the key differences between the current consolidation criteria existing in SIC 12 and the new ones proposed in the ED will modify the scope of the structured entities that consolidated. Would some SPE currently consolidated be deconsolidated under the proposed rules and guidance ?

Among the difficulties we encountered, we think that sometimes the ED's requirements are focussing on non-substantive aspects of an entity's relationship with a structured entity. Regarding the ability to direct the activities that affect the variability of the returns, we would have much more welcome an approach which takes into consideration whether that variability is substantive, whether those returns are substantive, and whether the ability to direct is substantive.

Question 8

Should the IFRS on consolidated financial statements include a risks and rewards "fall back" test? If so, what level of variability of returns should be the basis for the test and why? Please state how you would calculate the variability of returns and why you believe it is appropriate to have an exception to the principle that consolidation is on the basis of control.

We are not in favour of including a risks and rewards "fall back" test model as we consider it is more appropriate to state the control model as principle-based.

DISCLOSURE

Question 9

Do the proposed disclosure requirements described in paragraph 23 provide decision-useful information? Please identify any disclosure requirements that you think should be removed from, or added to, the draft IFRS.

First of all, we are in favour of the text of the paragraph B31. Actually, the paragraph B30 which compels the entity to provide disclosures is inconsistent with the paragraph B31 which sets out the principle that the entity is able to decide the usefulness of the information to be provided to meet the objectives for a better disclosure in the light of circumstances.

The proposed disclosures are too extensive and prove burdensome related to unconsolidated structured entities particularly as detailed information might not be accessible. Therefore, we are in favour of setting as a principle that information should be required only when the degree of involvement is judged significant

As far as some involvements are still recorded as financial instruments (financial instruments issued by the structured entity and held by the reporting entity for example), they are still subject to the specific disclosures required by IFRS 7.Then we do not see any reason to provide different set of disclosures related to the same nature of risks depending on the type of the entity or the nature of the counterparty, in other words, depending on whether we are under the scope of the disclosure requirements in paragraphs B44-B47 or those in IFRS 7 *Financial Instruments*.

Additionally, we disagree with the paragraph B42 which requires disclosures for the current reporting period and the two preceding reporting period as no other information is required for the third year and as financial information previously published is available on the websites of the entities.

Question 10

Do you think that reporting entities will, or should, have available the information to meet the disclosure requirements? Please identify those requirements with which you believe it will be difficult for reporting entities to comply, or that are likely to impose significant costs on reporting entities.

As already mentioned in the answer to question 6, the scope of the entities for which such disclosures are required shall be much more specified in order to clearly assess which information shall be collected. Nevertheless, we believe that complying with the information required will remain very difficult for entities that the reporting entity has not set up or sponsored, as such information might not be so easily available.

REPUTATIONAL RISK

Question 11

(a) Do you think that reputational risk is an appropriate basis for consolidation? If so, please describe how it meets the definition of control and how such a basis of consolidation might work in practice.
(b) Do you think that the proposed disclosures in paragraph B47 are sufficient? If not, how should they be enhanced?

In our view, the reputational risk is not in itself an appropriate basis for consolidation.
We agree with the information that should be disclosed as in paragraph B47 when a reporting entity has provided support to structured entities that were not consolidated at the time of providing the support.
As it is mentioned in paragraph 31, the information should be disclosed "in the light of its circumstances" and should depend on the degree of the significant involvement of the reporting entities in the support given to the non-consolidated structured entities.

ACCOUNTING FOR ASSOCIATES AND THE EQUITY METHOD

Question 12

Do you think that the Board should consider the definition of significant influence and the use of the equity method with a view to developing proposals as part of a separate project that might address the concerns raised relating to IAS 28?

Principles associated with equity method deal with valuation method of consolidation as the aim of the ED is to improve the definition of control to be applied to all entities and to improve disclosure requirement.
We are not aware of any issue on application of the equity method rules. We are of the opinion that there is no matter of urgent work and that the IASB should delay this project.