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Le Président

JFL/IGG/VR

N°99

Paris, 4th December 2009

Mr Antonio Vegezzi
Chairman of the IASCF Due Process Committee
30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

Dear Sir,

I am writing on behalf of the CNC, following our review of the IASB ED /2009/11 Improvements to IFRSs.

The CNC has never before written directly to the Trustees' Due Process Committee. However, our Board 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 Committee.

We note the following statements from the IASB's webpage regarding the Annual improvements process :

- "Issues dealt with in this process arise from matters raised by the IFRIC and suggestions from staff or practitioners, and focus on areas of inconsistency in IFRSs or where clarification of wording is required."

- "It is limited to amendments to standards that are non-urgent but necessary improvements."

The CNC concurs with the above statements on the objectives of an Annual Improvements Process such as that performed by the IASB.

However, regarding the specific exposure-draft referred to above, while the CNC concurs with the objectives set out for the majority of the proposed amendments, the CNC has concerns about the way the clarifications have been addressed as part of the annual improvement project from a due process standpoint. Our main areas of concern and disagreement are as follows :

- **Some amendments proposed go beyond the stated objectives of an Annual Improvement process by substantially modifying current accounting treatments**

The CNC notes for example that, with the objective of clarifying the impairment standard entities should be referring to in the context of investments in consolidated entities accounted for at cost in an entity's separate accounts, the proposed amendment to IAS 27 § 38b replaces "in accordance with IAS 39" with "at fair value trough profit and loss" with respect to the other accounting treatment authorized under the standard. This change, which no longer permits such investments to be accounted for, in accordance with IAS 39, as available for sale financial asset with changes in fair value through other comprehensive income, is a major change as it narrows down the accounting choice available under existing IFRS. This is all the more concerning to the CNC as the change is proposed without any form of explanation being provided and does not appear to be linked to the clarification the amendment seeks to bring.

From a process standpoint, as stated in our above introduction, the CNC considers that amendments included in an "Annual improvements project" should be restricted to clarifications where redrafting is necessary due to unintended inconsistencies and divergences of interpretation in practice.

Hence, the CNC believes that the annual improvement project is not a suitable process to substantially modify an existing accounting treatment, all the more if the rationale for this change is not linked to the original issue and is not provided in the basis for conclusion of the proposed amendment.

- **Some amendments introduce, within a narrow context, new principles that are neither defined within the current Framework nor within the current standards**

The CNC notes that the annual improvement project introduces new concepts such as :

- "economic phenomenon" within IAS 8 § 10b
- "pro rata share of net assets in the event of liquidation" within IFRS 3 § 19.

According to its exposure-draft, the second chapter of the Framework would define the concept of "economic phenomenon", which does not currently exist neither in the Framework nor in the standards. The proposed amendments to IAS 8 introduce this new concept in the standards. The CNC notes that this chapter of the Framework has not even been published yet. The CNC is well aware that when the amendments were published the Board intended to publish the Framework chapter soon after. However, such a process poses a problem as regards a de facto reduction in the comment period, constituents being only able to evaluate the consequences of the text when the final text is at their disposal.

The CNC notes that the amendments with regard to the concept of “pro rata share of net assets in the event of liquidation” within IFRS 3 § 19 introduce the concept without even providing an explanation as to the practical meaning of such concept. Such introduction is thereby likely to lead to more practical interpretation difficulties.

As already stated, the CNC considers that the Annual improvements process is not a suitable process to introduce new concepts.

- **The way the amendments are currently drafted entail many practical application difficulties**

The CNC notes that, in several cases, the way the transition proposals are drafted is likely to lead to more practical difficulties :

- IFRS 3 - Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS. The proposed amendment refers to paragraphs of IFRS 3 prior to its revised version effective for reporting periods as of 1st July 1009 and published in January 2008. From a practical standpoint, references to an obsolete text raise concerns for instance in jurisdictions such as Europe where, when IFRS 3 revised becomes effective, the old text will no longer be part of the legislation and any reference to a legislation that no longer exists causes practical issues.
- In several cases, the method used to amend the standards successively result in the transition amendments including references to other transition provisions in other standards. This may lead to practical difficulties and confusion, especially when the "retrospective" or "prospective" transition provisions of other standards are combined. The result is that it is difficult to read and understand how such amended transition provisions are to be applied in practice.

Our detailed answers to the Exposure Draft’s questions as addressed to the IASB are attached as an Appendix to this letter.

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

Yours sincerely,

Jean-François Lepetit