Liberté • Égalité • Fraternité
RÉPUBLIQUE FRANÇAISE

AUTORITE DES NORMES COMPTABLES
3, Boulevard Diderot
75572 PARIS CEDEX 12
Phone **33 1 53 44 52 01**
Fax **33 1 53 44 52 33**
Internet http://www.anc.gouv.fr/
Mel **jerome.haas@anc.gouv.fr**

Chairman

JH

n°59

Paris, the 18th February 2011

IASB
30 Cannon Street
LONDON EC4M 6HX

UNITED KINGDOM

Request for Views : Effective Dates and Transition Methods

Dear Madam/Sir,

The ANC notes that the IASB has issued this request for views in a very uncertain context characterised by a number of the proposed standards in this request for views still under consideration. The ANC has expressed its opposition to some of the proposed standards and the need for improvement on others, with a constant message of thorough field testing prior to issuance of the standards. The Board is in the process of redeliberating a significant number of issues on all those proposals, the magnitude of which leads the ANC to consider that the current deadline that the IASB and FASB have set for themselves to issue the standards appears more and more unreasonable. We do however attempt to address the IASB's questions with the assumptions set by the IASB. It should however be noted that the views expressed hereafter are susceptible of modification depending on the way the individual projects on the proposed standards are carried forward.

Therefore, under the assumption that the proposed standards are actually issued by 30th June 2011, and coming from a jurisdiction where IFRS have been applied since 2005, the ANC considers that such standards should be implemented at a single date with the effective date being no earlier than annual periods beginning on or after 1st January 2015 (in other words allowing three to four years for implementation) to allow preparers to carry out the necessary decisions and system changes in the most optimal way, in view of the significant changes the proposed standards are likely to bring to current practice but also to address users' needs in terms of comparability.

Given the above, improvement to the substance of the proposed standards in order to achieve high quality standards and the relevant schedule for applying new standards for current IFRS appliers both should have precedence over the question of whether first time adopters may early adopt. Current non-IFRS appliers should then determine what is best for them in terms of effective dates.

More detail supporting the views expressed above is provided in the answers to the request for views individual questions in Appendix 1.

Should you wish to discuss the content of this letter, please do not hesitate to contact us.

Yours sincerely,

Jérôme Haas

Appendix

Question 1

Please describe the entity (or the individual) responding to this Request for Views.

For example :

a) Please state whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor or other user of financial statements (including regulators and standard-setters). Please also say whether you primarily prepare, use or audit financial information prepared in accordance with IFRSs, US GAAP or both.

b) If you are a preparer of financial statements, please describe your primary business or businesses, their size (in terms of the number of employees or other relevant measure), and whether you have securities registered on a securities exchange.

c) If you are an auditor, please indicate the size of your firm and whether your practice focuses primarily on public entities, private entities or both.

d) If you are an investor, creditor or other user of financial statements, please describe your job function (buy side/regulator/credit analyst/lending officer/standard setter), your investment perspective (long, long/short, equity, or fixed income), and the industries or sectors you specialise in, if any.

e) Please describe the degree to which each of the proposed new IFRSs is likely to affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors and creditors might explain the significance of the transactions to the particular industries or sectors they follow.

The ANC is the French Accounting standard setter.

Question 2

Focusing only on those projects included in the table in paragraph 18 of IASB Request for views :

a) Which of the proposals are likely to require more time to learn about the proposal, train personnel, plan for, and implement or otherwise adapt ?

b) What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs ? What is the relative significance of each cost component ?

The fact that a number of the projects under consideration in the present request for views are, for the time being, still under discussion impairs a proper assessment of the time needed to learn about the proposals as well as to the consequences of such proposals. Moreover, individual standards are likely to affect entities in varying ways : for instance, IFRS 9 is likely to impact financial institutions more broadly than manufacturing companies whilst the latter are more likely to be affected by the revenue recognition standard than financial institutions.
However, with the projects under consideration being quite pervasive in terms of the items affected in the financial statements but also with some of them being based on new concepts, undoubtedly these will generate a high level of costs which may, in some cases, resemble that of a first time adoption of IFRS.
The types of costs that will be incurred are the following :

- Change management costs (project management both internal and external)
- Training and education costs, including translation costs
- IT systems costs
- Operational costs
- Financial communication costs

Question 3

Do you foresee other effects on the broader financial reporting system arising from these new IFRSs ? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements ? Will they give rise to a need for changes in auditing standards ?

As already mentioned in the ANC's responses to the related EDs, some of the proposed new standards are based on untested new concepts which, we understand, may have significant impacts in the way some or all industries operate depending on how much they are affected by the standards : in the case of leases, all lessees will be impacted ; in the case of revenue recognition, the proposals lead to some industries being significantly more impacted than others.

The ANC generally does not support accounting standards which would entail a change in the preparers' business models. Accounting standards should reflect how businesses operate. The ANC considers that some recognition and measurement proposals made, upon which we have commented, would, in effect, entail changes in the ways businesses currently operate. We refer the IASB to the related comment letters.

Moreover, some of the proposals involve a lot more judgment thus implying additional challenges by auditors and regulators of the judgment applied by companies. In addition, the ANC considers that the impact on comparability is not appropriately evaluated.

Question 4

Do you agree with the transition method as proposed for each project, when considered in the context of a broad implementation plan covering all the new requirements ? If not, what changes would you recommend, and why ? In particular, please explain the primary advantages of your recommended changes and their effect on the cost of adapting to the new reporting requirements.

The ANC generally is in favour of retrospective application whenever possible. In the context of the most recent individual projects comprised in this request for views, our concerns regarding the proposed transition method has been expressed in our comment letters as follows :

- Post-employment benefits – Defined benefit plans

  "We normally see no major difficulty with a retrospective application of the amendments. However, we note that the current IAS 19 does not require identifying the actuarial gains and losses on other long term benefit plans due to consideration of materiality. The reclassification of "other long term benefits" in the category "long term employee benefits" will require determining retrospectively the actuarial gains and losses from the date of application.
  In addition, we think that for many entities with a large number of plans and locations in different jurisdictions, the costs of calculating the defined benefit obligation on the new basis will be high.
  As a consequence, we would be in favour of an amendment that provide for an option for limited retrospective application that is consistent with the exemptions permitted by IFRS1. The date of the mandatory application should provide the entities enough time in order to be able to perform the required calculations."
- Revenue recognition

"We agree with the proposed retrospective application. However, we are convinced that this proposal will be really burdensome for some entities. Thus, we urge the IASB to contemplate a sufficiently long lead time to help alleviate some of the concerns due to this proposal."

- Leases

  "We consider that lessees and lessors that are in a position to apply a full retrospective approach should not be prevented from applying it, and thus particularly in the light of the comments made by Mr. Cooper in his alternative view (ED.AV9).

  We note that the ED Leases does not discuss transition requirements neither for sale and leaseback arrangements nor for contracts that are leases under existing IAS 17 but would be excluded as they would represent sale/purchase arrangements under the ED proposals."

- Insurance contracts

  "***Determination of residual margin at the date of transition***

  We strongly disagree with the proposal to not calculate any residual margin for the existing insurance contracts at the date of transition.

  The proposal to measure the existing contracts at the date of transition by setting the residual margin at zero results in inappropriate information for users as:

  - the profitability of the contracts in force at the date of transition will be recognised directly in retained earnings and thus will never been recognised in the income statement as it emerges;

  - this approach will result in inappropriate future trend/comparative information about the performance of existing and future contracts after the date of transition.

  Therefore, we consider that a full retrospective approach portfolio by portfolio in line with IAS 8 requirements should be required, unless impracticable. If impracticable, in our view, entities should be required to apply the IASB's staff proposal set out in paragraph 249 of the Basis for Conclusions and to determine the "residual" margin at the date of transition as the difference (but not less than zero) between the carrying amount of the insurance liability before transition and the present value of the fulfillment cash flows at this date.

  In our view, the concerns about comparability expressed by the IASB in the same paragraph of the Basis of Conclusions would be appropriately addressed by disclosing in the notes separate appropriate information on the resulting "residual" margin until its complete release.

  Reclassification of financial assets

  We disagree with the proposal to permit only to redesignate financial assets as measured at fair value through the income statement. This proposals emphasises again the premise of the Board that accounting mismatches can be addressed only through the measurement of financial assets at fair value through the income statement (refer to paragraph 253 of the Basis of Conclusions 1).

  Thus, we consider that entities should also be permitted to redesignate financial assets as measured at amortised cost, consistently with the possibility that should be given to insurers to measure their assets and liability on a consistent basis.

  Changes to the definition of an insurance contract

  Refer to our comments in Question 11 (a) concerning the inclusion of a grandfathering clause for the two changes proposed to IFRS 4 definition of an insurance contract."

As regards the Financial instruments project, we note that some proposals are still being commented upon and that all aspects of the standard have not been exposed for comment. We therefore are not in a position to assess in detail the most appropriate transition method. However, the replacement of IAS 39 would potentially imply a significant scale of changes for financial institutions and in our view, specific transitional relief should be provided for accordingly (e.g. : similarly to the first time adoption of IAS 39 in 2005, restatement of comparatives should not be made mandatory for IFRS 9)."

As for the still on-going projects on consolidation and joint ventures upon which we have equally commented at the time they were exposed, we are not in a position to assess whether our comments made at the time of exposure remain valid.

The ANC notes that the more lead time is given prior to the effective date of a standard, the easier it is to apply retrospective application.

Question 5

In thinking about an overall implementation plan covering all of the standards that are the subject of this Request for views :

a) Do you prefer the single date approach or the sequential approach ? Why ? What are the advantages and disadvantages of your preferred approach ? How would your preferred approach minimise the cost of implementation or bring other benefits ? Please describe the sources of those benefits (for example, economies of scale, minimising disruption, or other synergistic benefits).

b) Under a single date approach and assuming the projects noted in the introduction are completed by June 2011, what should the mandatory effective date be and why ?

c) Under the sequential approach, how should the new IFRSs be sequenced (or grouped) and what should the mandatory effective dates for each group be ? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new IFRSs.

d) Do you think another approach would be viable and preferable ? If so, please describe that approach and its advantages.

The ANC is in favour of a single date approach. In coming to this view, the ANC considered the cost for preparers of making changes to their systems and operations on a piecemeal basis as opposed to undertaking such changes in a more holistic approach, be it either in terms of economies of scale, minimising disruption and other synergistic benefits, but also in terms of their financial communication to the users. Moreover, we understand from users that piecemeal changes are not beneficial for their purposes in terms of comparability.
Although the ANC disagrees with the fact that the projects noted in the introduction are capable of being completed by June 2011 in a satisfactory manner in terms of quality of the standards, under such an assumption, the ANC considers that in view of the changes needed, the earliest effective date possible would be for annual periods beginning on or after 1st January 2015, which, in other words, means that a three to four year implementation time period is necessary for implementation purposes.

Question 6

Should the IASB give entities the option of adopting some or all of the new IFRSs before their mandatory effective date ? Why or why not ? Which ones ? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time) ?

The ANC considers that all entities should be required to apply the new IFRSs at the same date. Adoption by anticipating the effective date impairs comparability for users of financial statements. Moreover a lot of these projects are interrelated be it in terms of scope, concepts, consequential amendments. Therefore, to avoid the risk of inconsistent accounting, early adoption should not be authorised.

Question 7
Do you agree that the IASB and FASB should require the same effective dates and transition methods for their comparable standards ? Why or why not ?

More important to the ANC than the question of whether the FASB applies at the same time and with the same transition methods as current IFRS appliers is the question of the necessary improvements to be made to the substance of the standards so that current IFRS appliers are suited with high quality standards. This therefore implies the following :

- the necessary time should be taken for redeliberations to achieve that goal without any preconceived "deadline";
- in line with our response to previous questions, such effective date should not be earlier, under current assumptions, than periods beginning on or after 1st January 2015 with no early adoption, ie allowing three to four years of implementation.

The ANC moreover notes that, unlike jurisdictions applying IFRS, the US would not be faced either with translation issues nor with an endorsement process.

Question 8

Should the IASB permit different adoption dates and early adoption requirements for first-time adopters of IFRSs ? Why, or why not ? If yes, what should those different adoption requirements be, and why ?

More important to the ANC than the question of whether first-time adopters are able to early adopt is the question of the necessary improvements to be made to the substance of the standards so that current IFRS appliers are suited with high quality standards. This therefore implies that the necessary time should be taken for redeliberations to achieve that goal without any preconceived "deadline".

With this in mind, the ANC considers that it is up to current non-IFRS appliers to determine for themselves what is best adapted to their own situation within their own environment.