RÉPUBLIQUE FRANÇAISE
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AUTORITE DES NORMES COMPTABLES
5, PLACE DES VINS DE FRANCE
75573 PARIS CÉDEX 12
Phone (+ 33 1) 53.44.28 53
Internet http://www.anc.gouv.fr/
Mel patrick.de-cambourg@anc.gouv.fr

Chairman

PDC N° 7

Paris, the 29th of January 2018

Mrs Lloyd
IFRS Interpretations Committee
30 Cannon Street
LONDON EC4M 6XH
United Kingdom

November 2017 – IFRS-IC tentative agenda decisions

Dear Mrs Lloyd,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the IFRS-IC tentative decisions published in the November 2017 IFRIC Update. This letter sets out the most critical comments raised by interested stakeholders involved in ANC's due process.

IFRS 9 Financial instruments and IAS 1 Presentation of financial statements – Presentation of interest revenue for particular financial instruments

ANC appreciates that the tentative decision aims at providing a mere clarification of the definition of the requirements in IAS 1.82(a). On the verge of implementing IFRS 9 it is utmost important not to create disruptions in the implementation process that has been put in place over the last months (or years). ANC therefore supports the decision and especially the possible consideration of the effect of a qualifying hedging relationship in that line item,.

ANC notes that the proposed definition of "revenue calculated using the effective interest method" mainly depends on the accounting treatment of the financial instrument instead of the very nature of the revenue. We see no conceptual reason to exclude from that line item incurred interests from plain vanilla bonds (or other simple non-SPPI debt instruments) that are booked at fair value through P&L, as long as their interest revenue can be isolated. IFRS 7.B5(e) indeed indicates that interest income may be isolated even when coming from financial instruments at fair value through profit or loss.

ANC is therefore of the view that such interest revenue shall not be prohibited or prescribed in the IAS 1.82(a) line item, but should remain possible when relevant. Many French constituents have already organised their information process based on that larger definition of interest revenue and changing the presentation now would induce significant costs.

We therefore encourage reviewing the relevance of the requirement of IAS 1.82(a). It is even more necessary as IFRS 9 has also amended IFRS 7.20(b) which requires disclosing the same detailed items either in the statement of comprehensive income or in the notes. We therefore advocate for maintaining the optional terms of IFRS 7 when applying the IAS 1.82(a) requirements, disclosing the information either in the statement of comprehensive income or in the notes. Furthermore, IFRS 7.20(b) requires to disclose information on both interest revenue and charges. Based on their practice of Asset-Liability-Management, financial institutions consider that it is more relevant to provide both revenue and charges than only interest revenue. Moreover, a too narrow-defined item may require additional line items in order to complete the interest revenue line, the relevance of which is questionable. Finally, multiplying such detailed information in the P&L may obscure the presentation of performance. Such an issue could usefully be reconsidered in the light of the current project on Better Communication.

General comment on – IFRS 15 decisions on Revenue from Contracts with Customers - Revenue recognition in a real estate contract that includes the transfer of land & Right to payment for performance completed to date

As a general comment, ANC considers that, when dealing with highly specific cases, the fact pattern discriminating criterion should be clearly articulated with the standard and specified in order to circumvent the risk, for some stakeholders, of analogizing the conclusion reached (which is based on "specific circumstances") to more widespread circumstances with some unintended consequences.

IFRS 15 Revenue from Contracts with Customers – Revenue recognition in a real estate contract that includes the transfer of land

The IFRS-IC Agenda Decision mostly relies on the "*transformative relationship*" criterion mentioned in the basis for conclusion (IFRS15.BC116K) to conclude that there is one performance obligation in accordance with IFRS 15.27. In ANC's view, as the "*transformative relationship*" criterion is only part of the basis for conclusion and is not part of IFRS 15 standard, the IFRS-IC agenda rejection should first specify why IFRS 15 criteria are not conclusive in this issue when aiming at determining the number of performance obligations. In addition, if the "*transformative relationship*" is a key criterion when analysing an IFRS 15 case, it probably needs to be included and clarified in the standard. Finally, IFRS 15.BC116K[1] refers to that "*transformative relationship*" criterion without providing a clear definition of it nor explicitly describing how to use it.

The Agenda decision is duly asking whether there exists a "*transformative relationship between the transfer of the land and the construction of the building*". But it also implicitly states that it is equivalent ("*in other words*") as asking whether "*the entity's performance in constructing the building would have been different had the customer already purchased the land from another party and vice-versa*".

[1] "*The boards observed that rather than considering whether one item, by its nature, depends on the other (ie whether two items have a functional relationship), an entity evaluates whether there is a transformative relationship between the two items in the process of fulfilling the contract*"

In ANC's view, the fact that the entity has purchased the land from another party may be a useful indicator but would not be sufficient to conclude whether a transformative relationship exists since:

- IFRS 15 Illustrative Examples show that the number of performance obligations does not depend on the number of parties the entity has contracted with;
- Other criteria may prove a transformative relationship.

As regard the need to examine if the performance would have been different if the entity had already purchased the good or service from another party and vice-versa

ANC understands from IFRS 15 Illustrative Examples (software for instance) that determining the number of obligation performances does not depend on the number of parties the entity has contracted with.

For instance, in Example 10.B (IFRS 15.IE 54-58), it is evidenced that contracting with several providers is not a discriminating criteria permitting to conclude that performance obligations are distinct. ANC understand from this example that the other criteria and factors provided in IFRS 15.27 and IFRS 15.29 need to be analysed and taken into consideration. Indications that need to be analysed are for instance as follows:

a) to which extent the good (software) is customised and modified by the service provider (IFRS 15.29a)?
b) in the context of the contract, does the promise transfer a good separately identifiable from the service (applying the IFRS 15.27.b criterion based on IFRS 15.29 factors)?

Conversely Example 10.A evidences that contracting with one provider to perform different services may lead to the conclusion that separate performance obligations exist even though there is only one contractor.

Therefore, referring in the agenda decision to the fact that the customer has purchased from different parties (or not) the different components is not, in ANC's view, sufficient to conclude on the number of performance obligations. ANC believes that the analysis should focus on identifying the intrinsic nature of the relationship between the different goods and services to determine if a transformative relationship exists.

As regard the strict definition of a "transformative relationship"

ANC believes that one could understand from BC 116K that building the foundations into the land transforms the land and the link between the land and the on-going work exceeds the definition of a functional relationship. In our view, when the relationship is a functional relationship the work already performed by the contractor building the site could be easily removed or modified, and would have no added value.

In the issue presented in the agenda decision, shall the contractor need to be changed during the construction process the new contractor would not remove the work already done and would probably continue constructing on the existing foundations. If, for any reason, the work done by the first contractor had to be removed or significantly modified (for instance to change the final use of the land), additional removal works would be required and the cost of the construction would be significantly modified.

Therefore in ANC's view, it could mean that the construction has a transformative effect on the nature of the land and vice-versa and that a transformative relationship may exist.

Please do not hesitate to contact us should you want to discuss any aspect of our letter.

Yours sincerely,

Patrick de Cambourg