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

Mouvement des Entreprises de France
MEDEF

AFEP
Association Française des Entreprises Privées

Comment letters
IASB
30 Cannon Street
London EC4M 6XH
UK

Paris, January 10, 2008

Re : ED of Proposed Improvements to International Financial Reporting Standards

ACTEO, AFEP & MEDEF welcome the opportunity to comment on the exposure draft "Improvement to International Financial Reporting Standards".

We support the IASB's proposed improvements to IFRSs which allow minor amendments on different standards to be reviewed in a single document.

However, we are of the opinion that some of the proposed amendments are more than minor because they could result in substantial modifications of current practices and should not be dealt with in this ED.

We do not support the proposed amendments detailed below :

- IAS 1, issue 4 *'statement of compliance with IFRSs'* because the proposal seems to imply that not complying with all IFRSs is suitable, provided that appropriate disclosures compensate the lack of full compliance ;
- IAS 38, issue 28 *'advertising and promotional activities''* on the ground that it is likely to bring confusion in practice, as "advertising and promotional activities" are not sufficiently defined ;
- IAS 39, issue 30 *'definition of a derivative'* because the existing definition has been introduced in the IFRS 2005 stable platform. As a result the existing practice is based on this definition and should not be changed before a proper impact study of the change has been carried out.

We note that three of the proposed amendments have triggered alternative views of Board members and we question whether these potential amendments still qualify as minor amendments. An alternative view might be an indicator that the proposed changes are no minor amendment or that they carry substance for larger debate. Hence, we wish the Board reconsider those three amendments and include them in current or future other projects.

If you would like further clarification of any the points raised in this letter, please do not hesitate to contact us.

Yours sincerely,

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

Comments on Draft improvements to IFRS

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Plan to sell the controlling interest in a subsidiary

Issue 2 :

The Board proposes to amend IFRS 5 Non-current Assets Held for Sale and Discontinued Operations by adding paragraph 8A to clarify that assets and liabilities of a subsidiary should be classified as held for sale if the parent has a sale plan involving loss of control of the subsidiary.

Question 2 *: Do you agree with the proposal to add paragraph 8A to IFRS 5 to clarify that assets and liabilities of a subsidiary should be classified as held for sale if the parent has a sale plan involving loss of control of the subsidiary ? If not, why ?*

We agree that there is uncertainty on this issue and we acknowledge that the amendment is consistent with IFRS 5 and IAS 27. We agree with the proposed amendment on the ground of consistency.

IFRS 7 Financial Instruments : Disclosures

Presentation of finance costs

Issue 3 :

The Board proposes to amend the guidance on implementing IFRS 7 Financial Instruments : Disclosures. There is a potential conflict between that guidance and IAS 1 Presentation of Financial Statements (as revised in 2007). IAS 1 precludes the presentation of net finance costs (or a similar term) in the statement of comprehensive income unless the finance costs and finance revenue included in the net total are disclosed. Paragraph IG13 of the guidance on implementing IFRS 7 indicates that total interest income and total interest expense* could be included as a component of finance costs. The Board proposes to resolve the potential conflict by amending paragraph IG13.

Question 3 *: The Board proposes to amend paragraph IG13 of IFRS 7* Financial Instruments : Disclosures *to resolve the potential conflict with IAS 1. Do you agree with the proposal ? If not, why ?*

We agree with the amendment proposed.

IAS 1 Presentation of Financial Statements

Statement of compliance with IFRSs

Issue 4 :

The Board proposes to insert in IAS 1 Presentation of Financial Statements (as revised in 2007) disclosure requirements for entities that refer to International Financial Reporting Standards (IFRSs) in describing the basis on which their financial statements are prepared but are not able to make an explicit and unreserved statement of compliance with IFRSs. Such an entity would be required to make disclosures about how its financial statements would have been different if prepared in full compliance with IFRSs.

Question 4 *: Do you agree with the proposal to require an entity that cannot make an unreserved statement of compliance with IFRSs to describe how its financial statements would have been different if prepared in full compliance with IFRSs ? If not, why ?*

We do not agree that the proposed new disclosure is an adequate response to the issue raised by the IASB. We believe that detailed accounting policy disclosures help users understand financial statements when statement of total or partial compliance to IFRSs is made and not a "would have been" disclosure describing the impact that standards that have not been fully applied might have had. Such a disclosure could involve costly assessments that might not be feasible without a proper organisation and reporting. Entities cannot be expected to develop a subset of reporting procedures to comply with a "would have been" disclosure.
To a certain extent, we think that such a disclosure can be counterproductive because one might think the amendment gives an option that would permit to partially apply IFRSs in the financial statements as long as the disclosure note is provided.

At last, regulation in Europe can lead to situations where, due to publication calendar of a new IFRS, it cannot be endorsed before year end and consequently cannot be adopted by issuers. This would mean that entities would not be able to comply with full IFRS that particular year, although the year before they would and the following year they would comply too.

For these reasons, we believe that the amendment is not minor, that it should not be part of this ED and that a more suitable solution should be debated in order to ensure the highest quality of financial reporting.

➭ Current/non-current classification of convertible instruments

Issue 5 :

IAS 1 requires a liability to be classified as current if the entity does not have an unconditional right to defer settlement for at least twelve months from the end of the reporting period. The Framework states that settlement includes conversion of the liability into equity. Consequently, the liability component of a convertible instrument that the entity could be required to settle in shares at any time would be classified as current.

Question 5 *: Do you agree with the proposal to clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current ? If not, why ?*

We agree with the conclusion of the Board but note that the amendment might not fully represent the decision. In some instances, a liability can be settled by a transfer of resources other than cash or assets such as the rendering of services. The proposed amendment doesn't seem to capture this type of situation. Hence we propose to reword the amendment :
IAS 1.69.(d)" it does not have an unconditional right to defer settlement of the liability by the transfer of cash, other assets or resources for at least twelve months after the reporting period".

➭ Current/non-current classification of derivatives

Issue 6 :

The Board proposes to amend IAS 1 to address inconsistent guidance in IAS 1 regarding the current/non-current classification of derivatives. The guidance included in paragraph 71 of IAS 1 might be read by some as implying that financial liabilities that are classified as held for trading in accordance with IAS 39 are required to be presented as current. The Board expects the criteria set out in paragraph 69 of IAS 1 to be used to assess whether a financial liability should be classified as current or non-current. The Board also noted that a similar concern exists in respect of current assets in paragraph 68.

Question 6 *: Do you agree with the proposal to amend the examples in paragraphs 68 and 71 of IAS 1 to remove the potential implication that financial assets and financial liabilities that are classified as held for trading in accordance with IAS 39 are required to be presented as current ? If not, why ?*

We agree that financial liabilities are classified as required in IAS 1.69 and that IAS 1.71 should be amended so that no confusion is made between categories of financial instruments as described in IAS 39 and classification in the balance sheet as described in IAS 1. Deleting the reference to "instruments classified as held for trading in accordance with IAS 39" from paragraph 71 in IAS 1 might not be sufficient to solve the issue of classification of derivatives. An alternative could be to amend IAS 39.9(a)(iii) so that derivatives are not a subcategory of instruments held for trading but a separate category. This would allow classifying derivatives according to IAS 1.69.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

➢ Status of implementation guidance

Issue 7 :

The Board proposes to amend IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to clarify the status of implementation guidance. The Board has been advised that paragraph 7 of IAS 8 could be misinterpreted as requiring the mandatory application of implementation guidance.

Question 7 *: Do you agree with the proposal to amend paragraphs 7, 9 and 11 of IAS 8 to clarify the status of implementation guidance ? If not, why ?*

We agree with the proposed amendment.

IAS 10 Events after the Reporting Period

➢ Dividends declared after the end of the reporting period

Issue 8 :

The Board proposes to amend IAS 10 Events after the Reporting Period to clarify why a dividend declared after the reporting period does not result in the recognition of a liability.

Question 8 *: Do you agree with the proposal to amend paragraph 13 of IAS 10 to clarify why a dividend declared after the reporting period does not result in the recognition of a liability at the end of the reporting period ? If not, why ?*

We agree with the amendment.

IAS 16 Property, Plant and Equipment

➢ Recoverable amount

Issue 9 :

The Board proposes to amend IAS 16 Property, Plant and Equipment to remove the perceived inconsistency between the definition of recoverable amount and the term 'recoverable amount' used in other IFRSs.

Question 9 *: Should the definition of recoverable amount in IAS 16 be amended to remove the perceived inconsistency with 'recoverable amount' used in other IFRSs ? If not, why ?*

We agree with the proposed amendment.

- **Sale of assets held for rental**

  Issue 10 :

  The Board also proposes to amend IAS 16 to address presentation issues arising from assets held for rental to others that are routinely sold in the course of its ordinary activities. The Board proposes a consequential amendment to IAS 7 Statement of Cash Flows in respect of this issue.

  Question 10 *: Do you agree with the proposal to amend paragraph 68 of IAS 16 and paragraph 14 of IAS 7 ? If not, why ?*

  Since the ordinary activity of the companies described in the proposed amendment is to rent then sell, we are of the opinion that the entire cash flows derived from such operations are to be classified as operating.

IAS 17 Leases

- **Classification of leases of land and buildings**

  Issue 11 :

  The Board proposes to amend IAS 17 Leases to address a perceived inconsistency between the specific classification guidance for leases of land and buildings and the general lease classification guidance in IAS 17.

  Question 11 *: Do you agree with the proposal to amend paragraphs 14 and 15 of IAS 17 to eliminate a perceived inconsistency between the specific classification guidance for leases of land and buildings and the general lease classification guidance in IAS 17 ? If not, why ?*

  We agree with the proposed amendment.

- **Contingent rents**

  Issue 12 :

  IAS 17 requires contingent rent relating to an operating lease to be estimated at the inception of the lease and recognised on a straight-line basis over the lease term. However, because of perceived ambiguities in the IFRS, current practice has been to recognise contingent rent relating to an operating lease in the manner prescribed for finance leases (ie as incurred).The Board proposes that contingent rent relating to an operating lease should be recognised as incurred. This would achieve consistency in the treatment of contingent rent for finance and operating leases.

  Question 12 *: Do you agree with the proposal that contingent rent relating to an operating lease should be recognised as incurred ? If not, why ?*

  We agree with the proposed amendment.

IAS 18 Revenue

➢ Costs of originating a loan

Issue 13 :

The Board proposes to amend the guidance accompanying IAS 18 Revenue to remove an inconsistency with IAS 39 Financial Instruments : Recognition and Measurement. The inconsistency relates to the definition of costs incurred in originating a financial asset that should be deferred and recognised as an adjustment to the effective interest rate. The proposed amendment states that the transaction costs to be applied to the accounting for financial asset origination fees in accordance with IAS 18 are those defined in IAS 39.

Question 13 *: Do you agree with the proposed amendment to the guidance on IAS 18 to explain that the definition of the transaction costs to be applied to the accounting for financial asset origination fees are those defined in IAS 39 ? If not, why ?*

We agree with the proposal and asks the Board to consider amending the appendix of IAS 18, paragraph 14(a)(ii) dealing with financial service fees "*These fees are an integral part of generating an involvement with the resulting financial instrument and, together with the related direct costs, are deferred and recognised as an adjustment to the effective interest rate*"..

IAS 19 Employee Benefits

➢ Curtailments and negative past service cost

Issue 14:

The Board proposes to amend IAS 19 in respect of plan amendments. Ambiguous definitions of negative past service costs and curtailments have resulted in diverse accounting for plan amendments that reduce existing benefits. This proposed amendment clarifies that when a plan amendment reduces benefits for future service, the reduction relating to future service is a curtailment and any reduction relating to past service is negative past service cost. The Board also proposes to delete a reference to materiality in paragraph 111 of IAS 19.

Question 14(a)*: Do you agree that IAS 19 should be amended to clarify that when a plan amendment reduces benefits for future service, the reduction relating to future service is a curtailment and any reduction relating to past service is negative past service cost ? If not, why ?*

We agree with the amendment on negative service cost.

Question 14(b)*: Do you agree that the Board should delete the following sentence from paragraph 111 of IAS 19: 'An event is material enough to qualify as a curtailment if the recognition of a curtailment gain or loss would have a material effect on the financial statements'? If not, why ?*

We agree that materiality concern is not specific to curtailments and as such, the sentence can be deleted. However, ACTEO, AFEP & MEDEF does not support the replacement of "material" by "significant" in IAS 19.111(a) and IAS 19.111(b) because materiality is defined in the framework (paragraph 29-30) while "significant" is not.

↳ **Plan administration costs**

Issue 15 :

The Board proposes to amend the definition of return on plan assets in IAS 19 to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the measurement of the defined benefit obligation.

***Question 15** : Do you agree with the proposal to amend the definition of return on plan assets in paragraph 7 of IAS 19 to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the measurement of the defined benefit obligation ? If not, why ?*

We agree with the proposed amendment.

↳ **Replacement of term 'fall due'**

Issue 16 :

The IASB is proposing to replace the term 'fall due' in the definitions of short-term employee benefits' and other long-term employee benefits' with 'employee becomes wholly entitled' in order to address a perceived inconsistency between the definition of short-term employee benefits in IAS 19.7 and examples thereof in IAS 19.8(b).

***Question 16** : Do you agree with the proposal to replace in IAS 19 the term 'fall due' with the notion of employee entitlement in the definitions of short-term employee benefits and other long-term employee benefits ? If not, why ?*

We agree with the proposed amendment.

↳ **Guidance on contingent liabilities**

Issue 17 :

The Board proposes to remove from IAS 19 the reference to recognition in relation to contingent liabilities.

***Question 17** : Should the reference in IAS 19 to recognising contingent liabilities be r-moved ? If not, why ?*

We agree with the proposed amendment.

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

↳ **Consistency of terminology with other IFRSs**

Issue 18 :

The Board proposes to amend IAS 20 Accounting for Government Grants and Disclosure of Government Assistance to conform terminology used by IAS 20 to the equivalent defined or more widely used terms. The Board proposes consequential amendments to IAS 41 Agriculture in respect of this issue. The proposed consequential amendments to IAS 41 are included in the IAS 41 chapter of this exposure draft.

***Question 18** : Do you agree with the proposal to conform terminology used by IAS 20 to the equivalent defined or more widely used terms ? If not, why ?*

We agree with the proposed amendments.

Government loans with a below-market rate of interest

Issue 19 :

The Board also proposes to amend IAS 20 to remove an inconsistency with IAS 39 Financial Instruments : Recognition and Measurement. The proposed amendment clarifies that the benefit of a loan received from a government with a below-market rate of interest should be quantified by the imputation of interest in accordance with IAS 39.

Question 19 *: Do you agree with the proposed amendments to IAS 20 to clarify that the benefit of a loan received from a government with a below-market rate of interest should be quantified by the imputation of interest in accordance with IAS 39 ? If not, why ?*

We agree with the proposed amendment, however would seek guidance on the computation of such interest.

IAS 23 Borrowing Costs

Components of borrowing costs

Issue 20 :

The Board proposes to amend IAS 23 Borrowing Costs (as revised in 2007) to refer to the guidance in IAS 39 Financial Instruments : Recognition and Measurement on effective interest rate when describing the components of borrowing costs.

Question 20 *: Do you agree with the proposal to amend paragraph 6 of IAS 23 to reference to the guidance in IAS 39 Financial Instruments : Recognition and Measurement relating to effective interest rate when describing the components of borrowing costs ? If not, why ?*

We agree with the proposed amendment.

IAS 27 Consolidated and Separate Financial Statements

Measurement of subsidiary held for sale in separate financial statements

Issue 21 :

The Board proposes to amend IAS 27 Consolidated and Separate Financial Statements (as amended in 2007) to require investments in subsidiaries that are accounted for in accordance with IAS 39 Financial Instruments : Recognition and Measurement in the parent's separate financial statements to continue to be accounted for on that basis when classified as held for sale (or included in a disposal group that is classified as held for sale).

Question 21 *: Do you agree with the proposal to require investments in subsidiaries that are accounted for in accordance with IAS 39 in the parent's separate financial statements to continue to be accounted for on that basis when classified as held for sale (or included in a disposal group that is classified as held for sale) ? If not, why ?*

We agree with the proposed amendment.

IAS 28 Investments in Associates

✎ Required disclosures when investments in associates are accounted for at fair value through profit or loss

Issue 22 :

The Board proposes to amend IAS 28 to clarify the disclosures required of an investor in an associate that accounts for its interest in the associate at fair value in accordance with IAS 39 Financial Instruments : Recognition and Measurement with changes in fair value recognised in profit or loss. The Board proposes consequential amendments to IFRS 7 Financial Instruments : Disclosures and IAS 32 Financial Instruments : Presentation in respect of this issue. The proposed consequential amendments to IFRS 7 and IAS 32 are included in the respective chapters of the exposure draft. A similar amendment is proposed in respect of the required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss.
The proposed amendment to IAS 31 Interests in Joint Ventures, the invitation to comment and the respective basis for the Board's proposal are included in the IAS 31 chapter in the exposure draft.

***Question 22** : Do you agree with the proposal to clarify the disclosures required of an investor in an associate that accounts for its interest in the associate at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss ? If not, why ?*

We don't agree with the proposed amendment which would mean to supplement IFRS 7, IAS 32 and fair value measurement of the investment with a requirement in a standard not applicable to the investment and a piece of information that has not been proved missing.

✎ Impairment of investment in associate

Issue 23 :

The Board proposes to amend IAS 28 to clarify the circumstances in which an impairment charge against an investment in an associate should be reversed.

***Question 23** : Do you agree with the proposal to amend paragraph 33 of IAS 28 to clarify the circumstances in which an impairment charge against an investment in an asso-ciate should be reversed ? If not, why ?*

We agree with the principle described in the amendment but feels that wording might not be clear enough with respect to the cap to which the impairment reversal can be recognized and thus, advise the Board to use the wording in IAS 36.117 "a reversal of an impairment loss shall not exceed the carrying amount that would have been determined had no impairment loss been recognised for the assets in priors years".

IAS 29 Financial Reporting in Hyperinflationary Economies

✎ Consistency of terminology with other IFRSs

Issue 24 :

The Board proposes to amend IAS 29 Financial Reporting in Hyperinflationary Economies to update the description of historical cost financial statements in paragraph 6 and to conform terminology in IAS 29 to the equivalent defined or more widely used terms.

***Question 24** : Do you agree with the proposal to update the description of historical cost financial statements in paragraph 6 IAS 29 and to conform terminology in IAS 29 to the equivalent defined or more widely used terms ? If not, why ?*

We agree with the proposed amendment.

IAS 31 Interests in Joint Ventures

- **Required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss**

Issue 25 :

The Board proposes to amend IAS 31 Interests in Joint Ventures to clarify the disclosures required of a venturer in a jointly controlled entity that accounts for its interest in the jointly controlled entity at fair value in accordance with IAS 39 Financial Instruments : Recognition and Measurement with changes in fair value recognised in profit or loss. The Board proposes consequential amendments to IFRS 7 Financial Instruments : Disclosures and IAS 32 Financial Instruments : Presentation in respect of this issue. The proposed consequential amendments to IFRS 7 and IAS 32 are included in the respective chapters of this exposure draft. A similar amendment is proposed in respect of the required disclosures when investments in associates are accounted for at fair value through profit or loss. Details of the proposed amendments to IAS 28 Investments in Associates, the invitation to comment and the respective basis for the Board's proposal are included in the IAS 28 chapter in the exposure draft.

Question 25 *: Do you agree with the proposal to clarify the disclosures required of a ven-turer in a jointly controlled entity that accounts for its interest in the jointly controlled entity at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss ? If not, why ?*

We don't agree with the proposed amendment which would mean to supplement IFRS 7, IAS 32 and fair value measurement of the jointly controlled investment with a disclosure requirement of a standard not applicable to the investment and a piece of information that has not been proved missing.

IAS 34 Interim Financial Reporting

- **Earnings per share disclosures in interim financial reports**

Issue 26 :

The Board proposes to amend IAS 34 Interim Financial Reporting to require the presentation of basic and diluted earnings per share only when the entity is within the scope of IAS 33 Earnings per Share.

Question 26 *: Do you agree with the proposal to amend paragraph 11 of IAS 34 to require the presentation of basic and diluted earnings per share only when the entity is within the scope of IAS 33 ? If not, why ?*

We agree with the proposed amendment.

IAS 36 Impairment of Assets

- **Disclosure of estimates used to determine recoverable amount**

Issue 27 :

The Board proposes to amend IAS 36 Impairment of Assets to require the same disclosures to be given for fair value less costs to sell as are required for value in use when discounted cash flows are used to calculate fair value less costs to sell.

Question 27 *: Do you agree with the proposal to amend paragraph 134(e) of IAS 36 to require the same disclosures to be given for fair value less costs to sell as are required for value in use when discounted cash flows are used to calculate fair value less costs to sell ? If not, why ?*

We agree with the proposed amendment.

IAS 38 Intangible Assets

- **Advertising and promotional activities**

Issue 28 :

IAS 38 requires expenditure on advertising or promotional activities, training activities and start-up activities, and on relocating or reorganising part or all of an entity, to be recognised as an expense as incurred. Divergent interpretations have developed about when such expenses are incurred. This proposed amendment clarifies the meaning of 'as incurred' in this context. It also makes clear that an entity may recognise a prepayment for goods or services as an asset only until that entity has access to the goods or has received the services.

Question 28(a) *: Do you agree that IAS 38 should emphasise that an entity should recognise expenditure on an intangible item as an expense when it has access to the goods or has received the services ? If not, why ?*

Question 28(b) *: Do you agree that paragraph 70 of IAS 38 should be amended to allow an entity to recognise a prepayment only until it has access to the related goods or has received the related services ? If not, why ?*

We don't think that the proposed amendment constitute a minor amendment because it might lead to significant change in practice. Moreover, the proposed amendment is confusing since what "promotional or advertising activities" encompasses remains unclear. It is not clear for instance if a catalogue is always included in the scope of the amendment when that catalogue constitutes the only channel for customers to order.

- **Unit of production method of amortisation**

Issue 29 :

The Board also proposes to amend IAS 38 by removing the last sentence of paragraph 98 which states : 'There is rarely, if ever, persuasive evidence to support an amortisation method for intangible assets with finite useful lives that results in a lower amount of accumulated amortisation than under the straight-line method. 'The Board has been informed that in practice the words 'rarely, if ever' in paragraph 98 are interpreted as 'never'. The project by the International Financial Reporting Interpretations Committee on service concessions highlighted situations where using the unit of production method of amortisation would be appropriate. However, where the expected pattern of consumption of the future economic benefits in the asset is weighted to the end of the asset's life, paragraph 98 is perceived as restricting an operator from using this method. The Board proposes an amendment to IAS 38 to resolve the issue.

Question 29 *: Do you agree with the proposal to remove the last sentence of paragraph 98 of IAS 38 regarding the amortisation method used for intangible assets ? If not, why ?*

We agree with the amendment. However BC5 refers only to service concessions arrangements and we estimate that further developments are needed so as not to let think that the amendment is restricted to service concessions.

IAS 39 Financial Instruments : Recognition and Measurement

➥ Definition of a derivative

Issue 30 :

The Board proposes to amend the definition of a derivative. The definition in IAS 39 excludes contracts linked to non-financial variables that are specific to a party to the contract. The proposed amendment would remove that exclusion. As a result, contracts linked to non-financial variables specific to a party to a contract within the scope of IAS 39 would be classified as derivatives.

Question 30 *: Do you agree with the proposal to amend IAS 39 by removing from the definition of a derivative the exclusion relating to contracts linked to non-financial variables that are specific to a party to the contract ? If not, why ?*

We do not agree to modify the definition of a derivative without proper debate on the issue and consideration of the implications of such a change. The amendment might lead to great confusion as a wide scope of contracts might be included in the scope of derivatives and embedded derivatives. The stable platform based on which a large number of entities have worked through IFRSs encompasses the definition of a derivative as it is now, and we all know that IAS 39 was one of the toughest challenges for entities to comply with IFRSs. We therefore do not agree to change the definition of a derivative in this exposure draft.

➥ Reclassification of derivatives into or out of the classification of at fair value through profit or loss

Issue 31 :

The Board proposes to clarify in what circumstances specific financial instruments start or cease to be accounted for at fair value through profit or loss.

50 An entity shall not reclassify a financial instrument into or out of the fair value through profit or loss category while it is held or issued.

50A The following changes in circumstances are not reclassifications for the purposes of paragraph 50 :

(a) a derivative that was previously a designated and effective hedging instrument no longer qualifies as such ;

(b) a derivative becomes a designated and effective hedging instrument.

Question 31 (a) *: Do you agree with the proposal to amend IAS 39 to clarify definitions of a financial instrument classified as held for trading ? If not, why ?*

We agree with the proposed amendments.

Question 31 (b) *: Do you agree with the proposal to insert in IAS 39 paragraph 50A to clarify the changes in circumstances that are not reclassifications into or out of the fair value through profit or loss category ? If not, why ?*

We agree with the proposed amendment but find it difficult to read due to double negation. The paragraph 50A could be included in paragraph 50 as follows :
'50 An entity shall not reclassify a financial instrument into or out of the fair value through profit or loss category while it is held or issued, except when a derivative that was previously a designated and effective hedging instrument no longer qualifies as such or when a derivative becomes a designated and effective hedging instrument.'

↳ Designating and documenting hedges at the segment level

Issue 32 :

The Board proposes to remove the apparent conflict between paragraph 73 and the requirements of IFRS 8 Operating Segments.

Question 32 *: Do you agree with the proposal to amend paragraph 73 of IAS 39 to re-move the references to segments and segment reporting ? If not, why ?*

We agree with the proposed amendments.

↳ Applicable effective interest rate on cessation of fair value hedge accounting

Issue 33 :

The IASB proposes to amend IAS 39 to clarify that the revised effective interest rate calculated on cessation of fair value hedge accounting in accordance with paragraph 92 should be used for the remeasurement of the hedged item when paragraph AG8 is applicable.

Question 33 *: Do you agree with the proposal to amend paragraph AG8 of IAS 39 to clarify that the revised effective interest rate calculated in accordance with paragraph 92 shall be used, when applicable, for the purposes of the remeasurement of the financial instrument in accordance with paragraph AG8 ? If not, why ?*

We agree with the proposed amendment.

↳ Treating loan prepayment penalties as closely related embedded derivatives

Issue 34 :

The Board proposes to clarify that the effective interest rate calculated on cessation of fair value hedge accounting in accordance with paragraph 92 should be used to remeasure the hedged item when paragraph AG8 applies.

Question 34 *: Do you agree with the proposal to amend paragraph AG30(g) of IAS 39 to clarify that prepayment options, the exercise price of which compensate the lender for loss of interest by reducing the economic loss from reinvestment risk, as described in paragraph AG33(a), are closely related to the host debt contract ? If not, why ?*

We agree with this proposed amendment.