Liberté • Égalité • Fraternité
RÉPUBLIQUE FRANÇAISE

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° 32

Paris, April 3rd, 2017

Mr Jean-Paul GAUZES
Chairman – EFRAG Board
35 square de Meeûs
B1-000 Bruxelles
Belgium

Copy sent to IASB

EFRAG's Draft Comment Letter - Exposure Draft ED/2017/1 Annual Improvements to IFRS Standards 2015-2017 Cycle

Dear Mr Gauzes, Cher Jean-Paul,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned EFRAG's Draft Comment Letter issued in February 2017 regarding the *Exposure Draft ED/2017/1Annual Improvements to IFRS Standards 2015-2017 Cycle.* This letter sets out the most important comments raised by interested stakeholders involved in ANC's due process. Our Board has reviewed and approved this letter on March 10th 2017. ANC's positions are as follows on the three proposed annual improvements.

1. IAS 12 - *Income tax consequences on financial instruments classified as equity*

ANC does not agree with the EFRAG's overall position supporting the IASB's proposed annual improvement on IAS 12- *Income tax consequences on financial instruments classified as equity.*

ANC believes it would have been more appropriate to address this issue through a more detailed research or project. In our view, modifying IAS 12, as proposed, is not a mere clarification and should not be performed through an annual improvement, which scope is intended to be narrow.

ANC actually considers that the proposed annual improvement does not specify the underlying principles to determine when tax effects have to be presented in equity or profit and loss. As mentioned in the initial submission[1], other types of tax reductions triggered by costs such as tax-deductible interest payments and costs of issuing equity instruments raise similar questions. Therefore, the proposed amendment should not be limited to the situation where dividends are distributed.

[1] ESMA Agenda Item Request: Tax effects from interests payments on equity instruments – 3 June 2015 – To the Chairman of the IFRS Interpretation Committee

In ANC's view this project should be considered under a more general approach, notably as regard the conceptual elements permitting to determine when tax effects shall be reflected into profit and loss or into equity.

2. IAS 23 – *Borrowing costs eligible for capitalisation*

ANC agrees with the IASB's exposure draft and the position expressed in the EFRAG's comment letter on the IAS 23 *Borrowing costs eligible for capitalisation.*

3. IAS 28 / IFRS 9 – *Long-term interests in associates or joint-ventures*

ANC does not agree with the EFRAG's overall position nor with the IASB's annual improvement on IAS 28/IFRS 9 relating to *Long-term interests in an associate or joint-venture* proposing to account for long-term interests applying IFRS 9 (including impairment requirements).

ANC believes that long-term interests should be managed with the equity interest as a single package. Analogizing with the accounting treatment proposed by IAS 21.32 for exchange differences arising on a monetary item that forms part of a reporting entity's net investment, ANC considers that a consistent approach should have been investigated by the IASB as regards long term net investment impairments.

In addition, applying the expected loss model to such transactions is debatable taking into account that conceptual limits and practical difficulties exist. It must be noted that measuring the expected losses on long-term interests should, in our view, take into account the fact that (i) a strong interrelation may exist between the long-term net investment and the equity investment (ii) the proposed annual improvement does not specify how the impairment methodology should be implemented and how the allocation process between equity investments and long-term interests should be applied. Finally, the fact that net investments have no determinable termination date and are long-lived net investments adds complexity to the measurement of the impairment.

ANC considers that the effects of this proposed annual improvement are not clarifications to IFRS standards as the issue is related to the equity method topic and raises additional application issues. Hence, ANC believes this amendment should be part of a wider project in order to investigate all conceptual impacts, ensure consistency with other standards (e.g. IAS 21), and assess potential pervasive effects of this change across IFRS.

Should the proposed annual improvement be nonetheless published, ANC draws EFRAG's attention on the fact that the application date of the annual improvement specified in paragraph 45E of the Exposure Draft should include a specific exemption for entities that will be able to delay the initial application of IFRS 9 until 2019 or 2021.

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

Yours sincerely, Très amicalement.

Patrick de Cambourg

Patrick de CAMBOURG