

Mr. Andreas Barckow  
Chairman of PAAinE Equity/Liability Working  
Group  
European Financial Reporting Advisory Group  
13 – 14 Avenue des Arts  
1210 Brussels  
Belgium

Paris, 28 July 2008

**Credit agricole's comments on EFRAG Discussion Paper "Distinguishing between Equity and Liability"**

Dear Mr. Barckow,

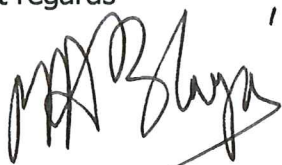
Credit Agricole, first retail banking group in France, welcomes EFRAG's initiative on Equity and Liability and gladly takes the opportunity to comment on its Discussion Paper, « Distinguishing between Equity and Liability ».

To our point of view, the proposed approach represents a real improvement compared to other approaches. Indeed, it is important for us, as the European Parliament points out in its reports on International Financial Reporting Standards (IFRS) and the Governance of the International Accounting Standards Board (IASB), that any approach includes "a definition of 'own funds' which will enable all forms of company, including in particular cooperative societies and partnerships, to declare capital provided by shareholders as own funds in the balance-sheet".

However, the discussion paper is still quite theoretical and we find it difficult, despite of the examples provided, to assess how it will work in practice. We therefore strongly encourage EFRAG and the drafting team to carry on its work to improve the paper in this respect.

We would be delighted to answer any question on our comments.

Best regards



Ms. Marie-Anne Barbat-Layani  
Deputy Managing Director  
Fédération nationale du Crédit agricole



Mr. Bertrand Badré  
Chief Financial Officer  
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## Answers to the questions

First of all, we note that EFRAG proposes a fundamental change in its approach (a positive definition of equity, as opposed to the current approach in IAS 32, based on a positive definition of liabilities), which should be further developed from our point of view.

Secondly, it is important for us, as the European Parliament has recently pointed out in its report on International Financial Reporting Standards (IFRS) and the Governance of the International Accounting Standards Board (IASB), that any approach includes "a definition of 'own funds' which will enable all forms of company, including in particular cooperative societies and partnerships, to declare capital provided by shareholders as own funds in the balance-sheet " (reference 2006/2248(INI)).

Moreover, we want to underline that one should try to limit discrepancies between the prudential and the accounting approaches. In this respect, we want to remind that European supervisors (CEBS) have clearly stated that cooperative shares are core capital. As a result, any approach on accounting standards should have the same result.

***Q 1 – Do you believe that defining two different classes of capital on the credit side of the balance sheet does provide decision-useful information, even if the entity's capital structure is in fact multi-dimensional (the so-called "list claims"-approach, pars. 13 ff.) If not, why?***

We believe that the distinction between equity and liability as a conceptual basic principle is satisfying. It presents a complete picture of the financial situation of a company, including its liquidity position and claims against the company.

However, defining more than two classes of capital would lead to multiple categories of claims, with multiple definitions and multiple lines to draw between the different classes of capital, which would increase complexity and would not improve the understanding of the balance sheet for external users.

***Q2 – Do you believe that listing all claims to the entity's assets, ranking those claims by a certain criterion and providing additional information on all other characteristics of the claims in the Notes to the financial statements would have merit (pars. 1.3 ff)? Why? If not, why?***

Theoretically, this approach would be interesting but in practice, it will be difficult to find criteria that allow comparable presentation between companies.

***Q 3 – Do you agree with the analysis of the different characteristics of capital as the basis for distinguishing between equity and liabilities (pars. 1.14 ff.)? If not, why? Do you think that any other characteristics should be considered? If yes, which?***

We agree in principle with the analysis and the individual explanation of the characteristics of equity and liabilities.

However, we think that the paper is too often oriented towards shares of listed companies as the "basic" form of equity, which can be a problem regarding other forms of companies, among which cooperatives (explicitly recognised by European law) . Hence, the document should be improved in order to avoid references to some forms of company only.

In our opinion, we consider that the definition for distinguishing between equity and liability must allow that the type of shares received in exchange for the capital brought for funding a company is always classified as equity, whatever the form of company. This includes cooperatives shares.

A definition that is not based on this principle but only on particular types of shares to define equity, may lead to exclude some types of shares and so create companies without equity under definition of IAS 32, which would be absurd. Things should indeed stay coherent between accounting and legal definitions.

***Q 4 – Do you agree with the analysis in the paper on whether to base a capital distinction on one or more than one criterion (pars. 1.33 ff.)?***

We are not sure that the best way to define capital is to base it on only one criterion. There could also be definitions based on several criteria. If a single criterion basis seems to simplify the distinction considerably, it might not be easy to find a single criterion encompassing all types of equity of all types of companies, including cooperatives shares.

What is important for us is a practical approach that provides appropriate results.

***Q 5 – Do you agree with the analysis in this paper that, in order to classify capital, either an entity view or a proprietary view has to be applied (pars. 1.40 ff.)? If not, why not? Do you agree with the paper's description of the implications of each approach (pars. 2.35 ff., 3.22 ff.)? If not, why?***

First of all, as explained above (Q 4), any approach should be tested by its results and ability to encompass all types of equity of all types of companies, including cooperatives shares. We think that the entity view is the relevant one, since according to the conceptual framework financial information is to be provided for investors and for creditors. For creditors, in particular, only the entity perspective is relevant. Since this perspective will tend to deliver more information, it may also deliver all relevant insights to investors.

***Q 6 – Do you agree with the analysis of the needs of the users of financial statements in the context of classifying capital (pars. 3.1 ff.)?***

The users of financial information are not only investors and creditors, but also public authorities, supervisors, and finally the wide public. Financial information should cover the needs of all of them, even when accounting standards mainly focus on investors and creditors. Financial information based on accounting standards should be as coherent as possible with prudential standards in order to provide a clear view by stakeholders of a company's situation.

***Q 7 – Do you agree that basing the distinction between equity and liabilities on risk capital would provide decision-useful information to a wide range of users of financial statements about entities in different legal forms (pars. 3.5 ff.)? If not, why? Is there any other basis for the distinction that you would consider providing more useful information? If yes, which and why?***

We agree that a distinction between equity and liability based on the definition of risk capital provides decision-useful information for users of financial statements. It is also coherent with the prudential approach. Regarding the multidimensional nature of the user group, the definition of capital at risk and accordingly of the loss absorbing function, should be neutral regarding business models and legal forms, among which cooperatives.

From our point of view, users have already such information with the present distinction between equity and liability given by IAS 32 and IFRIC 2.

***Q 8 – Do you agree with the analysis of losses as either economic losses or accounting losses in the context of classifying capital as equity or liabilities (pars. 4.1 ff.)? If not, why? Would you agree that the Loss Absorption Approach should focus on accounting losses?***

We think that the focus should be on accounting losses, not on economic losses. In fact, we believe that an approach based on accounting losses will provide comparable results more easily. However, such approach should avoid restrictions that are not relevant for the definition of capital as "at risk". This being said, it will certainly be important to refine this approach in detail, in order to deal with a number of "special situations".

***Q 9 – Do you think that the Loss Absorption Approach is explained sufficiently clear in this paper (Section 4)? Do you agree with the definition of loss-absorbing capital in par. 4.16? If not, why? How could this definition be improved?***

From our point of view, the proposed approach represents a real improvement compared to other approaches. Nevertheless, we think that the approach requires more explanation on more sophisticated instruments, in particular explanation beyond the principles. Otherwise, it will not be possible to achieve clarification regarding all financial instruments. The illustrative examples are certainly helpful. We especially welcome the presentation of example IE10. But they might not be sufficient to deliver practical insight on the actual consequences of the Loss Absorption Approach on all types of instruments.

***Q 10 – Do you agree that classification of an instrument as equity or liability should be based on the terms and conditions inherent in the instrument? Do you agree that the passage of time should not be the trigger for reclassification of an instrument (pars. 4.22 ff.)? If not, why?***

Insofar as the terms of the instruments define its loss-absorbing capacity, we think that the terms are relevant, if not decisive.

Any classification should be done once, when the instrument is issued or acquired and such decision should not be reviewed for the purpose of any subsequent financial statement.

***Q 11 – Do you agree with the discussion on linkage (pars. 4.13 ff.)?***

The issue of several products at the same moment in time is normally not done for reasons of structuring opportunities, but in order to correspond to the demand of the market. Such issues should therefore also be analyzed instrument by instrument.

***Q 12 – Do you agree with the discussion on split accounting (pars. 4.36 ff.)?***

In theory, this approach could be interesting but we fear that it would be very complicated to deal with in practice and would complicate the reading of the balance sheet.

***Q 13 – Do you agree with the discussion of the different approaches to distinguish equity from liabilities within a group context in general and with regard to the Loss Absorption Approach in particular (section 5)? If not, why? Would you prefer the approach set out in par 5.1(a) or the approach in par. 5.1 (b)? Why?***

From our point of view, it is very important that the definition of equity does not differ from entity to group level. An instrument that is an equity instrument at entity level should not lose its equity classification at group level.

***Q 14 – Do the examples in section 6 illustrate the loss-absorption principle well? Would you have reached a different conclusion (or classification)? Why? Are there any other aspects of the Loss Absorption Approach that need to be illustrated?***

We are in favour of examples, which are very helpful: we especially welcome the presentation of example IE10. The examples provided might however not be sufficient to clarify the treatment of all kinds of instruments, especially the most sophisticated ones.

***Q 15 – Do you believe that the Loss Absorption Approach is sufficiently robust to be prescribed in an accounting standard? If not, why? If you are concerned about structuring opportunities what would be your suggestion to limit the structuring opportunities?***

From our point of view, loss absorbing is a basic principle appropriate for a differentiation between equity and liability. However, since the current document is still quite theoretical, it is not possible to make a clear statement regarding its suitability for a future accounting standard. We therefore strongly encourage EFRAG to carry on with its work.

***Q 16 – Do you think the Loss Absorption Approach should be simplified? If yes, how could the Loss Absorption Approach be simplified?***

As regards the present paper we currently see no possibilities for a simplification.

***Q 17 – This Discussion Paper is based on the view that the current IFRS approach to distinguish equity from liabilities has shortcomings.***

***Do you agree with the analysis of the current IFRS approach to distinguish equity from liabilities (section 2)? Do you agree that the current approach has shortcomings as identified in this paper (pars. 2.17 ff.)? If not, why? Do you see any other shortcomings? Do you see advantages of the current approach?***

From our point of view, IAS 32 without IFRIC 2 presents some shortcomings but IAS 32 and IFRIC 2 stand for a treatment of capital which is very satisfying and we currently do not see any problem with this standard. Moreover, the French co-operative community made significant compromises to comply with these standards. This approach has been in place and working for more than 2 years and we consider it as an "acquis communautaire" one should not review.

If, nevertheless, IAS 32 and IFRIC 2 had to be reviewed, it would be crucial that the new definition allowed that the type of shares received in exchange for the capital brought for funding a company is always classified as equity, whatever the form of company.

***Q 18 – Do you believe that the Loss Absorption Approach would represent an improvement in financial reporting over the current IFRS approach? Do you think that the distinction based on this approach provides decision-useful information? If not, why? Do you have any other comments?***

We think that the proposed approach can represent an improvement compared to the preferred FASB's proposal (Basic Ownership Approach). The Loss-Absorption Approach, once properly developed, could become a good solution, even if we remain in favour of keeping IAS 32 with IFRIC 2.