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

IASB
30 Cannon Street
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April 8, 2016

Dear Mr. Hoogervorst,

We would like to draw your attention to the analysis you made in your recent meeting about measurement of long-term interests that, in substance, form part of the net investment in associates and joint-ventures.

The conclusion that only interests in associates and joint ventures that are accounted for using the equity method are excluded from the scope of IAS 39 (and the forthcoming IFRS 9) is debatable. In this context we regret that the Board did not examine the relevance of the accounting treatment that is obtained with this conclusion as a whole.

Firstly, to be considered to be, in substance, part of the net investment, long-term interests should be items for which settlement is neither planned nor likely to occur in the foreseeable future. We therefore wonder how this characteristic should be considered in the IAS 39 impairment model (and that of the forthcoming IFRS 9). One may conclude that the absence of settlement, especially when the JV or associates make losses, will lead systematically to an impairment. In this case, long-term interests would never be able to absorb the JV or associate losses of the period in excess of the equity interest.

Secondly, as soon as a long-term investment begins to absorb losses of the period, should one not consider that, in practice, it is accounted for using the equity method (even though it is true that all the equity-accounting mechanisms are not applied to it)? We believe that one should be consistent in the approach and reflect the holistic situation of the net investment of which the long-term interests form part. For this reason, in order to allow long-term interests to absorb losses, we believe they should first absorb the equity-accounted losses of the period and then be tested within the entire investment for impairment. We therefore ask the Board to reconsider its conclusions and to further explore view D as developed in the Agenda Paper which propose that "long-term interests are within the scope of IFRS 9 for classification and measurement purposes, excluding impairment (and are subject to the loss allocation requirements in paragraph 38 of IAS 28). In addition, these interests are also subject to the impairment requirements in paragraphs 40-43 of IAS 28."

We remain at your disposal should you need further clarification or background information.

Yours sincerely,

Patrice MARTEAU
Chairman