



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



Mouvement
des Entreprises de France
MEDEF

A F E P

Association Française des Entreprises Privées

European Commission
Internal Market and Services DG
200, Rue de la Loi
C107 06/76
1049 Bruxelles

Paris, January 25, 2008

Re : Effect study on the potential adoption of IAS 23

ACTEO, AFEP & MEDEF are professional organisations, representing the French preparer community operating in all segments of commercial business (Services, Manufacturing, Distribution, Banking and Insurance). The vast majority of our members are listed on the French market; some of them are also listed in the US.

We are pleased to provide the European Commission with some insight in our views and experience in relation to the potential adoption of IAS 23 revised.

On behalf of our members, we have responded to the invitation for comment launched by the IASB and EFRAG at the time the exposure-draft was issued by the IASB. Our letter recommended the IASB not to go ahead with the amendment, because of an unfavourable cost/ benefit trade-off. We had also stressed that, according to the IASB itself, neither IAS 23 nor SFAS 34 were adequate standards for the long run. This, in our view, further justified not to impose the cost and burden of the change on entities.

We have not formulated any view to EFRAG at the time EFRAG's draft positive endorsement advice was open for comments.

General comments on IAS 23

The assessment of the relative merits of the capitalisation and the expensing models needs to be carried out at two different levels: at the conceptual level, on one hand, and in the context of IAS 23 revised as it currently stands, on the other hand.

In our view and on a conceptual basis, the capitalisation model offers more relevance potential than the expensing model, provided that it is implemented independently from the specific borrowing situation of the entity at the time the qualifying asset is being produced. However IAS 23 revised requires a capitalisation rate be applied that reflects the borrowing situation of the entity. Therefore IAS 23 revised is not expected to bring the quality of information that could be derived from the capitalisation model.

Besides, the relevance of the capitalisation model would prevail for qualifying assets such as work in progress under construction contracts *only* to the extent that both financial expense and income incurred in the contract are taken into account. However IAS 23 revised addresses the expense side only.

For the same reasons, the understandability of information provided by the IAS 23 capitalisation model is undermined compared to the expensing model, although the two models are in principle potentially equivalent.

IAS 23 revised will obviously not undermine comparability, since an option is eliminated. However, we do not believe that the elimination of the expensing model will lead to enhanced comparability. Indeed, generalising the application of IAS 23 capitalisation model may generate diversity in practice, as the standard clearly lacks appropriate guidance. IFRIC has already been asked to provide more guidance and has declined to provide any.

Finally, both models are expected to provide the same level of reliability, whether in the IAS 23 revised context or otherwise.

Our above assessment leads us to believe that the revision of IAS 23 does not bring any valuable benefit in financial reporting. However we acknowledge that the revision of the amendment has been undertaken as part of the convergence agreement leading to the elimination of the reconciliation to US GAAP imposed on foreign private issuers listed in US markets. There is evident benefit in that decision for dual-listed EU issuers, and also more generally in the support the SEC decision brings to IFRS as the future potential unique set of accounting standards worldwide.

Costs are easily identifiable for issuers who had chosen to implement IAS 23 expensing model at the time of adoption. Implementing IAS 23 capitalisation model imply IT system changes and appropriate accounting and internal control procedures to be set up. There are also supplementary recurring costs linked to performing more detailed accruals, checks and controls and carrying different asset bases in subsidiary and consolidated accounts. Such costs vary in materiality, depending on the entity's activity. Long-term contract activities are particularly sensitive to the costs implied by the capitalisation model.

Recommendation to the European Commission and Parliament

Although we believe that the IASB should not have issued IAS 23 revised for the reasons explained above, we recommend the European Commission to adopt IAS 23 revised. Indeed we believe that only amendments or new standards which seriously impair the quality of financial reporting should be rejected in the EU adoption process. Such circumstances are not met with IAS 23 revised.

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

Yours sincerely

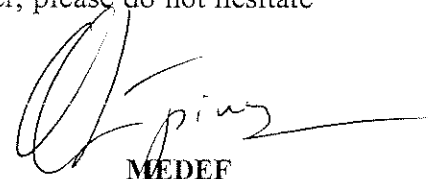
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