



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



Mouvement  
des Entreprises de France  
**MEDEF**

**AFEP**

ASSOCIATION FRANÇAISE DES ENTREPRISES PRIVÉES

IASB  
30 Cannon Street  
London EC4M 6XH  
UK

Paris, 3 September 2012

**Re: ED Improvements to IFRS – 2010-2012**

Dear Sir or Madam,

ACTEO/AFEP/MEDEF welcome the opportunity to comment on the exposure draft Improvements to International Financial Reporting Standards-2010-2012.

Please note that we will comment only on proposals about which we have some concerns:

***IFRS 8 – Operating Segments: Aggregation of operating segments and reconciliation of the total of reportable segments' assets to entity's assets***

We believe that this amendment is both unnecessary and excessive compared to that which should be specified in a set of principle-based standards:

- We think it is not necessary because we believe that IAS 1.122 is sufficient as it already requires the disclosure of information about the judgments made by the management in applying the accounting policies.
- We think it is excessive because we agree with the IFRS Interpretation Committee's first conclusion (IFRIC Update-July 2011), that the additional disclosure required appears more to be designed to enhance the possibility of detecting non-compliance with the requirements rather than to improve financial information. Compliance with accounting requirements is the responsibility of the entity and its auditors alone, and is encompassed in the overall statement of compliance with IFRS.

### ***IFRS 3 – Business combinations: Accounting for contingent consideration in a business combination***

We do not agree this issue should be addressed within the annual amendment process as we believe that is an important issue that affects many transactions, not only Business Combinations. We therefore strongly encourage the Board to re-examine the whole issue, across all standards dealing with contingent consideration. The Interpretation Committee is currently working on one such issue - in connection with the purchase of tangible assets - and is faced with several existing accounting models across the whole set of IFRS standards and interpretations. As we believe that changes in an amount of contingent consideration should not systematically have an impact on net income, even in the case of a Business Combination, we hope that the Board will, during its IFRS 3 post- implementation review, seize the opportunity to undertake a broader study of the accounting for contingent consideration.

Notwithstanding the previous comment, we agree with EFRAG's proposal that the Board should also align IAS 39 to the requirement in IFRS 9 regarding the accounting for own credit risk on financial liabilities measured at fair value. We believe that users of the financial statements of entities that do not apply IFRS 9 early would also benefit from this improvement in financial reporting.

#### **IAS 12 – Income Taxes: Recognition of deferred tax assets for unrealised losses**

While we agree with the underlying principles, we believe that the proposed amendment and its accompanying illustrative examples do not faithfully depict these principles and may lead to wrong interpretations.

We agree with the core principle that deferred tax assets should be recognised only to the extent that is probable that taxable profit will be available. We also agree that the assessment should consider the potential restriction concerning different specific categories of taxable profit, as mentioned in the new paragraph 27A. We also welcome the precision added in paragraph 29 (a) (i) concerning the way that reversal of current deductible differences should be considered in determining the future taxable profit. As such, we believe that the first example (that which follows paragraph 29) is appropriate and clearly illustrates this principle.

However, we disagree with both the drafting and conclusion of the second example, which follows paragraph 30A:

- The second illustrative example deals with assets classified at fair value through profit or loss, whereas the question that was raised with the Committee was about available-for-sale debt instruments. This example therefore does not address the original issue and may cause additional confusion.
- If the Board had taken a different example (that of an AFS instrument), it would have helped illustrate the principle that the tax basis should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of its assets. The example assumes that the debt instrument will be sold (referring only to capital gains or losses) because it is classified as FVPL. However, some debt instruments classified as “available for sale” are often held to collect interest and hold until maturity.

- When an entity classifies a debt instrument in the AFS category it means in most cases that its objective is to hold the asset until maturity or at least for a long time. It is not in itself a tax planning opportunity, but rather the way the entity manages its financial assets. In such circumstances, where a negative change in the fair value of AFS debt securities is observed at a point in their life, this “unrealised loss” will, in the absence of a specific cause for impairment, be reversed by the passage of time since the asset will have recovered its full value by maturity. Furthermore, IAS 39 recognizes the temporary nature of a capital loss by dealing with it in OCI (if it were not temporary it would be recognised in net income as an impairment). To be consistent, this temporary nature must also be admitted for the purposes of the recognition of deferred tax assets, in order not to distort financial reporting.
- These apparent reductions in value are simply the result of market views based on interest-rate movements or illiquidity in markets and will be reversed over time without the holder’s having to take any action other than to decide to hold the asset to maturity.  
Accordingly, deferred tax assets relating to unrealised losses from AFS debt securities which have not been realised for tax purposes, should be recognised because the condition stated in IAS 12.29(a) is always met, given the intention and the capacity of the entity to hold the investment in debt securities until its recovery in value (if not, the AFS should have been impaired). Indeed, the unrealised loss reversal will not be replaced by a deductible realised loss. As a result, there will be no tax loss to be absorbed by a potential taxable profit. This is why the taxable profit will certainly be sufficient.

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

ACTEO

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