



CONSEIL NATIONAL DE LA COMPTABILITE

3, BOULEVARD DIDEROT
75572 PARIS CEDEX 12

Phone 33 1 53 44 52 01

Fax 33 1 53 18 99 43/33 1 53 44 52 33

Internet www.finances.gouv.fr/CNCompta

E-mail antoine.bracchi@cnc.finances.gouv.fr

CHAIRMAN

AB/MPC

N° 747

PARIS, 13 OCTOBER 2006

Sir David Tweedie

IASB

30 Cannon Street

LONDON EC4M 6XH

United Kingdom

Proposed amendments to IAS 32 and IAS 1 - Financial instruments puttable at fair value and obligations arising on liquidation

Dear Sir David,

I am writing on behalf the Conseil National de la Comptabilité (CNC) to express our views on the above-mentioned amendments to IAS 32 and IAS 1.

We disagree with the proposed amendments for the following reasons.

1/ The Board cannot ignore the difficulties raised by IAS 32. Although some of the difficulties of the revised IAS 32 have already been dealt with, and in particular the classification of members' shares in co-operative entities which concerns the largest part of European co-operatives (through the issuance of IFRIC 2), others, recently raised, such as the classification of "step-up instruments" are not yet solved¹.

IAS 32 mentions that although the contractual obligation to deliver cash seems to be a critical feature of a liability, the substance of a financial instrument rather than its legal form governs its classification on the entity's balance sheet. In our opinion, this real ambiguity must be removed, and the notion of economic compulsion, we consider still present in this Standard, reaffirmed. We also believe that all the questions relating to the definitions of equity and liability, and particularly the notion of economic compulsion, should be discussed in the works regarding the conceptual Framework.

¹ Please see our response to the IFRIC tentative agenda decision on *IAS 32 - Financial Instruments : Presentation - Classification of a financial instrument as liability or equity*, sent to M. Robert P. Garnett the 21st of September 2006.

In this context, we do not understand why the Board issued these proposed amendments which concern very specific cases, and which are prejudicial to the understandability of this Standard, whilst fundamental questions are not addressed.

2/ These amendments introduce totally new notions which are not within the scope of the project on the conceptual framework. Among these new notions, there are (i) the notion of subordination, particularly from the perspective of a liquidation of a group, and (ii) the notion of prorata shares of net assets. Because these new general notions are even not evoked in the current Framework, difficulties of interpretation could spring up, particularly for cases outside the scope of IAS 32.

We also wonder about the scope and the consequences of the proposed amendments. Whereas it seems to us that the number and the volume of operations concerned are very limited, we are concerned that these amendments could have unforeseen wider consequences.

3/ Consequently, in our view, these amendments are not based on any clear principle and may raise difficulties in their application. They seem to be made up of a series of paragraphs of detailed rules set up to resolve specific accounting issues for particular cases. Among the inconsistencies, we have noted the following points :

- (i) Regarding the minority interests puttable at fair value and those that impose an obligation arising on liquidation of a subsidiary, currently classified as equity in the subsidiary's individual financial statements, both would be classified as financial liabilities in the group's consolidated financial statements, in accordance with the proposed amendments, since those minority interests are not in the most subordinated class of instruments from the perspective of the group. We consider that this notion of subordination from the perspective of the liquidation of a group is a new notion which needs to be discussed. It appears difficult to rank the claims which may or may not be made against the group as a whole. Under the French legislation, claims have to be assessed at the level of each individual company.
- (ii) Regarding the fair value of the puttable instruments, the proposed amendments introduce several notions of fair value which we consider inconsistent and which raise difficulties in their application. According to these amendments, the instrument's issue price is the fair value of a prorata share of the net assets of the entity at the time of issuance. We do not support this proposal, because we believe that the issue price at fair value of an instrument puttable at fair value could be different from the fair value of the prorata shares of the net assets of the entity, notably because of unrecognised assets and liabilities. Furthermore, the use of a formula to calculate the fair value of the issue price (or redemption price) of puttable instruments, as proposed, could also result in our opinion in material differences.
- (iii) Regarding the fair value disclosures of financial instruments puttable at fair value classified as equity, we note that existing standards do not require disclosure of fair value of equity instruments. We do not understand the objectives of a fair value disclosure for an equity instrument.

I hope you have found these comments useful and would be pleased to provide any explanations or information you might require.

Yours sincerely,

A handwritten signature in black ink, appearing to read "A. Bracchi", written in a cursive style with a long horizontal flourish extending to the right.

Antoine BRACCHI