

IFRS NEWS

➤ **Revenue recognition:** The IASB and FASB have published their joint standard which will be mandatory from 1 January 2017. A "joint transition resource group" for revenue recognition has also been put in place with the aim of identifying potential difficulties in interpretation and application of the new standard across the world.

In this respect, ACTEO is organising a series of work-sessions to allow its members to exchange views on the implementation of the new standard. We are also participating in the ANC's work on this standard. The objective of both these Initiatives is to provide feedback to the transition group and/or to react to any interpretations that might be developed

➤ **Financial instruments:** the IASB has launched its "Dynamic risk management-macro hedging" project which could have an impact on companies in all sectors if they use a dynamic risk management strategy.

ACTEO NEWS

➤ 2014 Annual accounts: the AMF's recommendations

As in previous years, the AMF has sent its draft recommendations for 2014 annual accounts to ACTEO for comments and suggestions. ACTEO had the opportunity to pass on members' comments at its meeting with the AMF on 7 October.

➤ Meeting with the 100Group*

The aim of this meeting was to exchange views with UK companies on various subjects, including the Conceptual Framework and the Leases project.

We established that we have similar positions on a number of issues, most notably on the primacy of the P/L account over the balance sheet, reservations about a too extensive use of fair value and a wish to maintain the current IAS 17 on leases. It was agreed that we should make such meetings a regular occurrence.

*A representative committee of the Finance Directors of the FTSE One Hundred companies.

➤ Leases: letter to the European Commission

ACTEO added its support to the letter addressed by Business Europe to the Commission recommending the suspension of the IASB's current project. This demand was justified on the grounds of the need to preserve a set of accounting standards of high quality and to allow for the development of a new standard which would represent a substantial improvement compared with the existing leases standard.

In the two years since its first edition ACTEO News has seen major changes in the world of IFRS.

At the time that the IASB and the FASB have put the brakes on their convergence programme, Europe has launched a retrospective study of the impact and use of IFRS amongst interested parties.

EFRAG, which has often been criticized for its "too technical" approach, is on the threshold of a major transformation. As a result of this its new Board will have the ability to integrate better the anticipated economic and political impact of new standards in its endorsement advice. We will have a notable opportunity to judge the effectiveness of this new organization in practice when it comes to its discussions about the potential adoption of the future standard on Leases, if ever it is published.

Patrice Marteau
President of ACTEO

ALERT

➤ Statutory accounts

The European Accounting Directive (2014/34/UE) has to be incorporated into French law by June 2015 for effect in 2016. Amongst other matters, this directive makes it mandatory to amortise intangible assets over their useful lives and specifies for goodwill that a maximum of ten years should be used if the useful life cannot be reliably estimated.

This incorporation into French law could have other significant effects on statutory accounts, such as the mandatory provision for pension obligations.

The MEDEF is working with the ANC and the Trésor on this matter and is available to relay any messages you may wish to pass on to them about the potential effects of the provisions on, for example, your dividend-paying capacity and the level of shareholders' funds.

➤ The Audit Directive

Work is just starting up on the incorporation into our law of the Audit Regulation and Directive.

The Chancellerie has set up a task force in which the MEDEF is a participant. The latter is calling for ACTEO members to join its own work group which will be deliberating on these issues.

DATE FOR YOUR DIARY

➤ KPMG Conference on the 2014 Year-end, in partnership with ACTEO – 25 November.



The latest comment letters (signed jointly with the MEDEF and the AFEP)

➤ The IFRS 3

Post-implementation Review:

We took advantage of this review to reiterate our messages about the aberrations that many of our members have brought to our attention, such as the accounting treatment of changes in ownership interest which leads to results which are counter-intuitive and disconnected from the cash flows.

We also indicated that the scope of this complex standard as it is required to be applied is far too wide: it should be limited in its use to significant changes in the structure of a group.

➤ The role of the Business Model:

In response to an EFRAG consultation ACTEO reaffirmed its view that it is essential to take the business model into account to ensure that financial statements are relevant. The accounting model must allow the entity to reflect its specific value-creation model.

➤ Non-GAAP performance measures (ESMA):

ACTEO reiterated and insisted upon the usefulness of non-GAAP measures in ensuring that financial communication is relevant.

Although we recognise that there must be a minimum of regulation around their use, as is the case in France with oversight by the AMF, it seemed to us that ESMA's proposals were excessive and would hinder rather than structure the use of such indicators.

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➤ When Europe takes another look at IFRS

In 2006, 126 French groups expressed their views in the context of a study by the MEDEF which concluded that the new accounting framework was perceived rather favourably because of its international dimension and its new demands for accounting rigour.

Ten years after the first application of IFRS, Europe is examining the usefulness and impact of IFRS. The Commission has therefore undertaken the following steps:

- ➔ The establishment of a group of experts charged with evaluating the impacts of the standards in Europe
- ➔ A public enquiry, including a questionnaire, to ascertain the relevance, the quality and the cost/benefit ratio of the use of IFRS, and to gather views on the European endorsement process.

➤ Leases: The Titanic or Waiting for Godot ?

After more than 8 years of working together, the IASB and the FASB are now proposing two different approaches to leasing with all that that means for the comparability between entities of their results, their cost of borrowing and the presentation of their cash flows. EFRAG launched an outreach exercise this summer in asking interested parties and entities which of the two models they preferred: the IASB or the FASB approach.

A general fatigue with topic :

Only about 40 constituents took part, including six ACTEO members, whereas this is a topic which should affect almost every company.

A lack of consensus on the preferred mode:

Some judge the FASB model to be more practical to put in place and reflects the distinction between operating leases and finance leases. Others think that the IASB model provides more coherence between the debts on the balance sheet and their effect on the P/L account.

Support for the retention of the current standard :

If necessary, accompanied by an enhancement of the financial information by improving the notes to the financial statements.

The responses of ACTEO members are perfectly consistent with those of other Europeans. The message is clear:

The divergence between the IASB and the FASB shows that the project is still a long way from being fully mature. In the absence of a consensus, either among standard setters or constituents, it has become a matter of urgency to suspend this project and maintain for the time being the current standard, which has the dual merit of reflecting the economic nature of the contracts and ensuring that there is a minimum of comparability between the two sets of accounting standards.

Finally, we note that if this standard were to be finalized, it would be one of the first tests of the new EFRAG organization and its more political orientation.

We heartily encourage you to respond on behalf of your own group to this questionnaire in order to provide as much feedback as possible to the study. Moreover, we are thinking of making a collective ACTEO response to complement this questionnaire to provide a more general and qualitative view of our perception of IFRS and their evolution.

This is a good opportunity to demonstrate to the European authorities by the number of replies from French preparers the extent to which we value the development of a set of high-quality accounting standards.

It is also an opportunity to reinforce the influence that Europe can have over the IASB in order to ensure that future standards properly correspond to our needs. This moment of taking stock of the situation occurs also at the time when EFRAG is being restructured with the aim of reinforcing its political clout from the end of the year.

Once the restructuring is in place, it will be the EFRAG Board which will have the role of approving, on a consensual basis, the content of the comment letters addressed to the IASB. EFRAG TEG will be responsible for providing the whole of the technical analysis.

We think that Europe is evolving in a favourable way in its perception of the role it has to play in this area, and it appears to be taking more responsibility for its accounting standards. By replying to the questionnaire we will be encouraging Europe to continue in this vein.