Exposure Draft ED/2013/11: Annual Improvements to IFRSs 2012-2014 Cycle

Dear Hans,

Mazars welcomes the opportunity to comment on the International Accounting Standards Board’s Exposure Draft Annual Improvements to IFRSs 2012-2014 Cycle, issued on 11 December 2013.

We agree with most of the Board’s proposals to amend the Standards as described in the Exposure Draft.

Nevertheless, we have serious reservations on the proposed amendment to paragraph 83 of IAS 19. We support the Board’s objective to make clear that in jurisdictions where there is no deep market in HQCB, the discount rate shall be determined by reference to HQCB issued in other jurisdictions in the same currency. However, we believe that the proposed drafting creates uncertainties that might impair its consistent application. Furthermore, the IASB did not conduct any impact study helping assessing the relevance and usefulness of the amendment and determining the proper application.

Our detailed comments to the questions raised in the Exposure Draft are set out in the Appendix.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,

Michel Barbet-Massin
Head of Financial Reporting Technical Support
**Proposal 1: IFRS 5 change of disposal method**

**Question 1 - Proposed amendment**

Do you agree with the IASB’s proposal to amend the Standards as described in the Exposure Draft?

If not, why and what alternative do you propose?

We agree with the proposed amendments which deal with changes in methods of disposal.

Actually, when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice versa), we agree that this change shall not entail consequences under IFRS 5 when the criteria for classification as either “held for distribution” or “held for sale” (which in substance are identical) are still met.

We also agree with the amendment aiming at clarifying that in situations where the held-for-distribution criteria are no longer met, the held-for-distribution accounting shall no longer be applied. Thus, current requirements which apply to changes to a sale plan shall also apply to changes to a distribution plan.

**Question 2 – Transition provisions and effective date**

Do you agree with the proposed transition provisions and effective date for the issue as described in the Exposure Draft?

If not, why and what alternative do you propose?

The Exposure Draft proposes that an entity applies those amendments to IFRS 5 “prospectively in accordance with IAS 8”. We note that this derogatory choice has not been explained in the basis for conclusions.

We understand that a prospective application has the merit of avoiding excessive complexity for operations that are transitory by nature. When the asset has been sold or distributed before the date when the amendment is first applied, a prospective application is relevant in so far as retrospective application would not provide better information.

However, we believe that a retrospective application for assets that have not yet been distributed or sold would provide better information. Applying this amendment retrospectively for those assets does not seem burdensome. Therefore we suggest an approach mixing retrospective application to assets held for sale or distribution at the effective date and prospective application for past operations.

We agree with the proposed effective date.
Proposal 2: IFRS 7 Servicing contracts

**Question 1- Proposed amendment**
Do you agree with the IASB’s proposal to amend the Standards as described in the Exposure Draft?
If not, why and what alternative do you propose?

Yes we agree. We fully support the Board’s proposal to clarify that a servicing agreement does not trigger a continuing involvement as defined by IFRS 7 as long as the transferor does not retain, through this contract, an economic exposure (benefit) from the transferred asset.

**Question 2 – Transition provisions and effective date**
Do you agree with the proposed transition provisions and effective date for the issue as described in the Exposure Draft?
If not, why and what alternative do you propose?

We agree with the Board’s proposal to apply this amendment prospectively.

Proposal 3: IFRS 7 Applicability of the amendments to IFRS 7 on offsetting financial assets and financial liabilities to condensed interim financial statements

**Question 1- Proposed amendment**
Do you agree with the IASB’s proposal to amend the Standards as described in the Exposure Draft?
If not, why and what alternative do you propose?

Yes we agree that this clarification is useful and relevant.
Requiring this information for all entities in any interim financial statement would not make sense in many cases. We therefore agree with the Board’s decision to apply general IAS 34 principle to determine whether this information is relevant for interim financial statement based on each specific situation.

**Question 2 – Transition provisions and effective date**
Do you agree with the proposed transition provisions and effective date for the issue as described in the Exposure Draft?
If not, why and what alternative do you propose?

As far as this amendment relates to disclosures (whether in interim or annual financial statements), we do not understand what retrospective application means. Comparative information in the notes to financial statements is previous year figures in relation to disclosures that have to be provided for current year, rather than disclosures that were provided in previous year financial statements.

We thus favor prospective application.
Proposal 4: IAS 19 discount rate: regional market issue

Question 1- Proposed amendment
Do you agree with the IASB’s proposal to amend the Standards as described in the Exposure Draft?
If not, why and what alternative do you propose?

No, we do not support the amendment as it is drafted.

Mazars supports the Board’s proposal to clarify that countries where there is no deep market in high quality corporate bonds should consider markets in other countries using the same currency before considering the use of the government bonds rate.

Although the proposed amendment seems clear and simple, we believe that it raises other sources of uncertainty. Indeed it is unclear whether the currency approach for determining the discount rate should apply only in countries where there is no deep market in high quality corporate bonds, or should always apply.
In other words:
- Should or may an entity operating in a jurisdiction where a deep market in HQCB exists use a discount rate based on a larger economic area using the same currency (e.g. Eurozone vs Germany)?
- Should or may an entity operating in a jurisdiction or an economic area consider, when determining the discount rate, other HQCB issued in the same currency outside the economic area (e.g. USD bonds that are issued in Asia, North America, South America...).

Depending on the answers to the questions above, the proposed amendment may have significant impacts that would not necessarily be relevant while being burdensome. Moreover, those impacts have not been assessed by the IASB. Therefore we believe that the Board has not developed robust basis for conclusions.

More generally, we encourage the IASB to develop a clear concept dealing with determination of the discount rate for post-employment benefit obligations, and consider that the research project on discount rates could be an opportunity to achieve this goal, as suggested by the IFRS Interpretations Committee.

Question 2 – Transition provisions and effective date
Do you agree with the proposed transition provisions and effective date for the issue as described in the Exposure Draft?
If not, why and what alternative do you propose?

We agree with the proposed transitional provisions and effective date.
Proposal 5: IAS 34 ‘elsewhere in the interim financial report’

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We agree with the proposed amendment. We believe it will improve the understandability of interim financial statements.

However, we do not understand well what is meant by “on the same terms as the interim financial statements and at the same time”. We believe this sentence should be clarified to avoid any misunderstanding.

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We agree with the proposed transitional provisions and effective date.