Dear Sir or Madam,

MAZARS welcomes the opportunity to comment on the International Accounting Standards Board’s Exposure Draft, *Annual improvements to IFRSs*.

We believe that the following proposed amendments are related to important and complex issues. Accordingly, they shall in our view be discussed in detail by the Board, and not in the frame of the Annual improvements process.

- **IAS 12, Income Tax** - Recognition of deferred tax assets for unrealised losses: we understand that the proposed amendments are complex and controversial, and may lead to significant changes in practice, in the insurance industry in particular.

- **IAS 7 – Statements of Cash Flows** – Interest paid that is capitalised: we note that the IFRS Interpretations Committee is currently working on the classification of cash flows in IAS 7. One of the objectives of the Committee is to identify and provide guidance on the primary principle behind the classification of cash flows. As such we wonder how the underlying primary principle set forth in the proposed amendments would interact with the on-going work of the Committee.
We generally agree with the other proposed amendments as they are in our view consistent with the objectives of the Annual improvements process (i.e: clarifying IFRSs or correcting a relatively minor unintended consequence, a conflict or an oversight). Nevertheless, we bring to the Board’s attention the following concerns:

- **IFRS 2 – Share-based Payment** – Definition of ‘vesting condition’: we believe that the definitions of *vesting condition*, *performance condition* and *service condition* are not operational since they include circular references. Furthermore, the clarification of issues raised by constituents in applying the definition of vesting condition in IFRS 2, that are provided in the Basis for Conclusions in the Exposure Draft (BC 3 to BC 7), should be part of the Guidance on implementing IFRS 2.

- **IFRS 3 – Business Combinations** – Accounting for contingent consideration in a business combination: we believe that the IASB should make the amendments also applicable for entities that do not elect to early apply IFRS 9. Therefore, the amendments should also refer to IAS 39.

- **IAS 1 – Presentation of Financial Statements** – Current / non-current classification of liabilities: we welcome the Board’s proposal to clarify when a liability should be classified as current or non-current. Nevertheless we do not see any sound reason why such a classification should follow the criteria used for derecognition under IAS 39 / IFRS 9, which seems the objective of the Board. We favour the introduction of separate criteria for classification.

Our answers to the questions raised in the Exposure Draft are shown in the appendix to this letter which summarises our concerns and opinion.

We would be pleased to discuss our comments with you and are at your disposal should you require further clarification or additional information.

Best regards,

Michel Barbet-Massin  
*Head of Financial Reporting Technical Support*
**Issue 1: IFRS 2 – Share-based Payment – Definition of ‘vesting condition’**

**Question 1**
Do you agree with the Board’s proposal to amend IFRS 2 as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the Board’s proposal to clarify the definition of *vesting conditions* by separately defining a *performance condition* and a *service condition* in Appendix A of IFRS 2, *Share-based payment*. The proposed amendments are expected to reduce divergence in the application of IFRS 2.

We nevertheless have two comments on the proposal:

1. We believe that there is a circular reference within the definitions of *vesting condition*, *performance condition* and *service condition*. A *vesting condition* is defined as being a *service condition* or a *performance condition*, while *service condition* and *performance condition* are defined as being *vesting conditions*.

   We therefore propose the new following definitions:

   “*Performance condition*: A condition that makes the counterparty entitled to receive cash, other assets or equity instruments of the entity, under a share-based payment arrangement, only if:
   (a) the counterparty completes a specified period of service; and
   (b) specified performance targets are met while the counterparty is rendering the service in (a).
   (...)
   “

   “*Service condition*: A condition that makes the counterparty entitled to receive cash, other assets or equity instruments of the entity, under a share-based payment arrangement, only if the counterparty completes a specified period of service. If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the counterparty has failed to satisfy the condition. A service condition does not require a performance target to be met.”

   “*Vesting condition*: A condition that determines whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity, under a share-based payment arrangement. A vesting condition is either a service condition or a performance condition. All service conditions and performance conditions are vesting conditions. A performance condition might include a market condition.”

2. BC 3 states that in the proposed amendment the Board addressed four issues related to the definitions of *vesting condition*, *performance condition* and *service condition*. These issues are dealt with in BC 4 to BC 7. These paragraphs present the rationale for some details in the proposed definitions of *performance condition* and *service condition*.
condition. They may also be seen as explanations on how to apply the new definitions in specific circumstances. As such we believe they should be included in the Guidance on implementing IFRS 2.

**Question 2**
Do you agree with the proposed transitional 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.

**Issue 2: IFRS 3 – Business Combinations – Accounting for contingent consideration in a business combination**

**Question 1**
Do you agree with the Board’s proposal to amend IFRS 3 as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the Board’s proposal to clarify that IAS 32 applies to the classification of contingent consideration that meets the definition of a financial instrument, and to remove the references to other IFRSs.

We also support the Board’s proposal to clarify that contingent consideration classified as financial liabilities shall be measured at fair value with any resulting gain or loss recognised in profit or loss for the period, unless the recognition of the resulting gain or loss is required in other comprehensive income in accordance with IFRS 9.

**Question 2**
Do you agree with the proposed transitional provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

We believe that the IASB should make the amendments also applicable for entities that do not elect to early apply IFRS 9. Therefore, the amendments should also refer to IAS 39.
Issue 3a: IFRS 8 – Operating Segments – Aggregation of operating segments

Question 1
Do you agree with the Board’s proposal to amend IFRS 8 as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the IASB’s proposal to include additional disclosures related to the aggregation of operating segments. While the aggregation of two or more entity’s operating segments is common, it is not always clear whether such an aggregation has been made. Besides, aggregation criteria under paragraph 12 of IFRS 8 are not easy to apply. Giving information as to how those criteria have been assessed will help users of financial statements understand the rationale behind the presentation of an entity’s reportable segments.

That being said, we would like to bring to the Board’s attention the operational issues resulting from the very strict aggregation criteria set forth in IFRS 8 § 12. According to this paragraph, aggregation can be achieved only if: “the segments have similar economic characteristics, and the segments are similar in each of the following respects: (a) the nature of the products and services; (b) the nature of the production processes; (c) the type or class of customer for their products and services; (d) the methods used to distribute their products or provide their services; and (e) if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.”

We doubt that this paragraph is actually operational: a strict application of these criteria could make situations where aggregation is possible very rare, and therefore require an entity to disclose an excessive number of operating segments in order to reach the quantitative thresholds established in IFRS 8 § 13. The number of operating segments to be disclosed may be such that segment information becomes too detailed and unpractical to display.

Question 2
Do you agree with the proposed transitional 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.
Issue 3b: IFRS 8 – *Operating Segments* – Reconciliation of the total of the reporting segments’ assets to the entity’s assets

**Question 1**
Do you agree with the Board’s proposal to amend IFRS 8 as described in the exposure draft? If not, why and what alternative do you propose?

We support the Board’s proposal to amend paragraph 28(c) of IFRS 8 to clarify that a reconciliation of the total of the reportable segments’ assets to the entity’s assets shall be disclosed, only if that amount is regularly provided to the chief operating decision maker. This amendment will ensure consistency with the requirements in paragraph 23, stating that an entity shall report a measure of total assets for each reportable segment if such amount is regularly provided to the chief operating decision maker.

**Question 2**
Do you agree with the proposed transitional 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.

Issue 4: IFRS 13 – *Fair Value Measurement* – Short-term receivables and payables

**Question 1**
Do you agree with the Board’s proposal to amend IFRS 13 as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the Board’s proposal to clarify in the Basis for conclusions to IFRS 13 that the objective of the consequential amendments to IAS 39 and IFRS 9 was not to remove the ability to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial.

**Question 2**
Do you agree with the proposed transitional provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

Not applicable.
**Issue 5: IAS 1 – Presentation of Financial Statements – Current / non-current classification of liabilities**

**Question 1**
Do you agree with the Board’s proposal to amend IAS 1 as described in the exposure draft? If not, why and what alternative do you propose?

The Board proposes to clarify that a liability is classified as non-current if an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility with the same lender, on the same or similar terms.

We welcome the Board’s clarification establishing that a classification as non-current is possible only if the refinancing or the rolling over occurs with the same lender.

However, we identified a discrepancy between paragraphs 73 and BC 2:

- on the one hand, BC 2 states that the objective of the Board is to promote consistency between the current / non-current classification under IAS 1 and the derecognition guidance in IFRS 9 / IAS 39; while

- on the other hand, paragraph 73 introduces a new notion (“on the same or similar terms”) that may differ from the one used in IAS 39 / IFRS 9 since it relies on a different wording.

That being said, we foresee two alternative ways to clarify the proposed amendments:

- The Board could decide to adopt the wording of IFRS 9 / IAS 39 in IAS 1. This would promote consistency between the current / non-current classification under IAS 1 and the derecognition guidance for financial liabilities under IFRS 9 / IAS 39.

- Or the Board may alternatively decide to remove any reference to IFRS 9 / IAS 39 from the Basis for conclusions of IAS 1. In this case, a new notion “same and similar terms” would be introduced in IAS 1, requiring additional guidance or example to promote a consistent application of the criteria among preparers. For example: if an existing floating rate liability is refinanced by a fixed rate loan, can the terms be considered “same or similar”?

We favour the second solution for the following reasons:

- We have not identified sound reason to promote strict consistency between the current / non-current classification in IAS 1 and IAS 39 / IFRS 9 derecognition requirements.

Indeed, BC2 of the proposed amendment seems to justify this need of consistency as follows: “if an entity expects, and has the discretion to refinance, an existing loan on substantially different terms, then classification of the loan as non-current at the reporting date would not be consistent with the derecognition guidance for financial...
liabilities if this existing loan would be derecognised less than twelve months after the reporting date, and replaced by the new refinanced loan facility at that time”.

We note that even if the entity had the ability to refinance the existing loan on substantially the same terms and with the same lender (e.g. thanks to a loan commitment), this existing loan will anyway be derecognised in accordance to IAS 39.39 and IFRS 9.3.3.1 as it expires.

Therefore we are not sure to understand what the intention of the Board is and the rationale of this consistency target between IAS 1 and IAS 39/IFRS 9.

- The objective of the current / non-current classification under IAS 1 is to assess the solvency of the entity, while the objective of IFRS 9 / IAS 39 is to provide guidance regarding recognition and measurement of financial liabilities. We believe that these different purposes may require different approaches.

- We favour a qualitative approach to the current / non-current classification under IAS 1 compared to an expanding role of IFRS 9 / IAS 39 requirements on debt modification, especially concerning the 10% test of IFRS 9 B.3.3.6 / IAS 39.AG62 which creates a “bright-line” and thus structuring opportunities.

**Question 2**
Do you agree with the proposed transitional 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.

**Issue 6: IAS 7 – Statements of Cash Flows – Interest paid that is capitalised**

**Question 1**
Do you agree with the Board’s proposal to amend IAS 7 as described in the exposure draft? If not, why and what alternative do you propose?

We disagree with the Board’s proposal to deal with this issue as part of the Annual Improvements Process for the following reasons:

- We understand the Board’s objective to clarify that the classification in the statement of cash flows of interest that is capitalised shall follow the classification of the underlying asset to which those payments were capitalised.

- However, we note that the IFRS Interpretations Committee is currently working on the classification of cash flows in IAS 7. One of the objectives of the Committee is to identify and provide guidance on the primary principle behind the classification of cash flows. The Committee acknowledges that the classification of cash-flows is a
long lasting issue and that the current provisions do not ensure a consistent application among preparers.

– As such, we believe that this topic shall be discussed in detail by the Board after the completion of the current work in progress of the IFRS Interpretations Committee, and not in the frame of the Annual improvements process. We notably wonder how the underlying primary principle set forth in the proposed amendments would interact with the on-going work of the Committee.

**Question 2**
Do you agree with the proposed transitional provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

Not applicable since we disagree with the proposed amendments.

**Issue 7: IAS 12 – Income Taxes – Recognition of deferred tax assets for unrealised losses**

**Question 1**
Do you agree with the Board’s proposal to amend IAS 12 as described in the exposure draft? If not, why and what alternative do you propose?

We disagree with the Board’s proposal to deal with this issue as part of the Annual Improvements Process for the following reasons:

– We understand the objective of the IASB’s proposed amendments to IAS 12 related to the recognition of deferred tax assets for unrealised losses.

– However, we are surprised to note that the proposed amendments apply to deferred tax assets resulting from all types of transactions and events, while the initial submission was limited to deferred tax assets arising from unrealised losses on available for sale debt instruments.

– In addition, we believe that the recognition of deferred tax assets for unrealised losses is a very important and complex issue. We understand that the proposed amendments are controversial, and may lead to significant changes in practice, in the insurance industry in particular. In our view, this topic shall be discussed in detail by the Board in the frame of a comprehensive amendment to IAS 12, and not in the Annual improvements process.
Question 2
Do you agree with the proposed transitional provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

Not applicable since we disagree with the proposed amendments.


Question 1
Do you agree with the Board’s proposal to amend IAS 16 and IAS 38 as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the IASB’s proposal related to the restatement of accumulated depreciation under the revaluation model in IAS 16 and IAS 38.

Question 2
Do you agree with the proposed transitional 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.

Issue 9: IAS 24 – Related Party Disclosures – Key management personnel

Question 1
Do you agree with the Board’s proposal to amend IAS 24 as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the IASB’s proposed amendments since they will improve the disclosures that enable an entity to achieve the objective of IAS 24 as stated in paragraph 1 of the standard.
Question 2
Do you agree with the proposed transitional 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.

Issue 10: IAS 36 – Impairment of Assets – Harmonisation of disclosures for value in use and fair value less costs of disposal

Question 1
Do you agree with the Board’s proposal to amend IAS 36 as described in the exposure draft? If not, why and what alternative do you propose?

We support the Board’s proposal to require an entity to disclose the discount rate when the fair value less costs of disposal is measured using a present value technique in situation where there has been a material impairment loss or impairment reversal in the period. This reinforces the consistency of disclosure requirements for fair value less costs of disposal and value in use when discounted cash flows are used to estimate the recoverable amount.

Question 2
Do you agree with the proposed transitional 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.