Crédit Mutuel

Confédération Nationale

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For the attention of M. Andreas BARCKOW

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Object: PRO-ACTIVE ACCOUNTING ACTIVITIES IN EUROPE (PAAinE)
DISCUSSION PAPER – DISTINGUISHING BETWEEN LIABILITIES AND EQUITY

Dear M. Barckow,

The Credit Mutuel is pleased to provide its comments on the pro-active Accounting Activities in Europe (PAAinE) Discussion Paper on distinguishing between Liabilities and Equity.

We think it's a good idea to study alternative approaches on this subject in a context of international debate.

This new approach allows enlarging the analysis for all users of financial statements and not only from the owner's point of view.

We hope you'll find these comments useful and would be pleased to provide any further information.

Yours sincerely

DIRECTION GESTION - FINANCE

Ferrand

Isabelle FERRAND

Question 1

Do you believe that defining two different classes of capital on the credit side of the balance sheet does provide decision-useful information, even if the entity's capital structure is in fact multi-dimensional (the so-called "list claims"-approach, pars. 1.3 ff.)? If not, why?

In the actual projects, the wish of the IASB is to reduce the complexity of the standards.
To create two different classes of capital doesn't improve the understanding of financial statements. There is sufficient information in the notes to permit the reader to understand the different instruments of capital.

Question 2

Do you believe that listing all claims to the entity's assets, ranking those claims by a certain criterion and providing additional information on all other characteristics of the claims in the notes to the financial statements would have merit (pars. 1.3 ff)? Why? If not, why?

Details of the liabilities and equity elements appear in the notes, and we think that providing additional information on all other characteristics of the claims doesn't improve the understanding of financial statements.

Question 3

Do you agree with the analysis of the different characteristics of capital as the basis for distinguishing between equity and liabilities (pars. 1.14 ff.)? If not, why? Do you think that any other characteristics should be considered? If yes, which?

We agree with the analysis of the different characteristics of capital as basis. Perhaps it would be better if the period is precised for the analysis when the financial instrument is issued? The reporting date?

Question 4

Do you agree with the analysis in the paper on whether to base a capital distinction on one or more than one criterion (pars. 1.33 ff.)?

One sole criterion has the advantage of simplicity. In this case, it's necessary to test it in different practical examples. The board of FAS did this exercise and it assures a good understanding by every user.

Question 5

Do you agree with the analysis in this paper that, in order to classify capital, either an entity view or a proprietary view has to be applied (pars. 1.40 ff.)? If not, why not?
Do you agree with the paper's description of the implications of each approach (pars. 2.35 ff., 3.22 ff.)? If not, why?

It's very interesting to analyse the subject from the entity view and the proprietary view.
We think that the entity view is the best economic view of the entity. The reflect of the entity must be long term because an enterprise cannot be analysed as if it will close the day after.
The interesting information for an owner or an investor can be found in the notes.

Question 6
Do you agree with the analysis of the needs of the users of financial statements in the context of classifying capital (pars. 3.1 ff.)?

Yes, we agree. The financial statements cannot answer all the needs of the users. But the notes allow solving this problem.

Question 7
Do you agree that basing the distinction between equity and liabilities on risk capital would provide decision-useful information to a wide range of users of financial statements about entities in different legal forms (pars. 3.5 ff.)? If not, why?
Is there any other basis for the distinction that you would consider providing more useful information? If yes, which and why?

The risk capital is the most common point between all users.

Question 8
Do you agree with the analysis of losses as either economic losses or accounting losses in the context of classifying capital as equity or liabilities (pars. 4.1 ff.)? If not, why? Would you agree that the Loss Absorption Approach should focus on accounting losses?

The Loss Absorption Approach should focus on accounting losses. Another choice would be confusing and will damage comparability between entities.

Question 9
Do you think that the Loss Absorption Approach is explained sufficiently clear in this paper (Section 4)? Do you agree with the definition of loss-absorbing capital in par. 4.16? If not, why? How could this definition be improved?

We think that the concept of the Loss Absorption Approach is clearly explained but the analysis in current instruments would be useful. We agree with the definition of loss-absorbing capital.

Question 10
Do you agree that classification of an instrument as equity or liability should be based on the terms and conditions inherent in the instrument? Do you agree that the passage of time should not be the trigger for reclassification of an instrument (pars. 4.22 ff)? If not, why?

We agree that classification of an instrument should be based on the terms and conditions inherent in the instrument. We think that classification between equity or liability must be realised only at the initial date of the emission or acquisition, except in case of changes in contractual terms.

Question 11
Do you agree with the discussion on linkage (pars. 4.13 ff.)?

Two or more instruments issued at the same time don’t answer structuring opportunities, but a market context. Consequently, the analysis should be instrument by instrument.

Question 12
Do you agree with the discussion on split accounting (pars. 4.36 ff.)?

The split accounting allows an economic approach, and to reflect the operation in financial statements.

Question 13
Do you agree with the discussion of the different approaches to distinguish equity from liabilities within a group context in general and with regard to the Loss Absorption Approach in particular (section 5)? If not, why? Would you prefer the approach set out in par 5.1(a) or the approach in par. 5.1 (b)? Why?

We aren't sure that all instruments issued by subsidiaries should be classified in equity. We think this point must be analysed more.

Question 14
Do the examples in section 6 illustrate the loss-absorption principle well? Would you have reached a different conclusion (or classification)? Why? Are there any other aspects of the Loss Absorption Approach that need to be illustrated?

These examples are very useful (IE10 particularly), but not sufficient. We suggest that the 25 examples proposed in the FASB preliminary be the subject of an analysis under the PAAinE.

Questions on the loss absorption approach in general

Question 15
Do you believe that the Loss Absorption Approach is sufficiently robust to be prescribed in an accounting standard? If not, why? If you are concerned about structuring opportunities what would be your suggestion to limit the structuring opportunities?

We support the Loss Absorption Approach, which reflects a large variety of entities, including cooperatives. But we think that several points must be analysed to improve this project.

Question 16
Do you think the Loss Absorption Approach should be simplified? If yes, how could the Loss Absorption Approach be simplified?

No it isn't. We don't think the LAA should be simplified.

Question 17

This Discussion Paper is based on the view that the current IFRS approach to distinguish equity from liabilities has shortcomings.

Do you agree with the analysis of the current IFRS approach to distinguish equity from liabilities (section 2)? Do you agree that the current approach has shortcomings as identified in this paper (pars. 2.17 ff.)? If not, why? Do you see any other shortcomings? Do you see advantages of the current approach?

The IAS 32 could be improved. Cooperative banks use the interpretation IFRIC 2 without difficulty, and we think the current approach based on a definition of liabilities characteristics rather than equity characteristics is easiest. Liabilities are less divergent between entities than equity.

Furthermore, in the context of the new IASB's discussion paper, we think the Loss Absorption Approach offers an alternative and respects the large variety of economic structures, including cooperatives.

Question 18

Do you believe that the Loss Absorption Approach would represent an improvement in financial reporting over the current IFRS approach? Do you think that the distinction based on this approach provides decision-useful information? If not, why? Do you have any other comments?

For the previous reasons, we don't think the LAA would represent an improvement in financial reporting over the **current** IFRS approach and interpretation as IFRIC 2.