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Paris, January 19, 2018

Mr John Stanford
Technical director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th floor
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Ontario M5V 3H2 CANADA

Re: Response to Exposure Draft 62, *Financial Instruments*

Dear Mr Stanford,

The French Public Sector Accounting Standards Council (CNOCP) welcomes the opportunity to comment on the Exposure Draft *Financial Instruments* published in August 2017.

The CNOCP notes that this Exposure Draft aims at converging with the corresponding IFRS standard (IFRS 9) recently published, superseding IAS 39. In light of this decision which the Council is not going to question, we will not comment on the principles derived from IFRS 9. Nevertheless, we would like to recall that, as regards measurement of assets and liabilities in non-financial public entities, including derivatives used to hedge financial risks, France favours the cost model, but, at the same time, acknowledges that the fair value is useful to account for financial risks.

The CNOCP welcomes the attempt to adapt the examples and application guidance to the public sector; we also appreciate that the standard provides guidance to subjects, such as concessionary loans, that are unique to the public sector.

As a general comment, we would like to point out the fact that it could have been useful to delay this convergence project to get some feedback on IFRS 9 implementation issues. The new IFRS standard is applicable for annual periods beginning on or after 1 January 2018. As a result, as of now, we are obviously not in a position to clearly identify all the difficulties which may arise from IFRS 9, in particular as regards the expected credit losses model.

Besides, we also wonder whether the expected credit loss model, which may be appropriate for high volume of operations and requires very sophisticated systems to measure the risk *ex ante*, is really accurate in the public sector.

Notwithstanding the above, we regret that the Exposure Draft does not clearly put the light on the most common situations and most important issues that the public sector is usually confronted to. On top of this, based on our experience, several elements raised (for example securitization schemes as described in AG 33) do not exist in our jurisdiction.

Therefore, with the need for practicability in mind, we would favour an approach that would first present in the standard the most common situations, and then stress on major issues, keeping in mind that in the public sector, financial instruments do not encompass the same level of complexity as in the financial sector.

Details of our response to the specific matters for comment are set out in the following appendix.

Sincerely yours,

Michel Prada

APPENDIX

Specific matter for comment 1:

Consistent with the relief provided in IFRS 9, the IPSASB has agreed in [draft] IPSAS[X] (ED62) to allow an option for entities to continue to apply the IPSAS 29 hedging requirements. Do you agree with the IPSASB's proposal?

We understand that the decision to allow an option to continue to apply the IPSAS 29 hedging requirements was made to duplicate the provisions in IFRS 9, although IAS 39 had often been criticized as being too much rule-based and too complex.

As far as we understand, IFRS 9 (and therefore IPSAS *[X] (ED62)*) is supposed to allow more hedging instruments to qualify for hedge accounting. The French accounting rules have also recently moved towards provisions also promoting such an evolution.

As a result, although we are not definitively opposed to the above mentioned option, we do not believe that the option to keep IPSAS 29 hedging requirements would be a plus.

Specific Matters for Comment 2:

The IPSASB recognizes that transition to the new standard [draft] IPSAS[X] (ED62) may present implementation challenges as a result of the number of significant changes proposed. Therefore, the IPSASB intends to provide a 3 year implementation period until [draft] IPSAS[X] (ED62) is effective (early application permitted). Do you agree with the proposed 3-year implementation period before [draft] IPSAS[X] (ED62) becomes mandatory? Please explain.

We share the IPSASB's view that the new standard presents implementation challenges as a result of significant changes proposed. As a consequence, we support the proposal of a 3-year implementation period, to be in a position to ensure a smooth and sensible implementation.

As already mentioned above, it could have been useful to delay this Exposure Draft to get some feedback on IFRS 9 implementation issues, IFRS 9 being applicable from 2018. As of now, we are obviously not in a position to clearly identify all the difficulties which may arise from IFRS 9, in particular as regards the expected credit losses model.

Specific Matters for Comment 3:

Do you agree with the proposed transition requirements in paragraphs 153-180, consistent with those provided in IFRS 9? If not, what specific changes do you recommend and why?

As already pointed out, the CNOCP has decided not to comment on the alignment with IFRS 9 position; as a consequence, we do not intend to comment on the corresponding transitional provisions.