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Chief Financial Officers of listed groups and the IFRS : What Lessons, What objectives for after 2005 ?

SUMMARY AND RESULTS OF THE SURVEY CARRIED OUT BY MEDEF

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CHIEF FINANCIAL OFFICERS OF LISTED GROUPS AND THE IFRS : WHAT LESSONS, WHAT OBJECTIVES FOR AFTER 2005 ?

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EXECUTIVE SUMMARY

The IFRS survey of Chief Financial Officers (CFO's) of companies listed in Paris carried out by MEDEF has resulted in excellent feedbacks

- The number and quality of responses to the MEDEF online survey on the subject of IFRS point to a strong participation of French CFO's.
- The responses come from CFO's of 126 listed groups in France, representing 900 Bn € of market capitalisation (60 % of the Paris stock market), 70 % of CAC 40 groups, 30 % of SBF 250 and 50 smaller groups outside SBF 250.
- 72 % of CFO's have made it a point to respond in person.
- The comments are enriching and many.

Difficulties in IFRS application have been highlighted for several standards

- CFO's have successfully managed this first publication under IFRS but blame several standards for being cumbersome and complex.
- Their experience is often of very heavy work during the transition to IFRS. The standards mentioned in particular are : First time Adoption, Property, Plant and Equipment, Financial Instruments, Impairment of Assets and Share-based Payments.
- For average or small groups, the work load is at times considered to be unreasonable.
- The Financial Instruments standard is particularly criticised : 39 % of the CFO's consider this standard as excessively complex to apply or to interpret.

Relevance of the standards is considered satisfactory on the whole with a few noteworthy exceptions

- Most CFO's consider as highly relevant Standards relating to Employee Benefits, Provisions and Property, Plant and Equipment.
- Their opinion is much more mixed when it comes to Standards on Impairment of Assets, First time Adoption, Share-based Payments and Financial Instruments.
- The Share-based Payments Standard is the one most often contested : 49 % of CFO's do not consider it really relevant.

IFRS have had a noticeable impact on the main Financial Statements

- The first IFRS adoption has increased shareholders equity and comparative profit in 70 % of groups in the sample.
- The presentation of the new IFRS Income Statement has not, finally, created any major difficulty, particularly thanks to the recommendation of the French National Accounting Standards Setter ; CFO's mainly question the treatment of current / non current items and large credit institutions question the volatility of turnover.
- This presentation of the Income Statement has been complemented by performance indicators in 75 % of the groups to facilitate financial communication ;
- The IFRS standards have significantly modified the Balance Sheet structure of 25 % of the groups ; the impact of the fair value of financial instruments has proved to be significant in almost 20 % of cases.

Adoption of the IFRS set of standards has influenced management of the groups

- IFRS application has quickened the trend towards the harmonisation of reporting systems ; only 6 % of the very large groups, compared to 23 % of medium size or small groups, keep the internal and external reporting systems totally distinct. Still, there are concerns about the risk of divergence between internal and external reporting.
- The IFRS standards have an impact on some management methods (contracts, hedging,…) and have made it possible to better deal with some risks (hidden derivatives, pension and other employees benefits,…) in 40 % of the groups.
- For 36 % of the groups, the transition to IFRS leads to a better recognition of accounting impacts in the choice of strategies.

Auditors have only partially been up to expectations

- While 69 % of CFO's consider that the transition to IFRS did not have any noticeable impact on the relationship with their auditors, it is however noted, for those who did report a change, that the relationship has deteriorated rather than improved.
- Compared to expectations, criticisms were expressed in 40 % of the cases regarding the time lag experienced to obtain technical answers and in 26 % of the cases regarding the quality of accounting advice.
- A larger recourse to IFRS experts other than the Joint Auditors was necessary due to the complexity of standards or to the new rules of professional ethics in the accounting profession.
- CFO's expressed dissatisfaction about several areas, in particular non consistent or too theoretical technical advice and a predominant role of Technical Departments (in Paris or in London, indeed in the USA in case of double listing) of large firms compared to the traditional role of the signing partner.

When questioned on the advantages and disadvantages of IFRS compared to the former situation, CFO's are mostly positive

- They firstly consider the international dimension of the standards and the new requirement for accounting discipline.
- On the other hand, only 55 % of the very large groups and 44 % of the smaller ones think there has been a positive effect in their relationships with financial analysts ; on the contrary, 88 % of groups whose turnover is between 500 M€ and 3 Bn € find that the transition to IFRS has been useful with regard to their relationships with analysts.
- The contribution of the unique set of standards in the setting up of a common internal reporting is positively viewed by the very large groups (61 %) and not by the small ones (36 %).
- Finally, the very large groups are very critical about the valuation of certain items at fair value ; only 28 % of them consider this as an advantage.

The first reactions of the CFO's contact people inside and outside their groups are felt as being less positive

- More than half of CFO's have observed that their Board of Directors, General Management and shareholders find it more complicated to read IFRS financial statements, and they were less than 20 % to note an improvement for these stakeholders.
- When questioned about the reactions of their partners external to the group (analysts, bankers, credit rating agencies and other business partners), CFO's report that it is too early to conclude on the sustainable effects of the new set of standards. However, several difficulties are mentioned at that stage : in addition to the complexity of the standards, the still remaining lack of comparability of their financial statements with that of their competitors, the overload of financial and accounting information, indeed the lack of training of the external public on the new standards ;
- Today, the vast majority of CFO's are therefore confused as regards the capacity of users of Financial Statements to really understand the IFRS.

For the future, the CFO's express the wish for a change in direction as regards the approach presently chosen by IASB

- ❒ While all the details of the Board work programme for the coming years are not known by CFO's – only a minority of the CAC 40 are involved in these issues – many groups of all sizes propose changes relating to both existing standards and to planned developments.
- ❒ CFO's consider that it is necessary to amend some standards, in particular IAS 39 and 32. They request that some "gaps" in the set of standards be filled (industry standards and puts on minority interests).
- ❒ In fact, it is the request for a Standards pause which is most largely expressed ; many would prefer that the Board reorganises its works in the light of the significant feedbacks obtained during this period now "under moratorium ".
- ❒ CFO's nevertheless wish that the French National Standards Setter and / or French Securities Regulator – or other market place systems – play a role in the development of accounting literature facilitating the harmonised application of standards (application guides, best practices…).
- ❒ The known direction of the Board's concept (in particular as regards Business Combinations – Phase 2, IAS 37 or the suppression of the proportionate consolidation) is not approved and the expected change relating to the broader use of the fair value is opposed.
- ❒ They express the wish that the IASB's governance and its due process be more responsive to the concerns of European companies.
- ❒ CFO's, always keen on comparability and acceptance of IFRS standards in United States, propose as a priority a mutual recognition between the US and IFRS standards in the short term, which would not exclude long term work on the necessary convergences between the US and the IFRS standards.

TABLE OF CONTENTS

Supprimé : 2
Inséré : 2
Supprimé : 2
Supprimé : 2
Inséré : 2
Supprimé : 2
Supprimé : 3
Inséré : 3
Supprimé : 3
Supprimé : 3
Inséré : 3
Supprimé : 3
Supprimé : 4
Inséré : 4
Supprimé : 4
Supprimé : 4
Supprimé : 4
Inséré : 4
Supprimé : 5
Supprimé : 5
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Supprimé : 8
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Inséré : 9
Supprimé : 9
Supprimé : 11
Inséré : 11
Supprimé : 11
Supprimé : 11

Supprimé : 15
Inséré : 15
Supprimé : 19
Supprimé : 15
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Supprimé : 23
Supprimé : 15
Inséré : 15
Supprimé : 24
Supprimé : 15
Inséré : 15
Supprimé : 25
Supprimé : 15
Inséré : 15
Supprimé : 26
Supprimé : 15
Inséré : 15
Supprimé : 26
Supprimé : 15

SAMPLE OF LISTED GROUPS HAVING RESPONDED TO THE SURVEY

The number and quality of responses of the MEDEF online survey of listed groups show a strong participation of French CFO's on the subject of IFRS ;

126 responses : 76 from SBF 250 (30 %), of which 28 from CAC 40 (70 %) ; 900 Billion Euros, that is 60 % of the Paris market capitalisation at end September 2006 ;

The sample includes groups of all sizes and all industry sectors :

Turnover	Number	%
Higher than 3 Bn €	36	29
Between 500 M € and 3 Bn	29	23
Between 100 and 500 M €	35	28
Less than 100 M €	26	20
Total	**126**	**100**

Industry sector	Number	%
Services	56	44
Industry	38	30
Technology	23	19
Finance	9	7
Total	**126**	**100**

The responses to the questionnaire include enriching and numerous comments from CFO's of whom 72 % made it a point to answer in person. A selection of these verbatim is included in inverted commas in this report.

CHAPTER 1 : DIFFICULTIES (CUMBERSOME, COMPLEX AND NON-RELEVANT) HIGHLIGHTED IN THE DIFFERENT STANDARDS

Standards often considered as cumbersome and complex

- CFO's have managed this first publication under IFRS but highlight the cumbersome nature and complexity of several standards :

Standards considered cumbersome and/or complex (in %)		Complex	Total
Financial Instruments	36	39	75
First time adoption	56	4	60
Property,Plant and Equipment	40	10	50
Impairment of Assets	35	12	47
Share-based payments	31	11	42

- These assessments vary depending on the size of the groups as follows :

Standards considered cumbersome and/or complex (in %)	Total	Very large groups (TO higher than 3 Bn €)	Large groups (TO between 500M and 3 Bn €)	Medium size Groups (TO between 100 and 500 M €)	Small groups (TO less than 100 Bn€)
Financial Instruments	75	89	71	66	73
Firs time adoption	60	61	50	62	62
Property,Plantand Equipment	50	45	43	50	56
Impairment of Assets	47	53	35	61	27
Share-based payments	42	52	31	42	40

- 59 % of small groups (Turnover less than 100 M€) also consider the setting of the standard relating to information by industry sector and by geographical area as cumbersome (46 %) or complex (13 %)

- This assessment varies according to industry sectors as follows :

Standards considered cumbersome and/or complex (in %)	Total	Industry	Services	Finance	Technology
Financial Instruments	75	82	76	78	57
First time adoption	60	69	58	71	48
Property, Plant and Equipment	50	75	43	25	27
Impairment of Assets	47	61	47	37	21
Share-based payments	42	43	36	43	56

- The application of the IAS 39 standard for provisions on loans in the financial sector is considered cumbersome and complex by 60 %. The Technology sector considers the IAS 14 standard (Industry information) particularly cumbersome and complex (70 %).

Significant work to be done on a series of standards reported by some groups

- For some groups, other standards were cumbersome to manage ;

  "IAS 17 relating to financial leases called census and analytical work. IFRIC 4 called for interpretation work for its application in our service industry. The valuation of Intangible assets for acquisition purposes involves valuation work which did not exist in the French standards (IFRS 3)…

  …IAS 11 and 18 (revenue recognition) have also called for much work relating to understanding, interpretation and application for certain types of service provision contracts. Standards relating to employee benefits (IFRS 2 and IAS 19) have not involved significant efforts internally but imply additional costs for purposes of closing the accounts, in terms of external actuarial works" (large services group).

The cumbersome nature of standards particularly highlighted by less large groups

- For average or small groups, the work load is often assessed as unreasonable.

  "Application of IAS 18 & 39 to the group's economic model has led to heavy restatements of historical figures (impact on the net opening balance recalculated over 4 years) and of the actuarial model to be used in future" (small technological group).

  "At times this was a nightmare! 3 years of part-time work for my department!!!" (medium size industrial group).

Complex standards : the IAS 39 standard relating to Financial instruments ranks first

- It is mainly the Financial Instruments standard that is considered as excessively complex for application or for interpretation by 39 % of CFO's - 51 % from very large groups compared to 18 % from the smaller ones.

- The complexity relates to both interest rate hedging as well as the currency hedging.

  "It is very difficult to treat interest rate hedging instruments as hedging under IFRS. The changes in the value of these instruments then have to be immediately recorded as profit." (very large services group).

  "The treatment of bonds convertible into foreign currencies according to IAS 39 requires recognition of an embedded derivative, the revaluation of which at market value introduces volatility in the profit, which is rather questionable" (very large services group).

- In the financial sector, the difficulties highlighted also relate to credit risk allowances for loans, " day 1 P&L ", distinction debt/shareholders equity or the "mismatch" assets at market value/liabilities at cost.

The relevance of standards assessed in different ways

- The standards considered as highly relevant are in decreasing order, those dealing with Employee Benefits (69 %), Provisions for risks (58 %) and Property, Plant and Equipment (51 %).

- In contrast, only a minority of CFO's consider as highly relevant the 4 standards below :

(In %)	Total	Very large groups	Large groups	Medium size groups	Small groups
Impairment of Assets	43	38	54	34	50
First time adoption	40	31	52	38	42
Share-based Payments	36	42	31	50	13
Financial Instruments	28	22	26	30	42

- The very large groups strongly criticise the relevance of IAS 39 (47 % of CFO's do not consider it really relevant and 31 % find it only partly relevant). The small groups where the Technological sector is highly represented strongly criticise the IFRS 2 standard relating to share-based payments.

- Technological groups criticise the Standard relating to Share-based Payments (22 % consider it as highly relevant) ; only 13 % of financial groups and 22 % of industrial groups find IAS 39 highly relevant. Financial groups also question the First time Adoption Standard (14 %).

- Many comments are made on IAS 36 (Impairment of Assets) :

  "Valuation of Intangible assets : the "preferential" method of DCF is not used in reality for transactions for all economic activities (in our sector it is often a multiple factor of operating profit)" (medium size service group).

  "Valuation of goodwill : we can get it to show whatever we want…" (small group).

  "Lack of guidance on actuarial hypotheses makes comparisons between one group and another difficult" (large technology group).

  "IFRS enable very little readability (tables of parameters published in notes, indexation, risk premiums,…) and cannot meet the objective of better comparability of financial statements. Difficult and rather counterproductive Standards are IAS 36 and IAS 39" (medium size services group).

The IFRS 2 Standard relating to Share-based Payments the most criticised

- It is the Standard relating to Share-based Payments which is most often questioned (49 % feel they are not really relevant).

  "This case is interesting. It may be considered that recognition in the trading result enables a better comparability between companies. However, this would be true only if the initial hypothesis (capacity to determine the fair value of an option) was proven. But this is not so. Which means that at the end, because of the different hypotheses adopted by the different groups, nothing is comparable" (very large industry group).

More specific criticisms regarding some standards :

- This relates to IAS 12 (Income Taxes), IAS 17 (Leases), IAS 18 (Revenues), IAS 32 for the distinction between debt/equity, IAS 41 (Agriculture), IFRS 3 (Business combinations), IFRS 5 (Discontinued operations), IFRIC 4 (Lease arrangements).

CHAPTER 2 : IMPACT OF IFRS ON THE MAIN FINANCIAL STATEMENTS

Presentation of the new IFRS Income Statement made easy thanks to the CNC Recommendation

- Presentation of the new IFRS Income Statement has not finally been a major problem, in particular thanks to the CNC recommendation. There was satisfaction ;

  - for external purposes by 95 % (high 52 % ; average 43 %)
  - for internal purposes by 88 % (high 47 %, average 41 %)

  Only 66 % of the financial sector is satisfied.

- Among the positive comments, were :

  "Our new IFRS Income Statement does not result from the IFRS standards themselves since these do not give any indication on intermediate sub-totals or on the presentation of non-recurring items. The presentation adopted results from the CNC recommendation of October 2004" (very large industrial group).

  "We took advantage of the transition to the IFRS standards to shift from an Income Statement by nature to an Income Statement by function more suitable for international comparisons in our industry, where R & D plays an important role" (medium size group).

- The main subject raised by CFO's relates to the treatment of current/non current items :

  "By including all items, whether exceptional or not, in the current profits, this balance becomes illegible, even though the concern to "clear up" the exceptional items is right" (large technological group).

A presentation enhanced by performance indicators

- For their financial communication relating to the formation of profits, 75 % of CFO's (92 % from the very large groups) have had to use indicators other than those of the published IFRS Income Statement :

  - Ebit/Ebidta (58 mentions),
  - Profits before unusual or non recurring items (51),
  - Profits before change in consolidation scope (28),
  - Profits at constant exchange rates (22),
  - And, more specifically with regards to the new IFRS situation, profits before IAS 39 volatility (13).

"We have created, within the income statement, an intermediate sub-total before restructuring, impairment of goodwill and intangible and share based payment in order to have a current operating balance on which we communicate and which corresponds to the balance used internally to assess operating performances. It is this balance which is used for information segment-wise. This choice, which is rather standard in France, is marginal in other European countries and contested by the SEC (many questions asked on this subject during the 20F review). It does not solve all problems relating to volatility and the inclusion of non recurring items inherent to the application of the IFRS. It includes in particular the capital gains and losses incurred on the disposal of tangible and in Property, Plant and Equipment and volatility induced by IAS 39 …

… The British seem to have adopted another approach favouring non standardised balances not included in their Income Statement to comment on their performance. This use of non-GAAP measures seems to me, just like the creation of intermediate sub-totals in the Income Statement in France, a strong indicator of the extent to which IAS 1 does not address companies' communications needs and is, in this regard, an obvious failure of the IFRS, which were, let us recall, meant for Investors". (very large industry group listed in the USA).

Volatility of the turnover

- It is highlighted by large credit institutions :

  "The IAS 39 standard has introduced volatility factors in our turnover which is not representative of the intrinsic performance of the business activities. We have presented our performances by providing items from the Income Statement restated from these factors" (very large banking group)

  "Since the capital gains and losses realised on the Private Equity business are not recurring, they introduce in the Net Banking Revenues fluctuations hampering the understanding of the recurring part of this aggregate" (another very large banking group).

- ...and also by some services groups :

  "Communication revenues from quarterly publications – as part of our franchising business – have become highly volatile"

Comparative Financial Statements : Generally positive effects on the 2004 profits and the opening Balance Sheet

- Analysis by size of group :

Positive impact on : (in %)	Total	Very large Groups	Large groups	Medium size group	Small groups
2004 Profits	71	75	76	69	62
Shareholders Equity as at 1/01/05	69	58	69	71	81

- Analysis by sector :

Positive impact on : (in %)	**Total**	**Industry**	**Services**	**Finance**	**Technology**
2004 Profits	71	71	74	67	65
Shareholders Equity as at 1/01/05	69	71	70	56	70

- It is noted that, irrespective of the size of the group or its industry sector, the global impact in figures of the change of standards on the consolidated Financial Statements published under the former French standards has been mostly positive (70 %).

- Comparative 2004 profits have increased by more than 10 % in 36 % of the groups ; the opening shareholders equity by more than 10 % in 27 % of the groups ; 2004 profits have decreased by more than 10 % only in 7 % of the cases and opening shareholders equity in only 9 % of the cases.

A significant impact of the IFRS on the Balance Sheet structure for a quarter of the groups

- Around 25 % of the groups have reported a significant impact on their Balance Sheet.

  - The impact is more significant for the very large groups (39 % of them) with stronger impacts on Employee Benefits – in industrial groups in particular – and on indebtedness,

  - 30 % of medium size groups (turnover between 100 and 500 M€) report a significant impact on fixed assets.

- As regards financial debt, contradictory impacts are often observed (increase, decrease) :

  "The classification of deferred payments on acquisitions of financial debt securities as well as the accounting treatment, as financial debts, of commitments to purchase minority interests have had significant impacts on the group's indebtedness" ;

  "As regards financial debt, the impact has been a significant decrease due to the treatment of convertible debts (ORA and OCEANE) and a correlated increase in the shareholders equity."

- It is also to be noted that there is a "significant increase in the Balance Sheet relating to the new non compensation rules which are more restrictive for financial instruments (IAS 32)" (very large banking group).

Impact of the fair value of financial instruments significant for the Balance Sheet structure in almost 20 % of the cases

- The compulsory valuation of certain derivatives at fair value has had a particularly strong impact, as expected, on financial groups ; this feature is also significant for the very large groups.

Strong impact (in %)	Total	Very large Groups	Large groups	Medium size groups	Small groups
Assets	13	28	7	11	4
Shareholders Equity as at 1/01/05	18	25	24	17	4

- Impact by sector :

Strong impact (in %)	Total	Industry	Services	Finance	Technology
Assets	13	16	13	44	0
Shareholders Equity as at 1/01/05	18	21	14	44	13

Other comments relating to the impact of IFRS on the Balance sheet structure

- CFO's report other impacts on the Balance Sheet :

  "*Many reclassifications of Balance Sheet items (between Intangible assets and goodwill or between current and non current provisions) without impact on profit"(very large industrial group).*

  "No significant impact, but heavy calculations to carry out in order to show that there is no impact" (Average sized group).

  "Strong impact of the restatement of pledged SICAV (Unit Trust) which have been changed from cash (former presentation) to non current assets (IFRS Standards). This however remains a presentation impact for the net indebtedness has not changed as such"(small industrial group).

- Some CFO's have also reported different impacts on the Balance Sheet : recognition of development costs, revaluation of investment properties, elimination of provisions for major repairs, elimination of provisions for equalisation in the insurance sector, reclassification of treasury shares by deduction of shareholders equity, impact of deferred taxes on brand names, reconsolidation of securitised receivables in the United States and measurement of biological assets at fair value.

Impact of IFRS on the Cash Flow Statement

- The online survey did not include questions on the Cash Flow Statement but one CFO highlights :

  "The cash flow statement (…) has been subjected to significant changes which complicate its preparation and its reading ; there is a problem of consistency in the assets/liabilities classification in the Balance Sheet and the net variations of the cash flow."

CHAPTER 3 : IMPACT ON THE MANAGEMENT OF GROUPS

Faster move towards harmonisation of reporting systems

- Transition to IFRS has given the opportunity to groups whatever their size, of a harmonisation between external communication and internal reporting :

Harmonised reporting (in %)	Total	Very large Groups	Large groups	Medium size groups	Small groups
In 2005	41	58	43	23	35
In 2006	55	78	61	31	50

- By sector, service groups are the most advanced in this area :

Harmonised reporting (in %)	Total	Industry	Services	Finance	Technology
In 2005	41	39	43	33	35
In 2006	55	42	68	44	48

- Accounting entries under IFRS is decentralised in subsidiaries in 37 % of the groups and this new phenomenon is correlated with the size of the groups :

Direct accounts under IFRS at local level in 2006 (in %)	Total	Very large Groups	Large groups	Medium size groups	Small groups
	37	42	39	34	27

Harmonised of reporting partially carried out

- Only 6 % of very large groups, compared to 23 % of average or small groups, keep totally separate reporting systems.
- For the 60 groups which have not carried out a complete harmonisation, the reasons mentioned are :
  - The lack of relevance of IFRS for management (35 mentions),
  - The difficulty in establishing a budget under IFRS (21),
  - The difficulty to be accepted by Operations Departments (20 mentions),
  - Some CFO's also mentioned the incompatibility of IFRS with local standards for foreign subsidiaries.

"The Financial Accounting/Management accounts convergence is increasingly difficult to carry out" (large services group).

"Major difficulties for non-informed readers to understand. The Operations Departments always think in terms of operating profits and do not understand the restatements brought about by the standards (e.g. restatements in case of allotment of bonus shares). The knowledge of a Chief Accountant is not sufficient, one must be a high level finance expert to interpret the differences in presentation," (medium size group from the industrial sector).

"Higher cost of production of Financial Statements" (medium size group technology sector).

"Real inconvenience in implementation for small sized groups" (small industrial group).

"Increase in time taken to prepare the consolidated Financial Statements" (small services group).

There is an impact on management methods and on knowledge of risks in 40 % of the groups

- The IFRS standards have an impact on some management methods (contracts, hedging,…) and have enabled a knowledge of some risks (hidden derivatives, pension and other employees benefits,…) in 40 % of the groups, in particular the very large ones :

(in %)	Total	Very large groups	Large groups	Medium size groups	Small groups
Some management methods changed	40	53	46	40	15
Some risks better known	40	56	28	43	31

- Specificity by most significant sector relates to the Financial sector which has reviewed some management methods in 56 % of the cases :

Impact by sector	Total	Industry	Services	Finance	Technology
Some management methods changed	40	34	45	56	30
Some risks better known	40	34	43	44	43

Impact of IFRS on strategic decision taking in 36 % of the groups

- For 36 % of the groups, the transition to IFRS leads to a better recognition of the accounting impacts as regards strategic choices. This impact is particularly significant for the very large groups :

Impact noted on strategic decisions (in %)	Total	Very large groups	Large groups	Medium size groups	Small groups
	36	47	32	37	27

- This impact is also more significant for the Finance and Technology sectors

Impact noted on strategic decisions (in %)	Total	Industrial	Services	Finance	Technology
	36	24	39	44	48

- One CFO illustrates this impact by taking the case of the Standard for Share-based Payments :

  "The standard for Share-based Payments is not restricted to stock options and may have complex and significant impacts on the Company Savings Plans or on special share issues in favour of employees".

CHAPTER 4 : IMPACT ON THE RELATIONSHIP WITH AUDITORS

Influence of the transition to IFRS on relationships with auditors

- To the question "What impact has the transition to IFRS had on the relationship with auditors ?" 69 % of CFO's replied "No change" ;

- For those who report a change, the relationship has worsened (27 cases, i.e. 21 % of the sample) rather than improved (13 cases, i.e.10 %) ;

  - 10 very large groups report deterioration in the relationship (compared to 2 improvements only) while the aspect is balanced among the small groups (4 improvements and 4 deteriorations) ;

  - The services sector is the one where deterioration is strongest with a net variation of -9, compared to -3 in industrial, or -1 in the financial or technological sectors.

- The assessment related to joint auditors without distinction by audit firm. The 5 most frequently observed audit firms in the sample (Deloitte, Ernst & Young, KPMG, Mazars and PriceWaterhouseCoopers) are all concerned by these upward as well as downward trends. However, within the small groups, a trend towards improvement in relationships is observed for small audit firms.

Expectations often not met as regards meeting deadlines and to a lesser extent as regards quality of technical consultations

- For the entire sample, to the second question asked "Have the auditors met the expectations ?" CFO's express more criticisms on deadlines (40 %) than on quality (26 %).

- By group size, the situation seems highly contrasted : as regards meeting deadlines, large groups' dissatisfaction is highly significant. As regards quality of accounting advice, the most favourable assessment is formulated by small groups and the least favourable by the very large groups.

Meeting deadlines (in %)	Total	Very large groups	Large groups	Medium size groups	Small groups
Not at all / hardly	40	58	38	29	31
Correctly	39	31	41	47	38
Good	21	11	21	24	31

Quality of technical advice (in %)	Total	Industry	Services	Finance	Technology
Not at all / hardly	26	28	28	29	19
Correctly	48	55	44	42	46
Good	26	17	28	29	35

Different criticisms by industry sectors

- Sector-wise, the technology groups express the strongest dissatisfaction on deadlines and the Financial sector is most satisfied on the quality of accounting consultations :

Meeting deadlines Timings (in %)	Total	Industry	Services	Finance	Technology
Not at all / hardly	40	32	43	25	52
Correctly	39	36	39	62	35
Good	21	32	18	13	13

Quality of technical advices (in %)	Total	Industry	Services	Finance	Technology
Not at all / hardly	26	29	27	22	22
Correctly	48	45	46	45	56
Good	26	26	27	33	22

- Finally, one group out of two had to resort to an IFRS expert from a firm other than those of their auditors, and this additional need for expertise is particularly noted among the average groups (between 100 and 500 M€ of turnover), 63 % of which has recourse to such experts.

Different areas of dissatisfaction

- While only some responses mention the increase in audit fees, many CFO's complain about the dissatisfaction experienced during the first application of the IFRS :
  - Too theoretical advice and lack of pragmatism,
  - Lack of benchmark and auditors consultations not consistent from one group to another,
  - Role of Technical Departments of large firms considered overpowering (in Paris, London or New York) compared to the signing partners,
  - Influence of US rules and of new professional ethics,

- Some comments point to the high quality of work carried out by auditors, in the banking sector in particular.

Advice too theoretical and lack of pragmatism

"CFO's have experienced significant pressure lately and auditors have not always managed to provide an operational and pragmatic answer".

"Very often the answers from technical departments are completely unconnected with the realities of the companies, are influenced by the presumption of "bad faith" of the company, and do not facilitate a final decision to be reached on the treatment to be adopted".

"Auditors had a completely theoretical approach (case of the "large firm") or did not have the training or experience (case of the "small" firm). The first situation is the worst for the client!"

"In addition, the perception that they may obtain more professional engagements than before makes them adopt a textbook approach in their application of the Standards, which contributes to taking the IAS/IFRS application away from a "principle based" approach to a "rule based" approach".

Lack of benchmark and auditors accounting positions not consistent from one group to another

"Their stands are not consistent, change over time and tend to be too theoretical : we are in a learning phase. Small firms which have not invested sufficiently in training... obviously lag behind".

"The lack of benchmark as regards the IFRS application has made auditors very cautious and neutral in their stands. Recourse discussions locally have become necessary".

"We have noted that the same type of client contracts could be accounted for differently in other groups of the same industry". "Drafting of notes to Financial Statements difficult since auditors did not have a benchmark".

Role of Technical Departments of large firms considered overpowering (in Paris, London or New York) compared to the signing partners

“More and more accounting treatments linked to complex operations often depend on the interpretation by the Technical Departments of these firms (in the absence of IFRIC or of the APE Accounting Committee interpretations)”

”Partners have a lot of difficulties in giving an opinion without having recourse to their Technical Department (in Paris, in London or in New York) in order to "protect” themselves”.

”It becomes extremely difficult to have a "reasonable" dialogue on the subjects. We have the impression that the signatories of our accounts no longer take any stand, even on a totally simple matter, without consulting their technical unit…”.

“International firms have deprived Auditors of their capacity to intervene, in favour of experts not accessible to companies and generally not based in France”.

”The relationship has changed significantly : the auditors themselves have to turn more frequently than before to their tenet team, generally based in London and having competence for the whole of Europe. They themselves do not agree on various points, and auditors based in different countries provide them with different opinions. As a result, auditors’ ability to quickly provide clear answers to questions made a bit complicated by doctrine has noticeably deteriorated…”

Impact of US rules and of the new standards of professional ethics

“The IFRS / US GAAP divergences add spice further to the relationship...”

- “The IFRS analysis is under the US GAAP influence : framework of IFRS standards and convergence program,
- SEC right of inspection on the primary accounts,
- Richness of interpretation of US GAAP,
- length of intra-firm consultation before any choice of stand
- self-protection perceived in the application of solutions led by the US GAAP.”

“It seems that Financial Departments must systematically justify the lack of application of one or the other standard or interpretation … Nowadays auditors bring little added value to the group, which leads our group to set up internally or outsource a more “operational” group of experts”.

“We had recourse to IFRS experts other than our auditors for reasons of independence”.

“The fact that auditors’ professional ethics now forbid them from advising companies and they can take a stand only when the files have been finalised, force companies to increase external interventions”

But also comments highlighting the quality of work provided by the auditors, the banking sector in particular

"Relationships are still good but the time taken to provide an answer is too long especially during negotiations relating to new operations" (very large services group).

"On the whole, our two auditing firms have adopted a pragmatic attitude and the transition to the new standards was carried out satisfactorily..." (very large banking group).

"The quality of work to be achieved in the banking sector for the justification of the collective provisions or the valuation of the financial instruments has led to difficult discussions, but which have probably, on the whole, led both banks and auditors to improve" (very large banking group).

CHAPTER 5 : OVERALL ASSESSMENT OF ADVANTAGES AND DISADVANTAGES OF THE IFRS BY THE CFO

The CFO's outlook globally positive…

When questioned on the advantages and disadvantages of IFRS compared to the former situation, CFO's are positive on most of the 7 criteria put forth and consider firstly the international dimension of the standards and the requirement for additional accounting discipline :

Positive impressions (in %)	
International recognition of the standards	98
Requirement for additional accounting discipline	80
Useful for financial analysts	63
Transparent Financial Statements for shareholders	61
Better understanding of Financial Statements by external partners	59
Ease of setting up of a common reporting for the group	54
Valuation of some items at fair value	54

… but to be qualified depending on the type of group

- The use for analysts is viewed positively by 88 % of the large groups (turnover between 500 M€ and 3 Bn€) and by 74 % of the medium size groups (turnover between 100 and 500 M€) compared to only 55 % for the very large groups and 44 % for the small groups.
- The ease of setting up of a common internal reporting is positively perceived by the very large groups (61 and 69 % respectively), not by medium size and small ones (48 and 36 %) ;
- Lastly, the very large groups are very critical about the valuation of some items at fair value, positively considered by only 28 % of them.

… with some variations sector-wise

- There is no significant difference by sector as regards criteria for international recognition, requirement of discipline and of transparency for shareholders.
- However, 100 % of the financial sector has assessed the exercise of facilitating the setting up of a common reporting for the group, compared to 37 % only for the industrial groups.

The CFO's perspective – questions on the risk of divergence with the internal reporting and on the accounting

"The new standards have the advantage of being recognised internationally and shared by all European companies. However internally it is reflected in extra burden in terms of accounting works and a risk of divergence between the internal and the external reporting…

…Externally the increase in information published does not guarantee better transparency and the comparability between companies is not ensured in the absence of standardised Income Statement" (very large industrial group).

"It is still premature to assess whether IFRS will enable this famous comparability between companies within the same industry" (medium size services group).

"The IFRS standards, still somewhat new, indicate standards still very theoretical as regards certain aspects, leaving important freedom at the presentation level" (small technology group).

" I am still convinced that for the moment, the setting up of the IFRS hasn't improved the comparability between companies of the same sector" (very large technological group).

The CFO's contact persons within their groups : first reactions felt as less favourable

Although they express, for themselves, an overall positive assessment of the new standards, very few CFO's think that their usual contact persons within the group have experienced this first publication of the IFRS Financial Statements as an improvement.

(Multiple choices in %)	No change	Change with no added value	Increased Complexity	An improvement
Board of Directors / Audit Committee	6	39	52	18
General and Operational Management	9	41	53	14
Management and financial controller	11	37	43	23
Individual shareholders, General Meeting	19	29	51	11

- CFO's are more positive for the management and financial control services than for other contact persons. This analysis particularly stands out among the small groups.

Reactions within the group are marked by complexity

- More than half of CFO's find the reading of the Financial Statements complex because of the IFRS, for the Board of Directors, for general management as well as for shareholders.
- Sector-wise, 58 % of the industrial groups highlight an increased complexity in the reading of the Financial Statements for the Board of Directors and more than 60 % for the general or operating departments as well as for individual shareholders. As regards the financial sector groups, 67 % highlight this complexity for the Board of Directors.

The reactions of external partners (analysts, bankers, credit rating agencies…) still not very numerous

- When questioned about the group's external partners (analysts, bankers, credit rating agencies and other business partners), many CFO's report believe that the hindsight as regards the real contribution of IFRS is not enough nowadays.
- Some highlight that they have managed change since long :

  "Our contact persons have seen few changes for we have anticipated the setting of new standards since many years" (Large industrial group).

  "From our listing in the US, the majority of issues were known ; some standards are very complex and their understanding by statement readers is certainly problematic."
- Others report that their Financial Statements already had highly detailed notes.
- 53 % indicate that to date they have not got feedback from analysts on their notes.

First reactions of external partners also marked by complexity

- When questioned about what financial analysts and investors thought about the transition to IFRS, CFO's answer :

Multiple choices (in %)	No change	Change with no added value	Increased Complexity	An improvement
Industry	21	16	50	21
Services	21	23	29	30
Financial	0	22	78	11
Technology	26	30	43	22
Total	**21**	**22**	**41**	**25**

- 78 % of Finance groups report increased complexity compared to the 41 % on average.

Reactions of external partners less easy due to the abundance of information

- CFO's pointed out in their comments that the transition to IFRS has not brought, at this stage, any real improvement for external users of Financial Statements :

  "The transparency objective is sound, but given the complexity of the standards, it is not easy to reach this objective as regards external users of financial statements".

  "Accumulation of information given out at times seems counter-productive… auditors insist on providing all the information required by the texts and often forget the material and relevance criteria. Too much information kills information".

Doubts on users' capacity to understand

- Business partners :

  "In general, the complex standards do not facilitate relationships either with shareholders or with analysts, or with associates. Comparability exists only between listed groups but all local associates still have local standards. Improvement, according to me, will only be measurable in the future".

- Credit rating agencies :

  "At our level, credit rating agencies (SFAC,…) remain stuck on corporate Financial Statements in tax return formats".

  "It is disappointing that credit rating agencies continue to recreate debt balances which are different from those existing in IFRS".

- Financial Analysts :

  "Some firms of financial analysts apply standards contradictory to IFRS".

  "Lack of training and therefore misunderstanding of analysts".

  "Mainly not concerned since they have their own analytical model of the group's Financial Statements".

- In a few words, for external partners :

  "The IFRS Financial Statements are certainly imposed upon but not understood".

CHAPTER 6 : PREPARING THE FUTURE : NEW PROJECTS AND DIRECTIONS HOPED FOR

CFO's generally informed of current projects at IASB but not deeply involved

To the question, "Are you informed of projects relating to new standards ?" CFO's reply :

(in %)	Not at all or hardly	I keep myself informed	I am involved
Mandatory interest capitalisation	61	35	4
Elimination of proportionate consolidation	44	43	13
Business combinations and goodwill at 100 %	37	54	9
Deferred taxes	35	63	2
Information by segment and geographical areas	29	61	10
Performance Reporting	28	63	9

- The small minority of CFO's who state that they are involved in the IASB due process come mainly from very large groups.
- Within groups having a turnover under 500 M€, the majority of CFO's are not informed about changes planned to capitalise interests (80 %) or to fully fair value goodwill on non controlling interests(60 %) ;
- 24 groups follow other ongoing projects : Revenue recognition, Performance Reporting, Concessions, Leases, Accounting treatment of Company Savings Plan (PEE), Employee Benefits as well as the subject of extension of fair value are mentioned at least 3 times.

Limited number of changes requested in the present set of standards

- It is hoped that some existing standards be amended : 66 groups have expressed between 1 to 5 requests each, i.e. a total of 112 requests for amendments ;
- On the other hand, some CFO's, fewer (17 groups), would like to fill the gaps within the present set of standards relating to some targeted themes
- Large groups request more amendments and new projects. The financial sector expresses more needs than others.

- The standards to be amended in decreasing order of mention are :
  - Financial Instruments (38 mentions)
  - Share-based Payments (14)
  - Impairment (13)
  - IAS 32 (9)
- As regards the standard on Financial Instruments, non-financial groups mention in particular the restrictive definition of the concept of currency hedge while banks mention the macro hedging of sight deposits ;
- Among the gaps to be filled, the following are mentioned :
  - industry issues (insurance, concessions, extractive industries),
  - the issue of buyback / minority interest puts (8 times)
  - the presentation of the Income Statement (5 times)
  - the treatment of emission rights (2 times).

The request for a Standards pause is widely expressed

- Many CFO's, irrespective of the size of their group or its business sector, request a Standards pause for a few years :

  "More than amendments, excluding those that may make the IAS 32 and 39 understandable, there is a need for stabilising the standards. Continuous reviews are quite destabilising. In this respect, is it relevant to go back on the treatment of Business Combinations ?" (large services group).

  "We still have not completely understood all the changes…It is difficult to manage within smaller groups…The teams need to somewhat stabilise themselves internally" (medium size industrial group).

  "More generally, the additional information required is unreasonable for most of the standards" (very large services group).

  "When can we expect a stable set for standards ? The standards and the interpretations keep on changing so much so that what is true today is no longer so the next day!" (large services group).

  "Transition costs have been heavily underestimated by the standard setter" (Very large service group)

  "The rate at which it is going is not in line with companies' time scale and CFO's expectations"

  "Need for a moratorium" (CAC 40 group).

  "Above all, we feel the need for a regulatory pause, which would enable the present system to work for some years, before significant changes are brought. This experience can highlight the real strengths and weaknesses of these standards and these can be taken into account for future changes" (very large banking group).

The development of recommendations and/or market practices is encouraged

- 85 % of CFO's are in favour of the publication of new recommendations by the CNC (French National Accounting Standard Setter) and/or the AMF (French securities regulator) as issued in 2004 and 2005 relating to IFRS application in France (presentation of the Income Statement by the CNC for instance) and wish to carry on in this direction.

- This opinion is to be viewed in relation to criticism made on the current functioning of IFRIC :

  "Work on the immediate and detailed applicability of existing standards rather than on the continuous review"

  "Long lead times of the IFRIC do not simplify the problem".

  "Reform the IFRIC Agenda Committee".

  "Review IFRIC's procedures ; e.g. of malfunction : "Perpetual Floating Rate Note with set up clause".

  "Give more means to interpretation bodies to address difficulties relating to interpretation".

- A group also listed in the USA wonders about the following at a national and international level :

  "As regards the stands of the AMF and the CNC, I am in favour of them in their principle but these stands need to be validated by the IASB. We will very soon suffer the consequences when the SEC or the IASB will openly contest the validity of the stands taken by these bodies" ;

- More generally, a request for "guidance" is often expressed without however stating at this stage the means to achieve census looked for :

  "Lack of "jurisprudence" in the application of some norms"

  "Generally, application guides would be welcome".

  "Common market place solution for Company Savings Plan"

  "It would be more appropriate to move towards best practices rather than towards standards".

  "Common benchmarks and positions need to be defined".

  "The present set of standards is very general and conceptual at times and lacks precise instructions and guides on the way to apply them".

  "Work is also required as regards application at the national level in the European Union, which is still unaligned ; France almost seems to be the "obedient student" ".

Requests as regards the direction of IASB works…

Proposals have been made to change the present direction of IASB works :

“IASB is embarked on a dogmatic and theoretical direction without taking into account the opinions of companies and even less those of users”.

“We need to distinguish between large multinationals and listed SME’s. The latter do not have the same human resources and do not encounter the same problems, in particular as regards governance (the management team is often very small and are shareholders)”.

“Take into account negative opinions expressed by the different market participants in the European Union on projects relating to future amendments of IFRS standards : no real interest in some amendments such as that relating to Business Combinations II - fair value and “goodwill” at 100 % -, review of IAS 37 and of the proposed removal of proportionate consolidation”.

“Stabilise and let the existing standards be experienced ; eliminate difficulties and anomalies ; separate the conceptual thinking (long term fundamental research) from the practical evolution (development of standards within the existing framework)”.

“After sales service relating to the standards and filling up of “gaps” before new questionable resolutions are introduced and implemented without any analysis.”

“As a priority, there is need to get feedback from companies and markets and identify how to respond to unmet expectations”.

“It is time that the Board moves towards the recognition of user's needs (issuers, investors, analysts), whereas it is primarily dedicated to obtain ratification of purely doctrinal stands”.

“Companies must act to preserve basic accounting policies which enable the measurement of operational performance resulting from management decisions”.

… in particular the over-extensive use of fair value

“It is imperative to fight against this IASB willingness to define profit as the difference between two balance sheets at fair value”.

“Globally the fair value concept brings too much of complexity and too many possibilities of interpretation to be able to add value to the new valuation of an asset (or a liability)” (small Technological group).

“Valuation at time T of an asset on a market depends on the supply and demand situations at the same time T on this particular market. To retain this market value, is to implicitly recognise the principle of market rationality, and not to take enough account of their often irrational nature, nor of a more structural disequilibrium that a market can have, and gap which can exist between valuation at a time T and structural valuation” (medium size services group).

“Average out” fair value valuations of financial securities, which seems to me to introduce too much volatility, not to mention some empiricism at times” (another small technological group).

"How can one talk about a company's fair value without taking into account the value of its goodwill ? Would it be wrong to be an entrepreneur and be reduced to have only a financial outlook to the creation of value ?" (medium size group).

"Strong reluctance regarding the application of the fair value concept" (very large services group).

"Do not go further with the fair value of Balance Sheet items" (very large services group).

"Continue to work to improve IAS 39 by clearly ruling out the full Fair Value" (very large banking group).

"As regards collective provisions, the perspective is clearly pro-cyclical, while banks and regulators would prefer to approach them in a counter-cyclical manner (make provisions when things go well and write back when things are not so good)" (very large financial group).

Improvement in the Governance of IASB requested CAC 40 groups

- CAC 40 groups are the only ones to formulate comments on the governance of IASB :

"Increase non Anglo-Saxon representation in IASB bodies" (another very large financial group).

"Increase the quantitative weight of continental Europeans (French and German in particular) ; rely on the European Union ; on the other hand, open up Chinese and Indian representation in exchange for the adoption of IFRS Standards" (a very large non-financial group).

"Improvement of good governance and of the consultation process of the companies concerned, with a better understanding of industry specificities" (a very large financial group).

"IFRIC due process and IFRIC/Board relationships to be improved" (a very large non-financial group).

"IASB listens to no one!" (very large service group).

"Refinement of existing standards through more consultations and exchanges with companies in order to be closer to the economic reality" (a very large services group).

"The first improvement to obtain from the IASB is the improvement of its due process and the justification of the conceptual choices" (a very large industrial group).

Numerous opinions expressed on the subject of convergence with the US GAAP : a necessity for some, the way for mutual recognition for others

- 33 CFO's have expressed themselves on the subject of convergence, of which 16 are from very large groups

- Among these responses, half of the CFO's approve of the convergence with US GAAP and ad no comments on this subject. This position is particularly that of medium size or small groups, from the Services and Technology sectors or groups either listed in the USA or with large US operations.

- A minority (5 groups) does not consider it useful to continue looking for convergence.

- Lastly, CFO's from 12 groups add further comments on the subject of convergence and moderate their statement by putting forward the need for prior mutual recognition of the two major international accounting sets of standards, and / or the need for a really balanced contribution on both sides of the Atlantic : IFRS should not purely and simply be aligned on US GAAP.

  "Continuation of international harmonisation (we operate in an international context) but not necessarily by copying exactly the US GAAP" (large industrial group).

  "Need for a mid term plan with the objective of mutual recognition and eliminating the need to publish two sets of accounts" (very large group listed in the USA).

  "US GAAP convergence to be continued in an organised manner starting with a fresh look at the conceptual framework" (very large group not listed in the USA).

  "Convergence with the US GAAP should not be an end in itself. If this convergence ends up eliminating proportionate consolidation, we would have aligned IFRS on a US GAAP position which is highly questionable, and we would therefore have regressed. On the other hand, there is need to encourage common thinking on future standards – business combinations / retirement funds / performance reporting / revenue recognition" (very large group listed in the USA).

  "Is convergence with the US GAAP really conceivable between IFRS standards which are "principle based" – and need to stay so - and "rule based" standards" ? If yes, carry on" (very large services group listed in the USA).

  "Convergence with the US GAAP in my opinion is a high priority, though it should not lead to an alignment in principle" (big services group not listed in the USA).

  "Convergence with the US GAAP is desirable but should not be considered as the condition for recognition of IFRS by the SEC" (very large group listed in the USA).

  "Convergence with the US standards appear unrealistic to us : it is desirable at any time, but it will never be within reach – except if financial legal practice develops in Europe as in the USA, which is not an objective" (very large banking group).

APPENDICES

I Summary of results in figures

II Sample of companies

APPENDIX I :

SUMMARY OF RESULTS IN FIGURES

RESULTS OF THE SURVEY :

ANALYSIS OF 126 RESPONSES RECEIVED AT THE END OF SEPTEMBER 2006

Methodology

MEDEF conducted a survey amongst the Chief Financial Officers of French companies listed in Paris.

The survey was initiated on 11 July 2006 online through MEDEF's website. If a group wanted to, it could also reply by post. In the survey, it was possible to give an anonymous reply.

All the 126 responses received at 30 September 2006 were used. The hierarchical position of the respondent and the respondent's group were systematically filled in.

In the sector analysis, we used the following groups :

- Industrial (Oil and gas/Raw materials/Manufacturing)
- Services (Consumer goods/Health/Consumer services/Local authorities services)
- Finance (Finance companies)
- Technology (Technology/Telecommunications)

The results of the quantitative type responses are shown in this appendix, which also recaps the open questions that were asked in the on line survey.

The questionnaire was designed and the online responses were processed and summarised by the MEDEF team of Karine Merle, project manager, assisted by Chantal Fouquart and Nora Tagmi with Olivier Azières, as a MEDEF/ACTEO Consultant.

The project steering committee which supervised the work was made up of Pascale Amiel (TF1), Agnès Lépinay (MEDEF), Alain de Marcellus (CAPGEMINI) and Patrice Marteau (ACTEO).

IDENTITY OF THE GROUPS

Post occupied by the person replying to the questionnaire

Chief Financial Officer	Assistant Chief Financial Officer
72 %	28 %

Size of group : Turnover/revenues(in Millions)

Over € 3,000	29 %
Between € 500 and € 3,000	23 %
Between € 100 and € 500	28 %
Less than € 100	20 %

Commentaire : Note du Traducteur : Il s'agit peut-être plutôt de K€ ? ? ? ?

Listing

SBF 120	39 %
SBF 250	60 %
Other	40 %
Group also listed in the USA	10 %

MAIN EFFECTS OF IFRS ON YOUR CONSOLIDATED ACCOUNTS

Did the adoption of IFRS have a significant effect (≥ 10 %) on the ordinary operating profit traditionally used by your Group ?

Yes	No
30 %	70 %

Was the presentation used by your group for the published Income Statement (structure, intermediate balances) satisfactory ?

	Not at all	Average	Completely
For the internal purposes	12 %	41 %	47 %
For external financial reporting	5 %	43 %	52 %

In particular, are you satisfied :

	Not at all	Average	Completely
With the new definition of your turnover or your revenues	4 %	20 %	76 %
With the treatment of the extraordinary, non-current items	16 %	42 %	42 %
With the treatment of the various items comprising net financial items	8 %	46 %	46 %

Did you feel the need to use performannce indicators other than your published IFRS Income Statement ?

(123 respondents/several possible choices)

Profit/loss before unusual or non-recurring items	43 %
EBIT/EBITDA (or equivalent)	48 %
Profit/loss before changes in group consolidation structure	23 %
Profit/loss at constant exchange rate	18 %
Profit/loss before volatility introduced under IAS 39 on financial instruments	11 %
Other (*please specify*)	6 %
None	25 %

What changes were made to your Balance Sheet in 2005 ?

	Insignificant (<10 %)	Significant (≥10 %)
Rise in financial debt	77 %	23 %
Rise in pension liabilities and other employee benefits	72 %	28 %
Impairment of long-term assets	87 %	13 %
Revaluation of tangible fixed assets	80 %	20 %

Did the usage of the fair value on financial instruments (derivatives, instruments available for sale and trading instruments) have a small, moderate or high impact on your Balance Sheet ?

	Small	Moderate	High
On assets	70 %	17 %	13 %
On liabilities	73 %	20 %	7 %
On shareholders' equity	70 %	12 %	18 %

Did the IFRS notes to the accounts meet the expectations of financial analysts and investors with whom the group works ?

No feedback	Negative feedback	Neutral feedback	Positive feedback
52 %	2 %	28 %	18 %

What effect did IFRS have on your comparative accounts ?

	Positive effect			Negative effect		
	Small (<10 %)	Average (10- 30 %)	High (>30 %)	Small (<10 %)	Average (10- 30 %)	High (>30 %)
Net profit after minority interest 2004	34 %	17 %	19 %	23 %	5 %	2 %
Shareholders' equity as at 1 January 2005(parent company share)	42 %	21 %	6 %	22 %	6 %	3 %

CONSEQUENCES OF IFRS ON THE SYSTEMS USED BY YOUR GROUP

Was or is your internal reporting system unified with your IFRS published accounts ?

	Yes	Partly	No
Before 2005	41 %	22 %	37 %
In 2006	55 %	28 %	17 %

Why ? (if not unified in 2006)

(60 respondents/several possible choices)

IFRS not relevant for monitoring and managerial purposes	58 %
Difficult to establish a budget under IFRS	35 %
Operating divisions found it difficult to accept IFRS	33 %
Other	17 %

Generally speaking, are the accounting entries of the consolidated companies recorded directly under IFRS (and not under local standards and periodically restated for consolidation purposes) ?

Yes	No
37 %	63 %

Was your group required to change any managerial methods such as contracts, hedging, etc ?

Yes	No
40 %	60 %

Were risks more clearly defined upon adoption of IFRS (hidden derivatives, employee benefits, etc) ?

Yes	No
40 %	60 %

More generally, do you think that the IFRS accounts have made it possible to reflect accounting effects in the strategic decision-making process ?

Yes	No
37 %	63 %

How did the transition to IFRS affect the relationship with the auditors ?

Worse	21 %
Unchanged	69 %
Better	10 %

Did the auditors meet expectations concerning :

	Not at all	A little	Reasonably	Well
The quality of technical advice	3 %	23 %	48 %	26 %
The response times	13 %	27 %	39 %	21 %

Do you need to consult any IFRS experts other than your joint auditors ?

Yes	No
51 %	49 %

OPINION OF THE CHIEF FINANCIAL OFFICER ON THE CHANGES INTRODUCED BY IFRS INTO THE GROUP ACCOUNTS

Do you now consider that IFRS was easy or difficult to apply ?

	Not particularly difficult	**Standard difficult to introduce**	**Excessively complex to apply or interpret**
The First time adoption (recalculation of historical data etc) (117 respondents)	40 %	56 %	4 %
Property, Plant and Equipment (components, useful life, etc) *(105 respondents)*	50 %	40 %	10 %
Employee Benefits *(113 respondents)*	70 %	25 %	5 %
Risk provisions (disputes, environmental etc) *(90 respondents)*	93 %	6 %	1 %
Impairment of long-term assets *(113 respondents)*	53 %	35 %	12 %
Financial instruments and interest rate or foreign-exchange derivatives *(96 respondents)*	25 %	36 %	39 %
SPE (ad hoc vehicle) and securitisation *(38 respondents)*	74 %	18 %	8 %
Share based Payment *(93 respondents)*	58 %	31 %	11 %
Segment Information *(113 respondents)*	60 %	30 %	10 %

Do you currently consider that IFRS produces relevant information for your group ?

	Not really	Only partly	Completely
The First time adoption (recalculation of historical data etc) *(115 respondents)*	36 %	24 %	40 %
Property, Plant and Equipment (components, useful life, etc) *(102 respondents)*	24 %	25 %	51 %
Employee Benefits (119 respondents)	15 %	16 %	69 %
Risks provisions (disputes, environmental etc) (97 respondents)	21 %	22 %	58 %
Impairment of long-term assets *(112 respondents)*	27 %	30 %	43 %
Financial instruments and interest rate or foreign-exchange derivatives *(94 respondents)*	39 %	33 %	28 %
SPE (ad hoc vehicle) and securitisation *(33 respondents)*	27 %	18 %	55 %
Shre based Payment *(94 respondents)*	49 %	15 %	36 %
Segment Information *(113 respondents)*	22 %	30 %	48 %

In your capacity as Chief Financial Officer, what do you consider to be the main pluses and minuses of IFRS compared with the previous situation ?

	Minus	Plus
International recognition of standards	2 %	98 %
Transparency of accounts for shareholders	39 %	61 %
Benefits for financial analysts and investors	37 %	63 %
Easy to employ a common in-house reporting system within the group (foreign subsidiaries)	46 %	54 %
Requirements for new rigorousness in accounting process	20 %	80 %
Valuation of some items at fair value	46 %	54 %
Better understanding and comparability of the published accounts by the group's partners (customers, suppliers, competitors etc)	41 %	59 %

Finally, what do contacts think of the group's new IFRS accounts ?

(Option of several choices)	No change or not concerned	No value-added change	Additional complexity in reading the accounts	An Improvement
Board of Directors/Audit Committee*[1]	6 %	39 %	52 %	18 %
General and operational management	9 %	41 %	53 %	14 %
Management accounting and financial controlling	11 %	37 %	43 %	23 %
Individual shareholders/AGM	19 %	29 %	51 %	11 %
Financial analysts and investors	21 %	22 %	41 %	25 %

[1] 6 % of Chief Financial Officers say that IFRS does not bring about any change for the Board of Directors ; 39 % say there was no value-added change ; 52 % say that the accounts are more complex to read and 18 % say improvement.

For the future, what are your comments about the new draft standards announced and how IASB should develop ?

Do you know about the new draft standards, particularly those concerning :

	Little or not at all	**I keep informed**	**I am involved**
Presentation of income statement	28 %	63 %	9 %
Deferred tax	35 %	63 %	2 %
Business combinations Phase II and good valued at 100 %	37 %	54 %	9 %
Obligation to capitalise interim interests	61 %	35 %	4 %
The new definitions for Segment Information	29 %	61 %	10 %
Cancellation of proportionate consolidation	44 %	43 %	13 %

Are you monitoring any other specific projects ?
(108 respondents)

Yes	**No**
25 %	75 %

Do you feel the need to amend some existing (unclear or counter-productive) IFRS ?

(119 respondents)

Yes	**No**
52 %	**48 %**

Do you feel the need to fill in any “gaps” in the existing standards ?
(116 respondents)

Yes	**No**
13 %	**87 %**

Would you like the CNC and/or the AMF to continue the process they started in 2004/2005 of publishing recommendations on how to apply IFRS in France. For example, regarding the presentation of the income statement by the CNC ?

Yes	**No**
85 %	15 %

OPEN QUESTIONS IN THE ONLINE SURVEY

The main effects of IFRS on your consolidated accounts

1) Did you feel the need to use results indicators other than your published IFRS Income Statement ? If yes please specify)
2) Do you have any other comments on your new IFRS income statement ?
3) Were there any other significant effects on the balance sheet ?

Consequences of IFRS on the systems used by your group

1) Why was your internal reporting system not unified in 2006 ? (*if applicable*) Other reasons (please specify)
2) Do you have any other comments on the relationships with the auditors or the IFRS experts you consulted ?

Opinion of the Chief Financial Officer on the changes introduced by IFRS into the group accounts

1) Do you now consider that IFRS was easy or difficult to apply ? Please specify any other standards that you would like to evaluate.
2) Do you now consider that IFRS produces relevant information for your group ? Please specify any other standards that you would like to evaluate.
3) In your capacity as Chief Financial Officer, what do you consider to be the main pluses and minuses of IFRS compared with the previous situation ? Other advantages/disadvantages (please specify).
4) Any other comments on the reactions of your normal contacts within the group, including those not listed above : bankers, ratings agencies, business partners etc.

For the future, what are your comments about the new draft standards announced and how IASB should develop ?

1) Are you monitoring any particular projects ?
2) Do you feel the need to amend some existing (unclear or counter-productive) IFRS ? If so, which ones and in what way ?
3) Do you feel the need to fill in any “gaps” in the existing standards ? If so, which ones and in what way ?
4) In your opinion, how should the efforts be concentrated regarding IASB for a possible change in direction - for example, are you for or against a convergence with US GAAP, should the Board's working programme carry on or not, should the due process and governments etc be improved or not ?

APPENDIX II : SAMPLE DETAILS

We wish to thank very much the groups which have participated in this survey for their contribution :

Groups whose turnover is higher than 3 Billions Euros

ACCOR
AIR LIQUIDE
ALCATEL
ARCELOR
AXA
BNP PARIBAS
BOLLORE
BOUYGUES
CAP GEMINI
CRÉDIT AGRICOLE S.A.
DANONE
DASSAULT AVIATION
EDF
ELIOR
ESSILOR INTERNATIONAL
FAURECIA
FRANCE TELECOM
GROUPE CASINO
LAFARGE
LAGARDERE
MICHELIN
NEXANS
PERNOD RICARD
PPR
PSA PEUGEOT CITROEN
PUBLICIS
SAFRAN
SAINT-GOBAIN
SCHNEIDER ELECTRIC
SOCIETE GENERALE
THALES
THOMSON
TOTAL
VEOLIA ENVIRONNEMENT
VINCI
VIVENDI

Groups whose turnover is between 500 Millions and 3 Billions Euros

ALAIN AFFLELOU
ASSYSTEM
AVENIR TELECOM
BIOMÉRIEUX
BOURBON
BRICORAMA
BULL
ERAMET
ESSO S.A.F.
EULER HERMES
EURAZEO
EURO DISNEY SCA
EXACOMPTA CLAIREFONTAINE
FIMALAC
GROUPE GO SPORT
GROUPE STERIA SCA
HAVAS
HERMES
IPSEN
JCDECAUX
MÉTROPOLE TÉLÉVISION (M6)
PENAUILLE POLYSERVICE
PIERRE & VACANCES
SEB
SES GLOBAL
STEF TFE
TELEPERFORMANCE
TF1
TRIGANO

Groups whose turnover is between 100 and 500 Millions Euros

ACTIELEC TECHNOLOGIES
AGTA RECORD
BUFFALO GRILL
CESAR
CIFE
CREDIT AGRICOLE TOULOUSE ET MIDI TOULOUSAIN
CS COMMUNICATION &AMP, SYSTEMES
DELTA PLUS GROUP
DPAM
FIDUCIAL OFFICE SOLUTIONS
FININFO
FINUCHEM
GEVELOT
GROUPE GUILLIN
GROUPE SECHE
HIGHCO

HUIS CLOS
INFOGRAMES
INNELEC MULTIMEDIA
INTER PARFUMS
LACIE
LATECOERE
MONSIEUR BRICOLAGE
NRJ GROUP
PLASTIQUES DU VAL DE LOIRE
ROUGIER
SICAL
SIPH
SOCIETE DES BAINS DE MER ET DU CERCLE DES ETRANGERS A MONACO
STALLERGENES
SUCRIERE DE PITHIVIERS LE VIEIL
SYLIS
TOUAX SCA
U10
VRANKEN POMMERY MONOPOLE

Groups whose turnover is less than 100 Millions Euros

AUSY
AUTOMA-TECH
BERNARD LOISEAU SA
CAST
CEREP
COFIDUR
DIGIGRAM
EGIDE
ESKER
GERARD PERRIER INDUSTRIE
HUBWOO.COM
ICOM INFORMATIQUE (DESORMAIS QUOTIUM TECHNOOGIES)
ITESOFT
LE TANNEUR &AMP, CIE
LEXIBOOK
MEMSCAP
NEXTRADIOTV
POUJOULAT
RISC GROUP
SIRAGA
SOGECLAIR
ST-DUPONT
TECHNOFAN - GROUPE SAFRAN
TÉLÉCOM RÉSEAUX SERVICES
THERMOCOMPACT
XILAM