NESTLÉ S.A.

INTERNATIONAL ACCOUNTING STANDARDS BOARD
30 Cannon Street,
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September 13, 2002

Ladies and Gentlemen,

EXPOSURE DRAFT OF PROPOSED IMPROVEMENTS TO INTERNATIONAL ACCOUNTING STANDARS

Please find below our answer to your invitation to comment on the above mentioned exposure draft.

1. GENERAL COMMENTS

In the introductory comments, the Board mentions that the objectives of the Improvement Project are "to reduce alternatives, redundancies and conflicts within existing standards and to make improvement among them" as well as "to deal with convergence issues". We welcome the work that has been done but we also have to acknowledge that it has resulted in some rather important changes (e.g. repeal of LIFO) and in very detailed guidance on some issues (e.g., better definition of costs attributable to an item of PP&E, requirement of the component approach for PP&E, currency translation adjustment). The preparers will now have to adapt their systems and accounting guidelines as well as to inform all their subsidiaries. In this context, and given the fact that the amendments are going to be issued during the first quarter of 2003, an effective implementation date of 1 January 2003 will not enable the preparers to thoroughly apply all the detailed modifications in this short time frame. We strongly recommend postponing the implementation until 1 January 2004.

There are also some matters that are too complex to be addressed just in an improvement project and that would require further study. We think in particular of the requirement to push down the goodwill to a foreign operation, which we recommend to move to the business combination project. The treatment of hyperinflation should also be reviewed to allow the companies that operate under such environment to reflect the economics of their business when they have a local cost structure or when they are heavily dependent on imports in hard currencies. Leasing is also an issue that would need changes and we are glad to learn that the Board is now carrying active research thereon, hopefully to eliminate the unworkable distinction between finance and operating leases as was recommended by the G4+1.

Finally there are a couple of issues where we consider that the proposed changes unfortunately do not result in a true and fair presentation, i.e.,

- the deletion of the requirement to present the profit from operating activities on the face of the income statement,
- the classification as current of the long term debt that is refinanced after the closing but before the financial statements are authorised for issue,
- the deletion of the requirement to disclose the number of employees, and
- the 12-months time threshold for the non-consolidation of businesses held for sale.

All the above points are explained in detail in the next section of our comments.

2. ANSWERS TO SEPCIFIC QUESTIONS AND OTHER POINTS

IAS 1 - Presentation of Financial Statements

Question 1 : Proposed Departure from an IFRS or from an IFRS Interpretation

We agree with the clarification between a departure that is justified under the Framework (IAS 1 rev. §§ 13-14) and a departure that is prohibited under the Framework (IAS 1 rev § 15).

Question 2 : Prohibition of extraordinary items

While we agree with the prohibition of extraordinary items, we consider that § 79 which says that "no items of income and expense are presented as arising from outside the entity's ordinary activities" is misleading since it could be interpreted as forbidding any disclosure of such amounts or separate disclosure of other exceptional gains/losses. We propose rewording § 79 as follows: "The prohibition of extraordinary items does not prevent an entity from disclosing gains/losses such as losses related to events such as natural disasters or expropriation in accordance with paragraph 82, as long as such gains and losses and other exceptional items are clearly disclosed as part of the ordinary activities".

Question 3 : Agreement to refinance or to reschedule payments completed after the balance sheet date

No. We disagree that a liability that is due to be settled within twelve months from the balance sheet date should be classified as a current liability when an agreement to refinance has been completed after the balance sheet date but before the financial statements are authorised for issue.

IAS 10 § 2 defines adjusting events as "those that provide evidence of conditions that existed at the balance sheet date". In the case under review, the entity has a long-term loan at the balance sheet date and this is supported by the terms and condition of the loan but the company has to classify the loan as current when it is due to mature within 12 months. However, an agreement to extend the maturity for an additional long term period that is entered into after the balance sheet date but before the financial statements are authorised for issue is indeed an adjusting event because according to IAS 10 it provides evidence that the company will not incur a cash outflow within 12 months from the balance sheet date. We also consider that requiring that there is an agreement to refinance (i.e. some legal documentation) at the balance sheet date also contradicts § 35 of the Framework that requires that transactions are "presented in accordance with their substance and economic reality and not merely with their legal form".

Question 4 a : Agreement not to Demand Payment After the Breach of Loan Conditions

No. We disagree that a long-term loan be classified as current after the breach of the loan terms and conditions if the lender has agreed, after the balance sheet date and before the financial statements are authorised for issue, not to demand payment as a consequence of the breach. Our arguments are similar as those of question 3: we consider that the agreement not to demand payment is an adjusting event in accordance with IAS 10.

Question 4 b : Period of Grace After the Breach of the Loan Conditions

No. We disagree that the period of grace be granted by the balance sheet date. We consider that such a period should be granted by the date the financial statements are authorised for issue for the same reasons as those stated under questions 3 and 4 b. Nevertheless we agree with the conditions of items (i) and (ii) of question 4 (b) concerning the rectification of the breach.

Question 5 : Judgements Made by Management in Applying Accounting Policies

No. We consider that such kind of general information should be part of a future IFRS on Management Discussion and Analysis. For the time being, we consider that the Board should stick to what is already specifically requested in other IASs or implement new specific requirements in various IASs and IFRSs if really necessary. Therefore we propose to delete paragraphs 108 and 109.

Question 6 : Key Measurement Assumptions

No for the same reasons as under question 5 above. Therefore we propose to delete paragraphs 110 to 115.

Other points

Move of the accounting policies to IAS 8

We disagree with the move. The selection and application of accounting policies are intimately linked to the fair presentation and the basic accounting conventions explained in IAS 1 (going concern, accrual, etc.). Therefore we recommend not to change IAS 1 in this respect and §§ 4 to 8 of the proposed IAS 8 should remain part of IAS 1 (IAS 8 § 1 has to be changed as well).

Elimination of "the results of operating activities"

We disagree with the deletion of the requirement to show "the results of operating activities" in § 76. Whilst we accept that "operating activities" is not yet a defined term under IAS, we nevertheless recommend retaining this disclosure requirement because, in many industries, operating income or a similar term is one of the key performance measures, along with revenue and net income, used by investors or analysts for assessing an entity's results.

While we are aware that the Reporting Financial Performance project may introduce refinements to any definition of "the results of operating activities", however, we do not consider that this justifies elimination of this concept at this stage.

Elimination of requirement to disclose number of employees

While we appreciate that the proposed change does not forbid this disclosure, it appears to us desirable to continue to require it as it generally gives a useful concrete indication of the substance and real resources of an entity, which is not available from the pure financial figures. It is considered as good business practice to disclose information regarding the workforce e.g. as stated in the OECD Guidelines for Multinational Enterprises, Chapter 3 on Disclosure (revised 2000).

IAS 2 - Inventories

Question 1 : Elimination of LIFO

No, we disagree with the elimination of that method. Though our Group does not use LIFO, we consider that this method is widely used by certain industries and as long as the Board does not issue separate industry standards, enterprises should be free to comply with the practices of their respective sectors.

Question 2 : Reversal and disclosure of inventory write-downs

We agree with this proposal. We suggest that § 34(c) is clarified so that it is made clear that the disclosure relates to the income statement charge in the period for writing-down inventory. We do not consider that it is necessary to disclose the total of the write-downs that have been deducted to arrive at the amount disclosed in the balance sheet as this has limited value to the users of the financial statements.

IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

Question 1: Elimination of allowed alternative

We agree with the elimination of the allowed alternative treatment of voluntary changes in accounting policies and corrections of errors and thus to retrospective adjustment.

Question 2: "Errors" rather than "fundamental errors"

We agree with the removal of the distinction between fundamental errors and other errors. However, we must stress that the key word for us here is not "fundamental" but "material": we would not wish to see the IASB lose its sense of proportion and eliminate the concept of materiality from financial reporting.

Other point – Inclusion of accounting policies

As stated above under IAS 1, we disagree with the move of accounting policies to IAS 8 (new paragraphs 4 to 8). Accounting policies are better placed under IAS 1 that defines the overall considerations and basic principles. We recommend that IAS 8 is restricted to changes only.

IAS 10 – Events after the balance sheet date

We agree that dividends declared after the balance sheet date should not be recognised as a liability at the balance sheet date.

IAS 16 - Property, Plant and Equipment

Question 1 : Exchanges of Items of Property, Plant and Equipment

Yes. We agree that all exchanges of PP&E should be measured at fair value, except when such value cannot be determined reliably.

Question 2 : Exchanges of Intangibles Assets

Yes, we agree in principle because this issue is similar to that of question 1.

Question 3 : Items of Property, Plant and Equipment that Become Temporarily Idle or that are Retired from Use

Yes, we agree subject to the addition of the following sentence at the end of paragraph 59:

"If an item of property, plant and equipment that becomes temporarily idle or that is retired from use has been impaired and its recoverable amount has been determined on the basis of the net selling price, then such item ceases to be amortised."

We consider that our proposed addition is justified because the value based on the net selling price in accordance with IAS 36 is the best evidence of the future economic benefits embodied in the items of PP&E. Furthermore any additional depreciation in these circumstances would be a double counting with the impairment loss.

Other points

Cost of testing

While we welcome the inclusion of costs of testing in the costs which are directly attributable to bring the asset to its working condition per § 15 (a), we consider that this is somewhat in contradiction with § 17 (a) that precludes the inclusion of costs to open a new facility in costs that are not a component of the cost of PP&E. We recommend that additional clarification be given concerning the expenses that contribute to bringing the asset to its working condition and, in that context we do not understand why the example of architects and engineers per § 15A (e) was deleted; we consider that it should be reinstated in the standard.

Components of the cost of PP&E

Paragraph 17 gives examples of costs that are not a component of the cost of property, plant and equipment. Nevertheless we consider that some examples could also be given for costs to be capitalised. In particular, paragraph 17(d) precludes the inclusion of administration and other overhead costs as a component of the costs of PP&E, which is correct for general overheads. However, enterprises sometimes delegate full time engineers, technicians and accountants to manage a construction site. We consider that the costs of these people meet the definition of directly attributable costs per § 15A. To avoid any contradiction, we recommend that the beginning of paragraph 17 be reworded by reinstating the part of the old wording as follows:

"The following are examples of costs that are not a component of the cost of property, plant and equipment, unless they are necessary to bring the asset to its working condition........."

Components approach to account for different useful lives

While we basically agree with the requirement to use a component approach as was requested in SIC 23, we consider that requiring the component approach in § 12 and treating the replacement and the renewal in §§ 22A to 22D is somewhat confusing. We recommend that one single section regarding the component approach be included. We also consider that the component approach should be requested only if the component is significant as regards to the total cost of an asset. For example, the elevators of an administrative building have generally a shorter useful life than that of the building but, for security reasons, the cables have to be replaced over a shorter life compared to that of the elevators. We consider that applying a component approach to the cables because they are subject to a major inspection would cause undue cost and efforts in creating unnecessary items in the plant registers of the enterprises without significant benefits to the users.

Subsequent expenditure on impaired assets

The following sentence of § 25 does not seem very clear:

"When the carrying amount of the item of property, plant and equipment has been written down to recognise an impairment, the subsequent expenditure is capitalised to the extent that it causes the impairment loss to be reversed".

As currently worded, it seems to imply that no subsequent expenditure on impaired assets may be capitalised unless a reversal of the previously recorded impairment loss is reversed. We disagree with that position on conceptual grounds because, in the case of an impaired asset whose recoverable amount has been valued on the basis of value in use, the cash flows will have included outflows for future capital expenditure necessary to maintain or sustain an asset at its assessed standard of performance, in accordance with paragraph 42 of IAS 36. When these cash outflows occur, capitalisation of the expenditure will increase the carrying amount of the asset, but its recoverable amount will increase by the same amount because future cash flows no longer include the related cash outflow. There is, however, no reversal of the previous impairment loss. Likewise, future capital expenditures that improve the performance of the asset, although excluded from the cash flows used to assess the previous impairment in accordance with IAS 36 paragraph 37 (b), will also increase both the carrying amount and the recoverable amount when this occurs; however, it may not necessarily cause the previous impairment loss to be reversed.

We therefore suggest that this sentence in the exposure draft be reworded as follows:

"When the carrying amount of the item of property, plant and equipment has been written down to recognise an impairment, the subsequent expenditure is capitalised to the extent that it does not cause the carrying amount of the asset to exceed its recoverable amount".

Review of the Useful life – Indicator Approach

We consider that the requirements of paragraphs 49 and 52 to review the useful life and the depreciation method of an asset at each balance sheet date will cause undue cost and effort to the enterprises. We recommend to require such review only when there is evidence that the current useful life and/or depreciation method is not appropriate and to adopt an "indicators" approach similar to that of IAS 36 on impairment of assets.

Comparative Information

While we agree on requiring comparative information in the table of movement of PP&E per § 60 (e) we consider that it is sufficient to require the comparative figures in total and not by classes of assets since the full details by classes of assets are available anyhow in the previous year's report.

IAS 17 - Leases

Question 1: Classification of Land and Building Lease

While we agree that the classification of land and building leases be clarified, we do not agree with the general requirement of allocating a lease value to the land and building elements and that the classification of the entire lease as either finance or operating is allowed only "if the lease payments cannot be allocated reliably between these two elements".

We consider that the way the requirements are presented does not reflect the economic substance of real estate lease agreements since enterprises enter into such agreements to obtain the use of both the land and the building. The relevant fact is that the enterprises enjoy (or do not enjoy) the risks and rewards of the whole property. If the present value of the lease payments of the whole real estate lease annuities amounts to substantially all of the fair value of the leased assets (§ 8 d) or if the assets are of a specialised nature (§ 8 e) we do not see why the whole lease would not be entirely classified as a finance one. Requiring to split the land and building elements gives priority to the criterion of § 8 (c), i.e., the major part of the economic life, just because the land has an indefinite life. We consider that this would be form over substance.

We therefore propose to modify §§ 11 and 11A to 11C as follows:

"Entities generally enter into lease of land and buildings to use the real estate as a whole. In such a case, the entire minimum lease payments are tested in accordance with the criteria of paragraphs 8 and 9. Then the lease is classified as a finance lease if one of the criteria is met. If there are persuasive evidence that an entity has entered in substance into separate agreements for the land and building elements, for example when special conditions govern the use of the land, then the land and building elements are tested separately in accordance with paragraphs 8 and 9".

Question 2: Lessors' initial costs

Yes we agree that the lessors' initial costs incurred in negotiating a lease be capitalised over the lease term and that only incremental direct costs are eligible for capitalisation.

Other point – Need for a comprehensive review of IAS 17

Even with the improvements of 1999 and 2002, IAS 17 on leases is still not satisfactory since it allows some possibilities of arbitrage between finance and operating leases. We consider that the Board should rapidly elaborate an exposure draft based on the G4+1 discussion papers of 1996 and 2000 and review IAS 17 in order to achieve accounting treatments that converge with other important accounting standards.

IAS 21 – The effects of changes in foreign exchange rates

Question 1: Proposed definition of functional currency

We strongly disagree with the definition of functional currency because of its emphasis on the currency of the "economic environment in which the entity operates". We see that this takes over word-for-word the FAS 52 definition. Although in general we support convergence to US GAAP we do not consider that this should automatically result in copying US GAAP. Both IAS and US GAAP should converge.

Nevertheless, we agree with the change of term in IAS to "functional" currency, moreover we consider that the SIC-19 § 5 definition for "measurement" currency should be retained, i.e. the definition in § 6 of IAS 21 should be "the functional currency should provide information about the entity that is useful and reflects the economic substance of the underlying events and circumstances relevant to that entity. If a particular currency is used to a significant extent in, or has a significant impact on, the entity, that currency may be an appropriate currency to be used as the functional currency".

If the financial statements are to give a true and fair view of the financial performance of the entity, then it must be the specific circumstances of the entity, which are reflected in the decision of the functional currency.

As regards hyperinflation, we consider that the restatement under IAS 29 that is required under § 41 of the ED should be maintained since it reflects the situation of enterprises that operate in hyperinflationary economies with a local cost structure. Nevertheless we admit that some companies operate in hyperinflationary economies with a cost structure in hard currency. Consequently those companies should be allowed to keep their accounts in hard currency. We consider that our proposal is consistent with the definition of the functional currency and that it reflects the fact that not all companies operate in hyperinflationary economies in the same conditions.

Question 2: Financial statements may be presented in currency of choice

We agree with this concept.

Question 3: Translation into presentation currency uses same method as translation of a foreign operation

We agree with this approach. We have, however, the following suggestions for improvement.

Since the permitted mechanisms for using the presentation currency concept are very important for preparers to know, we suggest that the standard should take over the following from the existing Basis of Conclusion A-15.

The financial statements of a foreign operation may be incorporated into the consolidated financial statements by being either:

a) first translated into the functional currency and then into the presentation currency, or

b) translated directly into the presentation currency.

We consider that the present wording in § 37 (c) should clarify that the cumulative translation adjustment includes:

- the difference between the average rate of the period and the closing rate at the end of the period, and
- the currency retranslation at the beginning of the year, resulting from the change in the closing rate at the end of the period.

We also consider that § 39(b) should cover all entities not reporting in the presentation currency of the group and not just foreign operations. If a Swiss group decides to present its consolidated financial statements in US dollars then there will be a CTA on the opening net assets of all non-US dollar operations including the Swiss parent and Swiss subsidiaries which are not usually considered to be foreign.

Question 4: Elimination of allowed alternative to capitalise certain exchange differences

Yes – we agree to this elimination.

Question 5 : Goodwill and fair value adjustments should be allocated to the foreign operation

We believe that your proposal to require goodwill and fair value adjustments to be accounted for in the currency of the acquired entity raises several issues, which should be explicitly dealt with in any revised standard. We therefore recommend that the proposed change should be removed from this exposure draft. We recommend that any change is included together with the proposed exposure draft on business combinations, as a consequential amendment to IAS 21 at that time, so that the full implications can be considered. In our view, the issues to be considered include the following:

a) fair value adjustments may be made to assets, for example intangible assets related to intellectual property, which are owned by the acquired entity at the acquisition date, but are subsequently transferred to another entity within the combined group, which has a different functional currency from the acquired entity. We believe that the currency in which fair value adjustments are deemed to be denominated should reflect any such subsequent transfers prospectively from the date of transfer. In not doing so, inconsistencies would result with the accounting for any other balance sheet item held by the entity to which the fair valued asset has been transferred;

b) if a group of several companies has been acquired and not all of those companies have the same functional currency, your proposal would require that goodwill be allocated on a legal entity basis to each of the functional currencies involved. We believe that any such allocation would be arbitrary, and would not necessarily reflect the substance of the business combination, especially when acquired companies are merged into existing companies of the acquiring group. We believe that goodwill, as a residual, relates to the acquired group of companies as a whole, and should be held at that level as a single amount for foreign currency translation purposes. The currency chosen should be the currency, which best reflects the substance of the acquisition transaction; this may be the currency in which acquisition consideration was paid or valued. We also believe that, if goodwill were to be required to be allocated, it would be desirable for the allocation basis to be consistent with the basis of allocation of goodwill to a business unit for impairment testing purposes, which in turn should be convergent with FAS 142 requirements. A legal entity basis will not necessarily be convergent with the allocation basis in FAS 142;

c) no transition procedure has been proposed. As stated above, we consider that the above issue should be moved to the future IFRS on business combinations and that the allocation should be done in a pragmatic manner, i.e., at one level below the segment reporting as requested by FAS 142. We also believe that any change should only be applied prospectively to business combinations initiated after the date on which the future IFRS on business combination and the consequential revision of IAS 21 become effective.

Other points

Issues with defining the recycled CTA amount

We would like you to take this opportunity to improve the existing IAS 21 guidance in this area. The following comments still assume that CTA represents deferred exchange gains/losses that have been built up over a number of years. Our comments may require amendments if your resolution of the inconsistency in the CTA definition mentioned above results in a different CTA concept.

The guidance in existing IAS 21 §§ 37/38 concerning recycling of CTA has basically been retained in §§ 46/47. Experience has shown that this guidance is open to interpretation and should be improved especially in the areas of recycling of CTA on disposals and on repayment of intercompany loans that are considered a component of the foreign entity's equity.

One conceptual issue that should be addressed is when there is a trigger for the release of the deferred exchange gains/losses accumulated in CTA in equity. We suggest the following clarifications and amendments to the trigger point for recycling CTA through the income statement:

a) In a group situation a foreign entity may be held either
   i. directly by a parent or sub-holding company that has a functional currency different from the foreign entity or,
   ii. be held by a local holding company that has the same functional currency as the foreign entity.

   We consider that it should be clarified that only in the case of (i) above, which usually results in a flow of funds into a different functional currency, should a recycling of CTA into the income statement be allowed.

b) New paragraphs 43/46/47 should allow repaying intercompany loans of an equity nature to be an event triggering a release of CTA to income and the standard should specify how to determine the CTA. We consider that this is necessary as such repayments represent cash flows out of one functional currency into another and should therefore trigger a recycling of CTA.

Guidance also needs to be given on opening CTA when a new consolidation presentation currency is chosen. US GAAP would start with zero in the first year presented. IAS is at present unclear on the initial year to use and how to determine the opening amount. We consider that IAS should converge with US GAAP in that particular aspect.

Differences in definitions and language between IAS and US GAAP in this area will result in different recognition rules. We suggest that an attempt be made to converge the two frameworks (although this does not mean simply adopting existing US GAAP).

Issues with currency of monetary item forming part of a net investment in a foreign operation (§ 31)

We disagree that the only currencies that can be used for exchange differences arising on such monetary items are the currencies of the parent or the investee.

We see no rationale for this requirement. For practical reasons, very often a third currency will be used even thought this does not change the economic circumstances that the monetary item is a long-term investment in the foreign operation.

IAS 24 – Related Party Disclosures

Question 1 : Elimination of requirement to disclose "management compensation"

Yes – we agree because this area is a topic best covered by applicable stock exchange or corporate governance requirements.

Question 2 : Reduction in disclosures for parent or wholly owned subsidiary

We agree with the Board's majority view. It is sufficient if the required disclosure regarding related party transactions is made available with consolidated financial statements for the group.

IAS 27 - Consolidated and Separate Financial Statements

Question 1 : Consolidated Financial Statements

We agree with the conditions for the exemption of consolidation.

Question 2 : Minority Interests

Yes. The inclusion of minority interests as a separate component of equity is justified since minority shareholders also have an equity interest but one that is distinct from that of the Group's shareholders.

Question 3 : Investments in subsidiaries, Jointly Controlled Entities and Associates

We agree that investments in subsidiaries, jointly controlled entities and associates are consolidated either at cost or in accordance with IAS 39 in the investor's separate consolidated statements.

However we do not agree that investments in subsidiaries, jointly controlled entities and associates that are accounted for in accordance with IAS 39 on consolidation must be consolidated in accordance with the same method in the investor's separate financial statements. Such statements are very often prepared for legal or statutory reasons so it does not make sense to create differences between the legal and statutory separate financial statements and those prepared under IAS.

Other points

Non-consolidation when an investee has severe long-term restrictions on its ability to transfer funds to the investor (§ 12c)

We disagree that severe long-term restrictions on an investee's ability to transfer funds to the investor should be assumed to result in non-consolidation. Such an exemption may lead to legal structures which prohibit funds flow to the sponsoring entity (e.g. trusts or foundations) being contemplated which will result in non-consolidation of certain entities even though these entities are clearly controlled by the Group and are performing activities which are for the benefit of the Group.

We consider that where there are severe long-term transfer restrictions this will result in valuation and impairment issues requiring disclosure but that consolidation is still necessary. "The power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities" is sufficient as a criterion here.

12-month limit for non-consolidation

We disagree with the 12-months threshold for allowing to exclude from the consolidation a subsidiary that is held for re-sale (paragraph 13). Very often a group of companies has to re-sell subsidiaries after an acquisition because it has been required to do so by anti-trust authorities. If such authorities allow a limit that exceeds 12 months, we consider that such limit should be accepted by the Board. The same remark also applies to the proposed change of IAS 28 paragraph 8.

Disclosures about non-consolidated subsidiaries

We also disagree with paragraph 32 (b) that requires to disclose summarised financial information of subsidiaries that are not consolidated. As subsidiaries that are held for re-sale are recognised at their expected net selling price, we consider that such value, which represents the future cash flows out of the subsidiary, is more informative than the selected financial information.

IAS 28 - Accounting for Investments in Associates

Question 1 : Scope exclusions

Yes. We agree that investments held by venture capital organisations, mutual funds, unit trusts and similar entities and that are measured at fair value in accordance with IAS 39 shall not be included in the scope of IAS 28 and of IAS 31.

Question 2 : Losses of associates

Yes. We agree that the amount to be reduced to nil when an associate incurs losses should also include investments such as long-term receivables.

Other points

We see that § 28 now states that the investor's share of after-tax profit or loss of associates should be disclosed as a separate item in the income statement. We do not understand the rationale for such a clear statement as whether or not this makes sense depends on where this line item is shown in the income statement.

Our comments made under IAS 27 concerning severe long-term transfer restrictions and the 12-month limit are also applicable for IAS 28.

IAS 33 – Earnings per share

Question 1: Contracts settled either in cash or in shares at the issuer's option

We agree that such contracts should be included as potential shares in the calculation of diluted EPS based on a rebuttable assumption of settlement in shares.

Question 2: Year-to-date calculation of diluted EPS

We agree with the proposed approach.

Other points

We note, without any mention in the "summary of main changes" on page 281, that there are significant increases in disclosure requirements on EPS proposed in § 58 (continuing operations), 60 (discontinuing operations) and 62 (points (c) and (d)). We doubt whether the addition of such statistics make a significant contribution to users' understanding of the financial statements - especially those in § 60 and 62 (c) and (d). However, if they are introduced, the face of the income statement should not be further burdened but all EPS data should be confined to the notes. Moreover, while the Board's efforts to help readers of exposure drafts by including summaries are much appreciated, these should be reliable by including explicitly and transparently indications of any such significant additions to disclosure requirement.

IAS 40 - Investment Property

Question 1 : Operating leases

Yes. We agree that operating leases should be included in investment property if the rest of the definition of investment property is met and if the lessee uses the fair value model. It is also justified not to include operating leases when the lessee utilises the cost model but this reinforces our proposal that the Board should deal rapidly with the capitalisation of all leases. In effect operating leases are in substance investment property under the cost model but IAS 17 prevents their recognition in the balance sheet.

Question 2 : Accounting of operating leases

Yes. We agree that a lessee that classifies a property held under an operating leases as an investment property should account for the lease as if it were a finance lease because such method is the best estimate of the fair value of the lease.

Question 3 : Removal of cost method for investment properties

No. We disagree with the removal of the option to use the cost method for investment properties. Sometimes industrial and commercial enterprises hold some investment properties, the fair valuation of which would cause them undue cost and effort with very little benefits since such properties are not important compared to the rest of their business.

Effective date

The Board seems to be aiming for an effective date of 1.1.2003 for all the proposed changes. We would propose 1.1.2004 with earlier application encouraged. It is vital for the Board to bear in mind that they have to be implemented in many cases in local accounting systems if they are to be soundly based. The changes to IAS 16 are a case in point. Even where the change is "merely" one of disclosure, an entity's data collection systems have to be adapted in many cases to ensure that the information will be available – not to mention the need to train and instruct local companies in the new requirements in the case of a multinational group. It would be encouraging to see the IASB recognising the practical difficulties which preparers have to resolve when setting effective dates.

Thank you very much for your attention to the above.

Yours very truly,

NESTLE S.A.

H. Wirz
Vice President
Head of Group Accounting and Reporting