המוסד הישראלי לתקינה בחשבונאות
Israel Accounting Standards Board

August 13th, 2002

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: Comments on Exposure Draft of Proposed Improvements to IAS

Dear Board members:

The Israel Accounting Standards Board (hereafter, IsASB) is currently in the process of adopting International Accounting Standards (IAS) in Israel. The standard-setting process in Israel includes a complete review of each IAS, issuing a proposed Israel Accounting Standard based on the relevant International one, holding a public hearing and soliciting comments from financial statement users, preparers and auditors, and finally issuing a final standard. We have already adopted IAS Nos. 10, 14, 21, 34, 35 and 37 with certain modifications. We are in the final stages of adopting IAS Nos. 36 and 40 as well.

Following our deliberations on International Accounting Standard No. 34, Interim Financial Reporting, we would like to provide you with several comments and suggestions. We realize that IASB has no intention to revise IAS No. 34 at this stage, however, these comments may become useful if/when IASB decides to revise IAS No. 34.

a. Format of an Interim Financial Report (paragraphs 8-10):

Paragraph 8 of IAS No. 34 lists the minimum requirement for an interim financial report as a condensed balance sheet, a condensed income statement, a condensed statement of changes in owners' equity (there is another option for this statement), a condensed cash flow statement and selected explanatory notes. IsASB believes that for purpose of comparability with annual financial statements, an entity should present a balance sheet, an income statement, a statement of changes in owners' equity and a cash flow statement, all in a format similar to that used in the most recent annual report. IsASB believes that there is little, if any, additional cost involved in presenting full financial statements. On the contrary, exercising judgement as to which items to include in condensed interim financial reports involves a cost. The condensed nature of an interim financial report should be reserved only to the notes to the financial statements.

Consequently, we propose to omit the word "condensed" from paragraph 8 (a-d). We also propose to modify paragraph 10 as follows:

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“10. If an entity does not publish a complete set of financial statements in its interim financial report, the format of the interim financial statements should be identical (or, similar) to that used in the most recent annual financial statements and in addition, it should include the selected explanatory notes as required by this standard. Additional line items or notes should be included if their omission would make the interim financial statements misleading.”

b. Selected Explanatory Notes (Paragraph 16)

(1) Paragraph 16(g) - We found it useful to add to the Standard an Appendix with a suggested quarterly segment disclosure. We will be happy to send you this appendix upon your request.

(2) Paragraph 16(h) - We suggest to modify this item as follows:

“Non-adjusting events subsequent to the end of the interim period, as defined in International Accounting Standard No. 10, Events After the Balance Sheet Date.”

Alternatively: “Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period, as described in International Accounting Standard No. 10, Events After the Balance Sheet Date”.

We believe that a reference to IAS No. 10 better highlights the requirement that only material non-adjusting events after the balance sheet date, but prior to the date the financial statements were approved, should be disclosed in the interim reports.

(3) Paragraph 16(j) - IsASB believes that special care should be given to disclosures on contingent liabilities (in particular, legal actions) in interim financial reports. In addition, SEC disclosure regulation require more detailed disclosures than those required by IAS No. 34. We suggest to modify item 16(j) as follows:

“Changes in contingent liabilities that occurred during the current interim period and since the last annual balance sheet date. In addition, the entity should disclose details on contingent liabilities, which if realized may cast significant doubt upon the entity’s ability to continue as a going concern.”

c. Paragraph 30(a)

We suggest clarifying that the change in estimate in the subsequent interim period occurs after the publication of the interim report.

d. Appendix 2 - Examples of Applying the Recognition and Measurement Principles

(1) Paragraph 2 - Major Planned Periodic Maintenance and Overhaul - We recommend adding a footnote to this paragraph, which clarifies that this treatment is consistent with the treatment in the annual financial statements, as interpreted by SIC 23, Property, Plant and Equipment - Major Inspection or

Overhaul. In particular, we propose to highlight the requirements of paragraph 5 to SIC 23 in a footnote.

(2) Paragraph 22 - Tax Loss and Tax Credit Carrybacks and Carryforwards - The paragraph is silent as to the treatment of tax loss carryforwards when the tax loss is expected to be utilized in the subsequent fiscal year. IsASB proposes to add another example to this paragraph that illustrates the treatment of tax loss carryforwards when it is probable that future taxable profits will be available in the subsequent year. Here is an example:

An entity that reports quarterly has in the beginning of fiscal 2X01 an operating loss carryforward (for income tax purposes) of 20,000 for which a deferred tax asset has not been recognized. The entity earns 2,000 in the first quarter of 2X01 and expects to earn 2,000 in each of the three remaining quarters. During the third quarter, the entity realizes that it will earn 12,000 in fiscal 2X02 and it is probable that the entity will utilize the remaining tax loss carryforward in fiscal 2X02. Assume that the entity is capable of recognizing a deferred tax asset at the end of the third quarter of 2X0 1. Excluding the carryforward, the estimated average annual income tax rate is expected to be 40%. Income tax expense is as follows:

	1st Quarter	**2nd Quarter**	**3rd Quarter**	**4th Quarter**	**Annual**
Tax Expense	**0**	**0**	**(4,800)**	**0**	**(4,800)**

e. Appendix 3 - Examples of Use of Estimates

Paragraph 6 - We propose to change the title of the paragraph to “Contingent Liabilities and Contingent Assets.” We also suggest omitting the words “may not” from the last sentence. We believe that the use of expert opinions and other advisers should be encouraged in interim financial statements as much as in annual financial statements. The language currently used in the Standard suggests that using experts is less useful in interim financial statements than in annual financial statements.

Sincerely,

Professor Eli Amir, CPA, Chairman
Israel Accounting Standard Board