NOKIA

The Technical Director
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
ENGLAND

13 September 2002

Dear Sir

Exposure Draft of Proposed Improvements to International Accounting Standards: IAS 28, Accounting for Investments in Associates

I am responding to the invitation to comment on the above exposure draft on behalf of Nokia. These comments relate to your question on the scope of IAS 28 namely:

Do you agree that IAS 28 and IAS 31, Financial Reporting of Interests in Joint Ventures, should not apply to investments that otherwise would be associates or joint ventures held by venture capital organisations, mutual funds, unit trusts and similar entities if these investments are measured at fair value in accordance with IAS 39, Financial Instruments: Recognition and Measurement, when such measurement is well-established practice in those industries.

We agree with this exemption but consider it is too narrow. The exemption should apply to any type of investor who holds a portfolio of investments for their marketable value. For example, take the situation where a trading group controls, or has significant influence over, a venture capital ("VC") organisation. Our interpretation of your proposal is that the VC subsidiary or associate would be exempt from IAS 28 (and IAS 31) in its own financial statements but the trading group would not be exempt in its consolidated financial statements, even though the group is as much a portfolio investor as its VC subsidiary. Such a change in measurement basis would only make sense if the underlying investees of the VC subsidiary were a media through which the group conducted its core business.

The overriding issue as we see it is that VC organisations invest in high risk start-up ventures and look for capital growth. If the investor holds these investments as part of a portfolio in order to maximise their marketable value, then valuation information is relevant and equity accounting is irrelevant. Equally it is irrelevant whether the portfolio investors stake in an investee is 15% or 25%. Within the VC sector there are well established principles for valuing these investments, which can be reconciled to IAS 39 but not to IAS 28.

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We hold the strong view that IAS should reflect the underlying economics and should support the way the business is managed. Accordingly the scope exemption should be revised to exempt investments which are held as part of a portfolio where their value to the investor is through their marketable value as part of a collective group of investments. This approach should be used by any entity, trading company, financial institution, in addition to VC organisations and the other types of entity already proposed to be exempted.

If you have any questions in relation to this letter please do not hesitate to contact me at Nokia.

Yours faithfully

Maija Torkko
Senior Vice President, Group Controller and Finance
For and on behalf of Nokia

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16 September 2002

Exposure Draft of Proposed Improvements to International Accounting Standards

Dear Sir

Please find below our comments on the above-mentioned draft standard.

International Accounting Standard IAS 1
(revised 200X)
Presentation of Financial Statements

Question 1
Do you agree with the proposed approach regarding departure from a requirement of an International Financial Reporting Standard or an Interpretation of an International Financial Reporting Standard to achieve a fair presentation (see proposed paragraphs 13-16)?

A1
We agree.

Question 2
Do you agree with prohibiting the presentation of items of income and expense as 'extraordinary items' in the income statement and the notes (see proposed paragraphs 78 and 79)?

A2
We agree with the paragraph 78 but not with paragraph 79.

Question 3
Do you agree that a long-term financial liability due to be settled within twelve months of the balance sheet date should be classified as a current liability, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue (see proposed paragraph 60)?

A3
We disagree.

Question 4
Do you agree that:
(a) a long-term financial liability that is payable on demand because the entity breached a condition of its loan agreement should be classified as current at the balance sheet date, even 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 (see proposed paragraph 62)?

(b) if a lender was entitled to demand immediate repayment of a loan because the entity breached a condition of its loan agreement, but agreed by the balance sheet date to provide a period of grace within which the entity can rectify the breach and during that time the lender cannot demand immediate repayment, the liability is classified as non-current if it is due for settlement, without that breach of the loan agreement, at least twelve months after the balance sheet date and: (i) the entity rectifies the breach within the period of grace; or (ii) when the financial statements are authorised for issue, the period of grace is incomplete and it is probable that the breach will be rectified (see proposed paragraphs 63 and 64)?

A4(a)
We disagree.

A4(b)
We disagree that the period of grace should be granted by the balance sheet date. Period of grace should be granted by the date financial statements are authorized based on IAS 10 § 2.

We agree with the conditions 4 (b)(i) and 4 (b)(ii).

Question 5
Do you agree that an entity should disclose the judgements made by management in applying the accounting policies that have the most significant effect on the amounts of items recognised in the financial statements (see proposed paragraphs 108 and 109)?

A5
We disagree. This kind of information should be presented outside financial statements in the in management's explanation of the enterprise's financial condition, changes in financial condition, results of operations, and causes of changes in material line items.

Question 6
Do you agree that an entity should disclose key assumptions about the future, and other sources of measurement uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year (see proposed paragraphs 110-115)?

A6
We disagree. This kind of information should be presented outside financial statements in the in management's explanation of the enterprise's financial condition, changes in financial condition, results of operations, and causes of changes in material line items.

International Accounting Standard IAS 2
(revised 200X)
Inventories

Question 1
Do you agree with eliminating the allowed alternative of using the last-in, first-out (LIFO) method for determining the cost of inventories under paragraphs 23 and 24 of IAS 2?

A1
We agree.

Question 2
IAS 2 requires reversal of write-downs of inventories when the circumstances that previously caused inventories to be written down below cost no longer exist (paragraph 30). IAS 2 also requires the amount of any reversal of any write-down of inventories to be recognised in profit or loss (paragraph 31).
Do you agree with retaining those requirements?

A2
We agree.

International Accounting Standard IAS 8
(revised 200X)
~~Net Profit orLoss for the Period, Fundamental Errors and Changes in Accounting Policies,~~ Changes in Accounting Estimates and Errors

Question 1
Do you agree that the allowed alternative treatment should be eliminated for voluntary changes in accounting policies and corrections of errors, meaning that those changes and corrections should be accounted for retrospectively as if the new accounting policy had always been in use or the error had never occurred (see paragraphs 20, 21, 32 and 33)?

A2
We disagree. There can be different kind of situations, which could require different treatments to give a better and clearer understanding of the situation. Also, the statutory and legal requirements of an entity's home country can set restrictions on the accounting for voluntary changes in accounting policies and corrections of errors.

Question 2
Do you agree with eliminating the distinction between fundamental errors and other material errors (see paragraphs 32 and 33)?

A2
We disagree.

International Accounting Standard IAS 16
(revised 200X)
Property, Plant and Equipment

Question 1
Do you agree that all exchanges of items of **property, plant and equipment** should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably (see paragraphs 21 and 21A)?

A1
We agree.

Question 2
Do you agree that all exchanges of **intangible assets** should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably? (See the amendments in paragraphs 34-34B of IAS 38, Intangible Assets, proposed as a consequence of the proposal described in Question 1.)

A2
We agree.

Question 3
Do you agree that depreciation of an item of property, plant and equipment should not cease when it becomes temporarily idle or is retired from active use and held for disposal (see paragraph 59)?

A1
We agree.

International Accounting Standard IAS 17
(revised 200X)
Leases

Question 1
Do you agree that when classifying a lease of land and buildings, the lease should be split into two elements—a lease of land and a lease of buildings?
The land element is generally classified as an operating lease under paragraph 11 of IAS 17, Leases, and the buildings element is classified as an operating or finance lease by applying the conditions in paragraphs 3-10 of IAS 17.

A1
In our opinion all the leasing questions should be addressed in the IASB's project "Accounting for Leases".

Question 2
Do you agree that when a lessor incurs initial direct costs in negotiating a lease, those costs should be capitalised and allocated over the lease term?
Do you agree that only incremental costs that are directly attributable to the lease transaction should be capitalised in this way and that they should include those internal costs that are incremental and directly attributable?

A2
In our opinion all the leasing questions should be addressed in the IASB's project "Accounting for Leases".

International Accounting Standard IAS 21
(revised 200X)
The Effects of Changes in Foreign Exchange Rates

Question 1
Do you agree with the proposed definition of functional currency as "the currency of the primary economic environment in which the entity operates" and the guidance proposed in paragraphs 7-12 on how to determine what is an entity's functional currency?

A1
We disagree. In our opinion the functional currency should be a currency, which based on entity's assessment, gives a true and fair view of entity's operations.

Question 2
Do you agree that a reporting entity (whether a group or a stand-alone entity) should be permitted to present its financial statements in any currency (or currencies) that it chooses?

A2
We agree.

Question 3
Do you agree that all entities should translate their financial statements into the presentation currency (or currencies) using the same method as is required for translating a foreign operation for inclusion in the reporting entity's financial statements (see paragraphs 37 and 40)?

A3
We disagree.

Question 4
Do you agree that the allowed alternative to capitalise certain exchange differences in paragraph 21 of IAS 21 should be removed?

A4
We agree.

Question 5
Do you agree that
(a) goodwill and
(b) fair value adjustments to assets and liabilities that arise on the acquisition of a foreign operation should be treated as assets and liabilities of the foreign operation and translated at the closing rate (see paragraph 45)?

A5
In our opinion all the questions relating to business combinations should be included in the IASB's coming Exposure draft on Business Combinations.

International Accounting Standard IAS 24
(revised 200X)
Related Party Disclosures

Question 1
Do you agree that the Standard should not require disclosure of management compensation, expense allowances and similar items paid in the ordinary course of an entity's operations (see paragraph 2)?

A1
We agree.

Question 2
Do you agree that the Standard should not require disclosure of related party transactions and outstanding balances in the separate financial statements of a parent or a wholly-owned subsidiary that are made available or published with consolidated financial statements for the group to which that entity belongs (see paragraph 3)?

A2
We agree.

International Accounting Standard IAS 27
(revised 200X)

Consolidated and Separate Financial Statements ~~and Accounting for Investments in Subsidiaries~~

Question 1
Do you agree that a parent need not prepare consolidated financial statements if all the criteria in paragraph 8 are met?

A1
We agree.

Question 2
Do you agree that minority interests should be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity (see paragraph 26)?

A2
We disagree. We would prefer to keep the old wording of IAS 27 § 26.

Question 3
Do you agree that investments in subsidiaries, jointly controlled entities and associates that are consolidated, proportionately consolidated or accounted for under the equity method in the consolidated financial statements should be either carried at cost or accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement, in the investor's separate financial statements (paragraph 29)?

Do you agree that if investments in subsidiaries, jointly controlled entities and associates are accounted for in accordance with IAS 39 in the consolidated financial statements, then such investments should be accounted for in the same way in the investor's separate financial statements (paragraph 30)?

A3
We agree with the first paragraph but disagree with that if investments in subsidiaries, jointly controlled entities and associates are accounted for in accordance with IAS 39 in the consolidated financial statements, then such investments should be accounted for in the same way in the investor's separate financial statements because investor's separate financial statements are sometimes prepared based on statutory requirements which could differ from the requirements of IAS.

International Accounting Standard IAS 28
(revised 200X)
Accounting for Investments in Associates

Question 1
Do you agree that IAS 28 and IAS 31, Financial Reporting of Interests in Joint Ventures, should not apply to investments that otherwise would be associates or joint ventures held by venture capital organisations, mutual
funds, unit trusts and similar entities if these investments are measured at fair value in accordance with IAS 39, Financial Instruments: Recognition and Measurement, when such measurement is well-established practice in
those industries (see paragraph 1)?

A1
Please see our comment letter dated 13 September 2002.

Question 2
Do you agree that the amount to be reduced to nil when an associate incurs losses should include not only investments in the equity of the associate but also other interests such as long-term receivables (paragraph 22)?

A2
We agree.

International Accounting Standard IAS 33
(revised 200X)
Earnings Per Share

Question 1
Do you agree that contracts that may be settled either in ordinary shares or in cash, at the issuer's option, should be included as potential ordinary shares in the calculation of diluted earnings per share based on a rebuttable presumption that the contracts will be settled in shares?

A1
We disagree. The determination of whether that contract shall be reflected in the computation of diluted EPS shall be made based on the facts available each period.

Question 2
Do you agree with the following approach to the year-to-date calculation of diluted earnings per share (as illustrated in Appendix B, examples 7 and 12)?

- The number of potential ordinary shares is a year-to-date weighted average of the number of potential ordinary shares included in each interim diluted earnings per share calculation, rather than a year-todate weighted average of the number of potential ordinary shares weighted for the period they were outstanding (ie without regard for the diluted earnings per share information reported during the interim periods).
- The number of potential ordinary shares is computed using the average market price during the interim periods reported upon, rather than using the average market price during the year-to-date period.
- Contingently issuable shares are weighted for the interim periods in which they were included in the computation of diluted earnings per share, rather than being included in the computation of diluted earnings per share (if the conditions are satisfied) from the beginning of the year-to-date reporting period (or from the date of the contingent share agreement, if later).

A2
We agree.

Effective date
The Board has proposed the effective date to be 1 January 2003 for all proposed improvements. We would propose 1 January 2004 with earlier application encouraged.

Yours faithfully

Maija Torkko
Senior Vice President, Group Controller and Finance
For and on behalf of Nokia