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International Accounting Standards Board
30 Cannon Street
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16 September 2002

Dear Sir,

Comments on Exposure Draft of Proposed Improvements to International Accounting Standards

We welcome the opportunity to comment on the Exposure Draft of Proposed Improvements to International Accounting Standards.

The Improvements Project has resulted in a large number of proposed changes to existing IAS. We have commented below on certain points that seem of particular note to us. GlaxoSmithKline plc (GSK) currently reports under UK GAAP but will apply IFRS in its consolidated accounts from 2005 in accordance with the recent EU regulation.

<u>IAS 16: Property, Plant and Equipment</u>

1. Paragraph 21 in respect of exchange of assets and paragraph 30 in respect of revaluations of assets both require assets to be measured at fair value. Fair value is defined as "usually market value determined by appraisal" (para 31) and also (in the definitions in paragraph 6) as "the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction". We believe that it would be more appropriate to record assets in these circumstances at a value that relates more closely to the economic benefit that the entity expects to derive.

   The application of fair value as defined could understate an asset's value to the entity where it has been designed or adapted to meet the entity's needs. Paragraph 31 allows that depreciated replacement cost may be used if there is no evidence of a market value because of the specialised nature of an asset, but this does not take account of situations where a market exists but the value placed on the asset does not reflect its specific suitability for its function within the entity. Conversely, an asset may have a high market value reflecting its potential for development for alternative use, but, if the entity has no intention to dispose of it, this value has little relevance to its value to the business except in a break-up situation. As noted above, we would therefore propose that, for assets intended for use in the operations of an entity which is a going concern, the definition of fair value should be amended to reflect an existing use value.

   We note that, as indicated in paragraph A12 of the Appendix, the Board is participating in research activities with liaison standard setters on issues concerning revaluations of property, plant and equipment, and that this research could lead to future proposals for amendment of IAS 16. If the fair value definition in IAS 16 should remain the same following the current exposure for comment and the Board's subsequent discussions, we hope nevertheless that future proposals will address the concern outlined above.

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2. The above comments on definition of fair value apply also to intangible assets. We believe that the proposed amendments to IAS 38 paragraphs 34 and 34B should allow assets exchanged for other assets to be measured in terms of their value to the business.

IAS 21: The Effects of Changes in Foreign Exchange Rates

1. Paragraph 30 requires exchange differences arising on a monetary item that forms part of a net investment in a foreign operation to be recognised as income or expense in the separate financial statements of the reporting entity or the foreign operation. As noted in paragraph 13, these are items for which settlement is neither planned nor likely to occur in the foreseeable future. The exchange differences arising on them would therefore seem to be of little relevance in reporting the entity's performance for the period. Indeed, as such items are akin to an investment balance it may be more appropriate to regard them as non-monetary items that should not be retranslated at all. For consolidated accounts, IAS 21 requires these exchange differences to be recorded in a separate component of equity and, for separate financial statements, we would support either maintaining the same treatment or removing the requirement to retranslate monetary items that form part of a net investment in a foreign operation.

2. The same arguments apply to monetary items denominated in a currency other than the functional currency of either the reporting entity or the foreign operation. Paragraph 31 of the Exposure Draft proposes that exchange differences arising on such items should be recognised as income or expenses in consolidated financial statements as well as in the separate financial statements of the reporting entity and the foreign operation. We see no reason why such items should be treated differently from items denominated in the functional currency of one of the parties and would therefore recommend treatment as outlined in paragraph 1 above.

3. Paragraph 46 states that exchange differences that relate to a foreign operation must be recycled from the separate component of equity in consolidated accounts and into the income statement on disposal of the investment. Although this requirement exists in the current IAS 21 and is not part of the Improvements project, we would like to comment on it here as it will represent a significant change in accounting for GSK when it adopts IFRS in 2005. Under UK GAAP, exchange arising on translation of subsidiaries' net assets has been accounted for in reserves and there has been no need to track the amount by individual subsidiary. For companies such as GSK, a multi-national group which has participated in various business combinations over several decades, identifying the exchange amounts relating to older subsidiaries could be a very difficult, if not impossible, task. We feel that a transitional arrangement should be added to IAS 21 to grant an exemption to this requirement where it is impractical to ascertain the exchange differences arising for periods prior to adoption of IFRS.

IAS 23: Borrowing Costs

1. We note that, although the Board considered whether to eliminate the choice between capitalising borrowing costs that meet certain requirements and reporting all borrowing costs as an expense in the period in which they are incurred, it decided not to include IAS 23 in the Improvements project on the grounds that the issue is best addressed in the context of a wider project. We support the retention of this option, and therefore welcome the Board's decision to consider the issues further.

IAS 24: Related Party Disclosures

1. Paragraph 3 provides an exemption from disclosure of related party transactions and outstanding balances for parent companies and wholly-owned subsidiaries whose financial statements are "made available or published with consolidated financial statements for the group to which that entity

belongs". We feel that the exemption should be broadened to include subsidiaries which are not wholly-owned but in which the parent company holds a very large majority (for example, Financial Reporting Standard 8 in the UK currently stipulates a 90% holding). The relationship between the parent company and such a subsidiary is substantially the same as if the subsidiary was wholly-owned. If an exemption may be applied to a wholly-owned subsidiary there seems little reason why it should not also apply to subsidiaries which are almost wholly-owned.

2. The intended meaning of the words "made available or published with" in paragraph 3 is somewhat unclear. This paragraph could be read as if the exemption applied only to companies whose separate financial statements are physically supplied in the same package as the consolidated financial statements. Under current practice in the UK, this would cover only parent companies. If the exemption is intended to apply to all wholly-owned subsidiaries for which consolidated accounts of the group to which it belongs are publicly available, the wording should stipulate this more clearly.

3. Paragraphs 12 and 13 require disclosure of a relationship between a parent and subsidiary, irrespective of whether there have been transactions between the parties, as it is appropriate to disclose the fact that control exists. We believe that the identity of the controlling party is also highly relevant information for users of financial statements who are trying to understand the nature and financial position of an entity. We therefore support the requirement in paragraph 117(c) of the Exposure Draft of IAS 1 to disclose "the name of the parent and the ultimate parent of the group". However, we feel that this requirement should also be referred to in IAS 24 as it so closely relates to the point made in paragraphs 12 and 13. We also feel that the requirement should be broadened to cover all controlling parties, not just companies.

4. IAS 24 provides no guidance on materiality. While paragraph 27 of the Exposure Draft of IAS 1 allows the specific disclosure requirements of IFRS not to be met if the resulting information is not material, it would be useful to have some clarification on how materiality should be interpreted in the context of related party relationships. To allow no exemption at all for immaterial items could result in excessive disclosure. On the other hand, the materiality threshold may be very different for each party in a related party transaction. Consequently we suggest that clarification within IAS 24 on the criteria to apply in determining which transactions or balances are of sufficient materiality to require disclosure would benefit the preparers of financial statements.

IAS 33: Earnings Per Share

1. The proposed IAS 33 requires presentation on the face of the income statement of basic and diluted earnings per share (EPS) for profit or loss from continuing operations and net profit or loss for the period (paragraph 58). All other amounts per share must be presented in the notes to the financial statements (paragraph 65). However, alternative EPS figures may also provide valuable information to users of financial statements, and may arguably be of more relevance, particularly where they represent key measures used by management to assess the business's performance. Accordingly, although we recognise the benefit of comparability between companies provided by paragraph 58's required disclosures, we would prefer to retain the option of reporting other EPS amounts on the face of the income statement as well.

2. No specific guidance is given in respect of shares held by an employee share ownership plan trust which is consolidated into the group financial statements, or in respect of own shares held by a company. It would be helpful to include some guidance on both these situations in the discussion of "Per Share – Basic" in paragraphs 17 to 25.

3. The Exposure Draft of IAS 33 does not discuss how to treat unutilised provisions for share-based compensation in the calculation of diluted shares, nor whether any adjustment to earnings should be

made where charges for share-based compensation are recognised. We are aware that the Board is well advanced in a project on share-based payments, and hope that guidance on any impact from the resulting required accounting treatment on the calculation of EPS will be fed into the revised IAS 33, after appropriate exposure for comment.

4. Question 2 in the Invitation to Comment prefacing the Exposure Draft relates to a new EPS calculation method involving using the weighted average of the number of potential ordinary shares included in each interim period, and the average market price during the interim periods reported upon, rather than year-to-date figures. This calculation method is demonstrated in two examples given in Appendix B. However, the introduction to Appendix B notes that it is illustrative only and does not form part of the Standard. We suggest that wording describing the required computation method should be included within the main body of IAS 33 in order to give it full authority. This would also increase the visibility of the methodology. Currently it can only be identified by following the workings for two of the examples, of which there are twelve in total, and therefore could easily be missed.

5. In working through Example 12 in Appendix B we note that, where there is a loss for an interim period, potential ordinary shares may be excluded from that period's diluted EPS because they are anti-dilutive (ie they decrease a loss per share). However, if there is sufficient year-to-date profit, they are included in the diluted EPS calculation for the whole year to date. In certain situations this would have the effect that the sum of the interim periods' diluted EPS is quite different from the year-to-date diluted EPS. This seems to be contrary to the aim of reflecting the year as a whole rather than just conditions at the year-end which is suggested by other provisions of the Exposure Draft (eg the treatment of contingently issuable shares referred to in the third bullet point of Question 2 in the Invitation to Comment). A discussion of the objectives of the proposed calculation method would assist in understanding if this is the desired intention.

Yours sincerely,

Mr PF Blackburn
Corporate Financial Controller
GlaxoSmithKline plc