QUILVEST

Quilvest
Société Anonyme Holding
84 Grand-Rue
Boîte Postale 154
L-2011 Luxembourg
Tél +352 47 38 85
Fax +352 22 60 56

REGISTERED MAIL

Luxembourg, September 13, 2002

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street, floor
GB-London EC4M 6XH

Dear Sir David,

Re: Invitation to comment on Exposure Draft - Proposed Improvements to IAS 27

QUIILVEST, is a holding company listed on the Luxembourg Stock Exchange. We are engaged in the businesses of private equity and we control two banks. Currently, our private equity business has a portfolio of approximately [120] investments spreading over Europe, North America, Asia, and Latin America.

We have been working on the IAS project for more than 2 years now and welcome the opportunity to comment on the above Exposure Draft. We have reviewed the subject Exposure Draft (ED) and respond to <u>the questions included in the invitation to</u> comment as follows:

1 Yes, we agree that a parent need not prepare consolidated financial statements if all the criteria in paragraph 8 are met.

2 Yes, we agree that minority interests should be presented in the consolidated balance sheet within equity. separately from the parent shareholders' equity.

3 Yes, we 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 <u>at cost or</u> accounted for <u>in accordance</u> with L&S 39, Financial Instruments in the investor's separate financial statements (§ 29)

   We also agree that if investments in subsidiaries, jointly controlled entities and associates are accounted for in accordance with [AS 39 in the consolidated financial statements, then such investments should be accounted for in the same way in the investor's separate financial statements.

Further, we have the following additional comments on the subject ED.

We *do not agree with paragraph 13A* of the ED which states that a subsidiary is not excluded from consolidation simply because the investor is a venture capital organisation, mutual fund, unit trust or similar entity.
We believe that investors in such industry should account for their investment in subsidiaries in accordance with IAS 39, Financial Instruments, at fair value with changes in fair value included in [the profit or loss of the period of change].

Our reasons for this are as follows:

a) Paragraph 13A contradicts with the Exposure Draft of revised IAS 28, Accounting for Investments in Associates. The scope of that exposure draft states that investments in associates held by venture capital organisations, mutual funds, unit trusts and similar entities are measured at fair value in accordance with lAS 39.

b) The proposal in the current ED would result in similar assets accounted for in fundamentally different methods. In the private equity business, an investor decides on the shareholding percentage based on an optimal deal / tax structure. A shareholding of 49% or ***51%*** does not necessarily result in any difference in the related risk and rewards. According to the current ED, however, it will result in a fundamentally different accounting treatment and contradict the substance over form principle.

c) The consolidated financial statements prepared under the proposal of the current ED would become meaningless to our shareholders. Shareholders of private equity houses expect to see the value of investments and the related gains and losses (whether realised or unrealised) but not the assets and liabilities held, or net income / losses generated by the underlying investee entities. We are of the opinion that the resulting information presented would lose many of the qualitative characteristics of financial statements.

d) During the investment holding period, a financial investor has no control over the cash flow of the underlying investment since he is not involved in governing the financial and operating policies of the investee. The nature of control by a private equity investor is different from that of an industrial investor. For example, a financial investor would never propose a dividend payment (which also would not make business sense). Strong operating performances of an underlying investment will not necessarily translate into an increase in the expected exit value. As such, consolidating those performance figures would be purely meaningless, if not misleading.

We would also like to highlight a few business issues.

Our international investment portfolio consists of entities (investees) that are applying different accounting standards and have different year-end dates (several beyond 3-months from calendar).

As a financial investor we have no command over accounting years and accounting standards and have no means to have them line up to IAS
Investees would be burdened with disproportionate efforts and costs and the reported information would be irrelevant at the level of the ultimate parent.

Thank you for the consideration of our views.

Please contact [Carlo Hoffmann at + 352 47 3885] if you wish to discuss any of the issues raised.

Respectfully,

Carlo Hoffmann
Project Leader IAS