Improvements Project

– Summary of commentators´ views (Germany) –

20. September 2002

Comments submitted to German Accounting Standards Committee by

No.	**Respondent´s name**	**Type**
1	Dr. Roland Schmidt, Fuldabrück	Others
2	Wirtschaftsvereinigung Metalle, Düsseldorf	Preparers
3	Deutsche Post AG, Bonn	Preparers
4	DaimlerChrysler AG, Stuttgart	Preparers
5	Bundesverband Öffentlicher Banken Deutschlands (Association of German Public Sector Banks), Berlin	Preparers

IAS 1

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)?

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	We agree in principle	--

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)?

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	We agree	„Extraordinary items“ are defined in a restrictive way in the currents Standards.

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)?

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	No clear view expressed	Proposed changes are not material for banks and similar financial institutions.

IAS 1

Question 4

(a) Do you agree that 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) Do you agree that 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)?

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	a) No clear view expressed b) --	a) Proposed changes are not material for banks and similar financial institutions. b) --

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)?

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	We agree	The proposed disclosure enhances transparency regarding accounting policies applied by management.

IAS 1

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)?

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	No clear view expressed	--

Other Comments

No.	Type	Main issues raised by respondent
1	Others	--
2	Preparers	--
3	Preparers	--
4	Preparers	--
5	Preparers	• Paras. 35-38: Change from „impracticable“ to „undue cost or effort“ will not have any consequences. • Paras. 66, 75: We agree with the extensions of para. 66 and para. 75. • Para. 76: We agree with the deletion of „results of operating activities“ as a line item on the face of the income statements as it is of low importance for banks and similar financial institutions. • Para. 117: We do not agree with the proposal that the disclosure of the number of employees (IAS 1 (rev. 1997) para. 102(d)) will not be a requirement anymore as it is a useful information for the users of financial statements.

IAS 2

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?

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	No	In certain industries like the metal-processing industry, a large fixed stock of raw materials (with changing prices like gold or silver) is necessary due to production techniques. Inventories of these enterprises often represent three quarter of all their assets. Sometimes, the relationship between fixed stock and inventory used is three to one. In this case, LIFO better represents the performance statement, because actual inventory costs are matched instead of irrelevant average or historic prices.
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	--	--

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?

No comments submitted.

<u>IAS 8</u>

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)?

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	In principle yes	We agree with the elimination of the allowed alternative treatment, but see a disadvantage of higher costs and effort applying the retrospective method.

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

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	No	We do not agree that the correction of all errors have to be accounted for as corrections of fundamental errors because of undue cost or effort.

Other Comments

No.	Type	Main issues raised by respondent
1	Others	--
2	Preparers	--
3	Preparers	--
4	Preparers	--
5	Preparers	Para. 19: An estimate of the effect of the changes (par. 19 d) ii)) will probably be made with undue effort and does not result in additional information.

IAS 10

There are no questions as invitation for comment set out in this standard. The main change of IAS 10 is to revise par. 11 and 12 to indicate that if dividends are declared between the balance sheet date and the authorisation for issue, those dividends should not be recognised as a liability at the balance sheet date.

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	No clear view expressed	--

IAS 16

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?

No comments submitted.

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?

No comments submitted.

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?

No comments submitted.

IAS 16

Other Comments

No.	Type	Main issues raised by respondent
1	Others	Paras. 29, 30: There is no guidance how to calculate the fair value of property. Explicit criteria should be determined to avoid misuse of the fair value model. Furthermore, there is no definition of market value particularly of property.
2	Preparers	--
3	Preparers	--
4	Preparers	--
5	Preparers	Paras. 49, 52: We do not agree that the useful life and the depreciation method of each item of property, plant and equipment should be reviewed at least at each financial year end because of undue effort. We do not think that this approach leads to more information and to a better decision usefulness.

IAS 17

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 par. 11 of IAS 17, Leases, and the buildings element is classified as an operating or finance lease by applying the condition in par. 3-10 of IAS 17.

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	Yes	--
5	Preparers	Yes	--

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?

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	Yes	Consistency with US GAAP
5	Preparers	Yes	--

Other Comments

No.	Type	Main issues raised by respondent
1	Others	--
2	Preparers	--
3	Preparers	--
4	Preparers	Para 11C: “Immaterial” is considered to be too restrictive. We suggest to replace immaterial by “of little importance” or “significantly lower”.
5	Preparers	--

IAS 21

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?

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	Yes	--

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?

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	No	It should be required that functional currency and presentation currency are the same. At least the presentation currency should be used consistently.

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)?

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	No	All items in the balance sheet and the income statement should be translated with the current exchange rate. This method has the following advantages: there are no new exchange differences, ratios between items of the balance sheet and/or income statement remain the same, there is little scope left for the presentation of financial statements, users of financial statements get a clear view.

IAS 21

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

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	Yes	--

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)?

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	Yes	--

IAS 24

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)?

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	Yes	--

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)?

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	Yes	--

IAS 24

Other Comments

No.	Type	Main issues raised by respondent
1	Others	--
2	Preparers	--
3	Preparers	Para. 4(d): In Germany, supplementary statutory provisions are in place for the accounting of state-controlled enterprises which serve to ensure shareholder protection (in particular, central, regional and local authorities). As well as these “state shareholders”, private shareholders with equity interests in such enterprises are also protected. These provisions already impose specific reporting duties on state-controlled enterprises in Germany. This information could also be used for the publication of IAS financial statements. However, an exception should be made for state-controlled enterprises. They should only be obliged to disclose relations with associated state-controlled enterprises (the possibility of control by the Federal Government must exist), as this would otherwise call into question the feasibility of the financial statements. With around 7,000 enterprises controlled by the German Federal Government, the scope of these disclosures would be so large that transparent, clear financial statements and their timely preparation and publication would no longer be possible. In accordance to IAS 24 shareholders should be provided with relevant material data which could affect their decisions, and not be distracted by irrelevant information.
4	Preparers	--
5	Preparers	• Para. 9 (d): Information is necessary which hierarchical levels are meant by „key management personnel“. • Paras. 17, 14 (b) (i): Disclosures according to para. 14 (b) (i) should only be required if the conditions are not usual in the market, otherwise information would be too overwhelming for the users and hard to understand.

IAS 27

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

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	We do not agree	Paras. 8(b) and 8(c) should be deleted because costs of preparing financial statements would exceed the related benefits.

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)?

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	We agree	--

IAS 27

Question 3

a) 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)?

b) 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)?

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	a) We agree b) We agree	a) -- b) --

Other Comments

No.	Type	Main issues raised by respondent
1	Others	--
2	Preparers	--
3	Preparers	--
4	Preparers	--
5	Preparers	• Para. 1: The scope should be amended corresponding to IASB´s proposal on IAS 28 para. 1, i.e. investments in subsidiaries held by venture capital organisations should be measured at fair value. • Para:. 13: We do not agree with the proposed change regarding the criterion for exclusion from the scope of consolidation when control is intended to be temporary to „within twelve months" as it is to narrow for venture capital organisations; a period longer than 12 months should also be permitted, if the intention to dispose of a subsidiary has been announced to the public or a binding sale agreement has been entered into.

IAS 28

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)?

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	We agree in principle	We suggest to define „venture capital organisation“.

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)?

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	We do not agree	In our opinion, the instruments given by IAS 39 are sufficient in order to identify decreases in the value of a receivable. Besides this, the recognition of a provision (e.g. in the case of guarantees on behalf of the associate) could be necessary. A reference to IAS 37 and IAS 39 would make sense.

IAS 28

Other Comments

No.	Type	Main issues raised by respondent
1	Others	--
2	Preparers	--
3	Preparers	--
4	Preparers	--
5	Preparers	• Para. 8: A period longer than 12 months should also be permitted, if the intention to dispose of a subsidiary has been announced to the public or a binding sale agreement has been entered into. • Para. 18: We do not agree with the proposal that the difference between the reporting dates shall be no more than three months. The investor will not necessarily be able to enforce a specific reporting date or to enforce the preparation of financial statements as of the same date as the financial statements of the investor as the investor has only significant influence. • Para. 20: We do not agree with the proposal that uniform accounting policies are required for like transactions and events in similar circumstances. The investor will not necessarily be able to enforce uniformity as it has only significant influence. • Para. 27(b): In our opinion, summarised financial information of associates, including the aggregated amounts of assets, liabilities, revenues and profit or loss is not useful and, therefore, this proposed disclosure should be deleted. • Para. 28: We are in favour of an option either to disclose the after-tax profit in the income statement or in the notes. We disagree with the proposal to disclose information on discontinuing operations as the investor will not necessarily be able to get this information as it has only significant influence.

IAS 33

No comments submitted.

IAS 40

Question 1

Do you agree that the definition of investment property should be changed to permit the inclusion of a property interest held under an operating lease provided that
(a) the rest of the definition of investment property is met; and
(b) the lessee uses the fair value model set out in IAS 40, par. 27-49?

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	No clear view expressed	It might be problematical that the property would be recognised in the balance sheet of the lessee as well as in the balance sheet of the lessor in the case that a property interest held under an operating lease is classified as investment property. However, the proposed changes will be only of little importance for financial institutes.

Question 2

Do you agree that a lessee that classifies a property interest held under an operating lease as investment property should account for the lease as if it were a finance lease?

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	See question 1	--

Question 3

Do you agree that the Board should not eliminate the choice between the cost model and the fair value model in the Improvements project, but should keep the matter under review with a view to reconsidering the option to use the cost model in due course?

No.	Type	Answer	Main issues raised by respondent
1	Others	--	--
2	Preparers	--	--
3	Preparers	--	--
4	Preparers	--	--
5	Preparers	Yes	We agree with maintaining the option. We consider the fair value model to be problematical in general.