Sir David Tweedie

International Accounting Standards Board
30 Cannon Street
London
EC4M6XH
United Kingdom

11 September 2002

Dear Sir David

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 views expressed in this letter are those of Holmen AB, Sweden

In our response, we focus on those issues where we do not agree with the changes proposed by the IASB. Consequently we do not comment on those questions set out in the "Invitation to Comment" sections where we agree with the IASB's proposals.

IAS 1

Paragraph 2 Application of the standard to both the consolidated and the separate financial statements

We do not support the proposal that when a group of entities exists, IAS 1 shall apply equally to the separate financial statements of a group member and to the consolidated financial statements for the group.

We do not expect that, by 2005 the Swedish Annual Accounts Act will be amended so as to allow IFRS to be applied to the parent's and/or other entities' separate financial statements. We are therefore concerned that, once the EU Regulation is applied, the drafting proposed could be interpreted so as to prevent a parent applying Swedish GAAP in its separate financial statements from providing the disclosures required under paragraph 11.

Paragraphs 13-16 True and Fair Override

We do not agree that the true and fair override should be conditioned upon the regulatory environment.

Paragraphs 62 – 64 Classification as either current or long-term financial liabilities

We support these proposals as they are consistent with IAS 10. We are, however, concerned that under US GAAP such events are, in many instances, allowed to be accounted for as "adjusting".

Paragraphs 108 – 115 Management's judgement in applying accounting policies

We do not support the requirements as drafted.

We share the Board's view that, where significant, the subjectivity and impact of management judgment and estimates should be highlighted. We do, however, believe that such issues are better dealt with by applying individual standards identified by the Board as requiring significant measurements based on management judgements and assumptions about the future.

IAS 8

Paragraphs 24-33 Changes in Accounting Estimates and Errors

We believe that more guidance should be provided on the difference between correction of an error and revision of estimates. We believe that a correction of an error retrospectively is necessary only when previous financial statements have been misstated materially.

IAS 16

Paragraph 15 Components of Cost

To avoid arbitrary judgements on the definition and criteria for a component of cost we believe further guidance is needed.

For example, when considering the construction costs of a building, several components of cost can be identified. The useful life of each component is not identical to that of the whole building. To qualify as a component, the item replaced must be an item that is usually replaced only once during the normal useful life of a newly constructed building. If the subsequent expenditure does not meet this criterion it will normally be expensed as a cost of repair and maintenance. However, if the whole building is renovated so that the performance is comparable to that of a new building, the costs incurred can be deemed as being for a newly constructed building. In these cases, the whole subsequent expenditure may be capitalized and accounted for as an investment.

Paragraph 20A Costs to dismantle, remove and restore

We support the requirement that, where applicable, costs to dismantle and remove an asset and restore its site shall be included in the cost of an item of property, plant and equipment and depreciated over (the remainder of) the assets useful life.

It would, however, be helpful if IAS 16 could provide explicit guidance as to the recognition of such costs, particularly the recognition criteria to be applied where costs are incurred after the asset is acquired. For example, it may not be appropriate to add certain costs to the carrying amount such as where the asset's standard of performance is not enhanced, or the entity is not able to increase prices so as to absorb the costs as is the case when the cost of additional clean up requirements is introduced by new legislation.

Paragraph 21A Exchange of Assets

Currently, we do not support the suggestion that all exchanges of tangible (and intangible) assets should be measured at fair value, the only exception being when the fair value of either of the assets exchanged cannot be determined reliably.

When fair value exceeds the carrying amount (after any impairment loss) recording exchanges at fair value involves recognition of gains. We assume that the issues surrounding gain recognition for non-monetary transactions will be dealt with in conjunction with the Board's new project on revenue recognition. In order to avoid multiple changes to the requirements for a major class of transaction, we believe that the current position should be maintained in both IAS 16 and IAS 38 until such time as an IFRS covering barter transactions is issued.

Should the Board decide to adopt the proposed amendments to IAS 16 and IAS 38 we suggest that both standards are amended so as to include guidance covering the accounting for any gains recognised on barter transactions that do not qualify for revenue recognition under IAS 18.

Paragraphs 22A – 22D Replacing or Renewing a Component

We support the proposals covering the accounting for replacing and renewing components but believe that further guidance covering the accounting for the resulting policy changes will be required. We would suggest that, as a minimum, paragraph 22D is redrafted so as to cover all components dealt with in that section.

Paragraphs 6 and 46 Residual Values

We do not support the proposals as drafted.

According to the proposal, the review of the residual values at each balance sheet date applies equally to both the Benchmark and to the Allowed Alternative. To introduce a residual value measured at the estimated amount that would *currently* be obtained from disposal of the asset in the cost based measurement model covered by Benchmark is conceptually inconsistent. In our opinion, the residual value, as defined in the proposed paragraph 1, should be reviewed only under the Allowed Alternative in IAS 16 and then only at the date of any subsequent revaluation of the asset.

When the carrying amount is measured under the Benchmark, the residual value should be estimated at the date of acquisition and should not subsequently be increased for changes in fair values.

An illustration

A review at each balance sheet date of the residual value which reflects the changes in residual values may lead to the conclusion that buildings are not depreciable due to the effects of value improvements caused by price variations. For example, a residential property in Sweden:

A property was constructed 1968, total amount	1,000
The land value at that time was	100
The building value at that time	900

When the significant/expensive components in this building are almost obsolete and ready to be replaced 30 years later, 1998

The fair value of the property is	3,000
The land value is	1,000
The building value is	2,000

This can be illustrated by studying selling prices in the real estate market in Sweden.

The building has increased in value 1,100 in nominal terms, but in real terms the depreciation is about 2 per cent each year, since it was constructed. This situation is almost certain to cause problems in estimating the residual value of the significant components of the building. (An increase in the value of the land on which the building stands does not affect the determination of the useful life of the building)

In our opinion the residual value should be reviewed only under the allowed alternative treatment in IAS 16, which is the date of any subsequent revaluation of the asset.

When the benchmark treatment is used, the residual value shall, in our opinion, be estimated at the date of acquisition and is not subsequently increased for changes in prices. The effect is a strict allocation of historical costs.

Paragraph 59 Depreciation of idle or retired property, plant & equipment

Depreciation is defined as "the systematic allocation …of an asset over its useful life". If an asset has been removed from use, the allocation of cost is no longer appropriate and therefore depreciation should cease (impairment test under IAS 36 would continue to apply).

IAS 17 Leases

Question 1

We agree that a lease of land and buildings should be split into two elements, lease of land and lease of buildings.

However, some problems will probably occur in measuring the two elements of land and buildings reliably.

IAS 21

Paragraphs 7-12 Functional Currency

We support the definition of functional currency, but we believe further guidance should be provided to explain that the "economic environment" test should override the "independence from parent" test when there is a conflict in the assessment.

Paragraphs 37 and 39 Currency Translation Method and Exchange Difference

IAS 37 (a) should not prescribe how to translate equity components other than profit and loss for the year. We prefer the more consistent wording in the current IAS 21 paragraph 30 (a). The resulting exchange differences mentioned in (c) of the same paragraph are a function of how assets and liabilities are translated. Equity is the difference between assets and liabilities.

In IAS 21, paragraph 39, some components of the translation difference are missing:

– Translation differences on dividends paid

– Translation differences on other changes in equity

We disagree with the conclusion in paragraph A13 of the Appendix. The choice of presentation currency may be important for the performance measurement due to recycling effects of cumulative translation differences.

Paragraph 45 Goodwill and Fair Value Adjustments

We agree but would like to point out that an acquisition may include several operations with several functional currencies. This means that goodwill may have to be split into several functional currencies.

Paragraph 46-47 Disposal of a Foreign Operation

We believe that the recycling of translation differences on disposal should be removed. In a large multinational group it may be complicated to keep track of all cumulative translation differences. Sometimes it can be difficult to assess whether or to what an extent an entity is disposed of. If the principles of recycling must continue, we believe the triggering event should be based not only on the recognition of a gain or loss on sale etc, but on the recognition of a commitment to exchange currency and/or an actual cash flow. The recycled amounts are seldom, if ever, useful for the users of the financial statements.

IAS 27

Exclusion of venture capitalist organisations from consolidation

We believe that the scope of exclusion from consolidation of associates should be extended to cover all venture capital types of investment including subsidiaries. This would be consistent with an exception based on the needs of users of financial statements reflecting venture capital type activity. We also believe that the IASB should not constrain adoption of this policy on the current state of developments of industry practices in individual countries. Therefore the reference to well-established practises in certain industries should be deleted. Instead, the use of a fair value option should be conditioned on use of fair value for substantially all venture capital investments.

Question 2

We do not object to the proposal that minority interests should be presented in the consolidated balance sheet within equity, separately from parent shareholders' equity. However, we are concerned that the IASB is promoting greater disconnect between the income statement and the balance sheet.

We are also concerned about the consequential effects on the presentation in the statement of changes in equity (IAS 1) of minority interests being classified as a component of equity. The explanation of changes may be long and of little interest for the reader. We believe further guidance would be appropriate.

Question 3

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. We do not believe treatment in consolidated and separate financial statements must be conformed due to national legal and tax considerations.

Paragraph 12A Control Does Not Exist

If control is precluded according to paragraph 12A we believe guidance is needed on what measurement method should be applied. As an alternative, we believe IAS 39 would be applicable. However, should this require measurement at fair value with changes in fair value included in the income statement as required in paragraph 13?

IAS 28

Refer to the comments for Exclusion of venture capitalist organisations from consolidation detailed above.

IAS 40 Investment Property

Question 1

We agree although some problems may occur in measuring the two elements of land and buildings reliably.

Yours faithfully

Holmen AB

Ivan Vedin

Head of Group Accounting and Reporting