Sir David Tweedie
Chairman
International Accounting
Standards Board (IASB)
1st Floor, 30 Cannon Street
London EC4M 6XH
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Hamburg, 12 September2002

Exposure Draft of Proposed Improvements to International Accounting Standards

Dear Sir David,

We appreciate the opportunity of commenting on the Exposure Draft of Proposed Improvements to International Accounting Standards. Following below are our comments on the questions and rules we believe to be of relevance to our organization

IAS 1

Q5: *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 recognized in the financial statements (see proposed paragraphs 108 and 109)?*

We do not consider this proposal to be conducive to the objective of providing information to the users of financial statements that would give them a better understanding and assist in the comparison of accounting policies (see IAS 1 A26) Instead of providing additional tangible information in the notes, statements of a more general nature might just result in their inflation.

06: *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)?*

We understand that this provision should give the users of financial statements greater reliability in assessing the future development of an entity (see IAS 1 A29). Such development depending on a variety of positive or negative, in house and market factors and their interaction, it would not be enough to report only on the risk of material adjustments to individual carrying amounts. In our view, presentation would be incomplete

- if factors are disregarded in reporting that may have a major influence on business but do not affect the balance sheet
- if certain effects are disregarded which neutralize each other (e.g.: changes of interest rates that result in modifications of both assets and liabilities);

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- if the distinction between key factors and non-key factors is not clearly defined, leaving it to the accountant to decide what to report;

- if synergy and follow-up effects are disregarded (e.g.: increase in the price of a major raw material, involving the risks of higher cost of materials and lower net sales, should demand decline as a result of higher prices. There is an additional risk of production plants having to be written down if the value in use is going down).

Moreover, we would suggest to make the wording of this provision more precise, e.g. by distinguishing between changes requiring immediate recognition and changes involving such a degree of uncertainty that they cannot be recognized right away.

To achieve the goal of the proposed provision, we would suggest an obligation on management to disclose in the financial statements a general assessment of the organization's overall position, plus an outlook on the future (in this context, reference is made to the proposed IAS 1.7 which is not yet binding at this time).

IAS 8

Re IAS 8.19: *Comments on the effects resulting from the future adoption of an IAS/IFRS that has been issued but not yet come into effect.*

Failure to adopt an IAS/IFRS that has been issued but not yet come into effect may often be due to a lack of appropriate information. This may happen in particular if the time between issue date and the preparation of the financial statements is very short. If that is the reason for non-adoption of an IAS/IFRS, it will be impossible, too, to present the effects resulting from adoption. Therefore, in our view, the provision should continue to be in the form of a recommendation instead of an obligation.

IAS *16*

Q1: *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)?*

We cannot agree, for the following reasons: If similar items of property, plant and equipment are exchanged, the transaction will not generally be aimed at generating sales or selling the items but, instead, at purchasing items for similar use. On the basis of IAS principles, purchasing transactions are not recognized in net profit or loss. As a result, the realization of gains at the time of acquisition is impossible. Measurement at fair value of the assets exchanged for similar assets would be in conflict with IAS principles.

In that light, the existing provision - including a clear distinction between similar and dissimilar assets - should be retained and applicable to both tangible and intangible assets.

<u>Re IAS 16.22A-22D</u>: Individual components of an item of property, plant and equipments shall be accounted for and depreciated as separate assets.

This rule would create special problems in a context with IAS 36. If, for the purpose of systematic measurement, an item of property, plant and equipment is broken down into separate assets which, in turn, are recombined into a cash-generating unit to determine any impairment losses, the resulting carrying amounts would be beyond interpretation, especially because impairment losses would be distributed among separate assets although previously determined as a sum total for the cash-generating unit.

IAS 28

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

We do not agree. Our opinion is that to avoid inappropriate write-downs, each individual assets would have to be tested for impairment e.g. the receivables could be secured by collateral.

<u>Re IAS 28.18-20</u>: Adjustment of the financial statements of an associate to the balance sheet date and to the accounting policies of the investor.

This rule appears to be impractical for a number of reasons.

While the investor may have a significant influence on the associate, it is not a controlling one. Where the reporting dates are identical, the investor does not have an influence on the date the associate prepares its financial statements and, hence, may not receive needed documents in time. Where the reporting dates are different, the associate cannot be compelled to follow the investor's practice or prepare interim statements.

The same holds for the application of uniform accounting policies. The investor may not have sufficient material available to make the adjustments to reporting date or accounting policies on its own. Generally, the investor is not entitled to demand the disclosure of the associate's internal documents and will have to rely on the associate's annual report. That report will not normally contain the details the investor would need to make the appropriate adjustments. For instance, the calculation of deferred taxes would have to be based on a tax balance sheet, which is not published though. In addition, legal arguments may be advanced against the disclosure of internal documents to the investor. On the basis of the shareholders' right to equal treatment, all of them would be entitled to receiving supporting documents.

Another problem arises in the associate's valuation under the equity method by more than one investor. The investors may draw up their financial statements at different reporting dates and in line with different rules (IAS, US-GAAP). As a result, the associate might have to submit different interim reports or make different adjustments. The expense in terms of time and effort would be completely out of proportion when looking at the benefits.

In that light, use of the associate's most recent financial statements should be permissible for the purpose of equity method accounting. Also, adjustments of accounting policies should not be a binding requirement.

Re IAS 28.8A and 24A in connection with IAS 27.29 and 30: Accounting for in vestments in associates in separate financial statements.

Please refer to the statements made in relation to IAS 28.18-20.

Regarding the effective date of the revised standards:

It has been envisaged that the amendments proposed in the Exposure Draft will be made applicable to the financial statements for financial years beginning January 1, 2003. With comments to be received up until September 16, 2002, a final version would not be likely to be published before the end of this year. The declared intention being to apply the revised provisions to interim reports as well (six-month and quarterly), implementation would have to be completed by March 31, 2003. That timeframe appears to be too tight.

We would request to be allowed sufficient lead time (about one year) in the adoption of new standards, e.g. for appropriate analysis and incorporation into the group reporting and accounting systems.

Yours faithfully

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