AstraZeneca PLC
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16th September 2002

Dear Sirs

Improvements to International Accounting Standards

We support the IASB in its aim of producing a set of technically sound standards and are pleased to attach our responses to the Improvements to International Accounting Standards.

These responses represent the views of AstraZeneca PLC. Should you have any queries or wish to discuss these responses further, please do not hesitate to contact Bill Hicks (+44 1625 517294) or Richard Smith (+44 1625 517297).

Yours faithfully

Bill Hicks
Chief Statutory Accountant

IAS 1 - Presentation of financial statements

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)?

Yes, we agree with the proposed approach regarding departure from a requirement of an IFRS or an IFRIC. In particular, whilst it is not ideal for an entity not to depart from an IFRS or an IFRIC because of a prohibition under local statutory regulations, the proposed solution is the most workable one and enables preparers of financial statements to meet the broad principles of international accounting without breaking local law. We would presume that such instances are likely to be rare.

Our response is predicated on the belief that departures from IFRS or an IFRIC are likely to be extremely rare and would only happen when compliance with the guidance would be such as to render the financial statements misleading or meaningless.

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)?

Yes, we agree with the prohibition of presentation of items and expense as "extraordinary items" in the income statement. However, we are concerned that the removal of the provisions of IAS 8 with regard to profit and loss from ordinary activities (paragraphs 16 – 18 IAS 8, paragraphs 80 to 82) may result in the ability to present "quasi" extraordinary items. The definition of "ordinary activities" contained in IAS 8 has been removed and not duplicated elsewhere, although the term is mentioned in paragraph 79. A consequential change to restate paragraph 76 (f) as "profit or loss from ordinary activities" would, in our opinion, be beneficial. This would prevent such "quasi" extraordinary presentation.

In addition, we believe guidance should be given on those items within ordinary activities that should be disclosed by their nature, size or incidence – exceptional items under UK GAAP.

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)?

Yes, we agree. The refinancing does not affect the view of the situation at the balance sheet.

Question 4

Do you agree that:

(a) 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)?

Yes, we agree. In respect of both this question and question 3, we believe that under IAS 10 "Events after the balance sheet date" an entity would be obligated to disclose details of the subsequent refinancing or rescheduling. However, since specific reference to these circumstances has been made in the proposed improvements of IAS 1, inclusion of a requirement to discuss the post balance sheet refinancing/rescheduling should be included here.

(b) 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)?

Yes, we agree. In respect of both this question and question 4(a) above, these breaches may be evidence of a need to assess the validity of the going concern basis of preparing the financial statements and guidance to this effect may be useful.

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)?

This is already a requirement for SEC registered companies and, we believe, in the interests of international harmonization, should be included. However, we are concerned about the implicit positioning of the information in the notes to the financial statements. We believe that it would lie more naturally in an operating and financial review or equivalent. This may also be an issue for auditors who would be required to include, within the scope of their report, something which is inherently subjective.

Guidance on the term "significant" would be helpful.

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, we do not agree, for two reasons. Firstly, we do not believe the financial statements, subject to audit scope, are the appropriate place for such disclosures. Secondly, formulization of these requirements may result in boiler plate disclosures. We believe that it would lie more naturally in an operating and financial review or equivalent.

Other matters

We do not agree with the removal of the requirement to disclose the results of operating activities. It would seem more appropriate to define operating activities within IAS 1 and continue the requirement to disclose. We note that IAS 7 "Cash Flow Statements" includes the concept of operating activities within its presentation guidance. A requirement to include results from operating activities under IAS 1 would enable a consequential change we would recommend to IAS 7 to start the cash flow statement (prepared under the indirect method) from this amount, resulting in a clearer, more concise cash flow statement. Generally, we are concerned that the level of detail required on the face of the income statement is limited – please note our remarks under IAS 2 on the removal of that standard's paragraphs 37-39.

We do not agree with the removal of the requirement to disclose the number of employees. This is a key piece of information for users of the financial statements. A definition of an employee should be included as guidance for preparers.

The optional guidance on disclosure in paragraph 82 (a) on write-downs of inventories is in slight conflict with the proposed revisions of IAS 2, which requires such disclosures.

Please note our remarks under IAS 28 with regard to the nature of the amounts and their positioning with regard to equity accounting of associates.

We have two comments regarding paragraph 19:

1. We believe the period under consideration for the going concern assumption should be twelve months from the date of approval of the accounts rather than from the balance sheet date. If the twelve month period is taken from the balance sheet date it may not provide any comfort if the company delays its filing with the equivalent of the UK's Companies House for the maximum permissible period (e.g. 10 months for unlisted companies in the UK).
2. Additionally, if the management are unable to look forward twelve months then we would expect this to be disclosed in the notes to the accounts.

Paragraph 53 states that providing information on the expected date of recovery and settlement of non-monetary assets and liabilities also is useful. We are of the opinion that companies will ignore the suggestion that they should provide further information both because the guidance is optional and on the grounds of impracticality. Accordingly, we recommend the guidance is removed.

We do not believe the provisions under paragraph 69 for separate disclosure of different classes of, for example, property, plant and equipment on the face of the balance sheet would be useful for the users of the accounts. Such disclosure is not required under IAS 16 and the word "suggests" implies that it is up to the companies' discretion; with similar issues with regards to compliance that we have noted above in respect of paragraph 53. Instead we would suggest that a paragraph be inserted which states that any requirements of other standards to disclose items on the face of the balance sheet should be followed.

IAS 2 - Inventories

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?

Yes. We assume that in exceptional cases where use of LIFO is the most reliable way of measuring an entity's inventories, the override provisions contained in IAS 1 will be utilised.

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?

In principle, we agree with the requirement to reverse such impairments as, without such reversals, inventories would no longer be stated at the lower of cost or net realizable value. However, we are concerned that such reversals would give rise to contingent assets and we believe that the only realistic circumstance evidencing reversal of write-downs is the ultimate sale of the inventories. Accordingly, we would strengthen the guidance to emphasise that reversals, without evidence of subsequent sale, are likely to be rare. We agree that such reversals should be recognized in profit and loss.

Other matters

We do not agree with the proposal to disclose write-downs of inventories. The guidance is so broad that it would encompass those write-downs that are a normal facet of day-to-day business - the collection of such data would be impractical and disclosure potentially misleading. Should the requirement be retained, guidance should be given to clarify the scope intended, for example, exceptional write-downs and year end provisions.

We do not agree with the deletion of paragraphs 37 – 39 because the requirements have not, in our opinion, been specifically included in IAS 1.

IAS 8 - Accounting policies, changes in accounting estimates and errors

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)?

Yes, in both cases. However, we do not believe that the "undue cost or effort" exemption has been drafted adequately and would allow for abuse unless accompanied by guidance of the circumstances where use of the exemption should be allowed. We note that the previous guidance used the approach of "impracticality", which is more stringent and implied a limitation on use to circumstances where it is not practicable to obtain the relevant data. There is a potential dichotomy with ED1 "First-time Application of International Financial Reporting Standards" which (subject to certain exemptions) requires an entity to apply the IFRSs in place at the first reporting date retrospectively for the comparative period(s) – these comparative periods may have started before the issue of the relevant IFRS or its ED making collection of information genuinely impractical.

Question 2

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

Yes, we agree with the removal of the distinction. However, we believe that the guidance should distinguish an error (by use of a term such as "fundamental" or "material") whose correction would result in retrospective application from other errors which would not. Without such a distinction, we believe there is room for abuse by classifying certain recurring adjustments as errors and accounting for them retrospectively. We would suggest including guidance identifying the type of error that would require retrospective adjustment as being one which rendered the previous financial statements misleading, meaningless or contrary to the requirement of IAS 1 to "present fairly the financial position, financial performance and cash flows of an entity".

Other matters

We believe that paragraphs 4 to 8 on accounting policies would fit more naturally with IAS 1 as they are integral to the preparation and presentation of financial statements. In addition, we believe that the guidance would benefit from an overriding requirement that accounting policies should be selected against the objectives of relevance, reliability, comparability and understandability and that they should be reviewed regularly for appropriateness.

We support the improved text in paragraph 19 requiring disclosure about the effects of new standards yet to be implemented. These disclosures are already required for

SEC registrants. We would, however, suggest that the requirement be extended to include the effect on income as well as financial position. We also refer to our comments above on the concept of "undue cost or effort" with regard to this provision.

IAS 10 - Events after the balance sheet date

We agree with the proposed change.

IAS 16 - Property, plant and equipment

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 (see paragraphs 21 and 21A)?*

In principle the proposed amendments have the benefits of practicality. In practice, determining whether assets swapped are similar or dissimilar may not be easy and the existing provisions of IAS 16 for similar assets can be circumvented merely by the partners to the swap entering into buy and sell agreements. However, we do not agree with the proposals. Notwithstanding the discussions in the basis for conclusions section, we believe that the existing distinction between exchanges for "similar assets" and "dissimilar assets" should be retained. The basis for conclusions underpinning the existing IAS16 set out in the appendix paragraph A4 are, in our opinion, more valid than those underpinning the proposed revisions in A5. In particular, we believe that the argument presented in A5 (a) is not a sufficient argument for removing the distinction – the Framework sets out principles but does not, in our opinion, prohibit or run counter to the existing requirements of IAS16.

The proposed provisions would allow entities to enter into swap and swap back arrangements to reflect, what is in substance, a revaluation, through the profit and loss account.

If the approach of the current IAS 16 is retained for similar assets, guidance should be given for circumstances where a cash element is received or given. We believe, in these circumstances, cash received should be recognized in profit and loss, with a corresponding impairment of the value of the fixed asset received if the fair value is below the carrying amount of the asset given up, whilst cash given should be added to the carrying value of the asset given up (to give, in total, the carrying amount of the asset received).

In addition, irrespective of whether the similar/dissimilar distinction is retained or removed, clarifying guidance should be included as to the treatment of gains and losses from such transactions (through profit and loss or through equity) should be included. There may be a potential conflict for companies in the UK who should record only realized gains in the p&l and unrealized in the STRGL.

We are also concerned that, notwithstanding the recognition that the Board will defer any amendment of IAS 18 until the completion of the future project on the recognition of revenue, adoption of the current proposals would result in an anomaly with the extant IAS 18 provisions.

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? (See the amendments in paragraphs 34-34B of IAS 38, Intangible Assets, proposed as a consequence of the proposal described in Question 1.)*
(Note that the Board has decided not to amend, at this time, the prohibition in IAS 18, Revenue, on recognising revenue from exchanges or swaps of goods or services of a similar nature and value. The Board will review that policy later in the context of a future project on the Recognition of Revenue.)

No, we do not agree, for the reasons set out above.

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 (see paragraph 59)?

No, we do not agree. We believe that depreciation is a reflection of the use of an asset in the entity's activities. Therefore, upon an item of property, plant or equipment becoming temporarily idle or being retired from active use then this should be seen as an indicator of impairment and consequently the assets should be subject to tests for impairment rather than depreciated. This would be disclosed separately within the fixed assets note, thus improving the quality of information available to readers of accounts. Such an approach may have a consequential impact on the definition of depreciation, although we believe it does not run counter to the guidance in paragraphs 41 – 43.

Other matters

We believe it would be useful to add clarification that a change from not depreciating an asset to depreciating it is a change in accounting estimate and not policy, with the consequential effect that the change will be accounted for prospectively.

The definition of residual value in paragraph 6 of the proposed standard states that it should be revised using current prices at the date of revision. We believe it is more appropriate to use prices at the date of acquisition or latest valuation to be used in order to provide a consistent basis for the recomputation of depreciation and avoid implicit revaluations.

IAS 17 - Leases

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

No, we do not agree. In theory the proposed approach would result in a more correct answer in accounting terms but we are concerned that such a split would be impractical in many circumstances. In practice, most leases of land and buildings are, in substance, operating leases, unless there is a right to purchase the property at the end of the lease at substantially below market value. Guidance should be extended on this basis.

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?

Yes, we agree, provided the manufacturing/selling provisions of paragraph 34 of the current IAS 17 are retained..

IAS 21 - The effects of changes in foreign exchange rates

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?

Yes, we agree. However, we would like the definition to be refined to allow the holding company of a multi-national group to use the major functional currency of the group as opposed to the local currency.

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, we do not agree. The functional currency of the reporting entity should be used, although presentation of additional information in an alternative currency should be permitted. We believe using a presentation currency, based on another functional currency, would be potentially misleading.

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)?

Yes, we agree.

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

Yes, we agree.

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)?

Yes, we agree.

Other matters

The guidance in paragraph 23 suggests that the net realisable value should be determined using the exchange rate applicable to the original purchase. This paragraph is unnecessary, as the net realisable value would be determined separately by taking in to account exchange rates applicable to the currency denomination of the sale. For example, with regards to inventory, IAS 8 paragraph 27 states that estimates of net realisable value "take in to account consideration fluctuations of price" and therefore the latest exchange rates should be used when determining net realisable value.

Guidance should be provided on where the exchange differences under paragraph 26 should be reported. For example, we would expect exchange differences on trading liability balances to be reported on the line in the income statement where the expenditure is recorded.

IAS 24 - Related party disclosures

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)?
'Management' and 'compensation' would need to be defined, and measurement requirements for management compensation would need to be developed, if

disclosure of these items were to be required. If commentators disagree with the Board's proposal, the Board would welcome suggestions on how to define 'management' and 'compensation'.

No, we do not agree. We believe that disclosure of management compensation is vital for a users' full understanding of the financial statements and believe this is consistent with the likely proposals on share-based payments. We propose the following as a basis for definitions of "management and "compensation":

- Management should include at least the Board of Directors or Board of Management in a one/two tier structure.
- Compensation should include salaries, bonuses, value of share options, other benefits such as pensions, as well as those items noted above. This element should be developed in conjunction with proposals on share-based payments.

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)? (Note that this proposal is the subject of alternative views of Board members, as set out in Appendix B.)

We do not agree with the proposed exemption with regard to parent undertakings as drafted. The shareholders require some information with regard to the single company's financial position, as discussed further in our comments on IAS 27 below. We agree with the proposed exemption with regard to wholly-owned subsidiaries since the principal users of those financial statements would be the parent company. However, we would amend the terms of the exemption – at present it would appear only to be available if the financial statements of the subsidiary are made available at the same time as the consolidated financial statements, which is likely to be impractical for large groups.

IAS 27 - Consolidated and separate financial statements

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

Yes, we agree. In particular, we agree it is necessary that the company meets all of the exemptions and that the exemptions are not offered singularly.

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)?

Yes, we agree.

Question 3
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)?

Yes, we agree. In particular, we support the removal of the option to employ equity accounting. However, we are concerned that the application of IAS 39 to these investments, which would most likely be classified as "available for sale", would allow for gains and losses to pass through profit and loss. We would recommend that guidance is included requiring such gains and losses to be accounted for through equity.

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)?

Yes, we agree. We would emphasise that the phrase "accounted for in the same way" extends to the use of the same options under IAS 39 in both sets of financial statements.

Other matters

We do not agree that consolidated financial statements are the only financial statements of an entity. Separate financial statements containing, at least, details of the financial position of the parent entity should be included. As the shareholders ability to receive dividends are generally governed by the financial position of the parent, this is vital information.

In addition, we believe a requirement to provide a reconciliation of the movements on minority interests would be beneficial to shareholders.

We recommend the inclusion of guidance clarifying that dividends declared due to minority interests be included in group creditors rather than in the minority interest balance.

IAS 28 - Accounting for investments in associates

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)?

Yes, we agree.

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)?

Yes, we agree.

Other matters

We are concerned that the definition of an associate is not precise enough. We prefer the phrase "exercises significant influence" as a more proactive definition, leaving less scope for misinterpretation than "has significant influence".

We agree with the incorporation of the consensus in SIC-3 within the revised standard. However, we believe that the standard should be extended to include guidance on the gains and losses on the transfer of assets to set up an associate, an area of accounting that has caused confusion and required clarification in the UK recently. In addition, clarification as to whether transactions with associates include such elements as interest charged on loans between the investor and the associate would be helpful.

There is a lack of clarity between the requirements in paragraphs 8 and 24A. We assume that the intention of the changes to paragraph 8 are that equity accounting should be employed in an investor's financial statements whether or not consolidated financial statements are required by virtue of owning subsidiaries and that it is not required where consolidated financial statements are not required under paragraphs 29, 30 and 33 of IAS 27. However, this is not clear.

We do not agree with the approach of incorporating the share of associates' results from profit after tax. We believe that this does not reflect the investor's operating activities adequately. We believe consolidation within the income statement of the associate's results components from operating activities onwards is more appropriate. We note that the implied positioning of the associates' after tax results in IAS 1 paragraph 76 would mean that post-tax elements in the income statement would be included before the tax expense/credit – we believe this to be counter-intuitive.

We recommend the inclusion of a provision within paragraph 18A to extend the time limit of the financial statements for associates which are listed companies and the release of whose "updated" financial information may be price sensitive.

IAS 33 - Earnings per share

Question 1
Do you agree that contracts that may be settled either in ordinary shares or in cash, at the issuer's option, should be included as potential ordinary shares in the

calculation of diluted earnings per share based on a rebuttable presumption that the contracts will be settled in shares?

Yes we agree.

Question 2

Do you agree with the following approach to the year-to-date calculation of diluted earnings per share (as illustrated in Appendix B, examples 7 and 12)?

- *The number of potential ordinary shares is a year-to-date weighted average of the number of potential ordinary shares included in each interim diluted earnings per share calculation, rather than a year-to-date weighted average of the number of potential ordinary shares weighted for the period they were outstanding (ie without regard for the diluted earnings per share information reported during the interim periods).*
- *The number of potential ordinary shares is computed using the average market price during the interim periods reported upon, rather than using the average market price during the year-to-date period.*
- *Contingently issuable shares are weighted for the interim periods in which they were included in the computation of diluted earnings per share, rather than being included in the computation of diluted earnings per share (if the conditions are satisfied) from the beginning of the year-to-date reporting period (or from the date of the contingent share agreement, if later).*

We do not agree with the approaches adopted above. We believe that the earnings per share amounts should be calculated on a cumulative basis, rather than discrete quarters, such that, for example, the number of potential ordinary shares is not calculated from the interim weighted averages but rather from a year to date weighted average. The primary reporting period, after all, tends to be a year. This would ensure comparability between an enterprise which presents results annually and one which reports quarterly – otherwise, the same underlying results would produced different earnings per share figures. Such an approach would have the advantage of removing the anomaly noted in example 12 of the sum of the quarterly earnings per share amounts not equaling the annual.

We do not agree with the approach for contingently issuable shares in fully diluted earnings in example 7. Notwithstanding our comments above with regard to full year calculations above, we believe that the contingent share agreement date is the date of opening of the store.

Other matters

We agree with the approach of including extensive examples but consistency between the examples and the standard should be checked rigorously as, for example, in the case of paragraph 45 versus example 7.

We do not agree with the restrictions on the earnings per share figures that may be presented on the face of the profit and loss account. For example, a four columnar approach to the profit and loss account setting out individually continuing operations, discontinued operations, exceptional items and totals would mean the EPS figures would not be presented for the third column, which would not appear sensible.

IAS 40 - Investment property

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, paragraphs 27-49?

No, we do not agree. We do not believe that properties held under lease should be included in the definition of investment property because, under IAS 17, a property lease may be classified as a finance lease but title (and the ability to recognize the benefits implied by revaluation surpluses under the fair value model) may not pass.

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, we do not agree. However, the changes we recommend for IAS 17 above may allow us to agree with the proposal.

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?

Yes, we agree on the grounds of practicality and harmonization (a requirement to adopt the fair value method would result in a difference with US GAAP).