Improvements Project

- IAS 1 -

A. Answers to questions

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)?

An overriding principle is absolutely necessary in GASB´s opinion. Therefore, we agree with IASB´s decision to retain the „departure approach“ that restricts a departure in extremely rare circumstances. We welcome the more restrictive wording compared to IAS 1 (1997), e.g. the reference to the Framework (para. 13).

Regarding IASB´s proposal that the way to depart depends on a country´s relevant regulatory framework, GASB takes the view that the existence of conflicting national requirements is not sufficient to justify a departure in financial statements prepared in compliance with IFRS and that inappropriate accounting treatments are not rectified either by disclosure of the accounting policies applied or by notes or explanatory material (cp. IAS 1 (revised 1997) para. 12, para. 14).

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)?

We do not agree with IASB´s proposal for the following reasons.

Users of financial statements need information that is relevant for decision making. They need information with a predictive value. With respect to the income statement, users need information about income and expenses which will arise frequently. It is necessary to differentiate between these income statement items and those which do not arise frequently as they are unusual, extremely rare and will probably not recur in the near future.

On the one hand, there has been abuse of treating items as “extraordinary”. On the other hand, if a differentiation between results from items, which recur in the near future, and items, which will not recur in the near future, no longer exists in IAS 1, the decision usefulness of the income statement will be impaired. Therefore, we suggest to replace the presentation of items of income and expenses as “extraordinary item” by the term „non-recurring item“.

We suggest to think again about restructuring the income statement when IASB´s project „reporting financial performance“ will be finalised. As long as the future IFRS on performance reporting is under construction, the category „non-recurring“ should be maintained in the income statement for the above reason.

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)?

We do not agree as we recommend not to regulate items as described in the question within an IFRS because in our opinion it is not consistent with IASB´s intention to pursue a principle-based approach.

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)?

We do not agree for the reasons given in the answer to question 3.

(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)?

We do not agree for the reasons given in the answer to question 3.

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)?

Yes, we agree. The disclosure of the most important judgements by management enables users of financial statements to understand better the applied accounting policies and therefore enhances transparency in financial reporting. It also enhances comparability between entities. Transparency is a good means in order to avoid abusing accounting principles.

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)?

We welcome the new rule as it enhances the financial statement´s decision usefulness by giving additional information such as sensitivity analyses and therefore serves the needs of investors and creditors.

B. Other comments

Minority interest (paras. 65, 76)

The Board suggests to amend IAS 27 to require that in consolidated balance sheets minority interest is presented within equity. In the light of this decision it is inconsistent that minority interest has to be shown separately „on the face of the balance sheet“ without any relationship to equity (cp. para 65).

According to the „Basis for Conclusions“ the Board has not considered the implications of this decision for the treatment of amounts attributable to minority interest in the income statement (para. A18). Para. 76 is not changed compared to the corresponding para. in IAS 1 (revised 1997). As the Board decided that minority interest is presented within equity in the balance sheet, it has to be regarded as an apportionment of profit or loss that is not an item of income or expenses.

Statement of changes in equity (para. 6)

In the Exposure Draft a „statement of changes in equity“ is a component of financial statements, while in IAS 1 (revised 1997) para. 7 it is „only“ a „statement“. The former denomination in IAS 1 (revised 1997) is more neutral while the proposal in the Exposure Draft could suggest that the statement is not a medium of presenting the components of profit or loss in a comprehensive way but only a medium of presenting equity components. At the moment the question whether the presentation of changes in equity is part of the income statement or not is not decided by the IASB. Given this, we recommend not to change the wording in para. 6 and further paras. of the Exposure Draft. A change could be necessary when the project on „reporting financial performance“ will be finalised.

Deletion of IAS 1 (revised 1997) para. 6

We disagree with the deletion of para. 6 (responsibility of board of directors for preparation and presentation of financial statements) in IAS 1 (revised 1997). In our opinion, this responsibility is an important factor for an effective corporate governance.

Undue cost or effort (e.g. para. 35 et. seq.)

In the improved standards the basis for exemption from disclosing items is amended from "impracticability" to "causing undue cost or effort".
In our opinion, the amendment is only an improvement if under the proposed approach an abuse is impossible or less probable than under the "impracticability"-approach. The only acceptable reason for an exemption from disclosing items is the one to meet the balance between benefit and cost as set out in the Framework (para. 44).

- 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?

Yes, we agree with eliminating the allowed alternative treatment of LIFO. The allowance of different treatments for the valuation of inventories can distort the balance sheet and the income statement especially when comparing among companies applying different methods.

Even though LIFO is applied in Germany , we agree that this fiction does not approximate the physical flow of items except in very peculiar situations like coal piles, and in certain industries where a fixed stock of raw materials is necessary due to production techniques. One of the German trade associations rejects the elimination of LIFO because applying LIFO would better represent the performance statements of their members.

Purchase price rises are more likely in the economic world. In this case, LIFO has a distorting effect on the inventory carrying value. The inventory measurement is understated especially when entities avoid inventory reductions. At the same time, inventory costs matched with sales might be higher than the inventory replacement costs. This lowering effect on the income statement is sometimes seen as an advantage because of avoiding "phantom profits". However, in years of reducing or liquidating inventory quantities, consequently irrelevant historic costs are matched with current revenues.

Although FIFO is not a matter of the Improvements Project, we would recommend to reconsider eliminating FIFO as well.

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?

We support retaining the requirements of paragraphs 30 and 31; otherwise inventories would be understated in the balance sheet, and the income statement would not reflect the new assessment of net realisable value in this period.

Additionally, in our view the amendment of paragraph 34(c) increases the information about matching sales against inventory costs. The former disclosure of the carrying amount of inventories carried at net realisable value showed the proportion of inventories not measured at cost but did not provide information about the amount of expenses due to write-downs of inventories. Combined with paragraph 34(d), the amendment provides information about the proportion of reversals of write-downs in this period.

- IAS 8 -

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)?

We agree with the proposed improvement that the allowed alternative treatment for voluntary changes in accounting policies and correction of errors will be eliminated. Any resulting adjustment from changes in accounting policies should be reported as an adjustment to the opening balance of retained earnings. With regard to presenting a true and fair view of the profit or loss of a period including any adjustment that results from changes or correction in the profit or loss of the current period does not seem to be reasonable because it leads to a distortion of the profit or loss.

We also believe that a period to period comparison is more effective when changes in accounting policies and corrections of errors are accounted for retrospectively as if the new accounting policy had always been used respectively the error had never occurred. However, we agree with the removal of optional treatments to improve the comparability of the entity's financial statements.

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

We agree with eliminating the distinction between fundamental errors and other material errors. We have seen the difficulty of defining fundamental errors compared to other material errors, as items which are not material are not considered in financial statements. The main feature of the definition in IAS 8 (rev. 1993) was that a fundamental error is of such significance that the financial statements of one or more prior periods can no longer be considered to have been reliable at the date of their issue. This is the feature of material errors as well so that in our opinion there was no need to define another category of errors on an ostensibly higher level of materiality.

- IAS 10 -

There is no question set out as invitation for comment 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.

We agree with this proposal.

- IAS 15 -

There is no question set out as invitation for comment in this standard. The Board proposes to withdraw IAS 15 as of 1 January 2003.

We agree with this proposal.

- IAS 16 -

A. Answers to questions

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?

We agree with IASB's proposal to no longer distinguish between exchanges of similar and dissimilar items of property, plant and equipment**.** So all exchanges of items of property, plant and equipment are defined as sales and acquisitions and will be measured at fair value.
We also agree with the requirement to measure all exchanges of assets at the fair value of the asset given up. This value is deemed to be realised by giving up the asset. This measurement is also consistent with par. 7 because the asset received will be recognised with its acquisition cost which is equivalent to the fair value of the asset given up.

In our opinion it would be more consequent to make it clear that all "changes" of items of property, plant and equipment are sales and acquisitions.

Furthermore, we think that in par. 21A "for *a similar* asset" should be replaced by "for *another* asset".

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?

We agree with IASB's proposal to treat exchanges of tangible or intangible assets in the same way.

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?

When an entity decides to classify an asset of property, plant and equipment as held for disposal the depreciation in the period of disposal depends on whether the asset will still produce revenues. When the asset will not be used until the disposal date and does not produce any revenue it seems to be inappropriate to allocate costs by deprecation. Depending on whether the asset is classified as held for sale or retirement it should be taken into consideration to write down the asset completely or measure it at its fair value. In our opinion there is no reason to cease the depreciation of an asset which still generates revenues.

However, IAS 16 should be consistent rather with IAS 35 than with SFAS 144. We are convinced that the question of ceasing depreciation is actually a problem of (re)valuation and allocation and should be discussed in a wider scope than the improvement of IAS 16.

B. Other comments

Component Approach (para. 22A et seq.)

We do not agree with this view of the component approach to depreciation. We wonder whether the useful life of a component of a certain asset differs only in the moment of replacement from the useful life of that asset so that the new component should be recognised and depreciated separately. In our opinion it is obvious in the moment of acquisition that certain components, e.g. the seats of an aircraft have a shorter useful live than the aircraft itself and have to be replaced or renewed earlier. Therefore, it would be more consequent to recognise and depreciate the component separately from the time of first recognition. If the entity recognises the components as one asset, the cost for replacing or renewing a component should be expensed in the period of replacing or renewing the item.

Cost of dismantling and removing the assets and restoring the site as part of the acquisition or production costs (para. 20A and 20B)

We agree that cost of dismantling and removing the assets and restoring the site should be included in the cost of the asset and that the corresponding liability should be recognised at the same time. Cost of dismantling and removing the assets and restoring the site are caused by acquiring or producing and using an asset (e.g. an area is allowed to be mined only on the condition of restoring the area when the mine will be abandoned). Thus the cost of dismantling and removing the asset and restoring the site should be matched with the revenues generated by the asset. One method to match the cost is to recognise them as acquisition or production cost and allocate them by depreciation over the useful live of the asset that will have been dismantled or removed. Another method is to cumulate the cost over the periods in a provision. The decision for one of both methods depends on which aspect we consider to be more relevant: matching the cost or showing all assets and liabilities at the balance sheet date.

- 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.

We see the advantage of splitting a lease of land and building into two elements is that the building does not have to be classified necessarily as operating lease because of the land element of the lease. But we think that this approach regards very special cases – particularly the long term leases in Hong Kong and UK - and does not reflect a lease of land and buildings as it is used in most countries. However, we suggest to discuss that subject in a wider scope by developing a new IFRS to lease accounting.

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?

With regard to a better comparability we agree that one of the options should be eliminated.

We support the decision for recognising initial direct costs and allocate them over the lease term on the same basis as the lease income. If those cost are directly attributable costs of bringing the asset to working condition for its intended use which means in the case of a leased asset that the costs are necessary to negotiate and arrange a lease they embody a future economic benefit and should be capitalised. Concerning the matching principle this seems to be the right approach as well. Nevertheless, the previous version of par. 44 was clearer: "Initial direct cost incurred specifically to earn revenues from an operating lease....". So we suggest to readopt this sentence into the improved version of par. 44.

- 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?

Yes, we support the proposed definition of functional currency and the guidance added in the Exposure Draft IAS 21. The definition and the guidance are in line with IAS 21 (revised 1993) and with US GAAP and will thus promote convergence. The GASB suggests to consider another factor in determining if the functional currency of a foreign operation is the same as that of the reporting entity: “Par. 9 (d) whether the foreign operation uses its own local currency for internal planning and control purposes.” If the foreign operation does not use its own currency for this purpose, this is an indication of it being integrated and thus the functional currency is that of the reporting entity.

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?

Yes, we agree that a reporting entity should be allowed to choose the presentation currency of its financial statements. This is especially important as national law for example in Germany requires financial statements to be presented in Euro. Without this possibility to choose the presentation currency some companies might be forced to prepare two sets of financial statements if their functional currency differs from the legally required currency. The disclosure requirement of paragraph 51 should be sufficient to explain what the functional currency is and why it has not been used as presentation currency.

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, as a consistent and comparable translation method in connection with the disclosure requirements will enable users to interpret financial statements no matter what their presentation currency is.

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, as this alternative treatment is not used in other generally accepted accounting principles and its removal will therefore promote convergence and increase the comparability of financial statements based on IAS/IFRS.

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, as also in our opinion goodwill and fair value adjustments are part of the parent's net investment in the acquired entity. Although, assuming a similar goodwill treatment in US GAAP and also in IAS/IFRS, the character of the acquired goodwill changes as it is no longer pushed down to the level of the acquired entity but becomes part of the reporting units of the group as a whole. In this case it seems to be conceptually right to use the historical translation rate.

- 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, we do not agree. Management compensation should be disclosed at least in total. This is an obligatory disclosure requirement of the EU Accounting Directives (Article 34.12, 7th Accounting Directive). Not disclosing management compensation would mean a step backwards concerning the transparency of financial statements for European companies. It is less obvious, however, if compensation needs to be disclosed separately for each member of management. The additional benefit for users of knowing each member's management compensation seems to be limited compared with conflicting privacy issues.

'Management' should at least include the Board of Directors in a one tier system or the Board of Management and the Supervisory Board in a two tier system. In a two tier system management compensation should be disclosed in total for the Board of Management as well as for the Supervisory Board.

'Compensation' comprises salaries, bonuses, the value of share options and the amount of advances and credits granted to the members of management.

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)?

Yes, we agree because the additional disclosure requirements would be an undue burden.

- IAS 27 -

A. Answers to questions

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

We agree and accept the reasons given in para. A3 –A6. Besides this, the regulation is more precise than the existing regulation in IAS 27 (revised 2000).

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)?

We agree with the IASB´s proposal for the following reasons. Presenting minority interests within equity means following the „entity concept". In our opinion, the entity concept is more convincing than the parent company concept because the whole group is shown as being an economic entity. The whole consolidation rules are based upon the validity of this fiction. Furthermore, „consolidated financial statements" are defined in the Exposure Draft´s para. 6 as „statements of a group presented as those of a single economic entity". That means, that the decision to present minority interest within equity is consistent with the definition. Furthermore, we agree with the arguments given in the „Basis for Conclusions" (para. A10).

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)?

We do not agree with the IASB´s proposal. We suggest 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 accounted for in accordance with IAS 39 in the investor´s separate financial statements. We are generally in favour of deleting options for the reason of improving comparability of financial statements. Compared to the current version of IAS 27, IASB only deleted one option of three, namely the equity method. Under the aspect of relevance and decision usefulness, the accounting in accordance with IAS 39 is the most favourable solution (cp. our comments in part B below).

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)?

We agree, because this rule is consistent (cp. our comments in part B below). Furthermore, we agree with the deletion of the two alternatives in the current version of IAS 27.

B. Other comments

Different reporting dates (para. 19)

According to para. 19, the difference between the reporting dates of the subsidiary and of the group shall be no more than three months. In para. 20 interim financial statements drawn up to the same date as the group are mentioned, but there is no explicit obligation to draw them up when the difference between the reporting dates is more than three months. We suggest that in this case a subsidiary should draw up interim financial statements to the same date as the group.

Minority interest (para. 26)

Minority interest shall be presented in the consolidated balance sheet within equity. Given this fact, the second sentence in para. 26 has to be specified: It is consistent that minority interests in the income statement of the group are profit distribution and are not expenses (cp. our comments on IAS 1).

Existence of Para. 9

If an entity does not prepare consolidated financial statements it has to prepare separate financial statements according to para. 8. Therefore, in our opinion para. 9 contains redundant information and should be deleted.

Accounting for investments in subsidiaries, jointly controlled entities and associates in consolidated and separate financial statements

According to the proposed improvements to IAS 27 and IAS 28 and the amendments to IAS 31 the accounting for investments in subsidiaries, jointly controlled entities and associates in separate financial statements depends on the treatment of these investments in consolidated financial statements or on whether consolidated financial statements are prepared. We would prefer all investments being accounted for according to a uniform method, namely at fair value. We believe that fair value accounting provides more relevant and useful information than equity or cost accounting.
For the same reasons, we suggest to replace the equity method and the proportionate consolidation in group accounts by fair value accounting. Only full consolidation of subsidiaries should be retained. Furthermore, we agree with the IASB´s proposal that investments shall be accounted for in accordance with IAS 39 at fair value in consolidated financial statements if the investments do not meet the criteria for being (proportionately) consolidated or being accounted for under the equity method.
We are aware of the problem of measuring fair values, however this problem cannot be solved within the scope of the improvements project.

- IAS 28 -

A. Answers to questions

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)?

Fair value accounting provides more relevant and useful information than equity accounting. For this reason, we agree that venture capital organisations, mutual funds, unit trusts and similar entities are measured at fair value in accordance with IAS 39. Given that fair value accounting provides more relevant and useful information than equity accounting, we strongly suggest that all associates are measured at fair value in accordance with IAS 39 (cp. in addition our comments on IAS 27, part B, on the accounting for investments in subsidiaries, jointly controlled entities and associates in consolidated and separate financial statements).

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)?

We do not agree that the amount to be reduced to nil should be broadened for the following reasons.
Even if the equity carrying value is reduced to nil there may be assets in the associate´s balance sheet by which a receivable can be settled. Besides this, a receivable may be secured by means of collateral. Insofar, the proposed approach in the Exposure Draft by which a long-term receivable is impaired „automatically“ may ignore the form of the underlying transaction and may possibly result in an unfair presentation.
Besides this, we do not see any conceptual justification to combine the investment in an associate and the lending of a credit to the associate as the relevant legal positions are very different.
The reduction of the equity carrying value to nil is an indicator for a possible impairment of a long-term receivable. If the long-term receivable is in fact impaired, an efficient impairment test would result in an impairment. In our opinion, the instruments given by IAS 36/IAS 39 are sufficient in order to identify decreases in the value of an asset.

B. Other comment

Different reporting dates (para. 18)

According to para. 18, the difference between the reporting dates of the associate and of the investor shall be no more than three months. In para. 18A interim financial statements drawn up to the same date as the financial statements of the investor are mentioned, but there is no explicit obligation to draw them up when the difference between the reporting dates is more than three months. We suggest that in this case an associate should draw up interim financial statements to the same date as the financial statements of the investor.

- IAS 33 -

A. Answers to questions

Question 1
Do you agree that contracts that may be settled either in ordinary shares or in cash, at the issuers 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 ?

We agree with the proposed approach. In our view this is consistent with the objective of calculating diluted earnings per share, which is to provide a measure of the interests of each ordinary and dilutive potential ordinary share in the performance of an entity over the reporting period (IAS 33.9, IAS 33.27).

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 (i.e. without regard to the diluted earnings per share information reported during the interim periods).**

A discrepancy between the results of the two ways of calculating diluted earnings per share as mentioned above would only occur in circumstances where the underlying information for the calculation is differently.

As a profit or loss of the accounting period is determined at year's end of the (interim) period (e.g. profit or loss for the full year equals the accumulated profit or loss of the interim periods), results can be offset between the periods. Therefore we agree to the calculation method illustrated in *Example 12* and do not agree with the approach stated in question 2, point 1. Furthermore we would like to encourage the board to define and illustrate the proposed approach more precisely in the revised standard.

- **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.**

In our view this approach is incorrect, as the full year ratio is determined at year's end using the knowledge about all business transactions which occurred up to this specific date. Therefore we do not agree with the approach presented.

In general, we do not think that the calculation of diluted earnings per share ratios produced for interim periods necessarily need to fit to the calculations done at year's end for the full year.

- **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 would like to express our opinion on this point by referring to *example 7*, Appendix B of IAS 33 (proposed).

i) Retail site contingency

The calculation of the per share amount for diluted earnings per share must be consistent with the calculation of basic earnings per share (IAS 33.27 proposed). Including contingently issuable shares from the beginning of the interim period where the conditions are met (as far as 3 month before the condition is satisfied, at a maximum), is inconsistent with:

- the calculation of basic earnings per share according to IAS 33.45 (proposed)
- IAS 33.49 (proposed), where the present status e.g. at the end of the (interim) period determines the inclusion of contingent ordinary shares from the date of the satisfied condition until the end of the contingency period (full year end). We can therefore not agree with the proposition.

ii) Earnings contingency

We do not agree with this approach, as the end of the contingency period is defined as the end of the full year (31 December 20X1) and – as stated in *example 7, Footnote f)* – it is not permitted to project future earnings. It is definitely not clear at the end of an interim period – even if the earnings level of the full year has been attained – if the condition will be reached at 31 December 20X1, as further interim losses could appear. Whether a condition is satisfied and becomes an obligation is dependable on the status of the consolidated, after-tax net profit at 31 December 20X1. An inclusion of any shares in the diluted earnings per shares calculation before the satisfaction of the condition (31 December 20X1) is in our view not possible.

B: Other comments and further recommendations

Objective

We agree with the stated objective of the standard and the statement, that this is a standard on the denominator. However, instead of stating the objective as „...presentation of earnings per share for profit or loss from continuing operations and for net profit or loss for the period...", a more meaningful precision might be the „determination of basic and diluted numbers per share".

Definitions (para. 4)

A definition of a *security* should be added after the definition of a potential ordinary share. An example can be found in SFAS 128.171 or CICA 3500.05 and could be as follows:

> "A security is the evidence of debt or ownership or a related right. For purposes of this standard, it includes options and warrants as well as debt or shares."

It should be made clear that preference shares in the context of the proposed standard do not have a right in the net assets of the entity. In comparison to e.g. "German type" preference shares which have – in general - a residual right in the assets of the entity and therefore need to be included in the denominator. A definition should be added for clarification.

Measurement

We agree with the proposed approach to disclose earnings per share figures for both profit or loss from continuing operations and for net profit or loss.

Measurement (para. 11)
It might not be clear that the inclusion of minority interests in the determination of net profit or loss for the period basically means to use a figure of net profit or loss after minority interests (amount attributable to shareholders) for producing the earnings per share ratios. The same applies to dividends on preferred shares (deduction from net profit or loss).

Options, warrants and their equivalents (para. 42)
We welcome the additional guidance on options and their impact on the diluted earnings per share ratio.

Disclosure (para. 65)

We welcome the Board's decision to include possible disclosure of amounts per share using a reported component of the income statement and the respective deletion of the proposal to a disclosure of amounts per share of the cash flow statement or the balance sheet - as stated in the November 2001 draft. We see the main reasons for not disclosing a cash flow ratio as stated in SFAS 95.122 - .125 in the differing opinions about the appropriate numerator.

Appendix B

We think the illustrative examples presented in Appendix B of the proposed standard can give an immense guidance for application and should therefore be published as a part of the new standard.

- 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?
and
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?

We agree that a property interest should be classified as investment property when and only when the property has been leased by the lessee with the intention to earn rentals by leasing out the property to a third party so that the rest of the definition of investment property is met. But we think that the proposed option - that the lessee is allowed, not required to classify that property interest as investment property - raises a problem with respect to the comparability of financial statements and should be removed.

However, we suggest to discuss this problem in connection with the leasing project.

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?

With regard to the comparability of financial statements the choice between cost and fair value in IAS 40 should be eliminated. But we agree that the IASB has decided for reasons of convergence with the liaison partners not to remove the option in the improvements project. Nevertheless, we suggest to reach a decision as soon as possible.