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Sir David Tweedie
International Accounting Standards Board
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Your ref

Our ref

Contact Mark Vaessen
020 7694 8089

23 September 2002

Dear Sir David

Exposure draft of proposed improvements to International Accounting Standards

We welcome the opportunity to comment on the exposure draft, *Proposed improvements to International Accounting Standards*. The views expressed in this letter are those of KPMG International.

Our attached response is organised into two sections – responses to invitations to comment and other comments, and drafting comments. Some of our significant comments, which we wish to highlight, are as listed below.

1 True and fair override (IAS 1, paragraphs 13-16)

We agree with the principle of the true and fair override as part of the financial reporting framework. However, we do not agree that it should be conditioned upon the regulatory environment.

2 Disclosure of management judgments, key assumptions about the future and other sources of measurement uncertainty (IAS 1, paragraphs 108-115)

We do not support the requirements as drafted. While we share the Board's view that the subjectivity and impact of management judgment and estimates should be highlighted, we believe that the IASB's objectives can be addressed more appropriately and have provided some suggestions for alternative approaches.

3 Elimination of the LIFO method (IAS 2)

We do not support the elimination of the allowed alternative of using the LIFO method to determine the cost of inventories. The LIFO method is considered to give a better profit and loss measurement in certain circumstances and it requires disclosures that allow those who disagree with the method to adjust reported amounts. If the option to use LIFO is eliminated, this information will not be available to users.

4 Measurement of exchanges of property, plant and equipment at fair value (IAS 16, paragraphs 21 and 22)

We disagree with the proposed change to require measurement of virtually all exchanges of property, plant and equipment at fair value. Instead, we believe that the IASB should address the issues surrounding gain recognition for non-monetary transactions in conjunction with their project on revenue recognition.

5 Scope exclusion from consolidation for venture capitalist organisations (IAS 27 and IAS 28, paragraph 13A)

We believe that the scope exclusion from consolidation in respect of associates should be extended to cover all venture capital type investments including subsidiaries. This would recognise the difference in the needs of users of financial statements reflecting venture capital type activity.

6 Presentation of minority interest as equity of a group

We disagree with the proposed change to present minority interest as a component of equity. Although we agree that minority interest is not clearly a liability as defined in the Framework, we also believe that it is not clearly equity.

The above comments are discussed further in the attached document, as are other issues not highlighted above.

We believe several of the changes proposed by the IASB, for example, accounting for the exchange of tangible and intangible assets, and the presentation of minority interest, are not appropriate within the scope of the improvements project, as they have far reaching and fundamental impacts meriting debate in a more comprehensive project. Further, we note that the Board has eliminated reference to materiality in both the Preface and the introductory “rubric” at the beginning of each standard. In our view, doing this without any discussion or public input is not appropriate and we encourage the IASB to retain the current rubric.

We also wish to express our support for the IASB’s decision to review SICs as related standards are revised and to address the issues in a standard and withdraw the SIC. SICs/IFRIC interpretations should be interim measures rather than acting as a stand-alone parallel body of literature. We strongly encourage the IASB to continue this practice in the future.

Please contact Mark Vaessen at 020 7694 8089 if you wish to discuss any of the issues raised.

Yours faithfully

KPMG