Finance and Controlling

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International Accounting Standards Board
Secretary for the Improvements Project
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Comments to Exposure Draft on Improvements to IASs

Dear Sir,

We thank you for the opportunity to comment on the proposed changes. Our following comments have been structured to answer the specific questions that you raised in the Exposure Draft.

Yours sincerely
Corporate Controlling

Keith Cameron

R. Meile

Raymond Meile

Comments to the exposure draft on the proposed improvements to IASs

IAS 1 - Presentation of financial statements

Question 1: **Proposed departure from an IFRS or from an Interpretation of an IFRS**

Yes, we agree with the proposed approach regarding departure from a requirement of an IFRS or an Interpretation of an IFRS to achieve a fair presentation.

Question 2: **Prohibition of extraordinary items**

Yes, we agree with the prohibition of extraordinary items.

Question 3: **Agreement to refinance or to reschedule payments completed after the balance sheet date**

No, we disagree that a liability that is due to be settled within twelve months of the balance sheet date should be classified as a current liability if the agreement to refinance payments on a long-term basis has been completed *after* the balance sheet date but *before* the financial statements are authorised for issue.

Question 4(a): **Agreement not to demand payment after the breach of loan conditions**

No, we disagree that a long-term loan be classified as current after the breach of the loan terms and conditions 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.

Question 4(b): **Period of grace granted by balance sheet date after the breach of the loan conditions**

No, we disagree that the period of grace be granted *by the balance sheet date*. We consider that such a period should be granted by the date the financial statements are authorised for issue. Nevertheless we agree with the conditions of items (i) and (ii) of question 4(b) concerning the rectification of the breach.

Question 5: **Judgements made by management in applying accounting policies**

No, we consider that such disclosure should be part of the specific requirements of the individual IFRSs.

Comments to the exposure draft on the proposed improvements to IASs

Question 6: **Key measurement assumptions**

No, we consider that such disclosure should be part of the specific requirements of the individual IFRSs.

Other comments:

Elimination of *"the results of operating activities"*

While we appreciate that the proposed change does not forbid this disclosure, we disagree with the deletion of the requirement to show "the results of operating activities" in para.76. Whilst we accept that "operating activities" is not yet a defined term under IAS, we nevertheless recommend retaining this disclosure requirement for the following reasons:

- in many industries operating income or a similar term is one of the key performance measures along with revenue and net income used by investors or analysts for assessing an entity's results; and

- we are aware that the *Reporting Financial Performance* project may introduce refinements to any definition of "the results of operating activities"; however, we do not consider that this justifies elimination of this concept.

Elimination of requirement to disclose number of employees

While we appreciate that the proposed change does not forbid this disclosure, it appears to us desirable to continue to require it as it generally gives a useful concrete indication of the substance and real resources of an entity, which is not available from the pure financial figures.

<u>IAS 2 inventories</u>

Question 1: **Elimination of LIFO**

Yes, we agree with this proposal.

Question 2: Disclosure of inventory write-downs

Yes, we agree with this proposal.

Comments to the exposure draft on the proposed improvements to lASs

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

Question 1: **Elimination of allowed alternative**

Yes, we agree to the elimination of the allowed alternative treatment of voluntary changes in accounting policies and corrections of errors and thus to retrospective adjustment.

Question 2: **"Errors" rather than "fundamental errors"**

Yes, we agree with the removal of the distinction between fundamental errors and other material errors.

IAS 1O - Events after the balance sheet date

Yes, we agree that dividends declared after the balance sheet date should not be recognised as a liability at the balance sheet date.

IAS 16 - Property, plant and equipment

Question 1: **Exchanges of items of property, plant and equipment**

Yes, we agree that all exchanges of PP&E should be measured at fair value, except when the fair value of neither of the assets can be reliably determined.

Question 2: **Exchanges of intangibles assets**

Yes, we agree that all exchanges of intangible assets should be measured at fair value, except when the fair value of neither of the assets can be reliably determined.

Question 3: **Items of property, plant and equipment that become temporarily idle or that are retired from use**

Yes, we agree with this proposal subject to the *addition of the following sentence* at the end of paragraph *59:*

"If an item of property, plant and equipment that becomes temporarily idle or that is retired from use has been impaired and its recoverable amount has been determined on the basis of its net selling price, then such an item ceases to be depreciated."

We consider that our proposed addition is justified because the carrying amount, which is based on the net selling price in accordance with IAS 36, is the best evidence of the future economic benefits embodied in PP&E.

Comments to the exposure draft on the proposed improvements to IASs

Other Comments:

We consider that the requirements of paragraphs 49 and *52* to **review the useful life and the depreciation method of an asset** ***at each balance sheet date*** will cause undue cost and effort to the enterprise. We recommend to require such a review only when there is **evidence** that the current useful life and/or depreciation method is **not appropriate** and to adopt an "indicators" approach similar to that of lAS 36 on impairment of assets.

While we agree to require **comparative information** in the table of movement of PP&E as per para. 60(e), we consider that it is sufficient to require the comparative figures in total only and not by classes of assets since the full details by classes of assets are available in the previous year's annual report.

<u>lAS 17- Leases</u>

Question 1: **Classification of lease between land and buildings**

Yes, we 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 - subject of course to para. 11B and 11C of the exposure draft.

Question 2: **Lessors' initial costs**

Yes, we agree that lessors' initial costs incurred in negotiating a lease should be capitalised over the lease term and that only incremental direct costs are eligible for capitalisation.

<u>lAS 21 - The effects of changes in foreign exchange rates</u>

Question 1: **Proposed definition offunctional currency**

We **strongly disagree** with the definition of functional currency because of its **emphasis** on the currency of the "economic environment in which the entity operates".

We note that the new definition of functional currency has been taken directly from SFAS *52 (Foreign Currency Translation)* and while we support convergence to US GAAP, we believe that this should not be at the expense of basic business and economic rationale.

If the financial statements are to give a true and fair view of the financial performance of the entity, then it must be the specific circumstances of the entity which are reflected in the decision on the functional currency.

Instead, we propose that the new IFRS **retain** the definition of functional currency as it is presently articulated in SIC-19 para. *5* as follows (i.e. the present definition in para. 21.6 should therefore be **changed** from its present wording so as to align itself with SIC-19 para. *5):*

"The functional currency should provide information about the entity that is useful and reflects the economic substance of the underlying events and circumstances relevant to that entity. If a particular currency is used to a significant extent in, or has a significant impact on, the entity, that currency may be an appropriate currency to be used as the functional currency."

As a consequence of the above, the first sentence in para. 21.7 "The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash" should be deleted.

Question 2: **Financial statements may be presented in currency of choice**

Yes, we agree that a reporting entity should be permitted to present its financial statements in any currency that it chooses.

Question 3: **Translation into presentation currency uses the same method as the translation of a foreign operation**

Yes, we agree with this approach.

Question **4: Elimination of allowed alternative to capitalize certain exchange differences**

Yes, we agree with this elimination.

Question 5: **Goodwill and fair value adjustments should be allocated to the foreign operation**

> No, we do not agree. We believe that your proposal to require goodwill and fair value adjustments to be accounted for in the currency of the acquired entity raises several important issues which should be explicitly dealt with in any revised standard. We therefore recommend that the proposed change should be removed from this exposure draft. We recommend that any change is included together with the proposed exposure draft on business combinations, with a consequential amendment to IAS 21 at that time, so that the full implications can be considered.

> No transition procedure has been proposed. We believe that any change should only be applied prospectively to business combinations initiated after the date on which the revised IAS 21 becomes effective.

Comments to the exposure draft on the proposed improvements to lASs

lAS 24 - Related party disclosures

Question 1: **Elimination of requirement to disclose "management compensation"**

Yes, we agree with this proposal.

Question 2: **Reduction in disclosures for parent or wholly-owned subsidiary**

We disagree with the Board's majority view and agree with the minority view. Where there is a statutory or other requirement to produce **separate** financial statements for a **parent** or a **wholly-owned subsidiary** that complies with IAS, then **disclosures** of related party transactions, including those with the rest the Group, **should be made**.

lAS 27 Consolidated and separate financial statements

Question 1: **Consolidated financial statements**

Yes, we agree with the conditions necessary for a parent not to present consolidated financial statements.

Question 2: **Minority interests**

Yes, we agree with this proposal. The inclusion of minority interests as a separate component of equity is justified since minority shareholders also have an equity interest but one that is distinct from that of the Group's shareholders.

Question 3: **Investments in subsidiaries, jointly controlled entities and associates**

Yes, we agree that investments in subsidiaries, jointly controlled entities and associates are recognised either at cost or accounted for in accordance with IAS, 39 in the investor's **separate** financial statements.

However, we do not agree that investments in subsidiaries, jointly controlled entities and associates that are accounted for in accordance with lAS 39 on consolidation must also be accounted for in accordance with the same method in the investor's **separate** financial statements. Such separate financial statements are very often prepared for **legal or statutory** reasons so it does not make sense to create differences between the legal and statutory separate financial statements and those separate financial statements prepared under IAS.

Other comments:

12 month limit for non-consolidation

We disagree with the 12 month threshold for allowing to exclude from consolidation a **subsidiary that is held for re-sale** (paragraph 13). Very often a multi-national group is compelled to re-sell subsidiaries after an acquisition because it has been required to do so by anti-trust authorities. If such authorities allow a time limit that exceeds 12 months, we consider that such a limit should also be accepted by the Board.

Disclosures about non-consolidated subsidiaries

We also disagree with paragraph 32 (b) that requires **disclosure of summarised financial information** of subsidiaries that are **not consolidated**. As subsidiaries that are held for re-sale are already recognised at their fair value, we do not consider it necessary to disclose in addition selected financial information relating to that entity.

<u>lAS 28 - Accounting for investments in associates</u>

Question 1: **Scope exclusions**

Yes, we agree that investments held by venture capital organisations, mutual funds, unit trusts and similar entities and that are measured at fair value in accordance with IAS 39 shall not be included in the scope of lAS 28 and IAS 31.

Question 2: **Losses of associates**

Yes, we agree that the amount to be reduced to nil when an associate incurs losses should also include investments such as long-term receivables.

Other comments:

12 month limit for non-consolidation

We disagree with the 12 month threshold for allowing to exclude from the equity method of accounting an **associate that is held for re-sale** (paragraph 8). Very often multi-national companies are compelled to re-sell associates after an acquisition because it has been required to do so by anti-trust authorities. If such authorities allow a time limit that exceeds 12 months, we consider that such limit should also be accepted by the Board.

Comments to the exposure draft on the proposed improvements to lASs

lAS 33 - Earnings per share

Question 1: **Contracts settled either in cash or in shares at the *issuer's option***

We agree that such contracts should be included as potential ordinary shares in the calculation of diluted EPS based on a rebuttable presumption that the contracts will be sealed in shares.

Question 2: **Year-to-date calculation of diluted EPS**

We disagree with the proposed approach.

Other comments:

In addition, we are **unable to support this specific draft standard** for the following reasons:

> there are a great many changes proposed, indeed so many that the Board decided it inappropriate to publish the draft in mark-up mode. The vast majority of these proposed changes are not addressed at all in the *Basis for Conclusions* or the specific questions in the invitation to comment. It is clear that the proposed changes are not restricted to minor issues of drafting. For example, 'contingently issueable shares' is included in the draft as a defined term with the definition not reflecting the natural meaning of those words. In the absence of a discussion of the reason for all such changes and the Board's assessment of their impact we do not believe that a meaningful consultation process can be achieved. Furthermore, the Board is risking adopting a standard that, like lAS 39, will give rise to a significant number of implementations questions and will need to be yet revised shortly after adoption; and

> the proposed approach of determining the number of shares in the computation by reference to quartcrly reported figures is introduced solely by worked examples in Appendix B. The approach is not set out in the text of the standard itself In our view, the *Basis for Conclusions* should explain the reason for this change and, should the new methodology go ahead, any eventual standard should clearly set out the requirement and specify what the interim periods should be.

lAS 40 Investment property

Question 1: **Operating leases**

Yes, we agree that operating leases should be included in investment property if the rest of the definition of investment property is met and if the lessee uses the fair value model.

Comments to the exposure draft on the proposed improvements to lASs

Question 2: **Accounting of operating leases**

Yes, we agree that a lessee that classifies a property held under an operating leases as an investment property should account for the lease as if it were a finance lease.

Question 3: **Elimination of the choice between the cost model and the fair value model for investment properties**

Yes, we agree that the Board should not eliminate the present option to use the cost model for investment properties due to the fact that the real estate market in many jurisdictions is not very liquid.

Effective date

The Board is aiming for an effective date as of January 1, 2003 for all these changes. It is vital for the Board to bear in mind that in many cases they need to be implemented in local accounting systems if they are to be soundly based. The changes to IAS 21 are a case in point for, should "hard-currency accounting" be disallowed for certain group companies, it will necessitate a full reconfiguration of underlying IT systems such as SAP. Even where the change is "merely" one of disclosure, an entity's data collection system needs to be adapted in many cases to ensure that the information will be available – not to mention the need to train and instruct local companies on the new requirements in the case of a multinational group. It would therefore be encouraging to see the lASB taking cognisance of the practical difficulties that preparers need to resolve when setting effective dates.

Based on the above, we strongly recommend that the Board postpone its effective date until January 1, 2004.