financial executives international

September 23, 2002

International Accounting Standards Board
30 Cannon Street, London EC4M 6XH
United Kingdom

Subject: Exposure Draft "Improvements to International Accounting Standards"

Ladies and Gentlemen:

The Committee on Corporate Reporting (CCR) of Financial Executives International (FEI) appreciates the opportunity to provide the International Accounting Standards Board (IASB) with its comments on the Exposure Draft of Proposed Improvements to International Accounting Standards (IAS). FEI is a leading international organization of 15,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior financial executives. CCR is a technical committee of FEI, which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. This document represents the views of the CCR and not necessarily the views of FEI.

Overall, FEI/CCR applauds and strongly supports the IASB's efforts to raise the quality and consistency of financial reporting by drawing on best practice from around the world and reducing or eliminating alternatives, redundancies and conflicts within existing International Accounting Standards. The Improvements project is an important step by the IASB to promote convergence on high quality solutions. Our comments below focus on specific areas of the proposed improvements where we do have a few concerns.

Extraordinary Items

We agree with the proposed abandonment of the concept of extraordinary items. Paragraphs 78 and 79 of the exposure draft of revised IAS 1 suggest that an entity shall not present any items of income and expense as extraordinary items either in the income statement or in the notes and that no items are to be presented as arising from outside the entity's ordinary activities. Although we do not see these items as frequently as in the past, we believe that prohibiting the presentation of items of income and expense as "extraordinary items" seems a reasonable change since it prevents potential abuses of extraordinary item treatment and thus provides for more reliable and consistent comparisons. Accordingly, the need for arbitrary segregation of the effects of related external events on the profit or loss would be eliminated.

With regard to U.S. GAAP, we suggest that this is a point for convergence with IAS since, to date, the concept of extraordinary items is covered in APB 30. However, in our opinion the overall issue of the treatment of unusual, non-recurring, abnormal and similar items could be better dealt with as part of the IASB's "Reporting Performance" project, which should be conducted in close cooperation with the respective FASB project.

Use of LIFO

The exposure draft of revised IAS 2 includes the proposal to eliminate the allowed alternative treatment of using the last-in, first-out (LIFO) method for determining the cost of inventories under current paragraphs 23 and 24. Consequently, the current benchmark treatment, i.e. using the first-in, first-out (FIFO) or weighted average cost formulas, would be mandatory. In principle, we support the elimination of alternatives from existing standards as this clearly enhances comparability among companies and over time.

However, we wish to emphasize important points regarding LIFO. In the U.S., LIFO is considered as one of the preferable accounting methods for inventory. From an income statement perspective, LIFO affords a better matching of costs with revenues. Moreover, eliminating the LIFO alternative would present a financial hardship for many U.S. companies. U.S. companies that utilize LIFO for income tax purposes are required under U.S. income tax law to use LIFO for financial reporting purposes. Thus, failing a revision to U.S. law, the elimination of LIFO for reporting purposes would result in a severe economic hardship for these companies.

Having deliberated these points, the committee's position was split on this issue between those who did not object on the grounds that achieving convergence is the more important goal and those who strongly objected based on the economic effects under current law as well as the conceptual appropriateness from the income statement perspective.

Voluntary Changes in Accounting Policies

Paragraphs 20 and 21 of the exposure draft of revised IAS 8 suggest mandatory application of the current benchmark treatment, i.e. voluntary changes in accounting policies should be accounted for retrospectively by adjusting the opening balance of retained earnings for the earliest prior period presented and restating other comparative information presented for each prior period. Accordingly, the allowed alternative treatment currently available under IAS 8 whereby changes in accounting policies are accounted for through current income would be removed.

In our opinion, it is often not practical to go back in time as the need of measuring the impact of changes in accounting policies retroactively imposes a considerable burden on companies. An example would be where an acquirer elects to convert to a newly acquired company's inventory accounting method. Furthermore, retroactive restatements could contribute additional uncertainty into the capital markets, especially considering the current environment. Therefore, we favor allowing changes in accounting policies to be accounted for by a cumulative catch-up adjustment in current period income with pro-forma (as if) information given where practicable. This treatment would be consistent with the provisions of APB 20 regarding the accounting for changes in accounting policies and thus would be clearly preferable in terms of convergence with U.S. GAAP.

Again, we thank you for the opportunity to comment on the IASB's proposals of improvements to IAS. Please feel free to contact Jay Perrell at 203-658-1166 for further discussion of our comments.

Sincerely yours,

Frank H Brod

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