new york state society of
NYSSCPA
certified public accountants
530 fifth avenue, new york, ny 10036-5101
www.nysscpa.org

September 16, 2002

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

CommentLetters@iasb.org.uk

Dear Board Members:

The New York State Society of Certified Public Accountants, the oldest state accounting association in the United States, which represents some 30,000 CPAs, thanks the IASB for the opportunity to comment on the Exposure Draft on Proposed Improvements to International Accounting Standards.

The Society's Financial Accounting Standards Committee deliberated the provisions contained in the Exposure Draft and prepared the attached comments for the Board's consideration. If the IASB would like to discuss these comments with the Committee, please contact Steven Rubin, the Committee chair, at (212) 492-3799, or Robert Colson, NYSSCPA staff, at (212) 719-8350.

Sincerely,

Jo Ann Golden
President

Attachment

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NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON IASB EXPOSURE DRAFT

PROPOSED IMPROVEMENTS TO INTERNATIONAL ACCOUNTING STANDARDS

Principal Drafters

Steven Rubin
Robert Dyson

September 9, 2002

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The New York State Society of Certified Public Accountants

Financial Accounting Standards Committee
Comment Letter

ON THE INTERNATIONAL ACCOUNTING STANDARDS BOARD'S EXPOSURE DRAFT OF PROPOSED IMPROVEMENTS TO INTERNATIONAL ACCOUNTING STANDARDS

September 9, 2002

General Comments

The proposed improvements set forth in the Exposure Draft are generally appropriate and should be adopted, except as specifically identified in the following comments.

Specific Comments

IAS 1, Presentation of Financial Statements

Line Items

Certain line item designations on the face of the income statement should not be eliminated, including "results of operating activities," "profit or loss from ordinary activities," and "extraordinary items." Rather, the Board should provide better definitions and examples of each of these items to promote consistent application.

Restatements

"Undue cost or effort" is not a condition that should, by itself, preclude restatement of previously issued financial statements. Indeed, the Exposure Draft does not define "undue cost or effort." Restatement should not be required where the differences between the financial statements as previously issued and as restated are immaterial.

Classification of Liabilities

Liabilities should not be classified as current if, before the financial statements are issued, either (a) an agreement has been reached to finance such liabilities on a long-term basis or (b) the lender has agreed not to demand payment (e.g., grants a waiver of a breached condition) for at least one year from the balance sheet date and the probability of a future breach is unlikely during that period. Rather, such liabilities should be classified as non-current. Classifying such liabilities as current as of the balance sheet date would ignore reality and distort financial ratios.

IAS 2, Inventories

LIFO

The Committee was almost evenly divided on whether the last-in, first-out (LIFO) method of inventory costing should be eliminated. Nonetheless, the Committee points out that many U.S. companies use LIFO for tax purposes and those companies are required by law to also use LIFO for financial reporting purposes (the LIFO conformity rule). Elimination of LIFO for financial reporting purposes could cause undue hardship for such companies, which otherwise might support IASB standards.

Reversal of Inventory Writedowns

Reversals in subsequent periods of amounts of inventory written down in previous periods should not be permitted because such a practice could lead to profit and loss manipulation.

IAS 8, Net Profit or Loss for the Period, Fundamental Errors/Changes in Accounting Policies

Required Changes in Accounting Principles

The cumulative effects of required changes in accounting principles generally should be reported in income in the period of change. Further, reporting the cumulative effects of such changes by restating previously issued financial statements should be required or permitted in only the rarest of circumstances, because restatement dilutes the confidence of users of the prior-year financial statements.

Voluntary Changes in Accounting Principles

Companies should not be allowed to make voluntary changes in accounting principles. Once an accounting principle is adopted, it should not be changed for events and transactions of a similar type unless, perhaps, there are changes in laws.

Changes in Accounting Estimates

The Board should require companies to disclose the effect of changes in accounting estimates on the individual financial statement items to which such changes relate, as this would better assist users of financial statements in making credit and investment decisions.

IAS 16, Property, Plant and Equipment

Exchanges

Although the Committee agrees that exchanges of property, plant and equipment should be measured at fair value, except where the fair value of neither asset exchanged can be reliably determined, this proposed provision appears to apply to exchanges involving substantially similar assets (sometimes called "like-kind" exchanges).

If the Board did, indeed, intend fair-value accounting to apply to like-kind exchanges the Board should at least explain its rationale for requiring gains to be reported where the earnings process has not been culminated.

Depreciation During Idle Periods

The question of materiality aside, the Committee is divided on whether depreciation expense should be recorded on property, plant and equipment during idle periods. The appropriate answer largely depends on whether depreciation is viewed as a function of use or a function of time. The Board should address that issue and provide appropriate guidance.

To illustrate:

- Depreciable assets with an estimated useful life of 10 years are placed into service at the beginning of 2001. (Thus the estimated useful life is 1/1/2001 through 12/31/2010).
- On 1/1/2002, the assets are made idle.
- On 1/1/2003, the assets are placed back into service.

Our position:

- If depreciation is viewed as a function of use, no depreciation expense should be recorded for 2002, since there was no use.
- If, however, depreciation is viewed as a function of time, and the estimated useful life is still expected to end 12/31/2010, depreciation expense should be recorded for 2002.
- If, however, depreciation is viewed as a function of time, and the estimated useful life is now expected to end 12/31/2011, for example, no depreciation expense should be recorded for 2002.

Notwithstanding the above, we believe property, plant and equipment, even if idle, should be subject to an annual test for impairment.

IAS 17, Leases

Lease for Land and Building

Although a lease for both land and buildings should be viewed as two separate leases for accounting purposes, the U.S. accounting rules are more workable than those proposed in the Exposure Draft. (Under FASB Statement No. 13, paragraph 26(b) (1), a lease for land and buildings is viewed as two separate leases when the fair value of land is 25% or more of the total leased property.)

IAS 21, The Effects of Changes in Foreign Exchange Rates

Definition of Functional Currency

The definition of functional currency under U.S. accounting rules, which includes a reference to cash flows, is preferable to the definition proposed in the Exposure Draft. (FASB Statement No. 52 defines functional currency as "the currency of the primary economic environment in which the entity operates; normally, that is the currency of the environment in which an entity primarily generates and expends cash.")

IAS 24, Related Party Disclosures

Management Compensation

Although management compensation and expense allowances paid in the ordinary course of business generally are not considered related party transactions under U.S. GAAP, the Board should require disclosures about them. Such disclosures would be of particular interest to financial statement users' assessment of how management is discharging its fiduciary and steward functions.

Likewise, the Board should designate management's non *de minimis* personal use of company assets at no charge or at amounts that otherwise differ from fair value as related-party transactions and require disclosures about them.

Exemption for Contemporaneously Published Statements

A parent company or a wholly owned subsidiary should not be permitted to omit related-party disclosures from its financial statements, when such disclosures are contained in consolidated financial statements that are made available or published at the same time. Each set of financial statements should stand on its own.

IAS 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries

Exemption from Consolidation

There should be no exemption from consolidation of any subsidiaries over which the parent company has the ability to exercise control.

Special-Purpose Entities

Because of its importance at this time, the Board should address consolidation of special-purpose entities (SPEs), even if it means delaying the issuance of an amended IAS 27 until principles related to SPEs are developed.

Temporary Investments

The definition of a “Temporary Investment” should be clarified. However, the condition of disposal "within twelve months" should be expanded to “within twelve months or the company’s operating cycle, whichever is longer.”

Uniform Accounting Principles

All members of a consolidated group should not be required to use uniform accounting policies for like transactions and other events in similar circumstances. If alternative accounting principles are acceptable under IASB standards, their use should be permitted or, at least, not discouraged. The proposed requirement would unnecessarily complicate integration procedures following a combination involving entities with different, but equally acceptable, accounting policies. Furthermore, the discussion of the LIFO method of inventory costing, presented earlier in this letter, underscores just one of several instances in which mandating uniform accounting principles within an entire group may not be practical.

IAS 31, Financial Reporting of Interests in Joint Ventures

Proportional Consolidation

Proportional consolidation of interests in joint ventures should be permitted in those industries (e.g., construction industry) where (1) joint ventures are formed for a sole purpose and solely for legal reasons and (2) none of the joint venturers has the ability to exercise control over the joint venture.