November 7, 2002

Sir David Tweedie
Chairman, International Accounting Standards Board
30 Cannon Street
London, England

VIA FASCIMILIE 011 44 207 246-6411

Dear Sir David:

The Standing Committee No. 1 on Multinational Disclosure and Accounting of the International Organization of Securities Commissions (IOSCO) thanks you for the opportunity to comment on the Exposure Draft "Improvements to International Accounting Standards".

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Standing Committee No. 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Standing Committee No. 1 and are not intended to include all the comments that might be provided by individual members on behalf of their respective jurisdictions.

We commend and support the IASB on its efforts to improve existing international accounting standards (IASs). Many of the changes proposed in the Exposure Draft (ED) would improve the body of IAS and would also achieve greater convergence between the IASs and domestic standards in the U.S. and some other markets. This would be beneficial to investors and also to cross border-issuers.

Our comments below will address a number of issues on which our Standing Committee has reached consensus. We urge the Board to give further consideration to the matters on which we have expressed concerns.

IAS 16 - Use of Fair Value in Exchanges of Similar Productive Assets

We are very concerned that one of the ED's proposed changes to IAS 16 would require that exchanges of property, plant and equipment be accounted for at fair value regardless of whether a transaction is an exchange of similar or dissimilar assets. In our view, the exchange of similar productive assets does *not* result in culmination of an earnings process, which is fundamental to revenue and gain recognition. Without a culmination of an earnings process, we believe it is inappropriate to have gain recognition. Furthermore, experience has shown that recording a gain on transactions of this type is highly susceptible to abuse and is not credible to investors since exchanges of similar productive assets will not alter the company's future cash flows from operations. Furthermore, this proposal would create greater divergence in this area than currently exists. We urge the IASB to retain the existing provisions of paragraph 22 of IAS 16.

IAS 1 - Disclosure of Country of Incorporation

The obligation to disclose an entity's country of incorporation and address of its registered office should be retained, as knowing the place of incorporation is fundamental to understand the legal rights of investors. It is our understanding that provisions relating to shareholders' rights are either set out in the law of the place of incorporation, or that jurisdiction is where shareholders must take legal action to enforce rights set out in the documents of incorporation. Thus it is fundamental for financial statements to disclose the country of incorporation. Similarly the address of the registered office also is important.

IAS 1 - True and Fair Override

The use of a "true and fair override" continues to be a source concern and requires clarification. There is broad agreement among our members that, in some circumstances, simple adherence to the letter of an accounting standard may not be sufficient to provide a full and fair depiction of the substance and economics of a transaction; however, views diverge as to what the appropriate remedy should be.

In such a situation, some believe that the application of IAS 1 and good financial reporting should permit management and its auditors to *dispense* with the accounting treatment that is prescribed by a standard and substitute another presentation that they believe is more appropriate, with detailed disclosure of the condition, including the circumstances involved and why the GAAP presentation is felt to be misleading, and what the results would have been under GAAP.

Others are very skeptical of any option to dispense with a stated accounting principle, and instead view the proper application of a true and fair presentation requirement to constitute an *obligation to add* whatever further information is needed to provide the most complete and appropriate presentation to investors. Others have expressed a view that appropriate treatment can only allow a departure from GAAP when it is clear when compliance with GAAP would result in misleading financial statements and it is clear that the standards setters had not anticipated the specific fact pattern in question.

In contrast to views that would permit a departure from GAAP under specified circumstances, there is concern that override can be used, and has been used, in an abusive manner. We recently became aware of research that indicates more than occasional use of such overrides. Standing Committee No.1 urges that the intended use and application of the provision for true and fair presentation be more clearly defined and explained.

IAS 24 - Related Party Disclosures

Paragraph 20 of the existing IAS 24 states "Related party relationships where control exists should be disclosed irrespective of whether there have been transactions between the related parties." Paragraph 12 of the Exposure Draft states "Relationships between parent and subsidiaries shall be disclosed irrespective of whether there have been transactions between these related parties."

In some regions, notably but not limited to the Far East, companies are sometimes controlled by families having control over many entities. Some of these companies are large, having market capitalizations of more than a billion U.S. dollars. The change in terminology from "a relationship where control exists" to "between parent and subsidiaries" could be interpreted to exclude such entities under family control.

Standing Committee No. 1 believes that related party relationships with other companies that are controlled by the controlling shareholder of the reporting company are as relevant, if not more relevant, than related party transactions between companies where there is a parent-subsidiary relationship. We recommend that the wording of the existing IAS 24 be retained and clarified as needed.

IAS 1 - Support for Change to Discontinue Extraordinary Items

We agree with and support the IASB's proposal to eliminate extraordinary item presentation from the income statement and we believe that national standards setters should be encouraged to consider similar changes.

IAS 8 - Financial Statement Classification of a Change in Estimate

The IASB's proposed changes to IAS 8 would eliminate the requirement that a change in estimate be included in the same line-item of the income statement as the original item (existing paragraph 28). We believe that classification in the same line item is appropriate and necessary because a change in estimate still relates to the original financial statement element (e.g., a change in useful life relates to depreciation expense, a change in the bad debt reserve relates to the bad debt expense, etc.). Therefore, we believe that the original wording should be retained.

IAS 16 - Frequent Changes in Depreciation Methodology

The provisions of proposed paragraph 52 of IAS 16 would requires companies to evaluate the method of depreciation on an annual basis. We believe it would be a rare circumstance, other than when there has been a significant change in the entity's business environment or operating conditions, where another "acceptable" depreciation method could become preferable and provide better information for investors. Under the current IASB proposal, management would be able to adopt a new principle each period even though the new principle is not preferable but is merely one of several acceptable methods.

In that regard, the provisions of paragraph 52A of IAS 16 continue the conclusions of existing IAS 16 (paragraph 52), which specify that changes in depreciation methods constitute changes in estimates. This conclusion in both existing IAS 16 and the proposed IAS 16 seem inconsistent with the conclusions found earlier in the standard. Paragraph 47 (of both existing and proposed IAS 16) states that "[a] variety of depreciation *methods* can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life." (emphasis added) There are, of course, several assumptions within a given depreciation method (e.g., useful lives or units of service, salvage value) which involve changes in estimates. To continue to classify a change in the overall depreciation method as a change in estimate could invite abuse, as it would permit companies opportunistically to alter their depreciation methods without the need to justify the new method on the basis of preferability. Furthermore, classifying this as a change in estimate would omit the accompanying accounting and disclosure that would be needed for a change in principle. Such a change would also continue a divergent practice between IASs and many countries' GAAP. We believe that such changes should be treated as changes in accounting principles rather than as changes in accounting estimates. As an additional point, we encourage the IASB to retain the previous definition of residual value rather than creating potential divergence where none exists currently, as we do not see that a case has been made whereby such a change would constitute an improvement.

If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at (202) 942-4400.

Sincerely,

Jackson M. Day
Chairman
IOSCO Standing Committee No. 1
on Multinational Disclosure and Accounting