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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street, 1st floor
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Zurich, 5 September 2002

Comments on Exposure Draft of Proposed
Improvements to International Accounting Standards

Dear Sir David,

We welcome the opportunity to comment on the above Exposure Draft. We have reviewed the proposals and enclose our responses to the invitations to comment on each Standard.

Yours sincerely,

Swiss Institute of Certified Accountants and Tax Consultants
Accounting and Auditing Practices Committee

Urs Moser   Philipp Hallauer

IAS 1 Presentation of Financial Statements

Q1 No, we do not agree. While we agree to retain the true and fair override principle, we do not agree that it should be conditioned upon the regulatory environment. Such a proposal does not enhance comparability of financial statements on a worldwide basis. We propose that the Board retain the current wording of IAS 1.16-18, which requires a conclusion, that application of a Standard or an Interpretation will be misleading and clearly inappropriate. Regulatory frameworks that accept or require the use of IFRS will also have to accept the overriding principle.

Q2 Yes, we agree.

Q3 Yes, we agree.

Q4 Yes, we agree.

Q5&6 No, we do not agree with the proposed disclosure of judgements, key assumptions about the future and other measurement uncertainties that may cause a material adjustment to the carrying amounts of assets and liabilities during the next financial year. While the IASB is moving towards a fair value model of accounting and requiring former off-balance sheet items to be accounted for, almost all transactions and balances will involve judgement and may require adjustments during the following year. As a result, extensive disclosures in the notes would be required, the accuracy and completeness of which will be difficult to verify through independent verification procedures. We believe that such disclosures may well be part of a management discussion and analysis outside the financial statements.

Additional comments and suggestions for improvements to ED of revised IAS 1:

- There is a lack of guidance on cases where companies state that they "comply with IFRS <u>except for</u>…". We believe that an enterprise should still be able to refer to IFRS in the statement of compliance when the audit opinion is qualified, provided that the qualification is also included in the statement of compliance.

- Paragraph 29 (black letter paragraph) states that items of income and expense can be offset when, and only when, a Standard requires or permits it.

  At the same time, paragraph 32 (grey letter paragraph) states that in addition, gains and losses arising from a group of similar transactions are reported on a net basis, for example foreign exchange gains and losses or gains and losses arising on financial instruments held for trading purposes. However, such gains and losses shall be reported separately if their size, nature or incidence is such that separate disclosure is required by paragraph 80.

  We propose that paragraph 32 be incorporated in paragraph 29 to clarify that items of income and expense should be offset when a Standard or Interpretation requires or permits it or when they relate to a group of similar transactions.

- It is our understanding that IAS 12 requires separate presentation of both current and deferred taxes on the face of the balance sheet. Paragraph 65 should be amended to be consistent with IAS 12.

- We are opposed to removing the requirement to present operating results on the face of the income statement. Although we expect the project on performance reporting to bring clarity about the presentation of operating and other results, we believe that clarification in IAS 1 on the presentation of subtotals in the income statement such as EBIT, EBITDA, EBIT before and after certain items etc., would be important to enhance comparability.

- Paragraph 79 refers to the entity's "ordinary activities". As this term will no longer be used, this paragraph could be deleted as it does not add anything.

- We feel that the appendix with illustrative financial statements, currently included in IAS 1, revised 1997, should be retained.

IAS 2 Inventories

Q1 Yes, we fully agree with eliminating the allowed alternative of using the last-in, first-out (LIFO) method of determining the cost of inventories.

Q2 Yes, we agree to retain the requirement to recognise any reversals of previous write-downs in profit or loss when the circumstances that caused the write-downs no longer exist.

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IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Q1 Yes, we agree with the proposed elimination of the allowed alternative treatment for changes in accounting policies and errors.

Q2 Yes, we agree with the proposed elimination of the distinction between fundamental errors and other material errors. However, IAS 1 should emphasise that a correction of an error is expected to occur only in rare circumstances when previous financial statements were materially misstated.

We also have the following additional comment:

- If there is doubt about whether an adjustment is an *error* or a *change in estimate*, there is no guidance on how to treat the adjustment. Paragraph 26 stipulates that if there is doubt whether an adjustment is a *change in accounting policy* or a *change in estimate*, the adjustment should be treated as a change in estimate. The same should apply if there is doubt whether an adjustment is an error or a change in estimate.

IAS 10 Events After the Balance Sheet Date

Yes, we agree with the proposed changes.

IAS 15 Information Reflecting the Effects of Changing Prices

Yes, we agree with the proposed withdrawal of IAS 15.

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IAS 16 Property, Plant and Equipment

Q1&2 No, we do not agree that all exchanges of items of property, plant and equipment and intangible assets should be measured at fair value. We believe that the current paragraphs 21 and 22 of IAS 16 should be retained. The proposed changes reflect another step towards a full fair value approach and recognition of unrealised gains when the earnings process is still incomplete, although IAS 16 is clearly a cost-based Standard.

Q3 No, we do not agree that assets that become temporarily idle or are retired from active use should continue to be depreciated. We believe that the current requirement (IAS 16.59) to measure such assets at the lower of their carrying amount, as of the date when they are retired from active use, and their net selling price should be retained. Depreciation, in our opinion, should reflect the consumption of economic benefits embodied by the asset.

IAS 17 Leases

Q1 Yes, we agree.

Q2 Yes, we agree.

IAS 21 Changes in Foreign Exchange Rates

Q1 Yes, we agree. However, we identified a certain inconsistency between the proposed approach and the guidance on foreign operations included in paragraph 9. Where a foreign entity (in accordance with the old guidance and the proposed paragraphs 7-9), for example, is treated as an integral foreign operation, but the majority of its intercompany transactions differ from the functional currency of the parent, the current proposals offer, in substance, a choice of possible currencies. In our view the primary focus should be the economic environment in which an entity operates rather than the degree of independence from the parent company. This should be clearly stated.

Q2 Yes, we agree.

Q3 Yes, we agree, except that we believe that the nominal share capital should be translated at the historical rate in order to avoid an undue fluctuation in this amount when no capital transaction took place.

Q4 Yes, we agree.

Q5 Yes, we agree.

We also have the following additional comments:

- It is not clear whether a foreign operation must be a separate legal entity or branch, or if it is sufficient for a foreign operation to only have separate books and records. We believe this should be explained so it is clear whether multiple functional currencies within a single legal entity are possible.

  We believe that the Standard should allow for multiple functional currencies within a single legal entity, provided that the different operations of the single legal entity can be clearly segregated and distinguished (substance over form).

- When gains/losses on available-for-sale financial instruments that are monetary assets are recognised directly in equity, the related foreign currency gains/losses must be separated and recognised in the income statement in accordance with IAS 21. We believe this is inconsistent with the treatment of exchange differences on cash flow hedges referred to in paragraph 25 of the Exposure Draft. We propose that exchange differences on monetary items that are measured at fair value be included in the fair value changes and accounted for consistently.

- We would appreciate guidance on where in the income statement foreign exchange rate gains and losses should be included. The practice varies between different companies and countries. Some companies recognise all exchange gains and losses in their financial results, while others recognise exchange gains and losses relating to their operating activities in the operating result.

  We believe it would be more useful if foreign exchange gains and losses were split between the financial and operating result depending on their nature. Guidance on this issue would certainly enhance comparability of results.

IAS 24 Related Party Disclosures

Q1 Yes, we agree. The disclosure of management compensation should be required under the respective stock exchange rules rather than under IFRS.

Q2 No, we do not agree with the proposal not to require disclosure of related party transactions and balances in the separate financial statements of a parent or a wholly-owned subsidiary that are made available with the consolidated financial statements of the group to which that company belongs. If such financial statements are presented in accordance with IFRS, we do not believe that they would achieve a true and fair view without the related party disclosures.

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IAS 27 Consolidated and Separate Financial Statements

Q1 Yes, we agree that a parent need not prepare consolidated financial statements if all criteria in paragraph 8 are met.

Q2 Yes, we generally agree that minority interest should be presented separately on the consolidated balance sheet within shareholders' equity. However, we would also support the presentation of minority interest between liabilities and shareholders' equity, considering that it is a well established and widely understood practice.

Q3 Yes, we agree with the proposed accounting for investments in subsidiaries, joint ventures and associates in an investor's separate financial statements (on both issues raised in Q3).

In addition, we would like to raise the following issues:

- While we agree with the requirement to account for investments in subsidiaries that are excluded from the consolidation under paragraph 13 in accordance with IAS 39 at fair value, we are opposed to the proposal that the fair value changes should be recognised in the income statement. This is not only inconsistent with IAS 39, it also neglects the fact that the nature of such investments is that of an available-for-sale investment rather than an investment held for trading. We strongly recommend that IAS 39 should apply to such investments without any restriction.

- We recommend excluding investments by venture capital organisations, mutual funds, unit trusts and similar entities from the scope of IAS 27. The consolidated financial statements of such entities, including assets, liabilities, results, etc. of investments in various industries rather confuse than provide useful information to the readers of financial statements. We do not believe that the more detailed information about different segments will make it clearer. We believe such investments should be accounted for at fair value in accordance with IAS 39 without any further restriction. We also refer to our comments on the proposed revision of IAS 28.

IAS 28 Accounting for Investments in Associates

Q1 Yes, we agree that venture capitalists should be excluded from the scope of IAS 28 and IAS 31 if their investments in associates and joint ventures are measured at fair value in accordance with IAS 39, when such measurement is a well-established practice in those industries. As mentioned above, we believe that this approach should also apply to investments in subsidiaries, and a respective scope exclusion should be included in IAS 27.

We are, however, opposed to the proposed requirement that unrealised gains and losses should be recognised in the income statement in order to meet the conditions for the scope exclusion. This is not only an inconsistency with IAS 39, it also neglects the fact that the nature of such investments is that of an available-for-sale investment rather than an investment held for trading. We strongly recommend that IAS 39 should apply to such investments without any restriction.

We further believe that these scope exclusions should be made dependent on the type of activities (venture capital investment activities) rather than the type of organisations. A bank may well have a venture capital division and should therefore apply the same rules for that division as a venture capitalist.

Q2 Yes, we agree.

IAS 33 Earnings Per Share

Q1 Yes, we agree.

Q2 No, we do not agree with the proposal relating to the year-to-date calculation of diluted earnings per share. We feel it creates a conflict with the intent of IAS 34 not to let the frequency of interim reporting have an impact on the annual results.

IAS 40 Investment Property

Q1 Yes, we agree.

Q2 Yes, we agree.

Q3 Yes, we agree.