

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

27 August 2002

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Comments on the Exposure Draft of Proposed Improvements to International Accounting Standards

IAS 27, 13A. A subsidiary is not excluded from consolidation simply because the investor is a venture capital organisation, mutual fund unit trust or similar entity.

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Deutsche Beteiligungs AG ("DBAG") a stock listed German private equity firm, is asking the IASB to modify its position. A full consolidation of investments should not be required for private equity or venture capital organisations ("Investment Companies"). DBAG is an Investment Company since 1965 and has accumulated investment experience with hundreds of transactions primarily in the German Mitteistand.

A few remarks on the background of our opinion. Investment Companies like DBAG are interested in achieving earnings through current income and/or capital gains from the sale of their investments after a holding period of 2 to 5 years. Most Investment Companies are generally holding a minority stake of an investee. As this is a general approach one cannot disregard that there are occasionally cases where there are majority shareholdings even in the absence of such a policy.

As we understand it is a basic principle of IAS to present financial statements that give a true and fair view on a company or group of companies. If an Investment Company has to consolidate its majority shareholdings, the nature of business is not expressed properly because investment companies are treated like any other holding company rather than taking into consideration the special character of the investment business. Shareholder of Investment Companies are interested in financial statements that purely present the financial performance of the investment activity of their Investment Company and not the operating performance of all investee companies as a consolidated group. This is primarily because the performance of all investee companies as a group is only indirectly linked to the financial performance of the investment activity of the Investment Company and therewith to the return of the shareholders. Secondly consolidated

financial statements would lead to the impression that we have a number of companies that have an economic relationship in some way and form an economic unit. This impression is not true because all investments are by its nature limited in time. Furthermore the consolidation would lead to significant volatility in the individual line items of the financial statements of an Investment Company because of frequent additions and disposals of investments.

This position is supported by US GAAP which provide a special accounting treatment for Investment Companies. They do not require consolidation of investments regardless of the shareholding. Majority stakes in investees are being accounted for with their fair value. However, US GAAP require that a legal entity needs to meet certain criteria in order to qualify as Investment Company for the purpose of applying the special accounting principles:

- the entity must have multiple investments,
- the entity must be owned by multiple shareholders,
- the entity's primary business activity involves investing its assets, for current income, appreciation, or both,
- the investees function as separate autonomous businesses.

These criteria should be sufficient to prevent the potential abuse of the special accounting treatment by consolidated groups striving to achieve a desired accounting merely by choosing which entity within the group makes a particular investment.

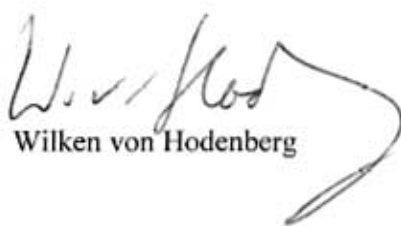
Suggested alternative wording

IAS 27, 13A. A subsidiary may be excluded from consolidation when an investor is an Investment Company. An Investment company is a separate legal entity

- *which holds, or intends to hold, substantive investments in multiple investees for periods of more than 12 months,*
- *is owned by multiple shareholders,*
- *whose primary business activity involves investing its assets, for current income, appreciation, or both,*
- *with investees functioning as separate autonomous businesses.*

If you have any questions or require additional information please contact Gustav Egger (telephone +49 69 95787 300) or Andreas Paulke (telephone +49 69 95787 325).

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