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International Accounting Standards Board
Secretary for the Improvements Project
30 Cannon Street
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GREAT BRITAIN

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Exposure draft of proposed improvements to International Accounting Standards

Dear Sir,

In response to your invitation to comment, and as a preparer of accounts under International Accounting Standards, I am pleased to attach our comments on the above mentioned exposure draft.

Yours faithfully,

Richard Steiblin

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General Comments

The proposed effective date for all changes in the exposure draft is 1 January 2003. Some changes, however, have much more far-reaching effects than others. For example, the abolition of the LIFO-method for inventory may well require a large IT project in those entities and groups which have previously relied on LIFO valuation as the allowed alternative treatment in IAS 2. We believe that the Board should allow substantially more time for implementation of changes of this nature.

IAS 1 - Presentation of Financial Statements

Comments on the Board's specific questions

Questions 1 and 2

We agree with these proposals.

Question 3: Agreement to refinance or to reschedule payments completed after the balance sheet date - proposed paragraph 60

We disagree that a liability that is due to be settled within twelve months from the balance sheet date should be classified as a current liability when an agreement to refinance has been completed after the balance sheet date but before the financial statements are authorised for issue. In our opinion, a refinancing agreement concluded within this timeframe, where negotiations with a lender were initiated before the balance sheet date, is an adjusting event after the balance sheet date as defined by paragraph 2(a) of (AS 10.

Question 4a: Agreement not to Demand Payment After the Breach of Loan Conditions (proposed paragraph 62)

We disagree that a long term loan be classified as current after the breach of the loan terms and conditions if the lender has agreed, after the balance sheet date and before the financial statements are authorised for issue, not to demand payment as a consequence of the breach, for the same reason as given in our response to question 3.

Question 4 b: Period of Grace After the Breach of the Loan Conditions (proposed paragraphs 63 and 64)

We disagree that a long term loan be classified as current after the breach of the loan terms and conditions if the lender has agreed, after the balance sheet date and before the financial statements are authorised for issue, to grant a period of grace within which the breach can be rectified, for the same reason as given in our response to question 3.

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Question 5: Judgements made by Management in Applying Accounting Policies (proposed paragraphs 108 and 109)

We agree with the need for greater disclosure in this area. However, it would be preferable from the point of view of preparers of financial statements if the proposed requirements were made as similar as possible to the existing and proposed disclosure requirements of the US Securities and Exchange Commission (proposed rule on application of critical accounting policies - SEC release no. 33-8098), so that compliance with those requirements will ensure compliance with IAS 1 (revised). The proposed SEC rule would require disclosure of the reasons for choice of accounting policies and the method used to apply them, whereas the proposed paragraphs 108 and 109 would require disclosure about management judgements made when applying the policies; the emphasis is different. Also, we believe that entities should be allowed to disclose this information in their publicly filed Operating and Financial Review, as required by the SEC, rather than as part of the financial statements themselves, provided that a cross reference to the disclosure is given in the financial statements.

Question 6: Key Measurement Assumptions (proposed paragraphs 110-115)

We agree with the need for greater disclosure in this area. However, it would again be preferable if the proposed requirements were made as similar as possible to those in SEC release no. 33-8098. The proposed SEC rule would focus on how the current period's reported results might have been affected by the use of different estimates, whereas the proposed paragraphs 110-115 would focus on how estimates made at the balance sheet date might change in the following period; the emphasis is different. Also, we believe that entities should be allowed to disclose this information in their publicly filed Operating and Financial Review, as required by the SEC, rather than as part of the financial statements themselves, provided that a cross reference to the disclosure is given in the financial statements. We believe that many practical problems would be caused by placing this disclosure within the notes to the financial statements, where it would be subject to full external audit procedures rather than audit review.

IAS 2 - Inventories

Comments on the Board's specific questions Question 1: Elimination of LIFO

We note the Board's arguments in paragraphs A4 to A6 of the Basis for Conclusions in favour of eliminating the option to use LIFO. However, we do not agree with eliminating LIFO at the present time for the following reasons, which are mainly based on the practical effect of the change:

- All the generally accepted methods of inventory valuation have some advantages and disadvantages on a comparative basis.
- Those entities which cannot afford to forego the tax advantages mentioned in paragraph A6 would have to abandon the use of International Accounting Standards and change to another GAAP if they wished to obtain an unqualified audit report. If those enterprises have relied on the

allowed alternative treatment in IAS 2, and therefore on their ability to prepare financial statements under IAS rather than another GAAP, it may not be possible to change to another GAAP quickly, as the necessary knowledge and data may not be available.

- Those entities which have not kept inventory records on a FIFO or average cost method previously, may find that a substantial and lengthy project is necessary to reconfigure the entity's IT and accounting systems to implement the change.

- For these reasons, we believe that implementing such a change from 1 January 2003 will be impractical for some entities. We believe that, if this change is introduced by the Board, it should be mandatory only from 2004, or preferably 2005, in order that such entities can prepare properly for it. Such a delay would also allow more time for discussions to influence whether tax authorities continue to make tax advantages conditional on following a given accounting treatment in financial statements in this case.

- The proposed change, at least in the short term, would not promote convergence with US GAAP. We appreciate that the Board will already have considered this point. However, a likely consequence of eliminating LIFO at the present time would be that those US entities who prepare financial statements under IAS, but use the LIFO method in those financial statements for tax reasons, would revert to preparing their financial statements under US GAAP. As an international group, we are hoping that in the future, more national regulatory frameworks will be changed to allow entities to prepare their statutory filings under IAS, so that our subsidiaries can use IAS for their local statutory filings as well as for group reporting, and thus minimize the differences between those two sets of financial statements. The USA is one of the few jurisdictions which already allows this. The creation of a major disincentive for US entities to use IAS would thus be an unfortunate side effect of this proposed change.

Question 2: Reversal and disclosure of inventory write-downs

We agree with retaining these requirements.

IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors

Comments on the Board's specific questions

Question 1: Elimination of allowed alternative treatment for accounting policy changes and correction of errors

We agree with the elimination of the allowed alternative treatment.

Question 2: "Errors" rather than "fundamental errors"

We agree with the removal of the distinction between fundamental errors and other material errors.

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IAS 16 - Property, Plant and Equipment

Comments on the Board's specific questions

Question 1: Exchanges of Items of Property, Plant and Equipment

We agree that all exchanges of PP&E should be measured at fair value, except when such value cannot be determined reliably, or when an exchange transaction lacks commercial substance. We note that there has been considerable recent press comment about asset exchange transactions allegedly without commercial substance in the telecommunications industry.

Question 2: Exchanges of Intangibles Assets

We agree that all exchanges of intangible assets should be measured at fair value, subject to the same exceptions as for PP&E in question 1 above.

Question 3: Items of Property. Plant and Equipment that Become Temporarily Idle or that are Retired from Use and held for disposal

We agree with the proposal that depreciation of these assets should continue, subject to the addition of the following sentence at the end of paragraph 59:
"If an item of property, plant and equipment that becomes temporarily idle or that is retired from use has been impaired and its recoverable amount has been determined on the basis of the net selling price, then such item ceases to be amortised."

We consider that our proposed addition is justified because the value based on the net selling price in accordance with IAS 36 is the best evidence of the future economic benefits embodied in the items of PP&E. Furthermore any additional depreciation in this circumstance would be a double counting with the impairment loss.

Additional comments

Measurement of cost of Property, Plant & Equipment

While we welcome the inclusion of costs of testing in the costs directly attributable to bring the asset to its working condition per paragraph 15 (a), we consider that this is somewhat contradicted by paragraph 17 (a), which precludes the inclusion of costs to open a new facility as a component of the cost of PP&E. We recommend that additional clarification be given concerning the expenses that contribute to bringing the asset to its working condition and, in that context we do not understand why the example of architects and engineers per paragraph 1 5A (e) was deleted; we consider that it should be reinstated in the standard.

Paragraph 17 gives examples of costs that are not a component of the cost of property, plant and equipment. Nevertheless we consider that some examples could also be given for costs to be capitalized. In particular, paragraph 17(d) precludes the inclusion of administration and other overhead costs as a component of the costs of PP&E, which is correct for general overheads. However, enterprises sometimes delegate full time engineers, technicians and accountants to manage a construction site. We consider that the costs of these people meet the definition of directly attributable costs per paragraph 1 5A. To avoid any contradiction, we recommend that the beginning of paragraph 17 be reworded by reinstating the part of the old wording marked in italics: 'The following are examples of costs that are not a component of the cost of property, plant and equipment, unless they are necessary to bring the asset to its working condition………."

Paragraph 25 - subsequent expenditure on impaired assets

Questions arise regarding the following sentence in paragraph 25 of the Exposure Draft:

'When the carrying amount of the item of property, plant and equipment has been written down to recognise an impairment, the subsequent expenditure is capitalised to the extent that it causes the impairment loss to be reversed".

We request clarification of this sentence. As currently worded, it appears to imply that no subsequent expenditure on impaired assets may be capitalised unless a reversal of the previously recorded impairment charge appears as a credit to the income statement. We would disagree with that position on conceptual grounds. In the case of an impaired asset whose recoverable amount has been valued on the basis of value in use using the present value of discounted cash flow, the cash flows will have included outhows for future capital expenditure necessary to maintain or sustain an asset at its assessed standard of performance, in accordance with paragraph 42 of IAS 36. When these cash outflows occur, capitalisation of the expenditure will increase the carrying amount of the asset, but its recoverable amount will increase by the same amount, because future cash flows no longer include the related cash outflow. There is, however, no reversal of the previous impairment loss. Likewise, future capital expenditure that does improve the performance of the asset, although excluded from the cash flows used to assess the previous impairment in accordance with IAS 36 paragraph 37 (b), will also increase both the carrying amount and the recoverable amount when it occurs; however, it may not necessarily cause the previous impairment loss to be reversed.

We therefore suggest that this sentence in the exposure draft is reworded as follows:

'When the carrying amount of the item of property, plant and equipment has been written down to recognise an impairment, the subsequent expenditure is capitalised to the extent that it does not cause the carrying amount of the asset to exceed its recoverable amount".

Disclosure requirements

While we agree that comparative information should be presented in the table of movement of PP&E per § 60 (e) we consider that it is sufficient to require the comparative figures in total and not by classes of assets, since the full details by classes of assets are available in the previous year's report.

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IAS 21 - The effects of changes in foreign exchange rates

Comments on the Board's specific questions

Question 1 : Proposed definition of functional currency

We agree with the proposed definition, provided that the economic environment referred to is entity specific, rather than simply the economic environment of the country in which the entity is located. Due to their specific circumstances, some entities have very few cash flows or transactions denominated in the local currency of the country in which they are located.

Question 2: Financial statements may be presented in currency of choice

We agree with allowing an enterprise to present its financial statements in any currency it chooses.

Question 3: Method of translation of financial statements into presentation currency

We agree with the proposal. We have, however, the following suggestions.

Since the permitted mechanisms for using the presentation currency concept are very important for preparers to know, we suggest that the standard should take over the following from the existing Basis of Conclusion A-15:

'The financial statements of a foreign operation may be incorporated into the consolidated financial statements by being either:

a) first translated into the functional currency of the parent and then into the presentation currency, or
b) translated directly into the presentation currency."

We consider that the present wording in paras 37(a) & (c) and § 39(b) are contradictory. § 37(a) states that equity items, other than those relating to the income for the period, should be translated at closing rate. If this means that retained earnings and other equity items such as fair value adjustments are translated at the closing rate, the amount recorded as cumulative CTA under § 37(c) would include only the difference between translating the result for the period at the average and period end exchange rate. This contradicts § 39(b) which states that CTA should include also the difference between translating a net investment in a foreign operation at the opening and period end exchange rate. With the present wording of § 37(c) many components of equity, eg. share capital could be interpreted as needing to change in value each period. We consider that components of equity should remain at historical translation rates, which would be convergent with US GAAP requirements.

We also consider that § 39(b) should cover all entities not reporting in the presentation currency of the group and not just foreign operations. If a Swiss group decides to present its consolidated financial statements in US dollars then there will be a CTA on the opening net assets of all non-US dollar operations, including the Swiss parent and Swiss subsidiaries which are not usually considered to be foreign.

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Question 4: Elimination of allowed alternative to capitalize certain exchange differences

We agree with this proposal.

Question 5: Goodwill and fair value adjustments should be allocated to the foreign operation

We believe that your proposal to require goodwill and fair value adjustments to be accounted for in the currency of the acquired entity raises several issues which should be explicitly dealt with in any revised standard. We therefore recommend that the proposed change should be removed from this exposure draft. We recommend that any change is included together with the proposed exposure draft on business combinations, as a consequential amendment to IAS 21 at that time, so that the full implications can be considered. In our view, the issues to be considered include the following:

- fair value adjustments may be made to assets, for example intangible assets related to intellectual property, which are owned by the acquired entity at the acquisition date, but are subsequently transferred to another entity within the combined group which has a different functional currency from the acquired entity. We believe that the currency in which fair value adjustments are deemed to be denominated should reflect any such subsequent transfers prospectively from the date of transfer, since not to do so would result in accounting inconsistent with the accounting for any other balance sheet item held by the entity to which the fair valued asset has been transferred;

- if a group of several companies has been acquired and not all of those companies have the same functional currency, your proposal would require that goodwill be allocated on a legal entity basis to each of the functional currencies involved. We believe that any such allocation would be arbitrary, and would not necessarily reflect the substance of the business combination. We believe that goodwill, as a residual, relates to the acquired group of companies as a whole, and should be held at that level as a single amount for foreign currency translation purposes. The currency chosen should be the currency which best reflects the substance of the acquisition transaction; this may be the currency in which acquisition consideration was paid or valued. We also believe that, if goodwill were to be required to be allocated, it would be desirable for the allocation basis to be consistent with the basis of allocation for impairment testing purposes, which in turn should be convergent with US GAAP requirements. A legal entity basis will not necessarily be convergent with the allocation basis in FAS 142;

- No transition procedure has been proposed. We believe that any change should only be applied prospectively to business combinations initiated after the date on which the revised IAS 21 becomes effective.

Additional comments

Paragraph 31 - treatment of exchange differences on a monetary item forming part of a net investment in a foreign operation

Questions arise regarding the following sentence in paragraph 31 of the Exposure Draft:

"a monetary item that forms part of the reporting entity's net investment in a foreign operation may be denominated in a currency other than the functional currency of either the reporting entity or the foreign operation. The exchange differences that arise on translating the monetary item into the functional currencies of the reporting entity and the foreign operation are not reclassified to the separate component of equity in the financial statements that include the foreign operation and the reporting entity."

We request clarification of these sentences. In particular, it is unclear whether they are intended to impose any conditions on which exchange gains and losses on which monetary items can be accounted for in shareholders' equity. We believe that all exchange gains and losses on any long-term monetary item which forms part of a net investment in a foreign operation should be accounted for in shareholders' equity until the disposal of the foreign operation, and that there should be no restrictions on which entity or entities within the reporting group are parties to such an item, or in which currency such an item is denominated. A large group with a complex structure may wish to use holding or financing companies in a number of different countries in order to optimise its group structure, and the standard should take this into account.

IAS 24— Related Party Disclosures

Comments on the Board's specific questions

Question 1: Elimination of requirement to disclose "management compensation"

We agree that this area is a topic best covered by applicable stock exchange or corporate governance requirements.

Question 2: Reduction in disclosures for parent or wholly-owned subsidiary

We disagree with the Board's majority view and agree with the minority view. Where there is a statutory or other requirement to produce separate financial statements of the parent or a wholly-owned subsidiary that comply with IAS, then disclosures of related party transactions, including those with the rest the Group, should be made.

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IAS 27 - Consolidated and Separate Financial Statements

Comments on the Board's specific questions

Question 1: exemption for an intermediate parent company within a group from requirement to prepare consolidated financial statements

We agree with the proposal.

Question 2: Minority Interests

We agree with the proposed revised presentation of minority interests in the balance sheet.

Question 3: Measurement of investments in subsidiaries, Jointly Controlled Entities and Associates in the investor's consolidated and separate financial statements

We disagree with the proposal in paragraph 29 to eliminate the existing option to carry investments in subsidiaries, jointly controlled entities and associates under the equity method in the investor's separate financial statements. This is on the grounds that this restriction of currently available options would bring limited benefit to users of financial statements, and would have the disadvantage of not promoting convergence with US GAAP, under which equity method accounting treatment is generally accepted. Accordingly, we disagree that investments which are consolidated under the equity method in the investor's consolidated financial statements should be accounted for either at cost or in accordance with IAS 39 in the investor's separate financial statements. Furthermore, it appears to us that paragraph 29, in so far as it applies to investments in associates, is inconsistent with paragraphs 8 and 8A of the proposed revised IAS 28, which require the use of the equity method for associates in the investor's separate financial statements.

We agree that investments in subsidiaries, jointly controlled entities and associates that are accounted for in accordance with IAS 39 in the investor's consolidated financial statements should be accounted for in accordance with the same method in the investor's separate financial statements.

Additional comments

12 month limit for non-consolidation of temporarily held subsidiary - paragraph 13

We disagree with the 12-month lime limit for excluding from consolidation a subsidiary that is held for re-sale (paragraph 13). Very often a group of companies has to re-sell subsidiaries after an acquisition because it has been required to do so by anti-trust authorities. If such authorities allow a limit that exceeds 12 months, we consider that such limit should be accepted by the Board, as the requirement to dispose of the subsidiary affects the entity's ability to derive economic benefits from owning it. The same remark also applies to the proposed change in IAS 28 paragraph 8.

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IAS 28 - Accounting for Investments in Associates

As stated in our comments on the revisions to IAS 28, we disagree with the concept of a fixed 12 month time limit where an investment is held for resale. We agree with the proposed revised IAS 28 in all other respects.

IAS 33 - Earnings per share

We support all the proposals in the exposure draft of the revised IAS 33.