International Accounting Standards Board
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Corporate Accounting & Reporting
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Comments submitted by METRO AG on the IASB's Improvements Project

Dear Madam, dear Sir,

We thank you for the opportunity you offered us to comment on the Improvements project and would like to answer your questions as follows:

General notes

We welcome the IASB's endeavors to improve financial reporting quality and consistency. By reducing or eliminating the options, overlapping rules and conflicts among published Standards and generally upgrading the IAS as envisaged by the Improvements project, the Board continues, we believe, its path toward communicating globally accepted, high-level uniform accounting and reporting standards.

However, we feel that the IASB time schedule is a critical point. In our opinion, the proposed effective date, 1/1/2003, is too ambitious a goal, at least from the vantage point of an international group such as METRO AG's with close to 600 consolidatable subsidiaries (thereof almost 40% abroad) and quarterly reporting obligations. With a view to avoiding any loss in quality when implementing the plethora of proposed changes and amendments, we would suggest the Board postpone the effective date, e.g. to 1/1/2004, while nonetheless encouraging the voluntary application as from 1/1/2003.

Below follow our comments on certain facets of the Improvements project, confined to points we deem worth discussing while, regarding any issues not specifically addressed by us, we generally agree with what the Board has proposed.

Proposed improvements to IAS 21

Question 5

We do not agree.

Instead, we support the view presented by the Board in A25 (Basis for conclusions, p. 207). Goodwill or hidden reserves/burdens arise, we believe, at the consolidated level only as they should be seen as part of the acquisition price paid by the parent. Consequently, goodwill or hidden reserves/burdens should be treated as assets/liabilities of the parent and their value determined once only, upon initial consolidation, and carried forward in the group's currency.

Since the goodwill or hidden reserves/burdens are allocable to the parent's assets/liabilities, they are not exposed to any currency risks. Moreover, a currency effect cannot conceivably impact on the substance of any goodwill or hidden reserves/burdens, which may still be tested for impairment at a consolidated level.

However, should the proposal nevertheless be adopted by majority vote of the Board and the choice offered by IAS 21:33(b) thus be eliminated, the goodwill or hidden reserves/burdens would have to be pushed down and determined retroactively as the assets/liabilities, on the basis of the functional currency, of the acquired subsidiary.

Such a retrospective implementation would for the METRO Group entail a high amount of time, cost and effort. Therefore, we would favor a transitional provision to the effect that application of the new rule

(a) be only obligatory for any goodwill or hidden reserves/burdens created after the effective date, i.e., the residual carrying values of goodwill or hidden reserves/burdens already recognized may be carried at amortized cost, or

(b) should affect the net carrying values of any existing goodwill or hidden reserves/burdens only prospectively as from the effective date.

Proposed improvements to IAS 24

General notes

We believe that the current IAS 24 (reformatted 1994) fully satisfies the related parties reporting requirements. Since IAS 24 (reformatted 1994) has proved successful, it should principally not be modified or amended. In respect of Appendix B, par. B1, we join the group of IASB members who have voted against the publication of the proposed revised text in its present form.

The current IAS 24 (reformatted 1994) should instead be modified in the following respects:

Specific suggestions

1. Greater emphasis should in IAS 24 be placed on the principles of materiality and transparency rather than any listing of insignificant related-party transactions.

    - Transactions with related parties should only be disclosed in the aggregate, as one total, waiving the itemization of transactions or related counterparties wherever the entire volume of related-party transactions amounts to less than 1% of the reporting entity's net sales.

    - Related-party transactions accounting for 5% of the reporting entity's net sales should be broken down by, and disclosed in detail for, each related counterparty.

2. Members of a corporate (executive or nonexecutive) board should, we feel, not be treated as related parties unless they personally hold a material (>20%) stake in the reporting entity's voting capital or own the majority equity interest.

Therefore, a board member (or any of their close family members) delegated by a related party should not ipso facto be deemed a related party.

In contrast, this exemption should not apply to an individual who holds a majority or material equity interest in the reporting entity. In this context, the actual shareholding should govern the definition of related-party transactions.

(Nonetheless, some other standard should be applied to report on the pay of all corporate board members, including pension benefits/entitlements and equity-based compensation, such as stock options, etc., as this information is important to investors.)

Yours sincerely,
METRO AG
Corporate Accounting & Reporting

gez. Harald Sachs gez. Markus Modla