REDOVISNINGSRÅDET

INTERNATIONAL ACCOUNTING STANDARDS BOARD
30 Cannon Street
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UNITED KINGDOM

COMMENT LETTER ON IASB IMPROVMENTS ED

IAS 1, Presentation of Financial Statements

Q1. *Do you agree with the proposed approach regarding departure from a requirement of an IFRS or an IFRIC to achieve a fair presentation?*

We agree. However, if IAS 1 itself requires an override when no other means are available to give a true and fair view, then there will be no departure from IFRS taken as a whole
In our view the national regulatory framework should not come into consideration when preparing financial statements under International Financial Reporting Standards.

The previous standard contained an important principle (in paragraphs 12) that "Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used or by notes or explanatory material." We support that principle and regret that such an important principle is omitted in the new text. Regardless of the decision over applicability of the override when the regulatory framework prohibits departure from standards, we believe this principle should be retained.

Based on the above we recommend deletion of the words "if the relevant regulatory framework requires or otherwise does not prohibit such a departure" at the end of the new paragraph 13.

i. We believe that IAS should continue to set standards that are independent of national laws. To do otherwise would mean that IAS compliant financial statements would not be comparable between jurisdictions.

Q2. *Do you agree with prohibiting the presentation of items of income and expense as "extraordinary items" in the income statement and the notes (paragraph 78 and 79)?*

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We agree to the prohibition of presentation of income and expense as extraordinary items. It should however, be noted that other words are likely to be used. We believe that this issue should be addressed as part of the project Reporting Financial Performance. The treatment of items such as non-recurring, unusual, abnormal and similar items could in our view, be dealt with as part of that project.
However, we also propose that the board should clearly state that separate presentation as required by paragraph 76 should not result in the use of subtotals before and after such items.

Q3. *Do you agree that a long-term financial liability due to be settled within 12 months of the balance sheet date should be classified as a current liability even if an agreement to refinance or to reschedule payments is completed after the balance sheet date and before the financial statements are authorised for issue (paragraph 60).*

We agree. This reflects the conditions that existed as per balance sheet date.

Q4(a) *Do you agree that a long-term financial liability that is payable on demand because the entity breached a condition of its loan agreement should be classified as current at the balance sheet date, even if the lender has agreed after the balance sheet date and before the financial statements are authorized for issue, not to demand payment as a consequence of the breach (paragraph 62)?*

We agree. This reflects the conditions that existed as per balance sheet date.

(b) (i) *Do you agree that if an entity is in breach of a loan agreement but is given a grace period and rectifies the breach within the grace period the liability should continue to be classified as non-current.*

We agree with non-current classification if the breach is rectified within the grace period.

(ii) *Do you agree to the same classification if the grace period is given before balance sheet date, the breach has not yet been rectified but has not expired by the date of issue of the financial statements.*

We agree, provided it is not unlikely that the breach will be rectified. If the breach is a result of a potential going concern problem and it is likely the breach will not be rectified we believe management can only continue to classify the loan as non-current if it can justify the treatment by showing how the breach will be rectified.

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Q5. *Do you agree that an entity should disclose the judgement made by management in applying the accounting policies that have the most significant effect on the amounts of items recognised in the financial statements (paragraph 108 and 109).*

We agree. However, the current proposal needs to be clarified in order to ensure that meaningful information is presented. Such clarification should also include guidance as to what judgements are intended, in addition to disclosures already required in individual standards (for example, the disclosure requirements in IAS 36 are already extensive).

Q6. *Do you agree that an entity should disclose key assumptions about the future and other sources of measurement uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year (paragraphs 110-115).*

We agree. However, although we support the principle of disclosing key assumptions about the future and other sources of measurement uncertainty we believe the current wording of paragraphs 110-115 combined with the new paragraph 7 is confusing as far as the disclosure requirements regarding risk assessment is concerned. We therefore recommend expanding the current proposal to clarify what is actually expected within the notes to IFRS financial statements as opposed to what should be included in the financial review by management. We suggest adding to the new text a statement that the actual disclosures in this area will very much depend on an entity's specific situation.

We support greater disclosure of such forward looking information regarding the risks that could have a material effect on assets or liabilities within the next 12 months. However, we have significant reservations about the scope of this requirement and cannot see how it will be practical to ensure that all relevant risks are disclosed. More guidance will be needed to implement this in practise.

Other comments

The improved standards in several places permit exemptions based on "undue cost or effort" (e.g. paragraph 35: "when the presentation and or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless the reclassification would require *undue cost or effort*"). We believe further guidance should be provided in order to avoid conflicting interpretations that would undermine overall reliability and comparability of IFRS financial statements. There is a risk that someone would believe that the expression allows an entity to regard almost any cost as undue whereas the previous test of impracticality was much more stringent.

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Other disclosures: old paragraph 102 (d) has been deleted which means that there is no longer any disclosure requirement regarding the number of employees. We believe that this change is not an improvement since headcount is considered as key information by users. We therefore do not support this change.

We believe that former paragraph 6 stating that the board of directors and/or other governing body of an enterprise is responsible for the preparation and presentation of its financial statements should be reinstated.

For comparative information, the words numerical information in old paragraph 38 have been changed into amounts. We do not support this change as the former is a wider term that includes percentages, number of employees, etc. that are considered useful information.

We suggest reinstating the requirement of old paragraph 102 (d) to disclose either the number of employees at the end of the period or the average for the period as this is considered key information by many users.

IAS 2, Inventories

Q1. *Do you agree with eliminating the allowed alternative of using the last-in, first-out (LIFO) method for determining the cost of inventories under paragraphs 23 and 24 of IAS 2?*

We agree.

Q2. *IAS 2 requires reversal of write-downs of inventories when the circumstances that previously caused inventories to be written down below cost no longer exists (paragraph 30). IAS 2 also requires the amount of any reversal of any write-down of inventories to be recognised in profit or loss (paragraph 31). Do you agree with retaining those requirements?*

We agree.

Other comments:

Cost of inventories of a service provider: Having looked into this issue, we conclude that there would appear to be a conflict with the wording in IAS 18, Paragraph 26. According to that paragraph, when the outcome of a transaction involving the rendering of services cannot be estimated reliably, revenues should be recognised only to the extent of expenses recognised that are recoverable. Taking this paragraph into consideration, we have strong doubts as to whether IAS 2, Paragraph 16 will ever be applicable. We have noted that IASB have added two sentences to Paragraph 16. No comments regarding the motivation for these changes have been provided in the Basis for Conclusions. We recommend that ISAB clarify the application of Paragraph 16 in IAS 2. Furthermore, we recommend that IASB comment upon the potential conflict between IAS 2, Paragraph 16 and IAS 18.

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IAS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies

Q1. *Do you agree that the allowed alternative treatment should be eliminated for voluntarily changes in accounting policies and corrections of errors meaning that those changes and corrections should be accounted for retrospectively as if the new accounting policy had always been in use or the error had never occurred (paragraph 20, 21, 32 and 33)?*

Voluntary changes in accounting policies.

We agree with the proposed improvement which requires the use of the previous benchmark treatment whereby such changes are dealt with retrospectively as I if the new accounting policy had always been in use. However, we believe it would be useful if the standard made it clearer that voluntary changes in accounting policy should be made rarely and then only for good reasons. Consistency should not be sacrificed for a desire to show results in a more favourable light. We believe that there is a risk that retrospective application will be made for minor errors. Perhaps it should be clarified that the general statement that these standards are not intended to apply to immaterial items is applicable.

Q2. *Do you agree with eliminating the distinction between fundamental errors and other material errors (paragraphs 32 and 33)?*

We agree with the elimination of the distinction between fundamental errors and other errors because all errors are accounted for in the same way under the improved standard and there is therefore no need to retain any distinction.

IAS 15, Information Reflecting the Effects of Changing Prices

We support the withdrawal of IAS 15. However, we believe that in the long-term a standard addressing this topic will be required.

IAS 16, Property, Plant and Equipment

Q1. *Do you agree that all exchanges of items of property, plant and equipment should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably? (see paragraphs 21 and 21A)?*

We agree.

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Q2. *Do you agree that all exchanges of intangible assets should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably (Note that the Board intends to retain the policy in IAS 18, Revenue, prohibiting the recognition of revenue from exchanges or swaps of goods or services of a similar nature and value.)?*

We agree.

Q3. *Do you agree that depreciation of an item of property, plant and equipment should not cease when it becomes temporarily idle or is retired from active use and held for disposal (see paragraph 59)?*

We agree.

IAS 17, Leases

Q1. *Do you agree that when classifying a lease of land and buildings, the lease should be split into two elements - a lease of land and a lease of buildings? The land element is generally classified as an operating lease under paragraph 11 of IAS 17, Leases, and the building element is classified as an operating or finance lease by applying the conditions in paragraphs 3 to 10 of IAS 17.*

We agree.

Q2. *Do you agree that when a lessor incurs initial direct costs in negotiating a lease, those costs should be capitalised and allocated over the lease term? Do you agree that only incremental costs that are directly attributable to the lease transaction should be capitalised in this way and that they should include those internal costs that are incremental and directly attributable?*

We agree. We support capitalisation as this is consistent with the model for financial instruments and contributes to convergence. However, the text should make clear that the capitalised costs should only be those that are directly attributable to the individual lease and should not incorporate the allocation of general overheads, such as those incurred by a sales and marketing team.

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IAS 21, The Effects of Changes in Foreign Exchange Rates

Q1. *Do you agree with the proposed definition of functional currency as "the currency of the primary economic environment in which the entity operates" and the guidance proposed in paragraphs 7-12 on how to determine what is an entity's functional currency?*

We agree with the proposed improvements supported by the basis for conclusions.

Q2. *Do you agree that a reporting entity (whether a group or a stand-alone entity) should be permitted to present its financial statements in any currency (or currencies) that it chooses?*

We agree. We see no reason why a reporting entity should not be permitted to present its financial statements in any currency it chooses, although we acknowledge that local law in some jurisdictions may require the use of the currency of the parent company. However there are often very good reasons to present financial statements in a different currency – for example, because the group is multinational with shareholders and other users located principally in a different country, or because the parent is located in a small country whose currency is not widely used internationally whilst its main competitors report in one currency (e.g. Euro or US dollar). However, we recommend adding a disclosure requirement under which the reasons for the selection of the reporting currency are summarised if that currency is not that of the country of registration of the parent.

Q3. *Do you agree that all entities should translate their financial statements into the presentation currency (or currencies) using the same method as is required for translating a foreign operation for inclusion in the reporting entity's financial statements (see paragraphs 37 and 40)?*

We agree. We support the improvements which we believe increase comparability and reliability of financial statements prepared under IFRS amongst entities.

Q4. *Do you agree that the allowed alternative to capitalise certain exchange differences in paragraph 21 of IAS 21 should be removed?*

We agree. We support the elimination of the option. We believe the option to be unnecessary and the elimination of this option will increase comparability and reliability of IFRS financial statements.

Q5. *Do you agree that:*

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(a) goodwill and

(b) fair value adjustments to assets and liabilities

that arise on the acquisition of a foreign operation should be treated as assets and liabilities of the foreign operation and translated at the closing rate (see paragraph 45)?

We agree with the proposed improvement: goodwill is generated as a result of the acquisition of an entity and therefore relates to the acquired entity. For the same reason, we concur with the improvement regarding fair value adjustments to assets and liabilities.

IAS 24, Related Party Disclosures

Q1. *Do you agree that the Standard should not require disclosure of management compensation, expense allowances and similar items paid in the ordinary course of an entity's operations (see paragraph 2)?*

'Management' and 'compensation' would need to be defined, and measurement requirements for management compensation would need to be developed, if disclosure of these items were to be required. If commentators disagree with the Board's proposal, the Board would welcome suggestions on how to define 'management' and 'compensation'.

We do not agree.
We think that shareholders have the right to be informed of top management's remuneration (e.g. those managers for whom remuneration is determined by a remuneration committee of the Board).
'Management' in this context should at least include the Board of Directors in a one-tier system and also the Board of Management in a two-tier system. Compensation comprises salaries, bonuses and the value of share options, together with other parts of the benefits package (including pension benefits). Even if not exactly quantifiable the contractual agreements regarding compensation between the company and the management should be disclosed. It should be noted that in Sweden management remuneration has been, during recent months, a focus of attention.

Q2. *Do you agree that the Standard should not require disclosure of related party transactions and outstanding balances in the separate financial statements of a parent or a wholly-owned subsidiary that are made available or published with consolidated financial statements for the group to which that entity belongs?*

We do not agree. We believe that this information will often be essential to understand the financial position and performance of an entity and should

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therefore be required for separate financial statements. We recommend a requirement to disclose the intra group amounts included in the balance sheets and income statements.

IAS 27, Consolidated and Separate Financial Statements

Q1. *Do you agree that a parent need not prepare consolidated financial statements if all the criteria in paragraph 8 are met?*

We agree for the reasons explained in the basis for conclusions.

Q2. *Do you agree that minority interests should be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity (see paragraph 26)?*

We agree.

Q3. *Do you agree that investments in subsidiaries, jointly controlled entities and associates that are consolidated, proportionately consolidated or accounted for under the equity method in the consolidated financial statements should be either carried at cost or accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement, in the investor's separate financial statements (paragraph 29)?*
Do you agree that if investments in subsidiaries, jointly controlled entities and associates are accounted for in accordance with IAS 39 in the consolidated financial statements, then such investments should be accounted for in the same way in the investor's separate financial statements (paragraph 30)?

We agree.

IAS 28, Accounting for Investments in Associates

Q1. *Do you agree that IAS 28 and IAS 31, Financial Reporting of Interests in Joint Ventures, should not apply to investments that otherwise would be associates or joint ventures held by venture capital organisations, mutual funds, unit trusts and similar entities if these investments are measured at fair value in accordance with IAS 39, Financial Instruments: Recognition and Measurement, when such measurement is well-established practice in those industries (see paragraph 1)?*

We agree that for venture capital organisations, mutual funds, unit trusts and similar entities IAS 28 and 31 should not apply to investments that otherwise

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would be associates or joint ventures if these investments are measured at fair value in accordance with IAS 39, when such measurement is well-established practice in these industries. The fair value measurement will provide the most relevant and useful information.

Q2. *Do you agree that the amount to be reduced to nil when an associate incurs losses should include not only investments in the equity of the associate but also other interests such as long-term receivables (paragraph 22)?*

We agree.

IAS 33, Earnings Per Share

Q1. *Do you agree that contracts that may be settled either in ordinary shares or in cash, at the issuer's option, should be included as potential ordinary shares in the calculation of diluted earnings per share based on a rebuttable presumption that the contracts will be settled in shares?*

We agree.

Q2. *Do you agree with the following approach to the year-to-date calculation of diluted earnings per share (as illustrated in Appendix B, examples 7 and 12)?*

(i) The number of potential ordinary shares is a year-to-date weighted average of the number of potential ordinary shares included in each interim diluted earnings per share calculation, rather than a year-to-date weighted average of the number of potential ordinary shares weighted for the period they were outstanding (ie without regard for the diluted earnings per share information reported during the interim periods).

We do not agree. A consequence of the approach proposed will be that the frequency of interim reporting will influence EPS. This seems to be in conflict with Paragraph 28 in IAS 34, Interim Financial Reporting, according to which "the frequency of an enterprise's reporting should not affect the measurement of its annual results."

Other comments

1. In Paragraph 42ff the revised standard discusses when warrants are dilutive. For example, in Paragraph 43 it is stated that warrants are dilutive only when the average market price of the ordinary shares during the period exceeds the exercise price. This definition implies that only the intrinsic value of a warrant is important and that the time value is not relevant. This is clearly in conflict with the manner in which the capital markets value such instruments. It seems also to be in conflict with the present discussion of how to account for share-based payments. The Swedish standard on EPS is based on IAS 33. The

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only material difference relates to the measurement of the dilutive effect of warrants. According to the Swedish standard, an enterprise has to take time value into account. For a traded warrant, this is achieved by taking the market value of the warrant. For a non-traded warrant, the enterprise may measure the dilutive effect on a discounted value of the exercise price, even though a calculation using Black-Scholes might be more appropriate.

(ii) *The number of potential ordinary shares is computed using the average market price during the interim periods reported upon, rather than using the average market price during the year-to-date period.*

We do not agree with the described approach unless the result of using the average market price during the interim periods reported upon approximates the result that would be obtained when using the average market price during the year-to-date period. We believe that our proposed approach (i.e. using the average market price during the year-to-date period and not the average market price during the interim periods reported upon, unless the outcome of the latter method would approximate the result of the year-to-date period when computing the number of potential ordinary shares) is more consistent with the approach described under IAS 21, new paragraph 20.

(iii) *Contingently issuable shares are weighted for the interim periods in which they were included in the computation of diluted earnings per share, rather than being included in the computation of diluted earnings per share (if the conditions are satisfied) from the beginning of the year-to-date reporting period (or from the date of the contingent share agreement, if later).*

In our view this question is only relevant to the two cases discussed in the first point above to which we refer for our comments.

IAS 40

Q1. *Do you agree that the definition of investment property should be changed to permit the inclusion of a property interest held under an operating lease provided that:*
- *(a) the rest of the definition of investment property is met; and*
- *(b) the lessee uses the fair value model set out in IAS 40, paragraphs 27-49?*

We agree.

Q2. *Do you agree that a lessee that classifies a property interest held under an operating lease as investment property should account for the lease as if it were a finance lease?*

We agree.

Q3. *Do you agree that the Board should not eliminate the choice between the cost model and the fair value model in the Improvements project, but should keep*

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the matter under review with a view to reconsidering the option to use the cost model in due course?

We agree.

Stockholm 2002-09-13

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Dennis Svensson

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