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Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Cannon Street

London EC4M 6XH
United Kingdom

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542/552

Dear Sir David

Re.: Exposure Draft of proposed Improvements to International Financial Reporting Standards

We appreciate the opportunity to comment on the above mentioned Exposure Draft issued by the IASB in October 2007 and would like to submit our comments as follows:

We understand from the introduction to the Exposure Draft that the objective of the annual improvements project is to provide a streamlined process for dealing efficiently with a collection of miscellaneous, non-urgent but necessary minor amendments to IFRSs. We welcome this procedure in principle. However, in our view, some of the proposed amendments go beyond this objective.

For example, the proposed change to the determination of the fair value of a biological asset in its present location and condition (IAS 41.21) is not merely a minor issue, rather it constitutes a fundamental change with significant consequences for accounting and valuation. Irrespective of whether the proposed change is appropriate, it is, in our opinion, not expedient to implement this particular change in the context of the annual improvements project. As a minimum, we would appreciate the Board providing more information on the background and implications of the proposed amendments in the Basis for Conclusions. Since the changes in IAS 41 might ultimately have consequences for other items – as a result of the guidance hierarchy for management reference in selecting accounting policies pursuant to IAS 8 – this becomes even more significant.

Likewise the following proposed amendments are of more fundamental significance than minor issues:

- IFRS 5: Plan to sell the controlling interest in a subsidiary
- IAS 1: Statement of compliance with IFRSs
- IAS 17: Classification of leases of land and buildings
- IAS 19: Replacement of the term “fall due”
- IAS 28: Impairment of investments in associates
- IAS 38: Advertising and promotional activities
- IAS 39: Definition of a derivative
- IAS 40: Property under construction or development for future use as investment property.

We include detailed responses to some of the questions raised in the Exposure Draft in the appendix to this letter.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely

Klaus-Peter Naumann
Chief Executive Officer

Norbert Breker
Technical Director
Accounting and Auditing

Appendix: Detailed comments on selected questions raised in the Exposure Draft

Plan to sell the controlling interest in a subsidiary

Question 2

Do you agree with the proposal to add paragraph 8A to IFRS 5 to clarify that assets and liabilities of a subsidiary should be classified as held for sale if the parent has a sale plan involving loss of control of the subsidiary? If not, why?

We agree with the proposal to add paragraph 8A to IFRS 5 to clarify that assets and liabilities of a subsidiary should be classified as held for sale if the parent has a sale plan involving loss of control of the subsidiary. Based on the reasoning behind this proposal (ED Improvements, IFRS 5.BC2-3), we believe that it would be consistent to require classification as “held for sale” in the following cases as well:

- loss of joint control (and accounting for the remaining interests pursuant to IAS 39)
- loss of significant influence (and accounting for the remaining interests pursuant to IAS 39).

The Board itself emphasises in the Basis for Conclusions of the new IAS 27 (near-final draft), that consistent accounting is appropriate for those three issues (IAS 27.BC27AH):

„The Board observed that the loss of control of a subsidiary, the loss of significant influence over an associate and the loss of joint control in a jointly controlled entity are economically similar events; thus they should be accounted for similarly. The loss of control as well as the loss of significant influence or joint control represents a significant economic event that changes the nature of an investment. Therefore, the Board concluded that the accounting guidance on the loss of control of a subsidiary should be extended to events or transactions in which an investor loses significant influence over an associate or joint control of a jointly controlled entity.”

Furthermore, we suggest the Board clarify how the carrying amount of the investment should be determined in case there is a change in status resulting in a change from consolidation to the equity method. As it has been discussed in the May 2007 IFRIC meeting, some believe that after loss of control of the subsidiary the entity should catch up the depreciation inherent in that asset. That is the amount equity accounted should reflect the depreciation which the subsidiary would have continued to recognise in its individual financial statements during

the period where the parent intended to sell its controlling interest. This position is based on an analogue application of IAS 28.15. Furthermore, this would be more consistent with the reporting package (and the individual financial statements) of the associate.

Others do not share this view and believe that IAS 28 and IAS 27 determine the carrying amount of the investment retained in the consolidated financial statements at the date control is lost. They argue that equity accounting applies to the period during which the entity has significant influence only, and not to the period prior to that, during which the entity had control. Under this approach, the carrying amount of the non-controlling investment retained would be the share of net assets, adjusted to reflect the portion of the interest retained in the former subsidiary, at the date that the entity ceases to be a subsidiary, i.e. when control is lost. One consequence is that, if the former subsidiary was previously held for sale, the carrying amount of the disposal group at the date control is lost would have been affected by the measurement requirements of IFRS 5 for any assets and liabilities of the disposal group that are within its scope of measurement.

Current/non-current classification of derivatives

Question 6

Do you agree with the proposal to amend the examples in paragraphs 68 and 71 of IAS 1 to remove the potential implication that financial assets and financial liabilities that are classified as held for trading in accordance with IAS 39 are required to be presented as current? If not, why?

In our opinion, the proposed amendments to IAS 1.68 and IAS 1.71, whereby an entity henceforth can classify derivatives that are not a financial guarantee contract or a designated and effective hedging instrument as non-current, contradict the tenor of IAS 39. When derivatives have to be classified as held for trading in accordance with IAS 39, the presentation of these items as current needs to reflect this fact in accordance with IAS 1. Should the proposed amendments in IAS 1 be implemented, mandatory classification of derivatives as held for trading would no longer be justified. Furthermore, we believe that it is not sufficient to delete the cross-references to IAS 39 in IAS 1.68 and IAS 1.71 in order to accomplish the Board's intention. Held "primarily for the purpose of trading" (IAS 1.66(b), IAS 1.69(b)) is probably equivalent to the category "held for trading" pursuant to IAS 39.9.

Costs of originating a loan

Question 13

Do you agree with the proposed amendment to the guidance on IAS 18 to explain that the definition of the transaction costs to be applied to the accounting for financial asset origination fees are those defined in IAS 39? If not, why?

We appreciate the Board removing the inconsistency between the definition of costs incurred in the acquisition or creation of certain financial assets in IAS 18, appendix 14(a)(i) and the definition of transaction costs in IAS 39 as well as the way the inconsistency has been abolished, i.e. by referring to the definition of transaction costs in IAS 39.

However, we would like to point out the fact that the same inconsistency exists in IAS 18, appendix 14(a)(ii), which applies to commitment fees to originate loans. In our view, IAS 18, appendix 14(a)(ii) should therefore be amended accordingly.

Curtailments and negative past service costs

Question 14(a)

Do you agree that IAS 19 should be amended to clarify that when a plan amendment reduces benefits for future service, the reduction relating to future service is a curtailment and any reduction relating to past service is negative past service cost? If not, why?

We support the Board's intention to clarify the definitions of negative past service costs and curtailments in respect of plan amendments. We understand from the Basis for Conclusions (ED Improvements, IAS 19.BC9) that a plan amendment is a curtailment insofar as it results in reductions in benefits for future service, whereas reductions in benefits for past service are negative past service costs, even if they result from plan amendments that also reduce future benefits.

In our opinion, it is difficult to fully comprehend the Board's intended meaning from the proposed wording in the standard. In contrast, we find ED Improvements, IAS 19.BC9, quite clear and straightforward in this respect. Therefore, we suggest the Board revise the wording in the standard so that the definitions of negative past service costs and curtailments are easy to understand without reference to the Basis for Conclusions.

Replacement of term “fall due”

Question 16

Do you agree with the proposal to replace in IAS 19 the term ‘fall due’ with the notion of employee entitlement in the definitions of short-term employee benefits and other long-term employee benefits? If not, why?

We do not support the proposal to replace in IAS 19 the term “fall due” with the notion of employee entitlement in the definitions of short-term employee benefits and other long-term employee benefits. We understand that in the Board’s opinion, the critical factor in classifying the benefit is the timing of the employees entitlement to the benefit rather than the expected timing of settlement (ED Improvements, IAS 19.BC4).

But in our opinion, reference to entitlement may be problematical, particularly when translated, because a legal entitlement often already exists at the balance sheet date once the related services have been rendered, whereas the entitlement to settlement may be for a future point in time. Therefore we suggest the Board clarify its intention, in order that it is clear that an entitlement the settlement of which will not occur within 12 months after the balance sheet date is not included in the definition of short term employee benefits. The same reasoning applies to IAS 19.8(b), too.

Impairment of investments in associates

Question 23

Do you agree with the proposal to amend paragraph 33 of IAS 28 to clarify the circumstances in which an impairment charge against an investment in an associate should be reversed? If not, why?

For investments in associates, the Board proposes an amendment to IAS 28.33, whereby any impairment loss is not allocated to the goodwill and other assets included in the investment in the associate. Accordingly, any reversals of those impairment losses are recognised to the extent that the recoverable amount of the investment subsequently increases.

We believe that the non-allocation of any impairment loss might involve undesirable consequences for the value of assets included in the investment in the associate in some cases, since, for example, if the depreciation of the assets of an associate is calculated on the same basis as has been applied hitherto, i.e., without taking account of the impairment loss, the carrying amount of the investment in the associate continues to decrease even after the impairment of

the interest in the associate. This might not be appropriate in every case. Admittedly, in many circumstances an impairment of the investment in associates will represent impairment at the level of the associate itself.

We believe this issue ought to be debated in depth.

Advertising and promotional activities

Question 28(a)

Do you agree that IAS 38 should emphasise that an entity should recognise expenditure on an intangible item as an expense when it has access to the goods or has received the services? If not, why?

The Board proposes that in the case of the supply of goods, the entity recognises such expenditure as an expense when it has access to those goods. In the case of the supply of services, the entity recognises such expenditure as an expense when it receives those services. Conceptually, we agree with the alternative view put forward by Jim Leisenring claiming that the Board's proposed amendments would introduce a logical flaw into IAS 38. The proposed amendment to paragraph 69 includes guidance on the accounting for expenditure on the supply of goods. Such expenditure is, by its nature, expenditure on a tangible rather than an intangible item (ED Improvements, IAS 38.AV2-3).

Moreover, we believe that the wording of the proposed amendments fails to clarify the one main issue they are supposed to address, i.e. the accounting for catalogue costs of mail order companies. In our opinion, it is not appropriate to view catalogue costs simply as a part of advertising and promotional activities. In the mail order business, catalogues serve as the point of sale and have the same function as physical stores have for conventional retailers or web sites for web-based retailers, i.e. they constitute a distribution channel. Creation of catalogues is a sophisticated process aimed at creation of added value for customers, in particular when the product range is carefully selected for display. They are protected by copyright. Furthermore, such catalogues are not distributed randomly, but only to selected customers. The selection is based on address scoring methodologies including analyses of buying and payment histories, sociological and socio-demographical characteristics of customers.

We believe that the proposed wording of IAS 38.69 still allows for the application of SIC-32: "Intangible Assets – Web Site Costs" by analogy. In respect of catalogue costs, this would imply that some expenditure can be recognised as an intangible asset on the following grounds: mail order catalogues are identifiable

as they are protected by copyright. Even after distribution to the customer, they remain resources within the control of the entity, because only the entity itself is able to obtain any future economic benefits generated by the catalogues. Orders placed through catalogues can be closely traced by the mail-order companies. The use of catalogue-specific article numbers facilitates the unequivocal assignment of revenue to the catalogue generating the sale. Therefore, they are comparable to web sites “capable of generating revenues, including direct revenues from enabling orders to be placed” (SIC-32.8). As mail order catalogues fulfil the requirements of IAS 38.21 and IAS 38.57, recognition of an intangible asset can be appropriate.

Definition of a derivative

Question 30

Do you agree with the proposal to amend IAS 39 by removing from the definition of a derivative the exclusion relating to contracts linked to non-financial variables that are specific to a party to the contract? If not, why?

We do not support the proposed removal from the definition of a derivative of the exclusion relating to contracts linked to non-financial variables that are specific to a party to the contract. As a result of the proposal, contracts linked to non-financial variables specific to a party to a contract would be classified as derivatives. Thus, any contracts linked to EBIT, EBITDA or similar measures would be classified as derivatives, deviating from current practice. We believe that this does not portray the economic substance adequately in many cases. Furthermore, in our view, the enumeration of the reference bases in IAS 39.9 should mirror that of the definition of financial risk in IFRS 4. Otherwise, ambiguities could arise concerning the delineation of the scope of IAS 39 and IFRS 4.

Moreover, the main problem remains unsolved: i.e., the distinction between financial and non-financial variables. It is still unclear, for example, whether revenue or EBITDA of an entity are financial or non-financial variables (we refer to IFRIC Update July 2006, p. 7, IFRIC Update November 2006, p. 4).

Finally, preparers of financial statements would have to examine and, possibly, re-classify any existing contract, because the Board did not provide for prospective application of the proposed amendments.

All in all, we do not advocate the implementation of this proposal. In the event the Board does not share our position, we would appreciate the Board at least allowing for prospective application.

Property under construction or development for future use as investment property

Question 35

The exposure draft proposes to include property under construction or development for future use as an investment property within the scope of IAS 40. Do you agree with the proposal? If not, why?

We understand that the Board intends to remove an inconsistency in IAS 40 in proposing to include property under construction or development for future use as an investment property within the scope of IAS 40. At present, if property is constructed or developed for future use as investment property, the property falls within the scope of IAS 16 until it is complete.

Rather than the proposed requirement, we believe that the Board should provide an explicit option allowing the cost model to be applied for investment property under construction, even when an entity has selected the fair value model as its accounting policy. Despite the progress made in respect of valuation techniques for the calculation of fair values, measurement of property under construction or development is far from straightforward.

Additional biological transformation

Question 40

Do you agree with the proposal to remove the exclusion of ‘additional biological transformation’ from paragraph 21 of IAS 41? If not, why?

We do not agree with the proposal to remove the exclusion of ”additional biological transformation” from IAS 41.21, because it conflicts with the objective of the calculation of the present value of expected net cash flows, which is to determine the fair value of a biological asset in its present location and condition (IAS 41.21). If increases in value from additional biological transformation are included, this would infringe upon the fundamental principle of portraying the financial position as at the balance sheet date. Furthermore, because of the hierarchy of guidance for management reference in selecting accounting policies pursuant to IAS 8 consequences for other items might evolve, for example for intangible assets. Finally, it might be too early to integrate the “market participant view” into the IFRSs given that the project on “Fair Value Measurements” has not yet been finalised.

Other remarks

The Board proposes to permit early application of the amendments provided that all of the proposed amendments from the annual improvements project are applied for the same period. We understand the intention of this requirement is to prevent “cherry picking”. As the Board believes that each amendment is an improvement and the improvements are supposed to be minor, this requirement seems neither necessary nor appropriate.

In addition, early application of the amendments from the annual improvements project requires early application of IAS 1 (as revised in 2007). The underlying reasoning is not apparent. In our view, the relationship between IAS 1 (as revised in 2007) and the proposals of the annual improvements project is not sufficiently close as to justify this requirement.