nationalgrid

1-3 Strand
London
WC2N 5EH

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Steve Lucas
Finance Director

Tel +44 (0)20 7004 3000
Fax +44 (0)20 7004 3004

www.nationalgrid.com

11 January 2008

Exposure Draft of Proposed Improvements To International Financial Reporting Standards

We are pleased to comment on the International Accounting Standards Board's ("IASB") exposure draft of proposed improvements to International Financial Reporting Standards. We support the annual improvements process, which in our view is as an effective way to deal with minor, but necessary, amendments to IFRS.

We do not have any comments on the majority of the proposed amendments to IFRS, however, we would like to comment on one of the proposed amendments.

We disagree with the proposal to amend the accounting treatment of impairment losses under the equity method within IAS 28. We believe that any impairment loss recorded with respect to an associate or joint venture should be allocated against the element of the carrying value of that associate or joint venture that has been identified as goodwill in accordance with IFRS 3 and that any impairment allocated to that goodwill element should not be reversed, consistent with IAS 36, which prohibits the reversal of impairment losses related to goodwill.

One of the effects of the proposal would be to create a significant inconsistency in accounting treatments dependent on the amount of goodwill recorded on the associate's or joint venture's own balance sheet, arising from an accounting or structuring difference rather than an economic difference. For example, the proposal would result in an impairment in the carrying value of an associate or joint venture interest in an 'acquisition vehicle' formed to acquire a business (where goodwill would be recorded in the books of the associate or joint venture and so any impairment would not be reversible) being treated completely differently from an impairment of an associate or joint venture interest made directly into the same business (where goodwill would exist within equity accounting and impairments would be reversible under this proposal). This inconsistency is illustrated in the appendix to this letter.

We also note that practical difficulties may arise from the need to continually monitor for potential impairment reversals in the carrying value of an unlisted associate, where access to information might be limited and that the associate would have no need to monitor for impairment reversal for its own accounting purposes. Finally, we consider that this proposal may lead to the recognition of gains in internally generated goodwill, in conflict with IAS 36, where the reason for the recovery in value is not necessarily related to the original business activity.

We hope you find the above comment helpful in reaching your conclusions.

National Grid plc
Registered Office: 1-3 Strand, London WC2N 5EH
Registered in England and Wales, No 4031152

For your next annual improvements process, we would like to recommend that you consider a minor amendment to IAS 1, which currently requires disclosure on the face of the income statement of the share of the profit or loss of associates and joint ventures accounted for using the equity method on a post-tax basis. We believe that the reporting and understanding of the financial performance of associates and joint ventures would be enhanced if entities were permitted to report their results on the face of the income statement before tax and include the related tax within the tax expense line.

Yours sincerely,

Steve Lucas
Finance Director
National Grid plc

APPENDIX

IASB improvements project – illustration for comment letter

A Assume:

Company A is to acquire a 20% stake in company C
- the investment costs 100 and the fair value of C's assets are 80

There are two scenarios

1 Acquire a 20% stake in C directly
2 Acquire a 20% stake in an acquisition vehicle B. B acquires C.

B Consolidated balance sheet of A

	Scenario 1 Investment In C directly	Scenario2 Investment in C via B
Investment 100 in associate	100	100

C Composition of investment

The above investment comprises the following:

Share of C's assets	80	80
Share of goodwill recognised in B's consolidated balance sheet	-	20
Share of assets recognised via equity accounting	80	100
Goodwill recognised within A's balance sheet only	20	-
	100	100

D Impairment

Assume the value of the investment falls to 95. In scenario 1 an impairment of 5 would be recognised in the books of A. In scenario 2 B would record an impairment of 5 against goodwill, which would be reflected in A's books through equity accounting. A does not need to record any additional impairment.	(5)	(5)
Carrying value following impairment	95	95

E Subsequent increase in value

The proposed amendment to IAS 28 would allow reversal of impairments to the carrying value of the investment. However, IAS 36 forbids any reversal of impairments of goodwill. If the value of the investment were subsequently to increase (say to 98) then under scenario 1, 3 of the impairment would be reversed and the investment would be reported at 98 by A. Under scenario 2 the goodwill impairment recorded in B cannot be reversed and so the investment would continue to be reported at 95 by A.	3	-
Carrying value following increase in value	98	95