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International Accounting Standards
Board (IASB)
Ms. Anne McGeachin
Project Manager
30 Cannon Street, London EC4M 6XH
United Kingdom

November 13, 2003

Consequential Amendments to IAS 27

Dear Ms. McGeachin:

Upon further review of the ED-4 proposal, we have discovered a significant issue, which we believe should be addressed by the IASB prior to issuing a final standard. Specifically, we are concerned that the consequential amendment to IAS 27, which removes the temporary exclusion from consolidation for subsidiaries held exclusively with a view for disposal, may indirectly create a reconciling difference to US GAAP. This amendment may result in the temporary consolidation of subsidiaries (i.e. trusts, partnerships, corporations etc.) created for the purpose of dispersing the risks and benefits in a pool of financial assets to multiple investors (i.e. securitization). The scope of ED-4 applies to a group of assets only if a non-current asset covered by the standard is part of that group. As such, an entity made up only of financial instruments would not be within the scope of ED-4. The accounting for such subsidiaries falls under the scope of IAS 27 and removal of the temporary exclusion will result in consolidation, regardless of intent to hold, which will impact the entire securitization industry (were it subject to IFRS) and potentially add tens of billions to individual bank balance sheets.

ED-4 recognizes that it is not appropriate to consolidate newly acquired assets that meet the criteria to be classified as held for sale. Financial institutions often trade in and out of residual positions in securities that could be considered controlling interests pursuant to SIC 12. Some of the most common are residential mortgage backed securities, collateralized debt obligations and other asset backed paper. In some instances, this trading is for the purpose of profiting from short-term market volatility. In other cases, financial institutions may acquire multiple positions for the purpose of re-securitizing them in the short term. If the temporary exclusion under IAS 27 is deleted, entities will be required to consolidate these subsidiaries only to derecognize them shortly thereafter when the equity interest is sold. This would create misleading results and would effectively lock into a revolving consolidation scenario that will be difficult for investors to comprehend.

We understand that ED-4 was issued as part of the convergence project with US GAAP. However, in the US, where these markets are most concentrated, most securitizations are set up to meet the US GAAP Qualifying Special Purpose Entity (‘QSPE’) criteria. Thus, when FAS 144 removed the temporary exemption from FAS 94, these products were unaffected, as they were never consolidated as a result of their QSPE status. As IAS does not have a QSPE equivalent, banks have relied on the "temporary" exemption in IAS 27 not to consolidate these structures.

As a result, a difference between IAS and US GAAP may occur because of these amendments. We do not believe that this was the intention of the Board, and we urge the IASB to reconsider maintaining the temporary exclusion under IAS 27. As an alternative ED-4 could be amended to specifically include these types of structures in its scope.

We apologize for raising this issue at such a late stage, but would appreciate you considering these comments. Please contact us at your convenience if you would like to discuss any comments that we have made. Your contacts on this topic are Ralph Odermatt + 41-1-236-8410 and John Gallagher +1 203-719-7092.

Sincerely,

UBS AG

Ralph Odermatt	John Gallagher
Managing Director	Executive Director
Accounting Policies and Support	Accounting Policies and Support