

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

15 January 2009

Exposure Draft, Investments in Debt Instruments (IFRS 7)

Dear Sirs

The Roche Group has a turnover of CHF 46 bn. a year (EUR 28 bn.) derived from our worldwide healthcare business - pharmaceuticals and diagnostics - and employs nearly 80,000 people worldwide. We have a market capitalisation (end 2007) of CHF 171 bn. (EUR 103 bn.) We have been preparing our consolidated financial statements according to IFRS/IAS since 1990 and therefore have a substantial interest in how these will develop, so we welcome this opportunity to give feedback on the ED.

We generally welcome the Board's efforts to improve financial reporting to help cope with the recent turmoil in the financial markets – or at least reduce the risks of a possible recurrence - where they lead to practical, useful solutions. It is therefore regrettable that we have to conclude that the proposals contained in the ED are just not acceptable in their present form, for the reasons given below.

1. Timing

The Board apparently has in mind to backdate any eventual standard to annual periods ending on or after December 15, 2008. We vigorously reject this approach for several reasons:

- We have already seen with the re-classification changes in October how dispensing with proper due process – or, as here, with a due process which merits the name – can lead to less-than-high quality standards.
- As a matter of principle, application of standards should not be back-dated, but especially so close to publication dates.. In many groups with fast-close year-ends, it would now give rise to immense

practical difficulties if they had to implement a standard only a couple of days old when they publish their reports for 2008, even if only disclosures about *year-end* 2008 are involved. (For your information, our subsidiaries already had to report their 2008 financial information to us by January 7, a week ago, to permit us to publish our consolidated financial statements by the “fast-close” deadline.)

- Even apart from the problems which would arise in the preparation of the published reports themselves, the Board’s apparent assumption that the information is readily available is unfortunately quite without basis in reality. We give more detail on this point below under “Other practical considerations”.
- Since the likelihood of EU endorsement in time for application of any resulting standard for 2008 seems to us to be somewhat low, arguments about timely achievement of comparability appear to us not to hold water.
- Perhaps the Board may like to consider making application mandatory for annual periods beginning on or before January 1, 2010 but encouraging earlier application, even if only partial.

2. Necessity

We do not find convincing the Board’s arguments that the proposed additional disclosures are necessary.

- The round tables seem to have focussed on disclosures on AFS items, and the expansion to cover all debt instruments appears to be a Board invention not backed up by the stated needs of real users.
- The argument about comparability is also spurious as, in our view, the different categories of financial assets and the different measurement bases applied to them represent real differences in business model. We do not see the relevance for users of some hypothetical fair value for trade receivables which the entity is itself going to collect: the net value derived through the existing impairment procedures is surely the only relevant one. Neither do we see the relevance of presenting such hypothetical values for assets which will be held to maturity, in contrast to (e.g.) assets which are held for trading. Consequently, trying to compare the positions of entities holding certain items to maturity with similar items held by another entity for trading purposes seems rather pointless and even potentially misleading when assessing potential future cash flows. Current standards are rightly based on mixed measurement models depending on the particular circumstances, as we argued in our response to the DP on Reducing Complexity in Reporting Financial Instruments, and trying to measure everything on both bases is to us a pointless and costly exercise.
- The round-table reactions appear to us to reflect increased lack of confidence in, and scepticism about, the value of fair-value measurement in many situations. However, those are the current rules: if they are still felt unsatisfactory, even after the Board’s efforts in giving extra guidance on procedures where markets become inactive, then more robust ones need to be devised. Insistence on entities running two sets of books for the same transactions is for us an unacceptable fudge.

3. Other practical considerations

We mentioned above substantial practical difficulties in obtaining some of the information proposed. For instance, we would have considerable problems in producing at such short notice accurate information in respect of amortised cost for AFS items. We would have to work with short-cuts, estimates and work-arounds: since we are committed to producing high-quality financial

statements – just as the Board is committed to producing high-quality financial reporting standards – we would be extremely reluctant to compromise our reporting in this manner, in the absence of any indication that there is a clear necessity.

4. Quality of drafting

As a basis for a high-quality financial reporting standard, we find the ED highly deficient in drafting. The biggest lacuna is its lack of definition of what it is actually talking about. As far as we have been able to discern, “debt instrument” and “investment” are not defined terms in IFRS. For the former we have had within Roche interpretations as far apart as “any financial asset which is not an equity instrument” and “treasury marketable securities [a Roche-internal term] which are not equities”. The examples in the ED point rather toward the former. Under this, we would presumably have to report the value of our cash under both fair value and amortised cost methods – not the kind of information likely to be of great help to users. The same applies to our trade receivables, as already mentioned. We suggest that, if the Board insists on bringing forth a standard, its scoping should be devised in a manner which restricts the required disclosures to those positions which are material (in terms of the entity’s consolidated financial statements as a whole), likely to show significant variations between the two measurement bases and relevant for users. At the very least something like para. 29 (a) of the current IFRS 7 is needed (not required “when the carrying amount is a reasonable approximation of the fair value, for example, for financial instruments such as short-term trade receivables”)

5. Entities concerned

The Financial Times recently wrote on the turmoil in financial markets, “The problems, however astonishing and severe, are symptoms of the financial sector alone.” As an industrial group we would ask the Board to bear in mind that the additional reporting requirements proposed in the ED – and in several other similar proposals – perforce would affect *all* entities reporting under IFRS, not just those in the financial sector where an improvement in disclosure may be more desirable. We have always supported the Board’s position that similar transactions should be treated in a similar fashion, irrespective of the industry, but this acceptance naturally implies that the Board must weigh the costs of compliance for *all* preparers in evaluating its options, which we do not have the impression to be the case in the ED. We would ask the Board to be more cognisant of the impact on non-financial entities. The experience of many industrial groups with IFRS 7 so far has been that, despite the wording of IFRS 7, Appendix B (Application Guidance), para B 3, it is often very difficult to achieve “smart reporting” on financial instruments – deciding the level of detail in the light of the entity’s circumstances, etc. – in a highly risk-averse environment strongly influenced by technical desks and regulatory procedures which are rather distanced from those circumstances. This has led to an overburdening of financial statements of many industrial groups with excessive detail which might, however, be quite appropriate for an entity in the financial sector. We hope that the Board will bear in mind that it is not just taking care of the latter.

Sincerely,

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