

Scottish & Newcastle

20th August 2002

IASB
30 Cannon Street
London
EC4M 6XH

Dear Sir

The Effects of Changes in Foreign Exchange Rates

I would like to comment on the proposed revision to IAS21.

- 1.** I do not agree that goodwill that arises on the acquisition of a foreign operation should be denominated in a foreign currency.

The arguments given in the Basis of Conclusions are not conclusive either way. In addition, the proposal to require goodwill to be in a foreign currency can lead to a significant understatement of goodwill in the following circumstances.

If an acquirer has a strong currency with inflation of say 2% and acquires a company in a foreign currency with inflation of say 10% then, other things being equal, the foreign currency will depreciate by 8%. If the goodwill is held in the foreign currency then when converted back into the strong currency it will have reduced in balance sheet value by 8%. This implies that the goodwill has reduced in value and shareholders funds will reduce to reflect this. However, the cashflows of the subsidiary in local currency will have increased because of inflation to offset the exchange rate decline. Although, the value of the subsidiary in both local and presentational currencies has not declined the proposals in the exposure draft will lead to a reduction in shareholder funds. I strongly recommend a change to the proposals so that companies have the option of holding goodwill in either the presentation currency of the Group or the local currency of the subsidiary.

Cont'd...



I would like my comments to be treated as confidential.

Yours faithfully

A handwritten signature in cursive script, appearing to read 'C. Campbell'.

 **Colin M Beggs**
Group Financial Controller