UNICE
THE VOICE OF BUSINESS IN EUROPE

22.7/8/1 23 February 2004

Mr Patrick Mommens
Project Manager
EFRAG
41 Avenue des Arts
1040 Brussels

Dear Mr Mommens,

RE: DRAFT EFRAG LETTER ON THE ADOPTION OF THE REVISED INTERNATIONAL ACCOUNTING STANDARDS

In response to your consultation on the draft EFRAG letter concerning adoption of the revised International Accounting Standards published by the IASB on 18 December 2003 as the outcome of the IASB's improvement project, UNICE would like to offer the following remarks.

UNICE concurs with the positive endorsement advice that is formulated in the draft letter. On balance, we are of the opinion that the proposed revised standards are suitable for application in the European Union and that they meet the criteria that have been established by the European Parliament and Council. However, we do recommend expressing some concerns that are raised in your draft letter more strongly because the IASB has failed to take into account the views expressed by EFRAG in earlier comments on the improvement project on two topics that remain highly controversial in our view.

In addition, we recommend bringing to the attention of the European Commission that the IASB has used the improvement project to tighten the language of its standards which results in highly undesirable changes from the perspective of preparers in two areas. We will address these points in more detail in the following paragraphs.

1. With respect to IAS 16 "Property, Plant and Equipment" the introduction of the requirement to review the residual value of fixed assets subsequent to the time of acquisition is undesirable. This requirement is a significant change compared with current accounting practice that will create considerable costs for preparers. Both the work involved and the risk that external evaluations may be required for certain long lived assets like real estate is very

burdensome and out of balance with the added value, if any, of such evaluation of the residual value. In addition, changes in the residual value that would result from such an evaluation will lead to changes in depreciation charges that will be difficult to explain to the users of accounts and will also be burdensome for investment analysts and other professional users who will have to adjust their valuation models each time the expected residual value is changed. Again the additional burden is deemed to outweigh the advantages of this new requirement. In our view, the undesirability of this new requirement should be expressed more strongly in EFRAG's letter, all the more, because of the fact that EFRAG initially commented that the proposals from the IASB in this respect were not supported.

2. A second aspect of the revised standards where EFRAG's initial advice was not honoured by the IASB is the deletion of the option to apply equity accounting for investments in subsidiaries, jointly controlled entities and associates in the investors' single company financial statements from IAS 27 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries". In a number of European countries it is current practice to apply equity accounting in such situations and in fact equity accounting is regarded as the preferred treatment because it allows equity in the single company and consolidated financial statement to be equal. Creating a difference between sets of equity can have undesired effects, for instance because the parent company equity may be subject to covenants in credit arrangements that would be affected by such a change. As of 2005, IFRS will be introduced for consolidated accounts in the European Union but some member states are also planning to make IFRS applicable for single company accounts and therefore the elimination of this option is likely to become relevant and burdensome for companies in a number of member states. For that reason, the concerns about the elimination of this option should be expressed more forcefully in the final endorsement advice of EFRAG.

3. We further note that new, more strict, language has been introduced in IAS 16 "Property, Plant and Equipment" in the description of the component approach for the individual recognition of components of certain fixed assets. The new wording has been introduced after the revised standard was exposed for comments and appears to be unrelated to the comments that were submitted to the IASB. Therefore the question should be raised as to why the due process has not been applied and what motivates such a change. The stricter language can be expected to necessitate the separate recognition of components of fixed assets more frequently leading to additional administrative burdens for preparers.

As a last point, we recommend that you discuss the changes that are being introduced by the IASB in the conditions that need to be met to be able to apply hard currency accounting in hyperinflation countries.

The wording in the revised IAS 21 "The Effects of Changes in Foreign Exchange Rates" is much more stringent than that of SIC 19 and therefore it appears to be becoming practically impossible to apply hard currency accounting in hyperinflation economies. That is a dramatic change compared with current practice and a dangerous one because it is likely to result in less meaningful information in a number of cases. The change also goes against business logic: in many hyperinflation countries business in fact thinks and operates in hard currency and functional currency accounting mirrors that. Furthermore an important drawback of the alternative, indexation, is that reliable indexes of purchasing power developments

UNICE
THE VOICE OF BUSINESS IN EUROPE

are often unavailable in countries with hyperinflation. This creates a serious risk for the reliability of any information that is obtained on the basis of indexation.

We hope that you will do the necessary to take account of the above points. We remain at your disposal should you need further clarification or background information.

Yours sincerely,

(original signed by)
Jérôme P. Chauvin
Director, Company Affairs Department