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

5 November 2008

Exposure Draft, Improvements to IFRS

Dear Sirs

Roche, a Basel-based healthcare group, has a turnover of CHF 46 bn a year (EUR 28 bn.) derived from pharmaceuticals and diagnostics. We employ nearly 80,000 people worldwide and have a market capitalisation (end 2007) of CHF 171 bn. (EUR 103 bn.) As a large multinational group which has been using IAS/IFRS since 1990 and has been closely involved in their development, we greatly appreciate the opportunity to give you our comments on the Exposure Draft (ED.) Discussion Paper (DP.) In general we support the proposals as practical, useful and reasonable and have reservations only on the couple of items below.

IAS 36, Impairment of Assets – unit of accounting for goodwill impairment

We believe that this proposal is potentially rather far-reaching and think that it should therefore be dealt with separately rather than in the "Annual Improvements". On the principle we see a distinct contradiction between the proposal and the general IFRS 8 principle of "through management's eyes". Where management monitor goodwill only at the reportable segment level, why should an additional, artificial constraint be applied? Even if we were to agree with the proposal that the largest unit permitted for impairment testing should be the lowest level of operating segment as defined by IFRS 8 *prior to aggregation*, we would like to see a clearer confirmation in para 140E (transitional provisions and effective date) that "prospectively" means that the revised standard will not require with-hindsight re-allocation of goodwill relating to previous acquisitions where an *after-aggregation* approach was previously applied in line with the "through management's eyes" principle.

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IAS 39, Financial Instruments: Recognition and Measurement – bifurcation of an embedded foreign currency derivative

We have the following concerns with this proposal:

BC18 mentions that paragraph AG 33(d) is intended to exempt preparers from separating embedded foreign currency derivatives if the embedded derivatives are integral to the arrangement and hence bear a close economic relationship to the terms of the contract; that is, embedded foreign currency derivatives that have been entered into for reasons that are clearly not based on achieving a desired accounting result or for speculative purposes. The proposed amendment does not achieve this intention because it covers only some but not all types of currencies that could potentially be in line with this reasoning.

BC 19 lists examples of situations in which contracts denominated in a foreign currency (**transaction** currency) are likely to be integral to the contractual arrangement. However, we question whether the proposed amendment's reference to the characteristics of **functional** currency in IAS 21 would cover all these examples, and in particular the last three. This would in effect impose tighter limitations than what is currently imposed in AG33(d) as well as apply to transaction currency a definition constructed for functional currency, which is a conceptually different animal. Neither are we convinced that the six examples sufficiently clarify proposed BC18's notion of "integral to the arrangement and hence bear a close economic relationship to the terms of the contract; that is, embedded foreign currency derivatives that have been entered into for reasons that are clearly not based on achieving a desired accounting result or for speculative purposes". We think that many other types of currencies would meet this description.

In order to achieve a better clarity in this area of reporting for financial instruments, a principle must be defined why in certain circumstances it is appropriate not to separate foreign currency embedded derivatives and not to account for them at fair value through profit or loss. BC 18 makes such an attempt, but its reasoning is reflected neither in the examples nor in the proposed amendment to the Standard. The requirements regarding embedded derivatives generally lack a principle, as shown here: the IASB should perhaps reconsider the accounting for embedded derivatives generally, including this issue in particular, to make this area of reporting more principle based.

May we also make the purely practical point that embedded derivatives are, from the financial systems viewpoint, extremely complex as, while contracts are still executory, they are otherwise not recorded in the accounts. Increasing the incidence of "non-integral" embedded derivatives could mean a substantial increase in associated administrative costs, even if there were conceptual justification for it.

For all of the above reasons, we would prefer the current wording in AG33 (d) (iii) to be retained rather than be replaced by the reference to the characteristics of the functional currency in IAS 21, until a principle-based approach is developed.

Sincerely,

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