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Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Cannon Street

London EC4M 6XH
United Kingdom

6 November 2008

542/575

Dear Sir David

Re.: Exposure Draft of Proposed Improvements to IFRSs (August 2008)

We appreciate the opportunity to comment on the exposure draft mentioned above and would like to submit our comments as follows:

IFRS 5: Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations

Q.1 – Do you agree with the Board´s proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the addition of paragraph ED IFRS 5.5A specifying that disclosures in other IFRSs do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs specifically require disclosures in respect of those assets (or disposal groups). Additional disclosures about such assets (or disposal groups) may be necessary to comply with the general requirements of IAS 1.

However, there seems to be some contradiction between ED IFRS 5.5A and ED IFRS 5.BC4, because the latter refers to disclosures in the other notes about assets and liabilities that are not within the scope of the measurement requirements of IFRS 5 but nevertheless are included within a disposal group. We believe that for these assets and liabilities disclosures in other notes are also not necessary in order to assess timing, amount and uncertainty of future cash flows.

Even if the Board intends to require disclosures in other notes for such assets and liabilites, it remains unclear which disclosures will have to be made. The ambiguity results from the following wording in ED IFRS 5.BC4: "… when a disposal group includes assets and liabilities that are not within the scope of the measurement requirements of IFRS 5, disclosures about measurement of those assets and liabilities are normally provided in the other notes to the financial statements and do not need to be repeated, unless they better enable users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups)." We would appreciate the Board clarifying the circumstances in which the disclosures in the other notes, according to IAS 12, IAS 19 or IFRS 7 suffice and the circumstances in which repetition will better enable users of the financial statements to evaluate the financial effects (cp. Information for Observers, IASB meeting 22 January 2008, annual improvements process, agenda paper 9B). In addition, we would like to suggest the Board include an illustrative example.

Q.2 – Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the proposed transition provisions and effective date for this issue.

IFRS 8: Disclosure of information about segment assets

Q.1 – Do you agree with the Board´s proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We understand from ED IFRS 8.BC35 that making no disclosure of segment assets is in accordance with the IFRS in some cases, i.e. when such information is not provided to the chief operation decision maker. We note that, in the Board's view, this is clear from current IFRS 8.23 and IFRS 8.25 already. Therefore, the Board does not propose to amend the standard itself in this respect, but only intends to amend IFRS 8.BC35.

We do not support this procedure. In our view, the necessary clarification should be included in the body of the standard, rather than amending the Basis for Conclusions only. IFRS 8.23 provides an explicit requirement for the same issue as it pertains to liabilities. Therefore, we believe that this should equally apply to assets.

In our opinion, clarification in the body of the Standard is also desirable because the Basis for Conclusions will not be endorsed by the EU. Therefore, there would be a danger that ambiguity remains in the IFRSs as endorsed by the EU.

Finally, we would like to point out the fact that in practice the chief operating decision maker often reviews segment figures determined on a net basis. It might be appropriate to require entities to disclose information about segment assets on a net basis in those cases where only the net assets are regulary reviewed by the chief operating decision maker.

IAS 18: Determining whether an entity is acting as a principal or as an agent

Q.1 – Do you agree with the Board´s proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the Board´s proposal to amend the Appendix of IAS 18, in principle. According to the proposal, an entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. The list of indicators inserted supports the entities in determining whether they are acting as a principal in specific circumstances. However, the proposal enumerates the following indicators with equal prominence:

- primary responsibility for providing the goods or services to the customer or for fulfilling the order,
- inventory risk,
- discretion in establishing prices and
- credit risk.

One the one hand, this allows preparers the opportunity to consider each of the circumstances when judging whether an entity is acting as a principal. On the other hand, we believe that “credit risk” is a subordinate indicator compared to the other indicators. This subordination was accepted in the IFRIC’s agenda paper 3A for the September 2007 meeting, in FRS 5, and also in accounting literature (e.g. PwC, IFRS Manual of Accounting 2008, p. 9052; KPMG, Insights into IFRS, 2007/8, p. 693 et seqq.).

Therefore, we would appreciate the Board clarifying that the indicator “credit risk” is subordinate.

Q.3 – Specific question on IAS 18

The board proposes to include in the Appendix of IAS 18 Revenue guidance on determining whether an entity is acting as a principal or as an agent. What indicators, if any, other than those considered by the Board should be included in the guidance proposed?

We are not aware of any other indicators that should be included in the guidance proposed.

IAS 36: Unit of accounting for goodwill impairment

Q.1 – Do you agree with the Board´s proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

We understand that the Board's proposal is intended as a clarification only as to whether the largest unit permitted by IAS 36 is the operating segment as defined in paragraph 5 of IFRS 8 before or after the aggregation permitted by paragraph 12 of IFRS 8. However, in our view, the Board's reference to an operating segment as defined by paragraph 5 of IFRS 8, before aggregation, constitues a major modification rather than a clarification only.

We do not support the proposed amendment for the following reasons:

- According to IFRS 8.12, a precondition for aggregation is that the segments have similar economic characteristics. If this is the case, the long-term financial performance and the resulting cash flows will be roughly identical, too.
- In ED IAS 36.BC2, the Board justifies its proposal as follows: "… the lowest level of the entity at which management monitors goodwill as required in paragraph 80(a) is the same as the lowest level of operating segments at which the chief operating decision maker regularly reviews operating results as defined in IFRS 8". We believe that the level at which management monitors goodwill is not necessarily the same as the level at which the chief operating decision maker regularly reviews operating results. Instead, these are different activities, undertaken for different purposes. This argument is not refuted by IAS 36.BC140 as the latter refers to "operations" in lieu of "operating results". If the Board's proposal is implemented, there is a danger that goodwill would have to be allocated to a level at which it is not monitored for internal reporting.
- We do not believe that it is appropriate to refer to the above mentioned ambigous interpretation of IAS 36.80(a) for the interpretation of

IAS 36.80(b). Both conditions have to be fulfilled independently of one another.

- Before IFRS 8 replaced IAS 14, impairment tests were performed at the level not larger than a segment based on either the entity's primary or the entity's secondary reporting format determined in accordance with IAS 14. The wording of current IAS 36.80(b) refers to an operating segment and not to a reportable segment for the purpose of impairment testing. The fact that a different concept has been introduced may induce a need for impairments that would otherwise not exist. However, we believe that an annual improvements project should not result in any deliberate further lowering of the level relevant to impairment testing of goodwill. According to IAS 36.BC150A, when IFRS 8 replaced IAS 14 in 2006 the objective of the change in IAS 36.80(b) was to improve the disclosure of segment information, not to change the requirements of IAS 36 relating to the allocation of goodwill for impairment testing. If the Board adopts its proposal, i.e. obliges the entities to draw back on operating segments as defined in IFRS 8.5, this would result in a fundamental deminishment of the relevant level for the purpose of impairment testing of goodwill. Our reasoning is as follows: According to IAS 36.80(b) in the version before the replacement of IAS 14 by IFRS 8 took place, IAS 14.34(b) allowed for an aggregation of business segments in the context of the determination of reportable segments, provided that all aggregation criteria set out in IAS 14.9 were fulfilled. In contrast, IAS 36.80(b) in the wording after implementation of IFRS 8 and considering the proposals set out in the current annual improvements project, excludes aggregation of operating segments despite of the fact that the aggregation criteria in IFRS 8.12 are identical to those of IAS 14.9.

Instead, we suggest the Board refer to the operating segment level in IAS 36.80(b), as defined in paragraph 12 of IFRS 8, i.e. after aggregation.

In addition to the above-mentioned conceptual reasons, we would like to point out that the Board's proposal would have major consequences in practice if it were implemented. Therefore, its inclusion in the annual improvements project does not seem appropriate.

Q.2 – Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the proposed transition provisions and effective date for the issue.

IAS 38: Measuring the fair value of an intangible asset acquired in a business combination

Q.1 – Do you agree with the Board´s proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

In principle, we agree with the Board's clarification of the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets.

However, we are concerned that the proposed wording of ED IAS 38.41(a)(ii) might be misunderstood to mean that the cost approach were a common approach when measuring the fair value of intangible assets. In fact, the cost approach is rarely used in practice, mainly for internally generated software. As a rule, this valuation technique is normally not appropriate because it is based on the assumption that the internally generated intangible asset could be reproduced by a third party at any time. But for important intangible assets such as brands or customer relationships this is not the case because they are specific to the entity.

Therefore, we believe that the Board should clarify in IAS 38.41 that the cost approach is intended for use in specific circumstances only and for evaluating the reasonableness of figures which are determined by the use of other valuation techniques. Furthermore, we would appreciate the Board pointing out, in this context, that the so-called income approach and the discounted cash flow approach, respectively are the appropriate valuation techniques most commonly used in practice.

Q.2 – Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

We agree with the proposed transition provisions and effective date for the issue.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely

Norbert Breker
Technical Director
Accounting and Auditing

Uwe Fieseler
Director International
Accounting