CL 48

AstraZeneca PLC
F174
Alderley House
Alderley Park
Macclesfield
SK10 4TF

14th October 2002

Dear Sirs

Exposure Draft on Proposed Amendments to IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement"

We support the IASB in its aim of producing a set of technically sound standards and are pleased to attach our responses to the exposure draft on the proposed amendments to IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement.

These responses represent the views of AstraZeneca PLC. Should you have any queries or wish to discuss these responses further, please do not hesitate to contact Bill Hicks (+44 1625 517294) or Richard Smith (+44 1625 517297).

Yours faithfully

Bill Hicks
Chief Statutory Accountant

Amendments to IAS 32, Financial Instruments: Disclosure and Presentation, and IAS 39, Financial Instruments: Recognition and Measurement

Question 1 - Probabilities of different manners of settlement (paragraphs 19, 22, and 22A)

Do you agree that the classification of a financial instrument as a liability or as equity in accordance with the substance of the contractual arrangements should be made without regard to probabilities of different manners of settlement? The proposed amendments eliminate the notion in paragraph 22 that an instrument that the issuer is economically compelled to redeem because of a contractually accelerating dividend should be classified as a financial liability. In addition, the proposed amendments require a financial instrument that the issuer could be required to settle by delivering cash or other financial assets, depending on the occurrence or non- occurrence of uncertain future events or on the outcome of uncertain circumstances that are beyond the control of both the issuer and the holder of the instrument, to be classified as a financial liability, irrespective of the probability of those events or circumstances occurring (paragraph 22A).

We agree that financial instruments should be classified as liabilities or equity according to their substance, but believe the use of the phrase "without regard to the probabilities of different manners of settlement" is confusing and contradicts the overall approach.

Question 2 -- - Separation of liability and equity elements (paragraphs 28 and 29)

Do you agree that the options in IAS 32 for an issuer to measure the liability element of a compound financial instrument initially either as a residual amount after separating the equity element or based on a relative- fair- value method should be eliminated and, instead, any asset and liability elements should be separated and measured first and then the residual assigned to the equity element?

We agree with the removal of the option for measuring compound financial instruments. We do note that we believe the current approach for measuring compound financial instruments can result in a gain in the income statement if the instrument is settled in cash appears anomalous, although we understand the principles behind this.

Question 3 -- - Classification of derivatives that relate to an entity's own shares (paragraphs 29C --- 29G)

Do you agree with the guidance proposed about the classification of derivatives that relate to an entity's own shares?

We agree with the guidance proposed in paragraphs 29C to 29G. However, we do question whether the provision in paragraph 29 that changes in the fair value of the derivative are not recognized may prove inconsistent with any guidance on share-based payments.

Question 4 -- - Consolidation of the text in IAS 32 and IAS 39 into one comprehensive Standard

Do you believe it would be useful to integrate the text in IAS32 and IAS39 into one comprehensive Standard on the accounting for financial instruments? (Although the

Board is not proposing such a change in this Exposure Draft, it may consider this possibility in finalising the revised Standards.)

We believe that combining the two standards as one would be beneficial, although we recognize that the resulting standard would be voluminous.

Question 1 -- - Scope: loan commitments (paragraph 1(i))
Do you agree that a loan commitment that cannot be settled net and the entity does not designate as held for trading should be excluded from the scope of IAS 39?

We agree with the proposed exclusion. This addresses the concern we have with the proposals in the JWG discussion paper which would result in an entity whose credit risk had been downgraded reporting a gain in the income statement. We also agree with the exception to the exclusion that would allow certain liabilities to be designated as held for trading but would recommend guidance on a similar basis to held-to-maturity instruments which would provide penalties for abuse of this exemption (for example, evidence tht such liabilities are not being settled in the near term).

Question 2 -- - Derecognition: continuing involvement approach (paragraphs 35-57)
Do you agree that the proposed continuing involvement approach should be established as the principle for derecognition of financial assets under IAS 39? If not, what approach would you propose?

We support, in principle, the proposed approach. However, we are concerned that the examples in Appendix B may be in conflict with other IASs; in particular the first example seems to be in conflict with IAS 37 on contingent liabilities.

Question 3 -- - Derecognition: pass- through arrangements (paragraph 41)
Do you agree that assets transferred under pass- through arrangements where the cash flows are passed through from one entity to another (such as from a special purpose entity to an investor) should qualify for derecognition based on the conditions set out in paragraph 41 of the Exposure Draft?

We agree that the conditions set out in paragraph 41 qualify an asset for derecognition.

Question 4 -- - Measurement: fair value designation (paragraph 10)
Do you agree that an entity should be permitted to designate any financial instrument irrevocably at initial recognition as an instrument that is measured at fair value with changes in fair value recognised in profit or loss?

We agree with the proposed approach and we believe it should be irrevocable. Although an entity may be able to by-pass such a condition by selling and repurchasing the asset, we agree with the Board that such a requirement will "impose a discipline on the approach".

Question 5 -- - Fair value measurement considerations (paragraphs 95- 100D)
Do you agree with the requirements about how to determine fair values that have been included in paragraphs 95-- -100D of the Exposure Draft? Additional guidance is included in paragraphs A32-- -A42 of Appendix A. Do you have any suggestions for additional requirements or guidance?

We welcome the extended guidance.

Question 6 -- - Collective evaluation of impairment (paragraphs 112 and 113A-- - 113D)

Do you agree that a loan asset or other financial asset measured at amortised cost that has been individually assessed for impairment and found not to be individually impaired should be included in a group of assets with similar credit risk characteristics that are collectively evaluated for impairment? Do you agree with the methodology for measuring such impairment in paragraphs 113A- 113D?

We do not agree with the proposed approach. Although it appears to have the benefit of practicality, we believe that actual application would require effective individual asset impairment testing.

Question 7 -- - Impairment of investments in available- for- sale financial assets (paragraphs 117--- 119)

Do you agree that impairment losses for investments in debt and equity instruments that are classified as available for sale should not be reversed?

No, we do not agree with the proposed guidance. It appears to be inconsistent with other guidance in the impairment area, for example in IAS 2 “Inventories” and IAS 16 “Property, Plant and Equipment”. In particular, our concerns expressed in our reply on the proposed improvements to IAS 2 are alleviated here by the possibility of an active market underpinning the fair value.

Question 8 -- - Hedges of firm commitments (paragraphs 137 and 140)

Do you agree that a hedge of an unrecognised firm commitment (a fair value exposure) should be accounted for as a fair value hedge instead of a cash flow hedge as it is at present?

No, we do not agree with the proposal. We believe that the accounting of the hedge instrument should follow the accounting of the hedged item. The proposal appears to be in conflict with the approach discussed in paragraph 160.

Question 9 -- - ‘Basis adjustments’ (paragraph 160)

Do you agree that when a hedged forecast transaction results in an asset or liability, the cumulative gain or loss that had previously been recognized directly in equity should remain in equity and be released from equity consistently with the reporting of gains or losses on the hedged asset or liability?

We do not agree, on two grounds. Firstly, the proposed approach does not reflect the substance of the transaction, whereby an asset should be recorded at the price an entity pays for it. Secondly, we believe the proposed approach would add unnecessary complexity to financial record keeping and would not benefit clarity in the financial statements.

Question 10 --- Prior derecognition transactions (paragraph 171B)
Do you agree that a financial asset that was derecognised under the previous derecognition requirements in IAS 39 should be recognised as a financial asset on transition to the revised Standard if the asset would not have been derecognised under the revised derecognition requirements (ie that prior derecognition transactions should not be grandfathered)? Alternatively, should prior derecognition transactions be grandfathered and disclosure be required of the balances that would have been recognised had the new requirements been applied?

We agree with the proposals.