EFRAG
European Financial Reporting Advisory Group

Dr. Alexander Schaub
Director General
European Commission
Directorate General for the Internal Market

1049 Brussels

3 March 2004

Dear Dr. Schaub,

Re: Adoption of the revised International Accounting Standards

We are pleased to respond to your letter of 12 January 2004 requesting our opinion on the adoption of the revised International Accounting Standards ("IASs") as published by the IASB on December 18, 2003. The IASB Improvements project covered the following standards:

- IAS 1 Presentation of Financial Statements
- IAS 2 Inventories
- IAS 8 Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies
- IAS 10 Events After the Balance Sheet Date
- IAS 15 Information Reflecting the Effects of Changing Prices
- IAS 16 Property, Plant and Equipment
- IAS 17 Leases
- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 24 Related Party Disclosures
- IAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries
- IAS 28 Accounting for Investments in Associates
- IAS 33 Earnings Per Share
- IAS 40 Investment Property

Because of the extensive consequential changes from the revision of IAS 27 and 28, the IASB decided to publish a revised IAS 31 entitled *Interests in Joint Ventures.*
The IASB also decided to withdraw IAS 15 *Information Reflecting the Effects of Changing Prices* because (i) it was understood that few entities, if any, were using this

optional standard and (ii) IASB does not support the mandatory disclosure of information that reflects the effects of changing prices in the current economic environment. EFRAG supports the withdrawal of IAS 15.

EFRAG has evaluated the revised IASs, including their Bases for Conclusions and the consequential amendments to other IFRSs. Our evaluation is based on input from standard setters and market participants in accordance with EFRAG's due process. In addition, in contributing to the IASB's due process, we issued on September 12, 2002 a comment letter ("EFRAG Improvements comment letter") on the IASB exposure draft of *Proposed Improvements to International Accounting Standards*.

The revised IASs have been developed as part of the IASB's Improvements project. This project was undertaken by the IASB in the light of queries and criticism raised in relation to International Accounting Standards by securities regulators, professional accountants and other interested parties. The objectives of the project were to reduce or eliminate alternatives, redundancies and conflicts within the standards, to deal with some convergence issues and to make other improvements such as the incorporation of interpretations (SIC) into the IASs. The Board did not reconsider the underlying fundamental approaches of the standards.
The revised IASs become effective for annual periods beginning on or after 1 January 2005, with earlier application encouraged.

The appendix to this letter contains standard-by-standard a summary of the Board's main improvements objectives as well as the outcome of the EFRAG deliberations on endorsement.

In summary, EFRAG is supportive of the proposed revisions and concluded that the revised IASs meet the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

i. they are not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
ii. they meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, we believe that it is in the European interest to adopt the revised IASs and, accordingly, we recommend their adoption.

We should be happy to discuss our advice with you, other officials of the EU Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely,

Johan van Helleman
EFRAG, Chairman

IAS 1 *Presentation of Financial Statements*

The IASB's main objectives with regard to improving IAS 1 were:

i. To provide a framework within which an entity assesses how to present fairly the effects of transactions and other events, and assesses whether the result of complying with a requirement in a standard would be so misleading that it would not give a fair presentation ("true and fair override");

ii. To base the criteria for classifying liabilities as current or non-current solely on the conditions existing at the balance sheet date;

iii. To prohibit the presentation of items of income and expense as "extraordinary items";

iv. To specify disclosures about the judgments management has made in the process of applying the entity's accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements; and

v. To specify disclosures about key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The introduction to the revised standard (IN paragraphs 6-19) summarises the main changes from the previous version of IAS 1, as adopted by the Commission on September 29, 2003.

The revised standard retains the main thrust of the proposals and incorporates further improvements at a number of points, some of which are proposed by EFRAG.

With regard to our evaluation of the revised standard, we wish to highlight the following observations:

- As indicated in our Improvements comment letter, EFRAG regrets the deletion of the last sentence of the old paragraph 14 stating that the existence of conflicting national requirements is not, in itself, sufficient to justify a departure in financial statements prepared using International Accounting Standards. Paragraph 17 of the revised standard foresees that in the extremely rare circumstances in which management concludes that compliance with a requirement in a standard would be so misleading that it would conflict with the objective of financial statements as set out in the Framework, the entity shall depart from that requirement if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure. EFRAG is concerned that the reference to the relevant regulatory framework could lead to different financial reporting under IFRS but, considering the expected rarity of a true and fair override, we do not regard the IASB's position as creating an obstacle to adoption of the standard.

- Our Improvements comment letter also highlighted the proposed deletion of (old) paragraph 102 (d) as a result of which there is no longer any disclosure requirement regarding the number of employees. EFRAG believes that this deletion is not an improvement since headcount is considered by users to be key information. However, as explained in the Commission's comments concerning certain articles of the IAS Regulation and the interaction with the Accounting Directives (Information document dated November 2003), article 34(9) of the Seventh Council Directive continues to be relevant to consolidated accounts prepared in accordance with the IAS Regulation. Consequently, the notes to these consolidated accounts must set out information in respect of the average number of persons employed during the financial year by undertakings included in the consolidation, broken down by categories.

- Finally, the EFRAG Improvements comment letter pointed out that a literal reading of the new paragraph 57 (c) suggests that all assets that will be disposed of within twelve months, including property, plant and equipment in its last year of useful economic life, must be reported as current assets. We understand that this is not the intention of the IASB and that IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* will clarify that non-current assets cannot be reclassified as current unless they meet the IFRS 5 definition of an asset held for sale.

Considering the above, we have concluded that the revised IAS 1 *Presentation of Financial Statements,* including the consequential amendments to other IFRSs, meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

i. it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and

ii. it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, we believe that it is in the European interest to adopt the revised IAS 1. Accordingly, we recommend adoption of the revised IAS 1 *Presentation of Financial Statements.*

IAS 2 *Inventories*

The IASB's main objective was a limited revision to reduce alternatives for the measurement of inventories by eliminating the allowed alternative of using the last-in, first-out (LIFO) method for determining the cost of inventories.

The introduction to the revised standard (IN paragraphs 5-17) summarises the main changes from the previous version of IAS 2, as adopted by the Commission on September 29, 2003.

As indicated in our Improvements comment letter, EFRAG is fully supportive of the proposed revisions of IAS 2. Since the main thrust of the proposals was retained in the final standard, we have concluded that the revised IAS 2 *Inventories,* including the consequential amendments to other IFRSs, meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

i. it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
ii. it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, we believe that it is in the European interest to adopt the revised IAS 2. Accordingly, we recommend adoption of the revised IAS 2 *Inventories.*

IAS 8 ***Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies***

The IASB's main objectives with regard to improving IAS 8 were:

i. To remove the allowed alternative of prospective treatment of (i) voluntary changes in accounting policies and (ii) the correction of (fundamental) prior period errors. The revised standard requires a retrospective application of both voluntary changes in accounting policies and corrections of prior period errors;

ii. To eliminate the concept of a fundamental error;

iii. To articulate the hierarchy of guidance to which management refers when selecting accounting policies in the absence of standards and interpretations that specifically apply;

iv. To define material omissions or misstatements, and describe how to apply the concept of materiality when applying accounting policies and correcting errors; and

v. To incorporate the consensus in SIC-2 *Consistency – Capitalisation of Borrowing Costs* and in SIC-18 *Consistency – Alternative Methods*.

The introduction to the revised standard (IN paragraphs 6-18) summarises the main changes from the previous version of IAS 8, as adopted by the Commission on September 29, 2003. It should be noted that following the amendments in the standard the title of the standard has been changed to *Accounting Policies, Changes in Accounting Estimates and Errors*.

With regard to our evaluation of the revised standard, we wish to highlight that EFRAG recommended the IASB to retain the distinction between fundamental (to be treated retroactively) and other material errors (to be treated prospectively). EFRAG is disappointed that this recommendation was not adopted by the IASB. The revised standard retains the main thrust of the proposals and incorporates further improvements at a number of points, certain of which are as proposed by EFRAG.

In the light of the above, we have concluded on balance that the revised IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors,* including the consequential amendments to other IFRSs, meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

i. it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
ii. it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, we believe that it is in the European interest to adopt the revised IAS 8. Accordingly, we recommend adoption of the revised IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

IAS 10 *Events After the Balance Sheet Date*

The IASB's main objective was a limited clarification of the accounting for dividends declared after the balance sheet date. The Board clarified that an entity shall not recognise such dividends as a liability at the balance sheet date.

The introduction to the revised standard (IN paragraph 4) summarises the main changes from the previous version of IAS 10, as adopted by the Commission on September 29, 2003.

As indicated in our Improvements comment letter, EFRAG is fully supportive of the proposed revisions of IAS 10. Since the main thrust of the proposals was retained in the final standard, we have concluded that the revised IAS 10 *Events after the Balance Sheet Date,* including the consequential amendments to other IFRSs, meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

i. it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
ii. it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, we believe that it is in the European interest to adopt the revised IAS 10. Accordingly, we recommend adoption of the revised IAS 10 *Events after the Balance Sheet Date.*

IAS 15 *Information Reflecting the Effects of Changing Prices*

The IASB proposed withdrawal of IAS 15 (which was already non-mandatory) because:

i. it understood that few entities, if any, were using the standard;
ii. it did not support the mandatory disclosure of information that reflects the effects of changing prices in the current economic environment.

EFRAG believes that the withdrawal of IAS 15 is not in conflict with the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

i. it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
ii. it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

Therefore, EFRAG believes that it is in the European interest to withdraw IAS 15 and accordingly we recommend withdrawal of IAS 15 *Information Reflecting the Effects of Changing Prices.*

IAS 16 *Property, Plant and Equipment*

The IASB's main objective was a limited revision to provide additional guidance and clarification on selected matters.

The introduction to the revised standard (IN paragraphs 5-15) summarises the main changes from the previous version of IAS 16, as adopted by the Commission on September 29, 2003. There are a number of changes concerning scope, recognition of costs after acquisition, measurement at recognition, revaluation of assets, depreciation and derecognition.

The revised standard retains the main thrust of the proposals and incorporates further improvements (e.g. introduction of economic substance in the case of asset exchange transactions).

Whilst EFRAG supports most of the changes made we draw attention to one change that has given rise to adverse comment. The revised IAS 16 requires companies to review each year the estimated residual value of the fixed assets. Any increase in the estimated residual value will reduce the depreciation charge with the effect that in a period of inflation the depreciation charge may be expected to reduce year by year. EFRAG considers this requirement conceptually unsound since the depreciation charge is affected by a mixed measurement system: depreciation is usually based on the difference between original cost and residual value – the former being historical cost; the latter begin current market value. Currently, European companies usually estimate residual values when the asset is acquired and make no subsequent adjustment unless there is any impairment.
Further, a number of preparers have advised us that they consider an annual reassessment potentially burdensome.

In the light of the above, we have concluded on balance that the revised IAS 16, including the consequential amendments to other IFRSs, meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

i. it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
ii. it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, we believe that it is in the European interest to adopt the revised IAS 16. Accordingly, we recommend adoption of the revised IAS 16 *Property, Plant and Equipment.*

IAS 17 *Leases*

The IASB's main objective was a limited revision to clarify the classification of a lease of land and buildings and to eliminate accounting alternatives for initial direct costs in the financial statements of lessors. Previously initial direct costs incurred by a lessor in negotiating a lease could be expensed immediately or be regarded as part of the finance lease receivable with the cost spread over the lease period. Only the latter treatment can be used under the revised IAS 17.

The introduction to the revised standard (IN paragraphs 5-13) summarises the main changes from the previous version of IAS 17, as adopted by the Commission on September 29, 2003.

As indicated in our Improvements comment letter, EFRAG is fully supportive of the proposed revisions to IAS 17. The revised standard retains the main thrust of the proposals and incorporates improvements at a number of points, including one clarification requested by EFRAG. We have therefore concluded that the revised IAS 17 *Leases,* including the consequential amendments to other IFRSs, meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

i. it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
ii. it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, we believe that it is in the European interest to adopt the revised IAS 17. Accordingly, we recommend adoption of the revised IAS 17 *Leases.*

IAS 21 *The Effects of Changes in Foreign Exchange Rates*

The IASB's main objective was to provide additional guidance on the translation method, replacing the former notion of "reporting currency" by two new notions "functional" and "presentation" currencies. IASB's aim was also to provide guidance on determining the functional and presentation currencies.

The introduction to the revised standard (IN paragraphs 5-17) summarises the main changes from the previous version of IAS 21, as adopted by the Commission on September 29, 2003.

As indicated in our Improvements comment letter, EFRAG is fully supportive of the proposed revisions to IAS 21. The revised standard retains the main thrust of the proposals. We have therefore concluded that the revised IAS 21 *The Effects of Changes in Foreign Exchange Rates,* including the consequential amendments to other IFRSs, meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

i. it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
ii. it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, we believe that it is in the European interest to adopt the revised IAS 21. Accordingly, we recommend adoption of the revised IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

IAS 24 *Related Party Disclosures*

The IASB's main objective was to provide additional guidance and to clarify the scope of the standard, the definitions and the disclosures for related parties.

The introduction to the revised standard (IN paragraphs 5-13) summarises the main changes from the previous version of IAS 24, as adopted by the Commission on September 29, 2003.

EFRAG welcomes the adoption of its comments expressed in its Improvements comment letter with regard to the disclosure requirement of (i) management compensation, (ii) the ultimate controlling party and (iii) related party transactions and outstanding balances in separate financial statements of a parent, venturer or investor presented in accordance with IAS 27 *Consolidated and Separate Financial Statements*. The revised standard retains the main thrust of the other IASB proposals. We have therefore concluded that the revised IAS 24 *Related Party Disclosures,* including the consequential amendment to IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

i. it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
ii. it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, we believe that it is in the European interest to adopt the revised IAS 24. Accordingly, we recommend adoption of the revised IAS 24 *Related Party Disclosures.*

IAS 27 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*

The IASB's main objective with regard to improving IAS 27 was to reduce alternatives in accounting for subsidiaries in consolidated financial statements and in accounting for investments in the separate financial statements of a parent, venturer or investor.

The introduction to the revised standard (IN paragraphs 5-14) summarises the main changes from the previous version of IAS 27, as adopted by the Commission on September 29, 2003. It should be noted that following the amendments to the standard, the title of the standard was changed to *Consolidated and Separate Financial Statements*.

The revised standard retains the main thrust of the proposals and incorporates further improvements at a number of points, certain of which are as proposed by EFRAG.

With regard to our evaluation of the revised standard, we wish to highlight the following:

- EFRAG understood that the concerns with the IAS 27 requirements to consolidate might be significantly reduced if the question "whether a power to govern the financial and operating policies of an entity for fiduciary purposes amounts to control as defined by IAS 27" were to be clarified. An example would be certain arrangements whereby a venture capital organisation operates as a fund manager. Therefore, EFRAG has requested IFRIC to clarify this point. Further, EFRAG's Improvements comment letter indicated that, provided a workable definition of a venture capital organisation could be found, such organisations should be scoped out from IAS 27 and instead be required to measure their subsidiaries at fair value in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* with changes in fair value recognised in profit or loss in the period of the change. EFRAG debated this matter extensively and concluded that a scope out from IAS 27 would require a robust definition of a venture capital organisation in order not to incur the risks of (i) off balance sheet financing and (ii) the non-recognition of under performing activities of an entity.

- The revised IAS 27 eliminates the option to account for investments in subsidiaries, jointly controlled entities and associates under the equity method in the investor's separate financial statements, as foreseen in the old paragraph 29. As indicated in EFRAG's Improvements comment letter, we regret this deletion because (i) an option remains between cost and "in accordance with IAS 39", (ii) the equity method is widely accepted, and (iii) the equity method is sometimes considered the most relevant accounting method because it usually allows the equity in the separate financial statements of the investor and in the group consolidated financial statements to be the same.

On balance, we have concluded that our observations are not sufficiently important to warrant a negative endorsement advice. Therefore, we believe that the revised IAS 27 *Consolidated and Separate Financial Statements,* including the consequential amendments to other IFRSs, meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

i. it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
ii. it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, we believe that it is in the European interest to adopt the revised IAS 27. Accordingly, we recommend adoption of the revised IAS 27 *Consolidated and Separate Financial Statements.*

IAS 28 *Accounting for Investments in Associates*

The IASB's main objective with regard to improving IAS 28 was to reduce alternatives in the application of the equity method and in accounting for investments in associates in separate financial statements.

The introduction to the revised standard (IN paragraphs (5-15) summarises the main changes from the previous version of IAS 28, as adopted by the Commission on September 29, 2003. It should be noted that the title of the standard was shortened to *Investments in Associates*.

Following our evaluation of the revised standard, we note that the IASB did not adopt EFRAG's comment regretting the deletion of the disclosure requirement with regard to the proportion of ownership interest and, if different, the proportion of voting power held in significant associates. However, as explained in the Commission's comments concerning certain articles of the IAS Regulation and the interaction with the Accounting Directives (Information document dated November 2003), article 34(3) of the Seventh Council Directive continues to be relevant to consolidated accounts prepared in accordance with the IAS Regulation. Consequently, the notes to these consolidated accounts must set out information in respect of the proportion of capital held in undertakings associated with an undertaking included in the consolidation.

The revised standard retains the main thrust of the proposals and incorporates further improvements at a number of points, certain of which are as proposed by EFRAG.

In the light of the above, we have concluded that the revised IAS 28 *Investments in Associates* meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

i. it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
ii. it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, we believe that it is in the European interest to adopt the revised IAS 28. Accordingly, we recommend adoption of the revised IAS 28 *Investments in Associates.*

IAS 31 *Financial Reporting of Interests in Joint Ventures*

The IASB's main objective was to make the amendments necessary to take account of the changes being made to the previous versions of IAS 27 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries* and IAS 28 *Accounting for Investments in Associates* as part of the Improvements project.

The introduction to the revised standard (IN paragraphs 5-10) summarises the main changes from the previous version of IAS 31, as adopted by the Commission on September 29, 2003. It should be noted that the title of the standard was shortened to *Interests in Joint Ventures*.

Since the consequential amendments to IAS 31 were part of the amendments to the other revised standards, the EFRAG Improvements comment letter does not specifically address these amendments. Instead, the revisions were considered as part of the other standards being amended. EFRAG has not identified any concerns with the revisions and has therefore concluded that the revised IAS 31 *Interests in Joint Ventures,* including the consequential amendments to SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*, meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

i. it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
ii. it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, we believe that it is in the European interest to adopt the revised IAS 31. Accordingly, we recommend adoption of the revised IAS 31 *Interests in Joint Ventures*.

IAS 33 *Earnings Per Share*

The IASB's main objective was a limited revision to provide additional guidance and illustrative examples on selected complex matters, such as the effects of contingently issuable shares.

Besides the additional guidance, one of the main changes from the previous version of IAS 33, as adopted by the Commission on September 29, 2003, is that the number of potential ordinary shares in the diluted earnings per share calculation should include contracts that may be settled in ordinary shares or cash at the issuer's option.

EFRAG welcomes the adoption of its comment with regard to the calculation of year-to-date diluted earnings per share, as expressed in the EFRAG Improvements comment letter. The revised standard retains the main thrust of the other proposals and incorporates further improvements at a number of points, some of which are as proposed by EFRAG. We have therefore concluded that the revised IAS 33 *Earnings per Share* meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

i. it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
ii. it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, we believe that it is in the European interest to adopt the revised IAS 33. Accordingly, we recommend adoption of the revised IAS 33 *Earnings per Share.*

IAS 40 *Investment Property*

The IASB's main objective was a limited revision to permit a property interest held by a lessee under an operating lease to qualify as investment property under specified conditions. This amendment was considered necessary to overcome the issue that in the case of an operating lease, the amount recognised as an asset would vary depending on the balance negotiated between prepaid and ongoing rentals.

The introduction to the revised standard (IN paragraphs 5-18) summarises the main changes from the previous version of IAS 40, as adopted by the Commission on September 29, 2003.

As indicated in our Improvements comment letter, EFRAG is fully supportive of the proposed revisions of IAS 40. The revised standard retains the main thrust of the proposals and incorporates further improvements at a number of points. We have therefore concluded that the revised IAS 40 *Investment Property* meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

i. it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
ii. it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, we believe that it is in the European interest to adopt the revised IAS 40. Accordingly, we recommend adoption of the revised IAS 40 *Investment Property.*