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Sir David Tweedie
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Public roundtable discussions on the proposed amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements* – Puttable Financial Instruments and Obligations Arising on Liquidation

Dear Sir David,

we as Bertelsmann appreciate the invitation to the public roundtable discussions on the proposed amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements* – Puttable Financial Instruments and Obligations Arising on Liquidation. Thus, we would like to take the opportunity to particularly address the "Treatment of consolidated financial statements" in advance of the roundtable discussions again.

In terms of the consolidated financial statements it is important to take into account that ED IAS 32 stipulates a special rule for financial instruments held by non-controlling interests: "*In the consolidated financial statements, the financial instruments held by minority interests are not in the group's most subordinated class of instruments. This is because, if the group were to liquidate, the claims of minority interest holders to the net assets of the subsidiary have to be satisfied before the parent's share [...].*"[1] In other words: if a group's consolidation scope includes commercial partnerships involving non-controlling interests these interests still have to be disclosed as financial liability contrary to the general exemption set forth under ED IAS 32.11. This is **problematic in two respects**.

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[1] Cf. ED IAS 32.AG29A

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a) First, the differentiated treatment of majority and non-controlling interests is **contradictory** to the most recent developments concerning the treatment of goodwill (e.g. full goodwill option of nearly final draft IFRS 3). These developments reveal a clear tendency **towards a one-entity theory**: "According to this theory the focus is to provide a true and fair view of the group's net assets, financial position and results of operations rather than to distinguish between groups of shareholders. The latter are treated as investors in an undifferentiated way."[translation][2]

b) Second, the classification of non-controlling interests as a liability at group level leads to a **conceptual imbalance** because the same interests can essentially be disclosed as equity in the individual financial statements according to ED IAS 32.11.

It is quite clear that this does not improve the transparency of the information disclosed in the financial statements. In our view, the published **ED IAS 32** as "a step in the right direction" should **essentially be seen as positive**. At the same time, however, it is important to note that the approaches taken at present are **not sufficient** to deal with the **specific problem of German commercial partnerships embedded in group structures with minority shareholders holding interests in partnerships**. Therefore, we ask you to reconsider the conclusion given in AG29A, so that we are allowed to relocate a total of more than 200 Mio. € from liabilities back to equity (non-controlling interest).

Please also refer to our Comment Letter submitted to you on 23 October 2006 (esp. pages 7 ff.).

Please don't hesitate to contact us with any questions.

Yours sincerely

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[2] Küting/Elprana/Wirth: *Sukzessive Anteilserwerbe in der Konzernrechnungslegung nach IAS 22/ED 3 und dem Business Combinations Project (Phase II),* Kapitalmarktorientierte Rechnungslegung 2003, p. 478.