

April 16th 2004

Mr. Jonathan G Katz  
Secretary  
Securities & Exchange Commission  
450 Fifth Street NW  
Washington DC 20539-0609  
USA

Dear Mr Katz,

**First Time Application of International Financial Reporting Standards – File No. S7-15-04**

Allied Domecq PLC is a leading international branded drinks and retailing group. Our business comprises one of the world's largest international spirits and wines groups and a leading international quick service restaurants group. We are a UK FTSE 100 company listed on the London Stock Exchange with a financial year-end of August 31. Additionally, on July 31, 2002 we listed on the New York Stock Exchange. As a foreign private registrant we are therefore required to file an annual report on Form 20-F annually which includes reconciliations to US GAAP for net income and shareholders' funds for the current year and, under current SEC requirements, two preceding years.

As a foreign private registrant who will be required to adopt International Financial Reporting Standards ("IFRS") for the first time in our fiscal year beginning September 1, 2005 thru August 31, 2006, we welcome the discussion of and the opportunity to comment on the practical difficulties faced by issuers and users of financial statements with regard to providing and understanding comparative financial information following conversion to IFRS.

Allied Domecq strongly supports the SEC proposal to permit foreign private issuers who are transitioning to IFRS to file two rather than three years' financial information in the year of conversion.

The requirement to provide a third year of comparative IFRS financial information would require considerable time, effort and expense for preparers of financial statements which, in our opinion, outweigh the benefits to users. We agree that users' needs can best be met by the requirement to provide three years of consistent US GAAP numbers, as included in the proposal.

Our answers to the specific questions posed in file no. S7-15-04 are set out in the attached appendix.

We would welcome the opportunity to discuss this further with you, or to answer any questions you may have. Please contact Mark Holloway (**telephone +44 117 978 5036**) or **Ken Mitchell (telephone +44 117 978 5034)** for further assistance.

Yours faithfully,

Mark Holloway  
Commercial Finance Director  
Allied Domecq PLC

## APPENDIX

### Answers to specific questions posed in File No. S7-15-04

#### 1. Eligibility Requirements

- **Will the conversion to IFRS for year 2005 make it difficult for issuers to recast year 2003 results accurately?**
- **What specific issues will be encountered and how difficult will they be to address?**

Conversion to IFRS is an inherently difficult exercise for most issuers; restating 2003 figures multiplies this difficulty. The fact that many standards have only recently been finalized adds further to the difficulty and means that retrospective application to 2003 fiscal year-ends will be unduly burdensome in many instances. Specific issues which generate the highest degree of difficulty include application of IAS 39, IAS41 and IFRS3, all of which require significant internal system and process changes with related cost implications. IFRS1 recognises this inherent difficulty and was issued by the IASB to ease the burden of transition in certain areas.

- **What additional information would first-time adopters need to provide IFRS financial statements for the third-year back that they would not already have in connection with their reconciliation to U.S. GAAP?**

The requirements of IFRS are not identical to US GAAP and considerable effort would be required to determine the differences even if it were considered appropriate to rely on US GAAP reconciliation rather than preparing an opening 2003 IFRS balance sheet.

- **What other difficulties might the application of IFRS create for first-time adopters?**
- **Will first-time adopters in earlier or later years face similar issues?**

Uncertainties over issues such as distributable reserves from which to pay dividends, and the adoption of IFRS by subsidiary companies (with similar systems and process issues) are other issues faced by multi-national enterprises. Given the extent of systems and process changes involved in conversion at any time, the burden is unlikely to be significantly less for first-time adopters in earlier or later years.

- **Are the proposed amendments appropriate to address those challenges? If not, what issues are not addressed by the proposed amendments? Should they be addressed, and, if so, how?**

The proposed amendment will significantly ease the burden arising from restating a third year of financial information. We, therefore, strongly support the proposed accommodation.

- **Will any first-time adopters be required by their home country to publish financial statements prepared in accordance with IFRS for the third year back? If so, should we require their inclusion in SEC filings? Why or why not?**
- **If a company publishes IFRS financial statements for the third year back but is not required to do so, should we require inclusion of those financial statements in SEC filings?**

To the best of our knowledge, no country has issued legislation requiring IFRS for the third year back. If such information is provided on a voluntary basis in any countries, in our opinion it should be encouraged, but not required, in SEC filings.

- **Is the proposed time frame, which provides the accommodation to companies that switch to IFRS for any financial year beginning no later than January 1, 2007, appropriate?**
- **Would this date create eligibility concerns for issuers that have a 52-week financial year? If so, how should we address those concerns?**

The proposed timeframe would appear appropriate, especially as the EU Regulation must also accommodate 52-week financial years, therefore there should be no eligibility concerns.

- **Should the proposed accommodation be extended to apply in any other circumstances, such as for issuers that, either voluntarily or pursuant to a home country or other requirement, adopt IFRS for the first time for years after year 2007?**
- **Should the accommodation apply for an indefinite period?**
- **Are there other circumstances in which the proposed exception to the requirement to present three years of financial statements on a consistent basis should be considered? What are they?**
- **Would extending the proposed accommodation to apply to issuers that adopt IFRS for the first time later than year 2007 encourage a broader use of IFRS? Why or why not?**

Given that IFRS 1 does not require a third-year, and non-EU countries may wish to adopt IFRS at a later date, it may be appropriate for the proposed accommodation to apply for years after 2007. Also, extending the proposed accommodation would potentially encourage broader adoption of IFRS.

- **If first-time adopters of IFRS were not able to avail themselves of the proposed accommodation, would they be likely to continue to include in their SEC filings financial statements prepared in accordance with Previous GAAP rather than preparing financial statements prepared in accordance with IFRS for the third financial year?**
- **What are the advantages and disadvantages of each approach?**

If there were no accommodation, first-time adopters may have lobbied for the ability to provide Previous GAAP third-year comparatives rather than adopting IFRS in 2003, following from the “bridge” approach suggested in a publication from the Committee for European Securities Regulators (“CESR”). This approach may not be helpful to users, however, as the information for the third-year is not comparable and may cause practical difficulties where there are differences in classification and account line items between Previous GAAP and IFRS.

## **2. Previous GAAP Financial Statements**

- **Is the proposed amendment to permit two years of IFRS financial statements for foreign private issuers adopting IFRS through year 2007, coupled with the permitted exclusion of financial statements prepared on the basis of Previous GAAP, consistent with the best interests of investors?**
- **Will investors receive adequate information on which to base investment decisions if two rather than three years of statements of income, changes in shareholders’ equity and cash flows are presented on a consistent basis?**

In our opinion, the interests of investors will best be served by relieving issuers of the undue burden and expense of preparing a third year of IFRS financial information. Investors will receive adequate information where the impact of the conversion is fully explained by

companies. This is not dependent on three years' information. In addition, including additional US GAAP information as included in the proposal will provide sufficient three years' consistent information.

- **Are there other alternatives that should be considered to address the challenges presented by the mandated use of IFRS? What are they?**

We do not know of any other alternatives, and, therefore, believe the proposed accommodation is sufficient.

- **Would the presentation of three years of condensed U.S. GAAP financial information in a level of detail consistent with interim financial statements prepared under Article 10 of Regulation S-X create a significant burden to first-time adopters of IFRS?**
- **What would be the difficulties and costs of preparing that information? Would that level of information be useful to investors?**
- **What level of information would be useful to investors and not unduly burdensome to prepare?**

Condensed US GAAP financial information can be prepared using existing US GAAP reconciliation data as a starting point, however as this level of disclosure is in excess of information currently produced for 20-F filing purposes, additional work will be required, such as analysing Previous GAAP profit and loss account and balance sheet line items into US GAAP line items. This will involve some difficulty and will also involve additional costs. The most useful information for investors will continue to be full explanation of differences between IFRS and US GAAP.

- **If a filing does not contain Previous GAAP financial statements or IFRS financial statements for the third year back, would the proposed requirement for three years of condensed U.S. GAAP information adequately address issues related to the different starting points and reconciling items used in the reconciliations from Previous GAAP to U.S. GAAP and from IFRS to U.S. GAAP?**

Where no information has been published for the third year back, there may be difficulties in establishing a proper starting point. Additional guidance may be needed.

- **Do our proposals contain sufficient guidance on the form and content of the condensed U.S. GAAP financial information to be provided? Should we require financial information beyond income statements and balance sheets from companies that would be required to provide condensed U.S. GAAP information? If so, what further information? Should we require that they include notes to the financial information in addition to the required reconciliation?**

We consider that the current guidance is sufficient and no further information, such as notes to the financial statements, is necessary.

- **Should foreign private issuers that do not use U.S. GAAP to prepare their primary financial statements in their initial registration statements filed with the SEC be required to present the additional condensed U.S. GAAP financial information in addition to the two-year reconciliation to U.S. GAAP? Why or why not? Would this be unduly burdensome?**

For consistency with existing issuers, we support such a requirement.

- **Should issuers be prohibited from including Previous GAAP financial statements, financial information and textual discussions based thereon in a registration statement, prospectus or annual report prepared in accordance with Form 20-F?**

As a general rule, we do not believe issuers should be prohibited from making additional information available.

- **If we were to prohibit issuers from including Previous GAAP financial statements and financial information in a document, should we require, permit or prohibit the issuer to make reference to other SEC filings or other documents that include such financial statements and information?**

Issuers should be permitted, but not required, to make such references.

- **Is it appropriate to permit issuers to include, incorporate or refer to Previous GAAP financial information and, if so, for what periods and to what extent?**
- **If issuers elect to include or incorporate Previous GAAP financial information, should we require operating and financial review and prospects disclosure pursuant to Item 5 of Form 20-F related to that information?**

Issuers should be permitted to incorporate or refer to Previous GAAP financial information and should be required to make disclosures where relevant.

- **Would Previous GAAP financial statements be useful to investors and should issuers be required to provide them?**
- **Should inclusion in Previous annual reports filed with us on Form 20-F be sufficient in this regard?**
- **Would investors be likely to compare information based on IFRS with information based on Previous GAAP?**
- **If we require or permit financial statements and other information based on Previous GAAP, where should that information be located and how should it be formatted?**

The continued provision of Previous GAAP financial statements may hamper investors' understanding of IFRS, and may lead to more confusion rather than being useful to investors. Therefore we do not believe issuers should be required to provide Previous GAAP in any new filings. Previously filed annual reports will contain Previous GAAP and this should be sufficient. IFRS1 specifies disclosures required to allow investors to compare IFRS with Previous GAAP, therefore sufficient information should be provided on first-time adoption.

- **Is inclusion of Previous GAAP financial information likely to cause investor confusion regarding the basis of accounting used in preparing financial information?**
- **How could any confusion or comparison be minimized?**
- **Should we provide more specific guidance on the location or substance of disclosure stating that a filing contains financial information based on Previous GAAP that is not comparable to financial information based on IFRS?**

As stated above, the inclusion of Previous GAAP may be confusing to investors and this confusion can be minimised by a requirement to state clearly that it is Previous GAAP and to set out the main differences between it and IFRS

- **Should Previous GAAP financial information be presented in a "side-by-side" format with IFRS financial information?**

- **What additional disclosure would be necessary, if any?**
- **Should it be accompanied by a legend stating that the information is not comparable to financial information based on IFRS? If so, where should the legend be located?**
- **Would a “side-by-side” format present difficulties relating to disclosure contained in audit reports relating to the different bases of GAAP used?**
- **Similarly, how would the notes to the financial statements be presented in a clear manner if different GAAPs were presented therein?**

Whether Previous GAAP information can be sensibly presented next to IFRS financial information will depend on the extent to which the formats are similar or whether the use of the same line names for differently measured items will be misleading. Where a side-by-side presentation is used, the Previous GAAP should be clearly labelled as such. While the label could include a legend that the information is not comparable, it should be sufficient warning to investors if the label merely stated that the information is under Previous GAAP. With clear labelling of columns, the audit report should be able to differentiate between IFRS and Previous GAAP, but the clarity of the audit report may be one consideration in determining whether a side-by-side approach is sensible.

- **If issuers include, incorporate or refer to Previous GAAP financial statements or financial information in a disclosure document, should we require specific legends or other language?**
- **Should any Previous GAAP information included be presented in a separate section of the disclosure document?**

The key requirement for any Previous GAAP information, wherever disclosed, is that it should be clearly labelled as such.

### **3. Selected Financial Data**

- **Should five years of selected financial data based on U.S. GAAP be required in a separate section of the document, rather than with the IFRS selected data?**

There should be no need for such data to be in a separate section, provided it is clearly labelled as based on US GAAP or based on IFRS, in accordance with IFRS 1.

- **Should we require selected financial data based on Previous GAAP? If so, where should it be located? Should we expressly prohibit a “side-by-side” disclosure format for selected financial data based on Previous GAAP and IFRS? Conversely, should we permit or require such a disclosure format? Would inclusion of Previous GAAP selected financial data, whether presented in a “side-by-side” format or otherwise, be likely to cause investor confusion regarding the basis of accounting used? If so, how could any confusion or the likelihood of comparison be minimized?**

As stated in our reply to previous question, continued provision of Previous GAAP financial information is likely to be of limited use to investors. IFRS1 disclosures should provide sufficient information to allow investors to compare IFRS to Previous GAAP.

### **4. Operating and Financial Review and Prospects**

- **Is there additional information that would be useful to investors that should be included in the disclosure of operating and financial review and prospects? If so, what is it?**

Where companies consider that additional information on the process or impact of conversion would be helpful to investors, they should be encouraged to include it in the operating and financial review.

- **Should we require that disclosure of operating and financial review and prospects based on Previous GAAP financial information, if included, refer to the reconciliation to U.S. GAAP? If so, why? How is that information likely to benefit investors? Would requiring that information create undue burdens for issuers?**

There would not appear to be any persuasive reason why operating and financial review and prospects based on Previous GAAP should refer to US GAAP reconciliations.

## **5. Financial Statements and Information for Interim Periods for the transition year**

- **To comply with these requirements, issuers may be required to maintain financial statements prepared in accordance with both Previous GAAP and IFRS for interim periods of the Transition Year. Would it be unduly burdensome to maintain books and records in accordance with both Previous GAAP and IFRS during this time? What costs and other burdens will this impose on issuers? Are companies that are mandated to switch to IFRS prohibited from continuing to publish financial statements prepared in accordance with Previous GAAP during their Transition Year? If so, who or what prohibits it?**

UK legislation requires accounting policies that will be used in the year-end report to be used in interim reporting where they are different to policies used in the previous year. Therefore, UK companies adopting IFRS will report under IFRS in their half-year results for the year of transition. UK companies transitioning to IFRS are unlikely, therefore, to continue to maintain primary accounting records under Previous GAAP. This will make it unduly burdensome to require Previous GAAP for interim periods of the transition year. Also, as previously stated, the disclosure of Previous GAAP information in these circumstances is likely to be misleading to investors.

- **Will foreign issuers be likely to avoid registering securities under the Securities Act and the Exchange Act during the latter months of a Transition Year and early months of the year after in order to avoid being required to include interim financial statements in a disclosure document, and therefore be required to publish interim financial information in accordance with Previous GAAP? How can we reduce any impediment to foreign companies undertaking registered offerings during a Transition Year while ensuring that investors receive clear, sufficient, up-to-date information?**

In our view, foreign issuers would be likely to avoid registering securities in the latter months of the transition year and the early months of the following year to avoid such a requirement. It may be helpful to give such companies the option of providing condensed US GAAP information prepared on a consistent basis for the interim periods.

- **Are investors likely to be confused with the presentation of interim financial statements using two bases of accounting covering the same periods? If so, what steps could be taken to minimize this confusion?**

Investors are likely to be confused by such a presentation. UK legislation is designed to ensure consistency of accounting policies between interim and full-year reporting, therefore investors should not use Previous GAAP information to make economic decisions when the year-end financial information will be presented on an IFRS basis.

- **As proposed, an issuer must include in its SEC filings both IFRS financial statements and Previous GAAP financial statements for current and prior year interim periods, when both are available. Should we provide issuers with a choice of whether to provide interim financial statements prepared under Previous GAAP or under IFRS, when both are available?**

Such a choice would be appropriate where both are available, however as noted above, many UK companies may not have Previous GAAP information available in the year of transition to IFRS.

- **When the Transition Year is year 2004 or 2005, in lieu of requiring both Previous GAAP and available IFRS interim financial statements for two years, would it be preferable to require audited financial statements prepared in accordance with IFRS for the last full financial year, with unaudited IFRS financial statements for interim periods in both years? This approach would not be in technical compliance with IFRS 1, which requires that first-time adopters include one year of comparative information under IFRS. Should we permit audit reports that are qualified as to this provision of IFRS 1? Should we make similar accommodations when an issuer's Transition Year is later than year 2005? Why or why not?**

A requirement that is not in technical compliance with IFRS 1 is not considered practical, therefore such an approach may not be appropriate. An alternative solution would be to give companies the option of preparing condensed US GAAP information for the interim periods. This would be consistent with the year-end reporting requirements as proposed.

- **When the Transition Year is year 2004 or 2005, would it be appropriate instead to require three years of audited financial statements prepared in accordance with Previous GAAP and unaudited financial statements prepared in accordance with IFRS for interim periods in two years with the same level of disclosure as in annual financial statements? Would issuers be likely to prepare full IFRS financial statements for interim periods? If not, why not? Should an issuer's first set of IFRS financial statements filed with the SEC be audited if they are for two years of interim periods? Why or why not? How would issuers assess and prepare disclosure of their operating and financial review and prospects? What other specific issues would companies face in presenting financial statements under both Previous GAAP and IFRS? How could those issues be addressed? Should we make similar accommodations when an issuer's Transition Year is later than year 2005?**

Issuers are very unlikely to prepare full IFRS financial statements for an interim period and such a requirement would create a significant burden on most companies. This approach is not, therefore, considered practical. An alternative solution would be to give companies the option of preparing condensed US GAAP information for the interim periods. This would be consistent with the year-end reporting requirements as proposed.

## **6. Disclosures about first-time adoption of IFRS**

- **Should first-time adopters be required to provide the additional information proposed under Item 5 of Form 20-F? Will this information be useful for investors, and will it be unduly burdensome for issuers to provide? In either case, commenters should provide supporting information relating to the utility of the information (or lack thereof) and the costs and difficulties associated with disclosing this information.**

In our view, the additional disclosure requirements proposed will not give rise to meaningful information to users and may be difficult to produce. The optional exemptions permitted by IFRS1 were developed by the IASB to reflect a balance between the benefits of providing information and the costs of providing it that may constrain the provision of relevant and reliable information. Where exemptions are applied, this will inevitably be on cost-benefit grounds, because the information is not available to restate without undue cost or effort. These constraints will make it difficult, if not impossible, to determine the significance of the exemption to the company's financial condition, the line items impacted and the impact on the company's financial condition of using any alternative method of restatement.

- **Should issuers be required to disclose more information with respect to the mandatory or elective exceptions? If so, what information would that be, what usefulness would this information have to investors, and what burdens would be imposed on issuers to disclose this information?**

We do not believe that the disclosure of any more information with respect to exemptions would be of use to investors or could be practically provided.

#### **7. Reconciliation from Previous GAAP**

- **Should we specify the form and content of the reconciliation from Previous GAAP to IFRS? For example, should we require that the information included in the reconciliation be similar in form and content to that in the example provided in IG63? Should we require a level of content different from that set out in IG63? If so, what level of information would be appropriate?**
- **Would providing a reconciliation from Previous GAAP to IFRS that is substantially similar in form and content to the example set forth in IG63 as best practice be unduly burdensome to issuers? If so, what specific difficulties would issuers face in providing that level of information? How could they be addressed?**

In our opinion, Companies will develop formats based on IG63 and developing practice that are suitable to their individual circumstances. Therefore, there is no need to specify further form and content.

- **Would investors find the reconciliation information as proposed more useful in comparing different registrants than information required under IFRS alone? If not, why not? What additional information should be required, if any?**

In our opinion, investors' needs will best be served by the provision of high quality narrative explanations rather than the reconciliation itself, whatever format this is in. Additional information will depend on individual circumstances and developing practice and cannot be effectively determined in advance.