

Published for our clients and staff in the Europe-Africa region

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IASB NEWS

Members of IFRIC are appointed. The International Financial Reporting Interpretations Committee (IFRIC) is the proposed new name for a reorganised Standing Interpretations Committee (SIC). It will have twelve members and is expected to meet about six times a year. See page 2.

Updates on progress of IASB's agenda projects. This issue includes our anticipated project timetable (page 2) and project summaries as follows:

- ❑ **Preface to IFRS.** See page 3.
- ❑ **Improvements projects.** See page 4
- ❑ **First-time application of IFRS.** See page 6
- ❑ **Business combinations and goodwill.** See page 8
- ❑ **Share-based payment.** See page 10.
- ❑ **Activities of financial institutions.** See page 11.
- ❑ **IAS 39 amendments.** See page 12.
- ❑ **Performance reporting.** See page 13.
- ❑ **Insurance contracts.** See page 13.

Six new SIC Interpretations. At its December 2001 meeting, IASB approved six final SIC Interpretations:

- ❑ **SIC 27, Transactions in the Legal Form of a Lease.** See page 14.
- ❑ **SIC 28, Business Combinations – Date of Exchange.** See page 15.
- ❑ **SIC 29, Disclosure – Service Concession Arrangements.** See page 15.
- ❑ **SIC 30, Reporting Currency.** See page 16.
- ❑ **SIC 31, Barter Transactions Involving Advertising.** See page 17.
- ❑ **SIC 33, Potential Voting Rights.** See page 17.

Batch 6 of IAS 39 guidance published. See page 18.

Deloitte Touche Tohmatsu comments on the Joint Working Group proposals. See page 18.

Proposed revisions to IASB's Constitution. IASB Foundation Trustees have proposed to revise the Constitution to reflect the restructuring of the Standing Interpretations Committee into IFRIC. See page 19.

IAS-related news from the US Securities and Exchange Commission. See page 20.

IFAD publishes comparison of 62 national GAAPs and IAS. See page 20.

News from IFAC. See page 20-21.

News about IAS in Europe. Large accounting firms endorse IAS for Europe. Fast track for EU IAS regulation. ECOFIN and Parliament discuss the regulation. EU Directives amended to allow IAS 39. Capital market integration.. EFRAG developments. Use of ISAs in Europe. See pages 21-24.

National adoptions of IAS. Singapore and Jamaica. See page 24.

From Deloitte Touche Tohmatsu. New model IAS financial statements and disclosure checklist. Updated IAS in Your Pocket. IAS Guide. See page 25.

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IFRIC members are appointed for three-year terms. Their first meeting will be held in London in February 2002. IFRIC meetings will be open to public observation.

Kevin Stevenson, who will become IASB's Director of Technical Activities in February, was appointed the non-voting Chairman of IFRIC.

In addition to these nine agenda projects, IASB has 16 "second priority" projects in which it is working with individual national standard setters on a partnership basis.

MEMBERS OF IFRIC ARE APPOINTED

The Trustees of the IASC Foundation have appointed the 12 members of IASB's new interpretations committee – proposed to be called the International Financial Reporting Interpretations Committee (IFRIC). IFRIC will replace the former Standing Interpretations Committee (SIC). IFRIC is expected to meet six times a year to develop interpretive guidance on IASB's standards. IFRIC members are:

- ❑ Junichi Akiyama, Professor, Tama University, Japan
- ❑ Phil Ameen, Vice President and Comptroller, General Electric Company, United States
- ❑ Christian Chiarasini, Partner, Andersen, France
- ❑ Claudio de Conto, General Manager Administration and Control, Pirelli S.p.A., Italy
- ❑ Clement K. M. Kwok, Managing Director and Chief Executive Officer, The Hongkong and Shanghai Hotels, Limited, Hong Kong, China
- ❑ Wayne Loneragan, Managing Director, Loneragan Edwards & Associates, Australia
- ❑ Domingo Mario Marchese, Partner, Marchese, Grandi, Meson & Asoc., Argentina
- ❑ John T. Smith, Partner, Deloitte & Touche, United States
- ❑ Mary Tokar, Partner, IAS Advisory Services, KPMG International, United States
- ❑ Leo van der Tas, Partner, Ernst & Young, The Netherlands
- ❑ Patricia Walters, Senior Vice President, Association for Investment Management and Research, United States
- ❑ Ian Wright, Partner, PricewaterhouseCoopers, United Kingdom

UPDATE ON IASB AGENDA PROJECTS

On the next 12 pages, we present summaries of key decisions made by the IASB on its nine technical agenda projects. Those decisions, of course, are tentative, subject to change, and reflect our understanding based on attendance at IASB meetings.

The table below presents our assessment of the timetable for IASB's agenda projects, based on discussion at recent IASB meetings.

| TIMETABLE FOR IASB'S AGENDA PROJECTS | |
|---|---|
| Preface to IFRS | Exposure Draft issued 8 November 2001; comments due 15 February 2002. IASB aims to publish a final Preface in the second half of 2002. |
| Improvements Projects | IASB expects to issue approximately 12 Exposure Drafts in the first quarter of 2002 (separate EDs for revisions to each IAS). Final IFRS by the end of 2002. |
| First-Time Application of IFRS | Exposure Draft in the first quarter of 2002. Final IFRS by end of 2002. |
| Business Combinations | Exposure Draft of proposed revisions to IAS 22 in the first half of 2002. Final IFRS in 2003. |
| Share-Based Payment | Exposure Draft in late 2002. Final IFRS in 2003. |
| Activities of Financial Institutions | Exposure Draft in second half of 2002. Final IFRS in 2003. |
| IAS 39 Amendments | Exposure Draft in first quarter of 2002. Final IFRS by end of 2002. |
| Performance Reporting | IASB will discuss a Draft Statement of Principles in 2002. Whether they issue that document for comment as a pre-Exposure Draft discussion document is currently undecided. |
| Insurance Contracts | Exposure Draft in late 2002. Final IFRS in 2003. |

The new Preface to IFRS will replace the existing Preface to IAS, which was last revised in 1982 and which reflects the structure and procedures of the former IASC.

PROJECT UPDATE: PREFACE TO IFRS

In November 2001, IASB invited comments on a new Preface to International Financial Reporting Standards (IFRS). Comments are due by 15 February 2002. The table below summarises the key provisions of the proposed Preface.

KEY PROVISIONS OF THE PROPOSED PREFACE TO IFRS

- ❑ IASB Standards will be known as International Financial Reporting Standards (IFRS).
- ❑ IFRS include IAS issued by IASC from 1973 to 2000.
- ❑ IFRS apply to the general purpose financial statements and other financial reporting of all profit-oriented entities regardless of their legal form (including corporate, mutual, and cooperative).
- ❑ Other financial reporting includes information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions.
- ❑ IFRS apply to individual company and consolidated financial statements.
- ❑ A complete set of financial statements includes a balance sheet, an income statement, a statement showing either all changes in equity or changes in equity other than those arising from investments by and distributions to owners, a cash flow statement, and accounting policies and explanatory notes.
- ❑ If an IFRS allows both a 'benchmark' and an 'allowed alternative' treatment, financial statements may be described as conforming to IFRS whichever treatment is followed.
- ❑ IAS issued by IASC distinguished between main principles (printed in bold typeface) and explanation of the main principles (set in plain typeface). IFRS issued by IASB will not make such a distinction.
- ❑ The provision of IAS 1 paragraph 11 that conformity with IAS requires compliance with every applicable IAS and Interpretation requires compliance with all IFRS as well.
- ❑ Due process steps for a Standard will normally include (* means required by IASB Constitution):
 - Staff work to identify and study the issues and existing national standards and practices.
 - IASB consults with Standards Advisory Council*.
 - IASB forms an advisory group.
 - IASB publishes a discussion document for comment.
 - IASB considers comments received on the discussion document.
 - IASB publishes an exposure draft with at least 8 affirmative votes* (ED will include dissenting opinions and basis for conclusions).
 - IASB considers comments received on the exposure draft.
 - IASB considers the desirability of holding a public hearing and of conducting field tests.
 - IASB approves the final Standard with at least 8 affirmative votes* (the Standard will include dissenting opinions and basis for conclusions).
- ❑ Interpretations of IFRS will be developed by the International Financial Reporting Interpretations Committee (IFRIC) for approval by IASB.
- ❑ Due process steps for an Interpretation will normally include (* means required by IASB Constitution):
 - Staff work to identify and study the issues and existing national standards and practices.
 - IFRIC studies national standards and practices.
 - IFRIC publishes a draft Interpretation for comment if no more than 3 IFRIC members have voted against the proposal*.
 - IFRIC considers comments received on the draft Interpretation within a reasonable period of time.
 - IFRIC approves the final Interpretation if no more than 3 IFRIC members have voted against the proposal* and submits it to IASB.
 - IASB approves the final Interpretation by at least 8 affirmative votes of IASB*.
- ❑ IASB and IFRIC meetings are open to public observation.
- ❑ Each IFRS and Interpretation will set out its own effective date and transition provisions.
- ❑ English is the official language of IASB discussion documents, exposure drafts, IFRS, and Interpretations. IASB may approve translations if the process assures the quality of the translation, and IASB may license other translations.

PROJECT UPDATE: IMPROVEMENTS TO IAS

Here is a summary of tentative decisions made through 31 December 2001.

The current/non-current distinction would not be intent-driven.

LIFO would be eliminated.

All error corrections would require restating prior periods.

IAS 15 would be withdrawn.

A number of seemingly minor but potentially significant changes to IAS 16, including abolishing the distinction between non-monetary exchanges of similar and dissimilar assets.

Classification as investment property would allow for measurement at fair value.

Several options in IAS 21 will be eliminated. Also, the suggestion in IAS 21 that a company has a free choice of its measurement currency (known as functional currency under US GAAP) will be put to rest.

IAS 1, Presentation of Financial Statements

- ☐ Refinancing after the balance sheet date should not be taken into account in classifying liabilities as current/non-current.
- ☐ If, at the balance sheet date, a lender has an absolute right to demand repayment immediately, the liability is a current liability.

IAS 2, Inventories

- ☐ LIFO should be eliminated.
- ☐ The weighted-average method should only be used to approximate FIFO if an item-by-item calculation is not possible.
- ☐ The word 'producer' will be taken out of IAS 2 to permit brokers and dealers to mark their precious metals inventories to market.

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

- ☐ Eliminate the distinction between fundamental and other errors.
- ☐ All material errors and changes in accounting policy will be accounted for by adjusting the opening balance of retained earnings. Cumulative effect recognition in income will be prohibited.

IAS 15, Information Reflecting the Effects of Changing Prices

- ☐ Withdraw IAS 15. See story on page 7.

IAS 16, Property, Plant and Equipment

- ☐ All exchanges of items of property, plant, and equipment should be measured at fair value, including exchanges of similar items.
- ☐ Acquisition cost includes the estimated cost of dismantling and removing that asset and restoring the site.
- ☐ Accretion of interest on the dismantlement/restoration provision should be recognised as an expense.
- ☐ Changes in discount rates after the initial recognition of the obligation should be excluded from the measurement of the asset's cost.
- ☐ Subsequent expenditure are added to the asset's carrying amount only if the asset's future economic benefits are increased above those reflected in its most recent previously assessed standard of performance.
- ☐ Depreciation should cease when the asset is classified as held for sale.
- ☐ Income and expenses of incidental operations should be recognised in net profit or loss for the period.

IAS 17, Leases

- ☐ Amend IAS 17 and IAS 40 so that a lease of land can be classified as an investment property.
- ☐ Eliminate the alternative in IAS 17 to expense initial direct costs.

IAS 21, Changes in Foreign Exchange Rates

- ☐ All derivatives that are covered by IAS 39 and all material on hedging, will be removed from IAS 21, to eliminate possible inconsistencies.
- ☐ The allowed alternative in IAS 21.21 to capitalise certain foreign exchange differences should be eliminated.
- ☐ The option in IAS 21.33 to translate goodwill and fair value adjustments to assets and liabilities that arise on the acquisition of a foreign entity at the historic transaction rate should be eliminated. A closing rate method should be used.
- ☐ The IAS 21 notion of 'reporting currency' will be replaced by two notions: functional currency (the currency in which the enterprise measures the items in financial statements) and presentation currency (the currency in which the enterprise presents its financial statements).
- ☐ Clarify that measurement currency is not a matter of choice. It should be the currency of the country whose economy drives the business.

PROJECT UPDATE: IMPROVEMENTS TO IAS, continued

- ❑ The indicators in IAS 21 of what is an integral foreign operation as opposed to a foreign entity will be incorporated into the indicators of what is an entity's functional currency. As a result, operations that are presently classified as 'integral foreign operations' would have the same functional currency as the reporting enterprise.
- ❑ Free choice of presentation currency should be allowed in single-company and group financial statements, but IAS 21 translation rules should be followed.

Interest capitalisation would be abolished.

IAS 23, Borrowing Costs

- ❑ All borrowing costs should be reported as an expense. Because most countries currently either require or permit capitalisation, the Board will consult with national standard setters before making a final decision.

The definition of related parties would be broadened.

IAS 24, Related Party Disclosures

- ❑ Related parties should include parties with joint control over the reporting enterprise, joint ventures in which the reporting enterprise is a joint venturer, and individuals who control the reporting enterprise.
- ❑ Remove the exemption in IAS 24 for state-controlled enterprises.
- ❑ The same disclosures of related parties apply to parent financial statements unless, as is currently the case in certain jurisdictions, the parent company financial statements are presented in the same report as the consolidated financial statements.

Minority interest will be presented in equity.

IAS 27, Consolidated Financial Statements

- ❑ A wholly owned subsidiary should not be exempt from preparing consolidated financial statements if it is a "publicly accountable entity" (for which a clear definition is to be developed), and if the exemption is used certain disclosures will be required.
- ❑ Minority interests should be presented in equity, but accounting recognition and measurement of minority interest should not change.

An investment in an associate will never go below zero, but additional provisions may have to be recognised.

IAS 28, Investments in Associates

- ❑ Add additional guidance and disclosures for overcoming the presumption that an investor has significant influence if it holds 20% or more of the voting power.
- ❑ An investor's share of losses of an associate should be recognised only to the extent of the investment in the associate. SIC 20 will be revised and directly incorporated into IAS 28.

Parent company statements must follow all IAS if they claim to comply with IAS.

IAS 27 and IAS 28, Parent Company Statements

- ❑ Parent company financial statements that are described as conforming to IAS must comply fully with the same IAS as are applicable to consolidated statements.

The Board plans to develop a definition of venture capital investments.

IAS 28 and IAS 31: Venture Capital Investments

- ❑ Venture capital investments should not be accounted for using the equity method or proportionate consolidation under IAS 28 and IAS 31. Instead they should be measured at fair value as a financial asset held for trading under IAS 39 or, if a subsidiary, should be consolidated.

Intent to settle in cash or shares will determine whether a contingent issuance is reflected in diluted EPS.

IAS 33, Earnings Per Share

- ❑ For contracts that may be settled in cash or shares, the SIC 24 approach (diluted EPS must assume that shares will always be issued) will be replaced with the Canada-UK-US approach (shares are excluded from EPS if experience or stated policy provides evidence that the contract will be settled in cash).
- ❑ If an entity purchases (for cancellation) its own preference shares for more than their carrying amount, the excess should be treated as a preferred dividend in calculating basic EPS.

SIC 8 is widely regarded as theoretically correct but unnecessarily complex. It would be replaced by a new Standard that will make some simplifications for first-time adoption of IAS.

PROJECT UPDATE: FIRST-TIME APPLICATION

The Board discussed a proposal developed by an advisory group of the French Conseil National de la Comptabilité. The proposal is to replace SIC 8 with a new standard applicable to a company using IFRSs for the first time as its primary basis of accounting.

For the purpose of IASB's discussions in November, the following definitions were used. However, they may change since IASB expressed some concerns about the proposed terminology:

- ❑ **Date of adoption.** The beginning of the financial year in which an enterprise publishes, for the first time, financial statements that are described as using IFRS as the primary accounting basis.
- ❑ **Date of first application.** The beginning of the earliest year presented in the first set of published IFRS financial statements.
- ❑ **Other GAAP financial statements** Statements prepared using a primary basis of accounting different from IFRS.

During discussion, the Board indicated tentative agreement with the following approach:

Which periods to present. The number of years of comparative information required is a matter for the individual country regulators to decide. IAS 1 requires, at a minimum, comparative information for the previous financial year.

Which IFRS. In general, IFRS applicable at the date of adoption should be used, with transactions occurring before the date of first application restated using the standards effective at the date of adoption. If a new standard became effective between the date of application and the date of adoption, IFRSs applicable at the date of adoption would generally be used retrospectively, even if the requirements are applicable on a prospective basis from the effective date – though IASB may decide to reach a different decision in the case of a few Standards.

Recognition of assets and liabilities. Assets and liabilities recognised under other GAAP that do not meet IFRS definitions and recognition criteria should be derecognised (with the exception of business combinations – see below). Assets and liabilities recognised under IFRS but not other GAAP should be recognised, with two possible exceptions (to be discussed at a future IASB meeting): intangible assets and the financial instrument items detailed in IAS 39.172(h) (securitisations, transfers, and other derecognition transactions).

Measurement. If the initial cost of an asset or a liability cannot be determined under IFRS without undue cost and effort, remeasure the asset or the liability at its fair value at date of first application; this value will be the deemed cost of the asset or the liability for subsequent measurement.

Business combinations. For business combinations, there would be no restatement for a business combination that occurred before the date of first application. The classification of any business combinations that occurred before the date of first application and the purchase price allocation to assets and liabilities will be deemed to have been properly determined. Intangible elements acquired in a business combination that were recognised as intangible assets under other GAAP but that do not meet IFRS definitions and recognition criteria are goodwill and should be reclassified as such. The IFRS principles for amortising goodwill and for recognising negative goodwill as income will apply to any remaining goodwill or negative goodwill existing at the date of first application, on a prospective basis from the date of first application. In addition, the recoverable amount of any remaining goodwill in the opening balance sheet should be estimated under IAS 36, and if appropriate impairment losses should be recognised at the date of first application.

continued . . .

PROJECT UPDATE: FIRST-TIME APPLICATION, continued

Financial instruments. Initial measurement of financial instruments should follow IAS 39. If measurement is at fair value, then it would be fair value at the date of first application. If measurement is at amortised cost, then it would be based on information that was available when the instrument was negotiated or issued. Where split accounting is required by IAS 32, go back to the information available at issue/contract date. If it is not possible to separate out embedded derivatives, then the entire instrument should be classified as a trading instrument. Hedging relationships are to be judged against the IAS 39 tests at the date of first application looking forward.

Other matters:

- ❑ Lease classification occurs at the date of first application, based on information available when the contract was entered into.
- ❑ If an enterprise applies the corridor approach to defined benefit employee obligations, the corridor is reset to zero at the date of first application.
- ❑ Although difficult to regulate, the use of hindsight will be restricted to information available at the date of first application. Information available subsequent to the date of first application should not be taken into account.
- ❑ In the first set of IFRS financial statements, a reconciliation should be prepared between equity under other GAAP and equity under IFRS. The Board stated that it was necessary to have a 'road map' of what had been put through equity as a result of the conversion, together with a reasonable amount of detail in relation to the adjustments that were made. If measurement at fair value is made at the date of first application because it is not possible to restate measurements under IFRS without undue cost and effort, further disclosures would be required.

A draft of an Exposure Draft is due to be presented to the February 2002 meeting of the Board.

IAS 15 is not mandatory, and few if any companies have been applying it voluntarily.

IASB WILL PROPOSE TO WITHDRAW IAS 15

IASB has indicated its intent to withdraw IAS 15, Information Reflecting the Effects of Changing Prices. IAS 15 (issued 1981) had required enterprises to present supplementary information on one of two bases: (1) adjusted for changes in the general price level or (2) balance sheet items measured at replacement cost. In 1989, the IASC had made the Standard optional, and companies stopped providing the information. Meanwhile, subsequent Standards, including IAS 16, 32, 36, 39, and 41, have addressed reporting the effects of changing prices for individual classes of assets.

*Pooling would be abolished.
Mandatory amortisation of
goodwill would be replaced by
non-amortisation plus an
impairment test.*

PROJECT UPDATE: BUSINESS COMBINATIONS

IASB is dealing with business combinations in a project with at least two phases. Phase I will cover definitions, method of accounting, acquired intangibles (goodwill and others), negative goodwill, and provisions. Phase I will not address:

- ❑ Bringing entities together to form a joint venture.
- ❑ Business combinations involving entities (or operations of entities) under common control.
- ❑ Business combinations involving two or more mutual-type entities.
- ❑ Business combinations in which separate entities are brought together to form a reporting entity by contract only without the obtaining of an ownership interest (for example, to form a dual listed corporation).

To date, the Board has reached a number of tentative decisions, including these:

Method of accounting for business combinations. All business combination transactions within the scope of the Standard should be accounted for by the purchase method.

Identifying an acquirer. One of the combining entities should be identified as the acquirer, even if a new entity is formed to issue equity instruments to effect the business combination.

Intangible assets (other than goodwill and IPR&D)

- ❑ An illustrative list of potential acquired intangibles (similar to that in FASB 141) will be included in the Standard.
- ❑ Accounting for intangibles with a finite useful economic life should follow IAS 38.
- ❑ Intangible assets can have an indefinite (but not infinite) useful economic life, even if this requires subsequent “maintenance” actions. Guidance for identifying such assets will be included in the exposure draft. Such intangibles should be reviewed for impairment rather than amortised over an arbitrary period, but once the life of the asset becomes determinable, amortisation should commence. The IAS 36 impairment approach is to be used with an annual test for unamortised intangibles.
- ❑ Revaluation should be allowed for intangible assets that (a) have an indefinite useful life and (b) are acquired in a business combination (using IAS 38 revaluation procedures) even if no active market exists for them. Otherwise this would be inconsistent with recognising the asset in the first place. IAS 38 may subsequently be amended to allow this for all acquired intangibles.

In-process research and development (IPR&D)

- ❑ Both research and development obtained in an acquisition must be recognised as assets if they satisfy the normal acquired intangibles criteria – even though an asset would not be recognised if such costs were incurred directly by the acquirer. Subsequent accounting will follow IAS 38.
- ❑ The Board debated whether subsequent R&D expenditure relating to acquired IPR&D should be treated under paragraphs 42 and 45 of IAS 38 (no capitalisation of any research and capitalisation of development only after strict commercial viability criteria are met) or under paragraph 60 (all subsequent expenditure adds to the original IPR&D asset, subject to impairment). The concern expressed with the second option is if a minimal amount, say 100, of research is acquired and capitalised, then a further expenditure of 20 billion can be capitalised. The 20 billion would not have been capitalised if the initial 100 had not been acquired. The Board saw this as a potential abuse and concluded that paragraphs 42 and 45 should apply.

PROJECT UPDATE: BUSINESS COMBINATIONS, continued

Goodwill. Non-amortisation would become the treatment for goodwill, with an impairment test that is stringent but does not create an onerous implementation workload. (The Board noted that this conflicted with the 4th EU Directive.)

Restructuring provisions. The acquirer should recognise provisions for terminating or reducing activities of the acquiree only if the acquiree has, at the date of acquisition, an existing liability for restructuring costs recognised in accordance with IAS 37. This decision would involve modifying paragraph 31 of IAS 22.

Minority interest. Minority interest should be presented within equity in the balance sheet, but separately from the parent shareholders' equity. This would require amendment of IAS 27. Minority's proportion of the acquired identifiable assets and liabilities will be measured at fair value, the same as the acquirer's proportion. This is currently the allowed alternative treatment under IAS 22. IAS 22's benchmark treatment (measure minority interest at its proportion of the pre-acquisition carrying amounts) would be prohibited.

Measurement. Regarding the date for measuring consideration issued in a business combination, the Board tentatively agreed to put forward an "agreement date model" for equity instruments issued as consideration in a business combination. Broader issues of measurement of equity instruments would be included in Phase II of the business combinations project.

Negative goodwill. With regard to negative goodwill (excess of the fair values of the acquired identifiable net assets over the acquisition cost), the IASB has adopted the following "working principle": If the total fair value exchanged in the purchase transaction is less than the amounts recognised for identifiable net assets, the difference should be recognised as a gain in the income statement.

Impairment of goodwill

- ❑ The implied value of goodwill will be calculated as the difference between the recoverable amount of the goodwill's cash-generating unit and the fair value of all the assets and liabilities at the date of the test.
- ❑ An impairment loss will be recognised if the implied value of goodwill is less than its carrying amount.
- ❑ The cash generating units used for making the goodwill impairment test should be consistent with management's internal procedures for monitoring the return on the investment and, in no case, should be larger than a primary reportable segment determined in accordance with IAS 14, *Segment Reporting*.
- ❑ In testing goodwill for impairment, value in use should be calculated by discounting expected cash flows at the current market rate of interest – the rate market participants would assign to these cash flows.
- ❑ An impairment loss should not be recognised for goodwill to the extent that it arises because an intangible asset that did not meet the criteria for recognition separately from goodwill at the time of acquisition subsequently meets the criteria and would be allocated a separate fair value when calculating the implied value of goodwill.
- ❑ Reversals of impairment losses of goodwill should not be recognised.

The Board has invited additional comments on the G4+1 paper, which had proposed expense recognition for all employee stock options and other share-based payments. While no votes have been taken at Board meetings, Board member comments indicate a general sympathy with the G4+1 study conclusion.

PROJECT UPDATE: SHARE-BASED PAYMENT (SBP)

The Board had decided at its July 2001 meeting that it would not issue a discussion paper on SBP but, rather, issue an exposure draft. That was because IASC had already published and invited comments on the G4+1 paper on share-based payments.

At its September 2001 meeting, the Board decided to reissue the G4+1 discussion paper and invite additional comments. (Previous comment letters need not be re-submitted.) Comment deadline was 15 December 2001.

The Board has continued to discuss the issues surrounding SBP. A staff paper presented to the Board recommended that the payments are expenses that should be deducted in measuring net profit or loss. The Board tentatively agreed with this proposal, subject to comments received on the discussion paper.

The Board has discussed four measurement bases:

- ☐ Historical cost.
- ☐ Intrinsic value.
- ☐ Minimum value.
- ☐ Fair value.

Fair value appears to receive the most support.

The Board discussed the merits of four possible measurement dates but did not make any decisions:

- ☐ **Grant date.** The date, at which the employee and the employer enter into a contract that will entitle the employee to an option (or a share), provided certain conditions are met.
- ☐ **Service date.** The date(s) on which the employee performs the services necessary to become unconditionally entitled to an option.
- ☐ **Vesting Date.** The date at which the employee, having satisfied all the conditions necessary, becomes unconditionally entitled to an option.
- ☐ **Exercise Date.** The date at which the option is exercised.

Board discussion suggested support for the view that, at the grant date, the entity has given the employee the right to an equity instrument and that this contractual obligation should be recognised.

The Board agreed to set up meetings with compensation consultants to explore measurement issues.

FINANCIAL ANALYSTS WORLDWIDE STRONGLY FAVOUR EXPENSING STOCK OPTIONS

More than 80% of 1,944 investment analysts and portfolio managers surveyed by the Association for Investment Management and Research believe that all stock options granted to employees are compensation whose cost should be recognised as an expense in measuring net income. A quarter of the respondents were from Europe and Asia-Pacific, the rest from North America.

AIMR surveyed its members “to gauge their response to a proposed agenda topic of the International Accounting Standards Board (IASB) that could require companies to report the fair value of stock options granted – including those to employees – as an expense on the income statement, reducing earnings”. 81% of respondents use information about stock options when evaluating a firm’s performance and determining its value.

The existing IAS 30, which deals with disclosures applicable to banks, would be replaced by a standard that addresses special disclosures for deposit-taking, lending, and securities business activities, regardless of the type of entity that undertakes those activities.

PROJECT UPDATE: ACTIVITIES OF FINANCIAL INSTITUTIONS

This project is developing a Standard on presentation and disclosure in the financial statements of entities that carry out deposit-taking, lending, or securities business activities. The Standard would replace IAS 30. IASB is considering three types of changes to IAS 30, as follows:

Eliminate redundancies. Examples of guidance in IAS 30 that overlaps with other Standards include offsetting of assets and liabilities (IAS 1 and IAS 32); disclosures about fair values (IAS 32), maturities of assets and liabilities (IAS 32), related parties (IAS 24), and concentrations of credit risk (IAS 32); and guidance for recognising loan losses (IAS 39).

Bring existing requirements up to date. IAS 30 can be brought up to date, for example, by expanding on the formats of a balance sheet and income statement applicable to the activities of a financial institution.

Enhance disclosures. Two key areas for enhanced disclosure are risk exposure information, including asset quality and an institution's own risk exposure assessment and management, and capital adequacy information.

Scope of the project

The Board has decided that the project should take a pure activity-based approach, extending to all entities that carry out deposit-taking, lending, or securities business activities.

The Board rejected the following alternative approaches:

- ❑ A pure entity-based approach (which is the approach taken in IAS 30) limited to certain defined types of entities, such as entities regulated and supervised by banks.
- ❑ A mixed approach (which was the approach recommended by IASB's Advisory Committee) under which the scope is defined based on both entity and activity-related criteria, such as quantitative tests relating to an entity's or business segment's involvement in deposit-taking, lending, and securities business activities.

Presentation

The IASB has discussed whether the eventual Standard should specify balance sheet and income statement formats. Concern was expressed about which presentation would be required for an entity with, say, 40% of its activities within the scope of this project and 60% manufacturing. The IASB concluded that it did not wish to specify mandatory performance statement formats, although the standard will require that certain components are included in the performance statements, including the cash flow statement. Examples of suggested performance statement presentation will be given.

Disclosure

The Board has discussed whether the disclosures, which will be narrative as well as numerical, should be within the financial statements or outside them, such as in an 'MD&A'. The Board expressed a preference for the information to be in the financial statements.

With respect to disclosures on risk it was suggested that entities would disclose the impact of a risk on the activities within the scope of the Standard, rather than disclosing the impact of the risk on the entire entity. For example, interest rate risk is likely to affect not only an entity's activities that fall within the scope of the standard but also its other activities; it is only the impact on the activities within the scope of the standard that would have to be reported.

The standard will require disclosure of regulatory constraints (from the lead regulator), such as capital adequacy.

These would be very substantive amendments to IAS 39, including adding an option for an entity to elect, when a financial asset is acquired or a financial liability is issued, to remeasure that asset to fair value at each reporting date, with value changes reflected in net profit or loss. Also, two significant proposed changes in the area of hedging are (1) elimination of “basis adjustment” and (2) classification of hedges of firm commitments as fair value hedges rather than cash flow hedges. Also, the derecognition provisions of IAS 39 would be changed to a continuing involvement model for derecognition – no derecognition to the extent that the transferor has continuing involvement with the transferred asset.

PROJECT UPDATE: AMENDMENTS TO IAS 39

The IASB is considering amendments to IAS 39 (and IAS 32) that would:

- ❑ Clarify some definitions and scope, for example loan commitments, insurance contracts containing financial risks, commodity contracts or financial guaranties.
- ❑ Reduce complexity caused by the application of IAS 39 ‘mixed measurement model’ by extending the use of fair value.
- ❑ Clarify how to bifurcate compound instruments under IAS 32.
- ❑ Introduce into IAS 39 some of the IGC interpretations, which will increase convergence between IAS 39 and US GAAP.
- ❑ Clarify how to classify derivatives on own shares: equity instruments or financial assets/liabilities?

Key tentative decisions – recognition, measurement, hedging

- ❑ Allow an option to measure at fair value most non-trading financial assets and financial liabilities through designation at inception as part of the held for trading portfolio. The purpose of this ‘open’ designation is to ease natural hedge accounting of financial assets and liabilities that are managed on a portfolio basis. This option will also be applicable to originated loans under certain circumstances (for example, mortgage loans).
- ❑ Permit the recognition in the income statement of changes in fair value of securities that do not meet the current criteria for classification in the trading portfolio but are held as a ‘natural hedge’ of embedded share options contained, for example, in convertible debt. It also will enable embedded derivatives contained in a liability host contract not to be bifurcated by measuring the compound instrument at fair value with changes recorded in the income statement.
- ❑ Eliminate the option to recognise changes in fair value of the available-for-sale portfolio in the income statement.
- ❑ In applying split accounting for the liability and equity elements of an issued compound instrument, measurement should be made of the liability component first with any residual amount assigned to the equity element.
- ❑ Hedge accounting requirements should be amended as follows (to converge with US GAAP):
 - hedges of firm commitments should be classified as fair value hedges and not cash-flow hedges; and
 - basis adjustment should be prohibited when a cash flow hedge of a forecasted transaction results in recognition of an asset or a liability.
- ❑ Large loans that had been individually reviewed and not identified as impaired could be included in groups of similar loans for an additional group impairment assessment on a portfolio basis. This decision is subject to development of further guidance to clarify which factors are used to determine that a large loan should be included and timing of loss recognition.

Key tentative decisions – derecognition

The Board agreed to adopt a continuing involvement model for derecognition. This model requires that an asset or liability, or component thereof, be derecognised to the extent that the entity has no continuing involvement in the asset or liability. This condition is met if the transferor gives up control of the rights that comprise a financial asset or a portion of a financial asset and cannot get them back or be required to take them back. If continuing involvement is retained, the cash flows related to the retained risk must continue to be recognised. This may result in the recognition of assets greater than the original balance with a related liability also recognised. Continuing involvement would exist through call and put options, forwards, guarantees, subordinations, and other means.

The Board is leaning toward a single performance statement for all recognised income and expense items, with no “recycling”. Also, no more extraordinary items, and all changes in accounting policy reflected by retrospective restatement (not cumulative effect in earnings).

PROJECT UPDATE: PERFORMANCE REPORTING

Tentative decisions reached by the Board to date:

- ❑ **Scope.** The scope of the project should include the income statement, the cash flow statement, and the statement of changes in shareholders' equity. Financial ratios and narrative reports should be excluded from the project. However, the financial metrics currently used by users, such as EBITDA, should not be obscured.
- ❑ **Single performance statement.** An entity should present a single statement of all recognised income and expense items as a component of a complete set of financial statements.
- ❑ **All inclusive.** The statement should include the effects of all changes in net assets during the period other than transactions with owners.
- ❑ **No ‘recycling’.** No recycling of items of previously recognised income and expense should be permitted. The Board noted that in certain jurisdictions, realised income is used to determine legally allowable distributions; information can be given through supplemental disclosure for this purpose.
- ❑ **Changes in estimates.** No changes are proposed to the IAS 8 treatment, but the difference between a change in estimate, change in accounting policy, and an error need to be more clearly defined.
- ❑ **Change in accounting policy.** There should be only one method of accounting for changes in accounting policy, namely restatement of prior periods, unless impractical to do so.
- ❑ **Correction of errors.** The distinction between fundamental errors and errors should be removed. All errors should be treated in the same way – as changes in accounting policy.
- ❑ **Extraordinary items.** The Board's discussion seemed sympathetic with the view that the extraordinary item category should be abolished. The Board deferred a decision on this pending decisions on the format of the new performance reporting statement.
- ❑ **Unusual items.** The Board's preliminary consensus is that these should not be separately aggregated on the face of the income statement but rather disclosed in the notes.

The Board has been holding educational meetings on this project, without making decisions.

PROJECT UPDATE: INSURANCE CONTRACTS

IASB has discussed issues related to accounting for and disclosure of insurance contracts at several of its meetings, but these were essentially educational sessions. The basis for the Board's discussions is a Draft Statement of Principles (DSOP) that was prepared by an IASC Steering Committee and approved for transmission to the Board in June 2001. Portions of the DSOP have been completed; others are nearing completion.

IASB is releasing chapters from the DSOP piecemeal on its web site (www.iasb.org.uk). To date, the first six chapters have been released. The contents of the DSOP are noted on the next page.

While the draft is not a formal IASB discussion document, IASB has invited those who wish to comment to send their views directly to Peter Clark, the project manager: pclark@iasb.org.uk.

In the fourth quarter of 2001, the IASB staff undertook some field visits to a number of insurers to discuss the proposals in the DSOP. The Steering Committee has proposed that IASB should also carry out a field test in 2002. The field visits and field test will assess the practical and conceptual issues that arise in measuring insurance contracts at entity-specific value or fair value.

continued...

Currently, chapters 1-6 are available for download at www.iasb.org.uk.

| INSURANCE DRAFT STATEMENT OF PRINCIPLES | |
|---|--|
| Chapter | Title |
| 1 | Introduction, scope, definition of insurance contract |
| 2 | Recognition and derecognition |
| 3 | Measurement objectives |
| 4 | Estimating the amount and timing of future cash flows |
| 5 | Adjustments for risk and uncertainty |
| 6 | Discount rates |
| 7 | Performance-linked insurance contracts |
| 8 | Reinsurance |
| 9 | Measurement of direct insurance contracts by policyholders |
| 10 | Other assets and liabilities |
| 11 | Reporting entity and consolidation |
| 12 | Interim financial reporting |
| 13 | Presentation |

Two other Draft Interpretations that were put before the Board in December were not approved as final Interpretations:

- ❑ *SIC Draft Interpretation D32, Intangible Assets – Web Site Costs, was not approved because it differed from the approach recently adopted under US GAAP. SIC may reconvene by conference call to reconsider this issue.*
- ❑ *SIC Draft Interpretation D34, Financial Instruments - Instruments or Rights Redeemable by the Holder, was not approved because of divergent views presented by respondents to the proposal. The Board decided to address the issue as part of its project to improve IAS 32 rather than approve a final Interpretation.*

SIC 27, Evaluating the Substance of Transactions in the Legal Form of a Lease

SIX NEW INTERPRETATIONS ISSUED

IASB has approved the following six final Interpretations developed by the Standing Interpretations Committee:

| INTERPRETATIONS ISSUED IN DECEMBER 2001 | | |
|---|---|--|
| SIC | Title | Effective Date |
| 27 | Evaluating the Substance of Transactions in the Legal Form of a Lease | 31 December 2001 |
| 28 | Business Combinations – ‘Date of Exchange’ and Fair Value of Equity Instruments | Acquisitions given initial accounting recognition on or after 31 December 2001 |
| 29 | Disclosure – Service Concession Arrangements | 31 December 2001 |
| 30 | Reporting Currency – Translation from Measurement Currency to Presentation Currency | Annual financial periods beginning on or after 1 January 2002 |
| 31 | Revenue – Barter Transactions Involving Advertising Services | 31 December 2001 |
| 33 | Consolidation and Equity Method – Potential Voting Rights and Allocation of Ownership Interests | Annual financial periods beginning on or after 1 January 2002 |

Summary of SIC 27

SIC 27 addresses issues that may arise when an arrangement between an enterprise and an investor involves the legal form of a lease. Among the provisions of SIC 27:

- ❑ Accounting for arrangements between an enterprise and an investor should reflect the substance of the arrangement. All aspects of the arrangement should be evaluated to determine its substance, with weight given to those aspects and implications that have an economic effect. In this respect, SIC 27 includes a list of indicators that individually demonstrate that an arrangement may not, in substance, involve a lease under IAS 17.

- ❑ If an arrangement does not meet the definition of a lease, SIC 27 addresses whether a separate investment account and lease payment obligation that might exist represent assets and liabilities of the enterprise; how the enterprise should account for other obligations resulting from the arrangement; and how the enterprise should account for a fee it might receive from an investor. SIC 27 includes a list of indicators that collectively demonstrate that, in substance, a separate investment account and lease payment obligations do not meet the definitions of an asset and a liability and should not be recognised by the enterprise.
- ❑ Other obligations of an arrangement, including any guarantees provided and obligations incurred upon early termination, should be accounted for under IAS 37 or IAS 39, depending on the terms. Further, the criteria in IAS 18.20 should be applied to the facts and circumstances of each arrangement in determining when to recognise as income a fee that an enterprise might receive.
- ❑ A series of transactions that involve the legal form of a lease is linked, and therefore should be accounted for as one transaction, when the overall economic effect cannot be understood without reference to the series of transactions as a whole.

***SIC 28, Business Combinations –
'Date of Exchange' and Fair
Value of Equity Instruments***

Summary of SIC 28

SIC 28 addresses when the 'date of exchange' occurs where shares are issued as purchase consideration in an acquisition. SIC 28 provides that if an acquisition is achieved in one exchange transaction (that is, not in stages), the 'date of exchange' is the date of acquisition, that is, the date when the acquirer obtains control over the net assets and operations of the acquiree. If an acquisition is achieved in stages (for instance, successive share purchases), SIC 28 provides that the fair value of the equity instruments issued as purchase consideration at each stage should be determined at the date that each individual investment is recognised in the financial statements of the acquirer.

SIC 28 also addresses when it is appropriate to consider other evidence and valuation methods in addition to a published price at the date of exchange of a quoted equity instrument. The Interpretation states that the published price at the date of exchange provides the best evidence of the instrument's fair value and should be used, except in rare circumstances. Other evidence and valuation methods should also be considered only in the rare circumstance that it can be demonstrated that the published price at exchange date is an unreliable indicator, and the other evidence and valuation methods provide a more reliable measure of fair value. The published price at exchange date is an unreliable indicator only when it has been affected by an undue price fluctuation or a narrowness of the market.

***SIC 29, Disclosure – Service
Concession Arrangements***

Summary of SIC 29

SIC 29 covers the information that should be disclosed in the notes to the financial statements of a concession operator and a concession provider when the two parties are joined by a service concession arrangement. A service concession arrangement exists when an enterprise (the concession operator) agrees with another enterprise (the concession provider) to provide services that give the public access to major economic and social facilities.

Examples of service concession arrangements involve water treatment and supply facilities, motorways, car parks, tunnels, bridges, airports, and telecommunication networks. Examples of arrangements that are not service concession arrangements include an enterprise outsourcing the operation of its internal services (for instance, employee cafeteria, building maintenance, and accounting or information technology functions).

continued...

Under SIC 29, the following should be disclosed in each period:

- ❑ a description of the arrangement;
- ❑ significant terms of the arrangement that may affect the amount, timing, and certainty of future cash flows (such as the period of the concession, repricing dates, and the basis on which repricing or renegotiation is determined);
- ❑ the nature and extent (quantity, time period, or amount, as appropriate) of:
 - rights to use specified assets;
 - obligations to provide or rights to expect provision of services;
 - obligations to acquire or build items of property, plant, and equipment;
 - obligations to deliver or rights to receive specified assets at the end of the concession period;
 - renewal and termination options; and
 - other rights and obligations (for instance, major overhauls); and
- ❑ changes in the arrangement occurring during the period.

***SIC 30, Reporting Currency –
Translation from Measurement
Currency to Presentation
Currency***

Summary of SIC 30

SIC 30 addresses how an enterprise translates items in its financial statements from a measurement currency to a presentation currency. If the measurement currency is not the currency of a hyperinflationary economy, the requirements of SIC 19.9 should be applied as follows:

- ❑ assets and liabilities for all balance sheets presented (including comparatives) are translated at the closing rate existing at the date of each balance sheet presented;
- ❑ income and expense items are translated at the exchange rates existing at the dates of the transactions;
- ❑ equity items (other than the net profit or loss for the period that is included in retained earnings) are translated at the closing rate existing at the date of each balance sheet presented; and
- ❑ all exchange differences resulting from translation are recognised directly in equity.

If the measurement currency is the currency of a hyperinflationary economy, SIC-19.9 should be applied as follows:

- ❑ assets, liabilities, and equity items for all balance sheets presented (including comparatives) are translated at the closing rate existing at the date of the most recent balance sheet presented; and
- ❑ income and expense items for all periods presented are translated at the closing rate at the end of the most recent period presented.

SIC 30 also addresses the information that should be disclosed about ‘convenience translations’ – additional information not required by International Accounting Standards that is displayed in financial statements in a currency other than the currency used in presenting the financial statements, as a convenience to certain users. An enterprise should:

- ❑ clearly identify the information as supplementary information to distinguish it from the information required by IAS;
- ❑ disclose the measurement currency used to prepare the financial statements and the method of translation used to determine the supplementary information displayed;
- ❑ disclose the fact that the measurement currency reflects the economic substance of the underlying events and circumstances of the enterprise and that the supplementary information is displayed in another currency for convenience purposes only; and
- ❑ disclose the currency in which the supplementary information is displayed.

Summary of SIC 31

Under IAS 18, revenue cannot be recognised if the amount of revenue is not reliably measurable. SIC 31 deals with the circumstances in which a seller can reliably measure revenue at the fair value of advertising services received or provided in a barter transaction. Under SIC 31, revenue from a barter transaction involving advertising cannot be measured reliably by looking to the fair value of advertising services received. Further, a seller can reliably measure revenue at the fair value of the advertising services it provides in a barter transaction by reference only to non-barter transactions that:

- ❑ involve advertising similar to the advertising in the barter transaction;
- ❑ occur frequently;
- ❑ represent the predominant number and monetary amount of transactions when compared to all transactions to provide advertising that are similar to the advertising in the barter transaction;
- ❑ involve cash and/or another form of consideration (such as marketable securities, non-monetary assets, and other services) that has a reliably measurable fair value; and
- ❑ do not involve the same counterparty as in the barter transaction.

Summary of SIC 33

An enterprise may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the enterprise voting power or reduce another party's voting power over the financial and operating policies of another enterprise (potential voting rights). SIC 33 addresses whether the existence and effect of potential voting rights should be considered, in addition to the factors described in IAS 27.12 and IAS 28.4-.5, when assessing whether an enterprise controls or significantly influences another enterprise under IAS 27 and IAS 28.

Under SIC 33, the existence and effect of potential voting rights that are currently exercisable or convertible should be considered, in addition to the factors described in IAS 27.12 and IAS 28.4-.5.

Under SIC 33, also, any other facts and circumstances related to potential voting rights should be assessed, except the intention of management and the financial capability to exercise or convert.

Further, SIC 33 addresses whether the proportion allocated to the parent and minority interests in preparing consolidated financial statements, and the proportion allocated to an investor that accounts for its investment in an associate using the equity method, should be determined based on present ownership interests or ownership interests that would be held if the potential voting rights were exercised or converted. Under SIC 33, the proportion allocated should be determined based solely on present ownership interests. An enterprise may, in substance, have a present ownership interest when for example, it sells and simultaneously agrees to repurchase, but does not lose control of, access to economic benefits associated with an ownership interest. In that circumstance, under SIC 33 the proportion allocated should be determined taking into account the eventual exercise of potential voting rights and other derivatives that, in substance, presently give access to the economic benefits associated with an ownership interest.

Under SIC 33, when applying the consolidation and the equity method of accounting, instruments containing potential voting rights should be accounted for as part of the investment in a subsidiary and the investment in an associate respectively only when the proportion of ownership interests is allocated by taking into account the eventual exercise of those potential voting rights. In all other circumstances, instruments containing potential voting rights should be accounted for in accordance with IAS 39.

Batch 6 is probably the last batch of IAS 39 Q&A that will be developed by the Implementation Guidance Committee.

IASB has set its meeting calendar for the first half of 2002.

We cannot support recognising fair value changes for non-trading instruments in the income statement until issues relating to performance reporting and fair value measurement are resolved.

The full text of our submission is available on www.iasplus.com.

IASB PUBLISHES ADDITIONAL IAS 39 GUIDANCE

IASB has published its sixth batch of IAS 39 Guidance developed by the IAS 39 Implementation Guidance Committee (IGC). This batch includes 17 Q&A and two examples. One example addresses applying hedge accounting when a bank or other financial institution manages its interest rate risk on an enterprise-wide basis. The other example focuses on internal derivatives. IASB has indicated that IGC has not scheduled further meetings. IASB is developing some amendments to IAS 39 [see story on page 12]. Batch 6 of the IAS 39 Guidance can be downloaded from: www.iasb.org.uk.

UPCOMING MEETINGS OF IASB, SAC, IASCF

International Accounting Standards Board

- ❑ 21-25 January 2002, London, UK (21-22 January with chairs of national standard setters)
- ❑ 18-23 February 2002, London, UK (18-19 February with the Standards Advisory Council (SAC))
- ❑ 20-22 March 2002, Tokyo, Japan
- ❑ 17-19 April 2002, London, UK
- ❑ 20-24 May 2002, London, UK (20-21 May with chairs of national standard setters)
- ❑ 17-21 June 2002, Berlin, Germany (20-21 June with the SAC)
- ❑ 17-19 July 2002, London, UK

International Accounting Standards Advisory Council

- ❑ 18-19 February 2002, London, UK
- ❑ 20-21 June 2002, Berlin, Germany

Trustees of the IASC Foundation

- ❑ 5 March 2002, London, UK
- ❑ 12 June 2002, London, UK
- ❑ 19 November 2002, Hong Kong, China

DTT COMMENTS ON JOINT WORKING GROUP FINANCIAL INSTRUMENTS PROPOSALS

Deloitte Touche Tohmatsu has submitted comments on the Joint Working Group Proposal on Financial Instruments. Our basic position:

- ❑ We support the increased use of fair values for financial instruments in financial statements as part of the evolutionary process that may ultimately result in a full fair value accounting model for financial instruments. However, we will not support the recognition in the income statement of changes in the fair values of financial instruments that are not being held for trading until issues relating to performance reporting and fair value measurement are resolved.
- ❑ Moving to fair value accounting should be an evolutionary process that is accomplished in stages. IAS 32 started the movement by requiring disclosures of fair values of financial instruments. IAS 39 continued that movement by requiring that all derivatives and most financial instruments be reported at fair value. We believe the next step in the evolution could be a partial increase in the use of fair value accounting.
- ❑ The next step in the process of moving to fair value accounting for financial instruments be accomplished by amending IAS 39 to stop using amortised cost for originated loans, held-to-maturity financial assets, and financial liabilities. Enterprises would have a choice of recognising changes in fair value in equity or in the income statement, except that there should be no choice for financial instruments held for trading. Hedge accounting should still be permitted.

FORUM ON THE INSURANCE INDUSTRY AND IAS

On 9 and 10 October 2001, a forum “The Insurance Industry and IAS – Challenges and Opportunities” was held in Paris sponsored by Allianz, AXA, CGNU, Munich Re, Swiss Re, Zurich Financial Services, together with the assistance of Deloitte Touche Tohmatsu. CEOs and CFOs of major insurance companies, investors, analysts, standard-setters, regulators, actuaries and auditors participated in the forum which provided an arena for discussion and debate surrounding financial reporting by insurance groups in light of the IASB projects on financial instruments, insurance contracts, measurement and financial performance reporting. The forum included 26 speakers and panelists from the IASB, insurance industry, supervisors, regulators, financial analysts, investors, auditors and actuaries.

Overall the forum highlighted that there is a clear need for harmonisation of insurance accounting and the development of an IAS in the near future. IAS are being used increasingly around the world and with the EU 2005 proposal for all listed companies to comply with IAS by 2005, desire for a standard by mid 2003 was expressed. Caution was suggested against any rush to a revolutionary standard, with varying views indicating that a new standard will not satisfy all parties. Nonetheless a standard is required to remove the distortions and arbitrary nature of current insurance accounting thus an acceptable, but may be not perfect, solution needs to be found.

Given the proposed changes are quite revolutionary, the desired deadline is challenging. Among other things it would mean a move from the traditional “deferral and matching” approach to an “asset and liability” approach. There was mixed support for the proposals, particularly the independent valuation of assets and liabilities. Many investors felt that the accounts of insurer should not ‘effect’ the way a business operates, but rather ‘reflect’ the way it operates and such proposals may create misalignment between internal and external reporting if synergies are not found.

Other areas of debate included the choice of a valuation model (between fair value or entity specific value) and how or if such values should be recognised in the balance sheet and income statement.

All the proposals have far-reaching implications for insurers, analysts, auditors and investors, as it will remarkably alter the format of the balance sheet and income statement of an insurer. This is only the beginning of the process and there is still a long way to go but change will happen and to ensure the changes have substance and are endorsed, all interested parties must have continuous active involvement in the debate.

For further information, including copies of the slides and brochures issued at the forum, refer to the forum web site, www.iasforum.org.

These amendments to the IASB's Constitution would reflect the changes in the name and operation of IASB's interpretations committee.

TRUSTEES PROPOSE CONSTITUTIONAL REVISIONS

The Trustees of the IASC Foundation, which oversees the IASB, have proposed revisions to the Constitution that are necessary to implement aspects of the draft Preface to IFRS [see story page 3] relating to the Standing Interpretations Committee. The constitutional changes include:

- ❑ Changing the committee's name to International Financial Reporting Issues Committee (IFRIC).
- ❑ Broadening the committee's mandate so it can address issues not specifically covered in an existing IFRS.
- ❑ Creating the position of a non-voting chair of IFRIC, that position to be filled by one of the members of the IASB, the Director of Technical Activities, or a member of the IASB's senior technical staff.

NEWS FROM THE US SEC

One of the first issues the new Chairman and Chief Accountant will have to deal with is the SEC's concepts release on International Accounting Standards.

The full text of SEC member and staff speeches may be found at www.sec.gov.

NEW SEC CHAIRMAN SPEAKS ABOUT IAS

In his first public remarks about International Accounting Standards, new SEC Chairman Harvey L. Pitt said:

"We are inspired and encouraged by all of the cooperative efforts aimed at crafting high quality international accounting standards. While work remains to be done, we are certainly well on the road toward creating the type of standards in which investors can have confidence. Looking into the future, we also must appreciate that compatible core accounting standards will lose some of their value unless we work together toward consistency among nations in interpretation and application of these standards."

Mr. Pitt spoke at the SEC Historical Society Major Issues Conference in Washington on 14 November 2001.

NEW SEC CHIEF ACCOUNTANT URGES 'CONVERGENCE'

In a presentation titled "Advancing Investors' Interests", SEC Chief Accountant Robert K. Herdman stressed the importance of convergence of global accounting standards. Speaking before the AICPA's 29th annual SEC conference on 6 December 2001, the new Chief Accountant said:

"Another issue facing standard-setters is the need for convergence of domestic and international accounting standards. Converging accounting standards is critical to a continued, efficient expansion of our global capital markets. Standard-setters should be cognizant of the effects on international accounting as they carry out their activities in the future, and I hope that convergence becomes a more near-term objective. Time does not permit a full discussion of my views on international accounting today, but it will be a major focus for the Chief Accountant's Office."

DECISION EXPECTED IN 2002 ON SEC CONCEPT RELEASE

Speaking in New York on 12 November 2001 at a national conference organised by Financial Executives International, John Morrissey, Deputy Chief Accountant of the US SEC, stated that the SEC's review of IAS for filing in the US will be a "hot topic" at the SEC during 2002. In February 2000, the SEC issued a Concept Release regarding the suitability of IAS for financial statements filed with the Commission.

NEWS FROM IFAC, IFAD, AND IOSCO

IFAD: NEW STUDY COMPARES 62 NATIONAL GAAPs TO IAS

The International Forum for Accountancy Development had updated and expanded its *GAAP 2000* survey of national accounting rules. The *GAAP 2001* study highlights instances where a country's rules either do not allow or do not require the IAS accounting treatment. The 2001 report includes 62 countries, compared to 53 in the 2000 report. Also, the revised report covers approximately 80 accounting and disclosure requirements, compared to 60 in the 2000 report. The complete text of *GAAP 2001* is available on www.iasplus.com.



IFAC's auditing standards committee will operate in future more like the restructured IASB.

IFAC: NEW STRUCTURE FOR SETTING INTERNATIONAL AUDITING STANDARDS

The Council of the International Federation of Accountants (IFAC) has revised significantly the structure and operation of the International Auditing Practices Committee (IAPC), which sets International Standards on Auditing (ISAs). Among the changes:

- ❑ **New name.** International Auditing and Assurance Standards Board (IAASB).
- ❑ **Revised objectives.** To more clearly reflect that IAASB's goals are to develop auditing standards of high quality in the public interest.
- ❑ **Expanded membership.** From 14 to 18 members, including 10 from IFAC member bodies, five from international audit firms (to be proposed by the Forum of Firms), and three non-auditor representatives.
- ❑ **IAASB meetings.** Open to the public.
- ❑ **IAASB agendas and minutes.** Available to the public.
- ❑ **Relationships with national auditing standard setters.** A mandate to work closely, including undertaking joint coordinated projects, with the goal of convergence of standards for global acceptance.
- ❑ **IAASB technical resources.** Increased.

Many of these changes are similar to those adopted when IASB replaced IASC earlier this year.

IFAC: NEW AUDITOR INDEPENDENCE RULES

The IFAC Board has approved new independence rules for accountants performing assurance engagements, effective in 2004. The rules can be found at www.ifac.org.

IOSCO: PHILIPPE RICHARD IS NAMED SECRETARY GENERAL

IOSCO has named Philippe Richard as its new Secretary General for a three-year term that started in October 2001. He replaces Peter B. Clark. Mr. Richard was until recently Deputy Director at the Secretariat of the French Credit Institutions and Investment Firms Committee. Prior to that, he has worked for the European Bank for Reconstruction and Development and the French Banking Commission.

In May 2000, IOSCO endorsed IAS for use in cross-border securities offerings and urged its members (over 100 national securities regulators) to accept IAS financial statements for this purpose.



NEWS ABOUT IAS IN EUROPE

On our website www.iasplus.com, we maintain a comprehensive summary of IAS-related events taking place in Europe. Presented below are the key events of the past three months.

LARGE ACCOUNTING FIRMS STRONGLY ENDORSE IAS FOR EUROPE

The chief executives of the seven largest public accounting firms in Europe have jointly signed a letter endorsing IAS for Europe. Signatories include Wolfgang Grewe, Managing Partner, Deloitte & Touche, Europe and Africa. The letter, which was published in the *Financial Times*, said:

"A European capital market must be strong if it is to be one of the leading sources of global finance. The application of consistent financial reporting standards is step in the right direction and should be a public interest priority. We wish to record the full support of our respective firms for the Commission's vision for a strong, competitive and efficient capital market for Europe including the application of IAS."

FAST TRACK URGED FOR EU IAS REGULATION

In December 2001, the European Commission published its Fifth Report on Implementing the EU Financial Services Action Plan. “The proposals on pension funds, prospectuses, financial conglomerates, and International Accounting Standards, and a new proposal on Takeover Bids following the European Parliament setback in July, are key measures that should be adopted by end 2002 if they are to be implemented by the agreed deadlines.” The IAS Regulation is proposed for approval during the EU's Spanish Presidency (first half of 2002).

EU DIRECTIVES AMENDED TO ALLOW IAS 39 COMPLIANCE

The Parliament and Council of the European Union have amended the EU Directives to permit European companies to comply with IAS 39 and the Directives. Under the revised directives, originated loans, held-to-maturity investments, and non-derivative/non-trading financial liabilities must be carried at amortised cost.

EUROPEAN CAPITAL MARKET INTEGRATION AND IAS

At the November meeting of the Council of the International Federation of Accountants, Michel Prada, member of IOSCO Technical Committee and President of the Commission des Operations de Bourse (France), spoke about “European Capital Markets Following the Adoption of IAS by the EU”. Among his observations:

“Within less than four years, some 6,700 European listed companies will adopt at the same time the whole set of International Financial Reporting Standards. Companies are used to implementing new accounting standards as they are published by their national standard setters; but a complete change of standards on such a large scale has never happened in the past!...

“It will be of utmost importance, in such a transition period, that the European and foreign investors trust the financial information provided to them. Suspicion on the interpretation and application of standards cannot be accepted. Poor quality audits are always unacceptable, but they are more specially so in the days when a complete overhaul of reporting principles will take place. Therefore, I call on your profession to make it a success. You can foresee a high-risk time ahead, but you have a unique opportunity to increase the confidence of the public.”

The full text of Mr. Prada's remarks can be found at www.iasplus.com.

In February 2001, the European Commission proposed a Regulation that would require all EU companies listed on a regulated market, including banks and insurance companies (about 7,000 companies in all), to prepare consolidated accounts in accordance with International Accounting Standards by 2005, at the latest. EU Member States would have the option to extend this requirement to unlisted companies and to individual company accounts.

The IVSC standards become increasingly important as accounting relies on measurement of assets and liabilities at fair value.

EFRAG will be reviewing all existing IAS and SIC and new IFRS and Interpretations and recommend to the European Commission whether they are appropriate for use in Europe. EFRAG will also prepare a coordinated European response to IASB and IFRIC proposals.

The Fédération des Experts Comptables Européens (FEE) is the representative organisation for the accountancy profession in Europe. It groups together 38 professional bodies from 26 countries.

ECOFIN AND EUROPEAN PARLIAMENT DISCUSS THE PROPOSED EU IAS REGULATION

ECOFIN, the European Council of Finance Ministers, met on 13 December 2001 and agreed a 'general orientation' on a proposed Regulation that would require all EU listed companies, including banks and insurance companies, to prepare their consolidated financial statements using IAS. ECOFIN agreed that this requirement should go into effect in 2005 at the latest. However, during the meeting, an amendment was proposed so that Member States may allow companies that have only debt securities listed, and companies listed outside Europe that currently use US GAAP, to apply IAS no later than 2007. The 2007 extended deadline for companies using US GAAP was inserted at the request of the German and French governments. EU Internal Market Commissioner Frits Bolkestein said:

"The International Accounting Standards Regulation will introduce a new era of transparency and put an end to the current Tower of Babel in financial reporting. It will help European firms to compete on equal terms when raising capital on world markets and allow investors and other stakeholders to compare companies' performance against a common standard. However, I regret the Ministers' decision to grant some big companies the right to apply US GAAP standards until 2007, two years after the Lisbon deadline for completing the Internal Market in financial services."

The Legal Affairs Committee of the European Parliament met on 18-19 December 2001 to discuss the IAS regulation, and further discussions are expected in 2002. The Council can adopt a Common Position on the Regulation once it has received an Opinion from the European Parliament.

EUROPEAN VALUERS ADOPT IAS-COMPLIANT STANDARDS

The European Public Real Estate Association (EPRA) has recommended adoption of valuation standards set by the International Valuation Standards Committee (IVSC). EPRA noted that accounting standards in Europe are in a state of transition from national to International Accounting Standards (IAS). By adopting IVSC valuation standards, EPRA "has ensured that its recommendations are fully consistent with IAS".

PAUL RUTTEMAN IS NAMED EFRAG SECRETARY GENERAL

Paul Rutteman, retired partner of Ernst & Young, has been named the first secretary general of the European Financial Reporting Advisory Group (EFRAG). EFRAG is an accounting technical committee that has been set up as a private-sector initiative by the principal European organisations interested in financial reporting. EFRAG will serve as the "IAS endorsement mechanism" for Europe by making recommendations to the European Commission regarding acceptance of IASB Standards. Stig Enevoldsen of Deloitte & Touche, Copenhagen, serves on the committee.

FEE WEBSITE INCLUDES DETAILED EFRAG INFORMATION

The website of the European Federation of Accountants (FEE) has expanded its information about the European Financial Reporting Advisory Group (EFRAG), including meeting agendas, summaries of decisions reached, and press releases. EFRAG's roles are to provide input to IASB from the perspective of the European accounting profession and to advise the European Commission on the technical assessment of IASB Standards and Interpretations for application in Europe. The European Commission has proposed that listed companies in Europe be required to use IAS by 2005. EFRAG info may be found on FEE's website at <http://www.fee.be/secretariat/efrag.htm>.

FEE PUBLISHES A STUDY ON APPLICATION OF IAS 19

The Federation of European Accountants (FEE) has published a study of the experience of 47 European companies (the majority of which are listed) in applying IAS 19 (revised 1998), *Employee Benefits*, in their consolidated financial statements. The study also includes a survey of national legislation and standards regarding pension accounting in the countries concerned. FEE website: www.fee.be.

FEE STUDY URGES EU TO REQUIRE ISAs

A discussion paper published by the Federation of European Accountants (FEE) proposes that by 2005 national auditing standards in the European Union should require auditors of financial statements to:

- ☐ perform audit procedures that comply with International Standards on Auditing (ISAs);
- ☐ report on financial statements in accordance with ISAs; and
- ☐ perform additional audit procedures and report on additional matters in response to specific legal, regulatory, or other needs established at a national level.

These jurisdictions have immediate need for guidance on first-time application of IAS (see our story on page 6).

NATIONAL ADOPTIONS OF IAS

Jamaica. The Institute of Chartered Accountants of Jamaica has adopted International Accounting Standards and International Standards on Auditing as Jamaica's national standards effective 1 July 2002.

Singapore. Early in 2002, the Singapore government will propose amendments to its Companies Act to require nearly all listed companies to use International Accounting Standards starting 1 January 2003. For this purpose, the government will establish an independent panel (to be known as the Council on Corporate Disclosure and Governance) to adopt the IAS as Financial Reporting Standards (Singapore), or FRS(S). If a Singapore-incorporated company is also listed on a foreign exchange that requires foreign GAAP financial statements, and the Singapore Stock Exchange (SGX) accepts those foreign-GAAP statements, then that company would not be required also to publish or reconcile to FRS(S) statements. The Singapore Registry of Companies and Businesses may permit unlisted companies to use alternative standards that are allowed by the SGX.

INITIAL PUBLIC OFFERINGS IN CHINA

In December 2001, the China Securities Regulatory Commission announced that it is requiring that any enterprise making an initial public offering or a secondary offering of A-Shares (shares that can be purchased by Chinese investors) must publish financial statements in conformity with International Accounting Standards, in addition to Chinese GAAP statements, at the time of the offering. Companies that issue B-Shares (shares that trade in US dollars and that can be purchased by foreign investors) are already required to publish the IAS financial statements both at the time of an IPO and thereafter.

NEW FROM DELOITTE TOUCHE TOHMATSU

There is no charge to download these documents.

IAS MODEL FINANCIAL STATEMENTS AND DISCLOSURE CHECKLIST FOR 2001 AVAILABLE

We have posted on www.iasplus.com updated versions of Deloitte Touche Tohmatsu's Model IAS Financial Statements and Presentation/Disclosure Checklist. They reflect all Standards and Interpretations that are in effect for financial reporting in 2001.

There is no charge to download this document.

IAS IN YOUR POCKET GUIDE UPDATED

We have updated the PDF file of our *IAS In Your Pocket* guide to reflect IASB's initial technical agenda and partnership projects. The 64-page guide has summaries of the IASs and SICs as well as background information about IASB. You can download a copy from www.iasplus.com.



"The real objective is convergence."

"The biggest change will be, 'Tell it as it is and explain it'."

GLOBAL ACCOUNTING STANDARDS: FACT OR FICTION?

A single set of accounting standards, for so long just an ideal, is on the verge of becoming a reality. Sir David Tweedie, chairman of the IASB, debates the issues with Jim Copeland, Global CEO of Deloitte Touche Tohmatsu, on a new CD available from Deloitte Touche Tohmatsu. Among other things, they talk about:

- ☐ Why do we need global accounting standards?
- ☐ What are the pressures and attitudes influencing the IASB?
- ☐ What is the IASB agenda? And how will it affect your financial statements?
- ☐ What are the implementation issues? And how will they affect your business?

The CD also has background material on organisations that are mentioned:

- ☐ IASB – structure, history, agenda, existing standards, membership of committees and boards.
- ☐ IOSCO – membership and endorsement of IAS.
- ☐ SEC – position on IAS.
- ☐ EU – adoption proposal and membership of committees/boards (EFRAG).
- ☐ IFAD – background and membership.

Ordering information may be found at www.iasplus.com.

The third edition of this highly popular book was edited by Bruce Mackenzie and Andy Simmonds, London.

THIRD EDITION OF DELOITTE TOUCHE TOHMATSU'S IAS GUIDE IS PUBLISHED

The Third Edition of International Accounting Standards: A Guide to Preparing Accounts has been published by ABG Professional Information, London. Written by Deloitte & Touche, this comprehensive guide to IAS includes 29 chapters, 4 appendices (including model financial statements and disclosure checklist), and 1,316 pages. It can be ordered directly from the Publisher (www.abgpublications.co.uk).

Two more in a series of comparisons of national GAAPs.

COMPARISONS OF UK GAAP WITH FRENCH AND GERMAN GAAP ARE AVAILABLE

Deloitte & Touche has published comparisons of UK GAAP with GAAP in France and in Germany. Both can be downloaded at www.iasplus.com.

DENMARK

Contacts: *Stig Enevoldsen, Jan Peter Larsen*

New Danish Accounting Act

On 1 January 2002, the new Danish Accounting Act came into effect. Generally, the Act is based on the IASC Framework and IAS as far as possible. This also means that further interpretation can be sought in the Danish Accounting Standards (DKAS), IASs and SICs when the Act is silent or a paragraph in the Act is worded too generally. However, as the Act is also required to comply with the European Accounting Directives, certain differences to IAS will still exist.

Some examples are:

- ❑ revaluations of intangible assets is not allowed,
- ❑ presentation of negative goodwill as a liability is required,
- ❑ restructuring provisions should be recognised when the Board of Directors has made the decision before the balance sheet date (there is no requirement to announce the main features to those affected by the restructuring),
- ❑ measurement of investment properties at fair value is only allowed if the main business of the enterprise is investing in investment property,
- ❑ classification of financial instruments (between equity and liability) according to legal form rather than substance,
- ❑ IAS include significantly more and detailed disclosure regarding, for instance, discontinued operations, impairment testing, earnings per share, and
- ❑ other effective dates and different transitional provisions.

On 21 December 2001, the Danish Minister of Trade and Industry approved §37 of the Act on financial instruments. This paragraph is generally based on IAS 39 and the amendments to the European Accounting Directives of October 2001 regarding fair value for financial instruments. This means that enterprises are required to measure all derivatives at fair value, all financial assets (except for originated loans and receivables, and other financial assets held for maturity that should be measured at amortised cost) at fair value, and all financial liabilities (except for financial liabilities held for trading that should be measured at fair value) at amortised cost. With this approval, §37 took effect for annual financial statements beginning on or after 1 January 2002.

Deloitte & Touche's publication on the Danish Accounting Act (20 pages) is currently being translated into English by the Danish firm. We will inform you again here when it is published.

New Danish Accounting Standards

Three new Danish Accounting Standards (DKAS) are expected to become effective for annual financial statements beginning on or after 1 January 2002. They are:

- ❑ DKAS 16, Investment Property (based on IAS 40)
- ❑ DKAS 17, Provisions, Contingent Liabilities and Contingent Assets (based on IAS 37)
- ❑ DKAS 18, Business Combinations (based on IAS 22)

DKAS 18 includes transitional provisions that are different from the tables in IAS 22. The benchmark treatment is that enterprises apply DKAS 3 (as if the financial statements have always been prepared in accordance with the new accounting policy), however as an exception they may apply DKAS 18 only to business combinations occurring after either 1 January 1995 (as IAS 22) or after 1 January 2002. If the exception is applied, additional pro-forma disclosures are required.

DENMARK, continued

In addition, limited revisions have been made to eight other DKAS to converge further towards IAS. These are expected to have the same effective date as the three new DKAS.

Copenhagen Stock Exchange Recommends Use of IAS by Listed Companies in Denmark

In December 2001, Copenhagen Stock Exchange and "Nørby-udvalget" (a corporate governance group established by the former Danish Minister of Trade and Industry at the end of 2000) both recommended that listed companies consider applying IAS to:

- ❑ improve the basis for comparability between countries,
- ❑ improve openness and transparency in financial reporting, and
- ❑ prepare for the proposed requirement for EU-listed companies to apply IAS when preparing annual financial statements beginning on or after 1 January 2005.

At the same time, Copenhagen Stock Exchange issued new rules for listed companies, including disclosure requirements in annual reports, for instance more specific disclosures regarding share-based payments to management and employees.

FRANCE

Contact: *Laurence Rivat*

On 3 October 2001 the Comité d'Urgence of the Conseil de la Comptabilité (CNC – French standard setter) issued two interpretations on existing standards. These new interpretations are:

- ❑ 2001-F – with respect to payments in return for authorisation to use an UMTS (Universal Mobile Telecommunications System) spectrum that will be used by third generation mobile telephones. It was agreed that such a licence constitutes an intangible asset, which should be amortised over the useful life of the licence. The cost of the asset and related debt should be equal to the present value of the future payments (which were initially scheduled to be fixed over 15 years). Note, the interpretation was finalised prior to a change in the basis of calculation of the payments by the government. Part of these payments has now become contingent upon sales arising from the use of the licence. The Comité d'Urgence is reconsidering how the change in the future payments for the licence affects the accounting treatment of the licence.
- ❑ 2001-G – with respect to insured employee benefits in the consolidated accounts of insurance companies. It was agreed that it is necessary to distinguish between internal and external insurance contracts relating to employee benefits. Insurance contracts that grant rights directly to employees against the insurer represent external insurance contracts for which recognised liabilities should be maintained. However, insurance contracts between entities within the group, which cover internal risks only, should be eliminated consistent with the elimination of all internal transactions in consolidated accounts.

GERMANY

Contact: *Reinhard Scharpenberg*

The German Accounting Standards Board (GASB) has issued for comment two new Draft-GAS: E-GAS 14 "Intangible Assets" and E-GAS 15 "Accounting Changes and Principle of Consistency".

E-GAS 14 defines an intangible asset similar to IAS 38 "Intangible Assets", setting three critical attributes: identifiability, control and future economic benefits.

There is a rebuttable presumption that the useful life of an intangible asset does not exceed twenty years. The key differences to IAS 38 are that capitalisation of development costs, as well as a revaluation to fair value, will not be allowed under the proposed standard.

The objective of E-GAS 15 is to set forth the treatment of changes in accounting principles, changes in accounting estimates and correction of errors with regard to the principle of consistency. Concerning changes in accounting principles and correction of errors, the proposed standard provides for a treatment similar to the allowed alternative of IAS 8 “Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies” paragraphs 38 and 54. Changes in accounting estimates shall be treated in a manner similar to IAS 8.26.

The GASB also approved E-GAS 1a as a draft addendum to GAS 1 “Exempting Consolidated Financial Statements in accordance with § 292a HGB (German Commercial Code)”. E-GAS 1a was issued for comment at the end of October 2001. The draft discusses whether consolidated financial statements prepared in accordance with US GAAP meet the requirement to be in conformity with the 7th EU Directive taking into consideration that goodwill and certain other intangible assets are no longer amortised. E-GAS 1a takes an affirmative position regarding such conformity.

ITALY

Contact: *Costante Beltracchi*

On November 27, 2001, a new accounting standard setter - the Italian Accounting Committee (Organismo Italiano di Contabilità - OIC) - was established in Italy. The OIC has been constituted in the legal form of a Foundation, which is governed by a board of directors consisting of 15 members. The members have been appointed by a large representative group of Italian institutions, such as the Italian National Council of Accountants, the “ABI” (National Association of Banks), the “Confcommercio” (National Confederation of Commerce), the “Assirevi” (Association of the Italian Auditors), Italian Government Accountants, Confindustria (Italian Confederation of Industry), Italian Stock Exchange, and others. The Board of Directors will soon appoint the members of the Executive Committee (7 members and 1 Chairman). The Executive Committee will also appoint the Technical-Scientific Committee, whose aim is to draft the national accounting principles to be approved by the Executive Committee.

The Board of Directors’ consist of: 6 members of the accounting profession, 5 preparers, 2 users, 1 representative of the Italian Stock Exchange and 1 representative of the Public Administration. The OIC will begin to operate in a few months when it has finished the formalities connected with legal recognition. The OIC will sit alongside the corresponding European body, EFRAG (European Finance Reporting Advisory Group) and the international body, the IASB. The principal activities of the OIC will be the following:

- ❑ issue accounting principles, for use in the preparation of financial statements for which the application of the international accounting principles has not been provided, by coordinating activity with the other European standard setters;
- ❑ issue accounting principles for the preparation of the financial statements of not for profit entities and of national and local public administrations;
- ❑ provide support in connection with the application of the international accounting principles in Italy.

In the meantime, the accounting standards committee of the Italian National Councils of Accountants (the previous Italian accounting standard setter) has recently approved its last accounting principle: Accounting Principle 30 - Interim Financial Reporting. This accounting principle is substantially in line with IAS 34.

RUSSIA

Contact: *Matthew Howell*

The Russian Ministry of Finance sets accounting regulations for non-financial institutions. Entities governed by the Central Bank of the Russian Federation (CBRF) are banks and credit institutions. The CBRF has responsibility for setting their accounting and reporting principles, closely monitor their activity on a regular basis, setting minimum capital requirements and other obligatory prudential ratios, and issuing licenses.

The CBRF has declared the following general accounting principles:

- ☐ Going concern
- ☐ Continuity of accounting principles
- ☐ Prudence
- ☐ Recognition of income and expenses on a cash basis
- ☐ Substance over form
- ☐ True and fair view of the financial statements

The main difference between Russian Accounting Standards (RAS) and IAS for banks and credit institutions is that income and expenses are accounted for on a cash basis under RAS. Income is recognised when cash (or other consideration) is received and expenses are recorded at the date the payment is made, with some exceptions. Services paid for are recorded in the income statement on receipt of formal supporting documents confirming that services have been received.

The CBRF has announced that it will require the use of IAS for all banks from 2004, however, this proposal has not yet been finalised. In addition, an instruction on calculating and recording provisions against possible losses on loans, securities, other assets and off-balance sheet commitments was made obligatory for all credit institutions operating in the Russian Federation.

As for non-financial companies, following a decision to move to IAS in 1998, the Ministry of Finance of the Russian Federation continues to update and issue new RAS modelled on IAS. However, most RAS (or PBU as they are called in Russian) still differ in many significant respects from IAS. Recently, a new PBU was issued 'Accounting for Loans and Costs of Borrowings' effective 1 January 2002. In addition, revisions have been made to PBU on 'Accounting for Inventory', effective 1 January 2002 and 'Accounting for Property, Plant and Equipment' effective for all financial statements issued in 2001.

THE NETHERLANDS

Contact: *Sander van Dam*

New Annual Reporting Guidelines Issued in The Netherlands

On 8 November 2001, the Council for Annual Reporting in The Netherlands issued new guidelines for annual reporting applicable for the year 2002. Additionally a number of Draft Guidelines have been issued. These new and draft guidelines will result in increased convergence with IAS.

The new Guidelines include (among others) the following requirements:

- ☐ Stock options granted to management and staff must be recognised as (staff) costs and expensed if, at the date the options are granted, the exercise price is below the market price (that is, the options having a positive intrinsic value). When there is a subsequent change in the exercise price, thereby leading to the option having a positive intrinsic value, an expense will arise at the date of this subsequent change.
- ☐ The disclosure of EBITA (Earnings Before Interest, Taxes and Amortisation) and EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) within the income statement is prohibited. The use of these concepts is only allowed in the notes to the financial statements.
- ☐ Specific guidance on budgets, the composition of equity, classifications to be made in the income statement, as well as the contents of the management board's report for not-for-profit organisations.

The new Draft Guidelines (currently open for comment) include:

- ❑ Extensive guidance on the recognition and measurement of financial instruments, in order to converge closer to IAS 39.
- ❑ Further restrictions on the classification of unusual events as 'extraordinary items' have been imposed, in order to increase compliance with IAS.
- ❑ The effects of a change in accounting policy can no longer be recognised as extraordinary items, when recognised in the profit or loss. The benchmark treatment to report the effects of changes in accounting policies through equity still exists.
- ❑ The effects of changes in estimates can no longer be accounted for retrospectively but need to be accounted for on a prospective basis.
- ❑ Proposed dividends cannot be included in the balance sheet where they have not been approved at year-end. The proposed dividends should be separately disclosed in equity.
- ❑ A new benchmark treatment for the measurement of investments in real estate: fair value, without any depreciation is now the preferred method. The allowed alternative treatment remains cost less accumulated depreciation. This new draft looks for greater convergence with IAS 40.

For further information refer to the press release at <http://www.rjnet.nl/index.asp?hfdstrmkeuze=2&paginahfdstrm=publicaties/publicaties.asp> (in Dutch).

The Netherlands Might Allow IAS Before 2005

The Netherlands Council of Ministers has agreed to a bill that would permit Dutch companies to prepare their financial statements using IAS or US GAAP instead of Dutch accounting rules. The action was taken (a) to enable Dutch companies to make the switch to IAS sooner than 2005, if they choose, and (b) to ease the burden on the many Dutch companies that now have to prepare two sets of financial statements because they seek capital in overseas markets. The bill has been sent to the Council of State for advice, after which the House of Commons must approve.

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- ☐ Email the information above to Laurence Rivat at lrivat@deloitte.fr

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