

IAS Plus

July 2005 – Quarterly Edition

Published for our clients and staff in the Asia-Pacific region

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IAS Plus website

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IASB PROJECT TIMETABLE	
Accounting Standards for Small and Medium-sized Entities (Non-Publicly Accountable Entities)	- Discussion Paper was issued in June 2004 - Staff questionnaire issued April 2005 - Public round tables planned for 13-14 October 2005
Business Combinations – Phase II — Application of the Purchase Method	- Exposure draft issued 30 June 2005 - Separate EDs on minority interests and contingent liabilities issued 30 June 2005 - Final statements expected 2006 - Expected effective date 1 January 2007
Conceptual Framework	Discussion paper in 2006 or later
Control, including SPEs (Consolidation)	Exposure drafts on control and SPEs expected 2006 or later
Convergence – Short-term Issues, IFRSs and US GAAP.	<u>Asset Disposals/Discontinued Operations</u> - IFRS 5 was issued in March 2004. Effective date December 2005 year ends. <u>IAS 12 Income Taxes</u> - Exposure draft expected 2nd half of 2005 <u>IAS 14 Segment Reporting</u> - Exposure draft on replacement of IAS 14 expected 2nd half of 2005 <u>IAS 19 Employee Benefits</u> - Exposure draft of limited amendment was issued April 2004 - Final IAS 19 Revised was issued in December 2004 <u>IAS 20 Government Grants</u> - Exposure draft on replacement of IAS 20 expected 2nd half of 2005 <u>IAS 37 Provisions</u> - Exposure draft issued 30 June 2005
Financial Instruments: Recognition and Measurement	- Revised IAS 32 and 39 were issued December 2003 - Revised IAS 39 reflecting macro hedging issued March 2004 - Exposure drafts were issued on fair value option (April 2004) and other limited amendments (July 2004) - Intragroup hedging and fair value option amendments adopted in April and June 2005. - Final revisions on guarantees expected in 3rd quarter 2005 - ED on shares puttable at fair value expected in 2nd half 2005 - Effective date of main revisions to IAS 32 and IAS 39 is December 2005.
Financial Instruments: Disclosures	- Exposure draft ED 7 was issued July 2004 - Final standard expected 18 August 2005 - Expected effective date 1 January 2007, but permitted for December 2005 year ends
Extractive Industries	- Exposure draft ED 6 was issued in January 2004 - IFRS 6 was issued in December 2004 - Effective date 2006 year ends; permitted for 2005 year ends
Insurance Contracts – Phase I	- IFRS 4 was issued in March 2004 - Effective date December 2005 year ends
Insurance Contracts – Phase II	- Working group appointed in 2005 - Next step is a discussion paper in 2006 or later
Reporting Comprehensive Income (Performance Reporting)	- Working group appointed in 2005 - Next step is a discussion paper in 2006 or later
Revenue and Related Liabilities	Discussion paper expected in 2nd half of 2005
Liabilities and Equity	Discussion paper in 2006 or later

Deloitte has published a special edition of the *IAS Plus Newsletter* explaining the new fair value option rules in IAS 39. The download link is here:
www.iasplus.com/iasplus/iasplus.htm

You can download the IASB press release on the fair value option here:
www.iasplus.com/pressrel/0506prfairvalueoption.pdf

IASB press release:
www.iasplus.com/pressrel/0504amend39.pdf

IASB News

IASB issues final IAS 39 fair value option amendment

The IASB has amended IAS 39 *Financial Instruments: Recognition and Measurement* to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit and loss (the ‘fair value option’). The IASB developed this amendment after commentators, particularly prudential supervisors of banks, securities companies, and insurers, raised concerns that the fair value option contained in the 2003 revisions of IAS 39 might be used inappropriately. The new revisions limit the use of the option to those financial instruments that meet certain conditions. Those conditions are that:

- the fair value option designation eliminates or significantly reduces an accounting mismatch,
- a group of financial assets, financial liabilities, or both are managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and
- an instrument contains an embedded derivative that meets particular conditions.

The amendment is effective 1 January 2006, with earlier application encouraged.

Amendment to IAS 39 on intragroup hedges

The IASB has amended IAS 39 *Financial Instruments: Recognition and Measurement* to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge in consolidated financial statements – provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated financial statements.

The amendment also specifies that if the hedge of a forecast intragroup transaction qualifies for cash flow hedge accounting, any gain or loss that is recognised directly in equity in accordance with the hedge accounting rules in IAS 39 must be reclassified into profit or loss in the same period or periods during which the foreign currency risk of the hedged transaction affects consolidated profit or loss.

The amendment is effective 1 January 2006, although earlier application is encouraged. This amendment removes a difference with US GAAP.

The IASB plans to address the ‘accounting mismatch’ by amending either IAS 38 or IAS 39. An exposure draft is not expected until July 2006.

IASB withdraws IFRIC 3 Emission Rights

At its June 2005 meeting, the IASB withdrew IFRIC 3 *Emission Rights*, which had been issued in December 2004 and was scheduled to go into effect for annual periods beginning on or after 1 March 2005.

IFRIC 3 specifies that emission rights (allowances) granted by government are intangible assets that should be recognised in the financial statements in accordance with IAS 38 *Intangible Assets* and that as a participant produces emissions, it recognises a provision for its obligation to deliver allowances in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Some of the Board’s constituents had expressed concern about a resulting ‘accounting mismatch’ because the intangible asset is measured at historical cost while the provision is measured at the market value of the allowances needed to settle it. IFRIC discussed the matter at its 2-3 June 2005 meeting. That discussion included a staff analysis of a proposal by EFRAG for the development of a form of cash flow hedge accounting to reduce the volatility resulting from the timing of receipt of allowances.

IFRIC had recommended that the Board consider these wider issues. The Board also had before it a letter from the European Commission requesting that the effective date of IFRIC 3 be deferred. The Board concluded that while IFRIC 3 is an appropriate interpretation of the existing requirements of IAS 37 and IAS 38, the ‘accounting mismatch’ problem suggests the need for a more comprehensive consideration of the issue. Pending that consideration, IFRIC 3 has been withdrawn.

IASB press release:
[www.iasplus.com/
pressrel/0506ifrs6.pdf](http://www.iasplus.com/pressrel/0506ifrs6.pdf)

Amendments to IFRS 6 and IFRS 1

The IASB has issued amendments to IFRS 1 and IFRS 6 to clarify that an entity that both (a) adopts IFRSs for the first time before 1 January 2006 and (b) applies IFRS 6 before that date is exempted not only from providing comparative prior-period disclosures but also from applying the recognition and measurement requirements of IFRS 6 in the prior comparative period.

At its July 2005 meeting, the Board deferred final agenda decisions until September

Two new projects planned for IASB agenda

The IASB staff proposed to the Board, for discussion at the July 2005 Board meeting, two new projects for the Board’s active agenda:

Fair value measurement guidance. This project would focus on how to measure fair value. It would not deal with when a standard should require fair-value measurement, but only how to measure fair value if a standard requires it. The FASB is currently completing work on a similar project, and the IASB’s project would build on the FASB’s work. The staff proposes that the project lead to an IASB standard rather than amendment of the IASB Framework.

Issues arising from IFRIC 3 Emission Rights. This project will consider ways to resolve the ‘accounting mismatch’ that arises when the intangible asset is measured at historical cost while the related provision is measured at the market value of the allowances needed to settle it. Two possible ways of resolving the ‘mismatch’ are:

- Amend IAS 38 *Intangible Assets* to allow emission allowances that are traded in an active market to be measured at fair value through profit and loss.
- Amend IAS 39 *Financial Instruments* to treat the emission allowances as financial instruments to be measured at fair value through profit and loss.

Either way, an exposure draft is planned for July 2006.

IASB press release:
www.iasplus.com/pressrel/0506buscomb.pdf

Amendments proposed to IFRS 3, IAS 27, IAS 37

The IASB and the US Financial Accounting Standards Board (FASB) have published joint proposals to improve and align the accounting for business combinations. The proposals include a draft standard that the boards have developed in their first major joint project. The proposed standard would replace the existing requirements of the IASB's IFRS 3 and FASB's Statement 141, both titled *Business Combinations*. The proposals retain the fundamental requirement of IFRS 3 and SFAS 141 to account for all business combinations using the purchase method of accounting, by which one party is always identified as acquiring the other.

A summary of the proposals is presented below. Comments are due by 28 October 2005.

PRINCIPAL CHANGES BEING PROPOSED TO IFRS 3

- The acquirer would measure the business acquired at its total fair value and, consequently, recognise the goodwill attributable to any non-controlling interests (previously referred to as minority interests) rather than just the portion attributable to the acquirer. This is sometimes called the 'full goodwill method'. The current version of IFRS 3 requires a business combination to be measured and recognised on the basis of the accumulated cost of the combination.
- Payments to third parties for consulting, legal, audit, and similar services associated with an acquisition would be recognised generally as expenses when incurred rather than capitalised as part of the business combination. The current version of IFRS 3 requires direct costs of the business combination to be included in the cost of the acquiree.
- The acquirer would measure and recognise the acquisition-date fair value of the assets acquired and liabilities assumed as part of the business combination, with limited exceptions. Those exceptions are goodwill, non-current assets (or disposal group) classified as held for sale, deferred tax assets or liabilities, and assets or liabilities related to the acquiree's employee benefit plans. Thus there will be fewer exceptions to the principle of measuring assets acquired and liabilities assumed in a business combination at fair value.
- The acquirer would recognise separately from goodwill an acquiree's intangible assets that meet the definition of an intangible asset in IAS 38 *Intangible Assets* and are identifiable (that is, they arise from contractual-legal rights or are separable). The current version of IFRS 3 requires the recognition of intangible assets separately from goodwill only if they meet the IAS 38 definition and are reliably measurable.
- The acquirer would account for a bargain purchase by reducing goodwill until the goodwill related to that business combination is reduced to zero and then by recognising any remaining excess in profit or loss. The current version of IFRS 3 requires the excess of the acquirer's interest in the net fair values of the acquiree's assets and liabilities over cost to be recognised immediately in profit or loss.
- Acquisitions of additional non-controlling equity interests after the business combination will no longer be accounted for using the acquisition method. Instead, they will be accounted for as transactions with owners.
- The scope of IFRS 3 would be broadened to include business combinations involving only mutual entities and those achieved by contract alone.

TWO ADDITIONAL EXPOSURE DRAFTS

- The IASB and the FASB also published exposure drafts proposing that non-controlling interests should be classified as equity within the consolidated financial statements and that the acquisition of non-controlling interests should be accounted for as an equity transaction. The IASB's proposals are presented as amendments to IAS 27 *Consolidated and Separate Financial Statements*.
- The IASB also has proposed to amend IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to treat items previously described as 'contingent liabilities' more consistently in and outside a business combination.

There is a summary of the proposed changes to IAS 37 here:
www.iasplus.com/agenda/converge-ias37.htm#ed

IASB proposes amendments to provisions standard

The IASB has invited comment on proposed amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (to be retitled *Non-financial Liabilities*) and complementary limited amendments to IAS 19 *Employee Benefits*. The amendments to IAS 37 would change the current approach to recognising non-financial liabilities. Entities would be required to recognise in their financial statements all obligations that satisfy the definition of a liability in the IASB's *Framework*, unless they cannot be measured reliably. Uncertainty about the amount or timing of the economic benefits that will be required to settle a liability would be reflected in the measurement of that liability instead of (as is currently required) affecting whether it is recognised. This change would enhance financial reporting because some liabilities previously only disclosed in the notes to the financial statements will now be included in the balance sheet. Moreover, it would make the IASB approach consistent with the approach under US GAAP. Comments are due by 28 October 2005.

You will find a complete list of SME working group members here:
www.iasplus.com/agenda/sme.htm#wg

IASB expands its SME working group

The IASB has expanded its working group on Accounting Standards for Small and Medium-sized Entities (SMEs) to include more preparers and users of SME financial statements as well as others with a particular SME expertise. SMEs are entities that (a) do not have public accountability and (b) publish general purpose financial statements for external users.

IASB subscribers can download 'near final drafts' from the IASB website:
www.iasb.org
then click on 'Log In'

IFRS 7 is nearing completion

The IASB has posted to the 'Subscribers' section of its website the near-final draft of IFRS 7 *Financial Instruments: Disclosures*. A near-final draft is one awaiting formal Board approval and for which only relatively small editorial changes are expected. IFRS 7 will replace IAS 30 *Disclosures in Financial Statements of Banks and Similar Financial Institutions* and also will replace the disclosure portions of IAS 32 *Financial Instruments: Disclosure and Presentation*. The standard will apply to all entities and will require disclosure of:

- the significance of financial instruments for an entity's financial position and performance; and
- qualitative and quantitative information about exposure to risks arising from financial instruments, including minimum disclosures about credit risk, liquidity risk, and market risk.

IFRS 7 will be effective for financial years beginning on or after 1 January 2007, with earlier application encouraged. If an entity decides to apply IFRS 7 to financial years beginning before 1 January 2006 (for instance, for calendar year 2005), it need not present comparative (2004) information for the required risk disclosures.

In July 2005, the IASB announced that the publication of IFRS 7, previously scheduled for 15 July, has been rescheduled to 18 August 2005.

Near-final drafts may be accessed by subscribers to IASB publications at:
www.iasb.org
then click on 'Log In'

'Near final draft' on financial guarantee contracts

The IASB has posted on its website the 'near-final draft' of its amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 4 *Insurance Contracts* relating to financial guarantee contracts. The amendments are effective for annual periods beginning 1 January 2006, with earlier application permitted. The intent of the amendments is to clarify which standard – IAS 39 or IFRS 4 – should be followed in accounting for financial guarantee contracts.

You can order the 2005 Bound Volume, eIFRS, and the CD-ROM from the IASB On-Line Bookshop:
www.iasb.org

2005 bound volume of IFRSs now available

The 2005 Bound Volume of International Financial Reporting Standards is now available. BV 2005 includes the full text of all International Financial Reporting Standards, International Accounting Standards, Interpretations, and IASB-issued supporting documentation (Bases for Conclusions, Implementation Guidance, and Illustrative Examples) extant at 1 January 2005. This single volume also includes the IASB Framework, the Preface to IFRSs, an updated Glossary, and a comprehensive index. Price of the printed bound volume is £58. Editorial updates will be posted periodically to the IASB's website. Also available:

- **Electronic International Financial Reporting Standards – eIFRS:** An online-only subscription service to all IFRSs, IASs, and Interpretations online in HTML and/or Adobe Acrobat format. Available in English and several other languages.
- **A CD-ROM version:** Price is £120 per user, including updates during the year.

14 European 'roadshows' completed, 4 upcoming

The IASB has organised a series of 'roadshows' jointly with national standard setters in a number of European countries. The focus of the discussion is the Board's current and future projects. In June and July 2005, roadshows were held in the Netherlands, Germany, Denmark, Finland, Italy, Greece, Belgium, Lithuania, Austria, Norway, Portugal, Switzerland, United Kingdom, and Spain. Future roadshows are scheduled as follows:

- Stockholm, Sweden – 13 September 2005
- Dublin, Ireland – 16 September 2005
- Paris, France – 14 September 2005
- Warsaw, Poland – 29 October 2005

Deloitte Letters of Comment

Full text of our letters of comment (going back to 1995):
www.iasplus.com/dttletr/comment.htm

Deloitte letter of comment on IFRIC D12, D13, and D14

IFRIC D12, D13, and D14 are a suite of three Draft Interpretations on *Service Concession Arrangements*. Service concessions are arrangements whereby a government or other body grants contracts for the supply of public services, such as roads, energy distribution, prisons, or hospitals, to private operators. The draft interpretations establish two accounting models – the financial asset model and the intangible asset model. The appropriate model depends on whether the grantor or the users have the primary responsibility to pay the operator for the concession services. Here is an excerpt from our letter:

With the benefit of hindsight, we believe that if this project were started from the beginning, it might be better suited to a Board project to develop an accounting standard. However, given the advanced stage of the project and the desperate need in the market place for these interpretations we believe the IFRIC should complete this project with all due haste.... We do have a number of pervasive concerns, which we believe are fundamental flaws in the accounting models proposed by the IFRIC.

Full text of our letters of comment (going back to 1995):
www.iasplus.com/dttletr/comment.htm

Deloitte letter of comment on IFRIC D15

Deloitte's comment letter on IFRIC D15 *Reassessment of Embedded Derivatives* supports the interpretation. We offer two suggestions for clarification, noted in the following excerpt:

We believe the draft Interpretation is an appropriate and practical interpretation of IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) and support its issuance. However, we do have two substantive comments. Firstly, we strongly encourage the IFRIC to clarify whether the assessment of hybrid instruments is required for an acquirer at the time of a business combination. Divergent views are already in existence on this issue, and D15 presents an opportunity to clarify this matter, similar to the issue set out in paragraph 3(b) of D15. Secondly, the IFRIC should clarify that the scope of D15 is limited solely to the 'closely related' decision, and not the other requirements in paragraph 11 of IAS 39.

Full text of our letters of comment (going back to 1995):
www.iasplus.com/dttletr/comment.htm

Deloitte comment letters on IFRIC D16 and D17

Deloitte has submitted comment letters on IFRIC Draft Interpretations D16 and D17:

IFRIC D16 Scope of IFRS 2.

We support the issuance of an IFRIC Interpretation clarifying that share-based payments may exist in scenarios where goods and services provided in exchange for the equity instruments may not be readily identifiable. We agree with the main approach in the draft interpretation and offer some suggestions for changes.

IFRIC D17 Group and Treasury Share Transactions.

We concur with the consensus reached by the IFRIC on the issues set out in paragraph 6(a) and (b) of D17. Our concerns with the consensus on the issue set out in paragraph 6(c) are detailed in the Appendix to [our] letter.

Full text of our letters of comment (going back to 1995):
www.iasplus.com/dttletr/comment.htm

Three Deloitte comment letters to IASB/IFRIC

Deloitte has submitted letters of comment to the IASB and IFRIC on the following draft documents (an excerpt from our letters is shown):

IASB Draft Memorandum of Understanding on the Role of Accounting Standard-setters

We are generally supportive of the Draft Memorandum and commend the International Accounting Standards Board for taking the initiative to forge closer links with the various accounting standard-setters around the world, documenting that process, and placing it on the public record.

IASB Due Process Handbook

We support the approach outlined in the Draft Handbook and think that it will be a useful document in explaining the approach to standard-setting adopted by the IASB. However, we are puzzled about what the IASC Foundation Trustees expect to receive from this exposure....

The Draft Handbook should distinguish clearly the components of its due process (i.e., the principles identified in the IASC Foundation Constitution and the steps adopted voluntarily by the IASB and the IASC Foundation Trustees) from operational practices. We think this distinction is vital because much of the document is explanatory, describing the Board's day-to-day operations and how it puts its due process requirements into effect. We think that the Board should have greater freedom to change operational aspects of its due process without extensive consultation – for example to improve efficiency in light of experience.

IFRIC Review of Operations

We are supportive of the IFRIC seeking external comment on its review of operations, and generally believe that the proposals in the Consultative Document are a significant step in the right direction. However, we do have some concerns about the rigour of the IFRIC's review of its operations, and whether or not the commonly expressed concerns of constituents have genuinely been addressed.

The amendments to IFRS 6 and IFRS 1 were adopted in June 2005 (story on page 4 of this newsletter). Our comment letter on the ED can be found here:
www.iasplus.com/dttletr/comment.htm

Deloitte comments on proposed IFRS 6 amendments

We have posted Deloitte's comment letter on the exposure draft of Proposed Amendments to IFRS 6 *Exploration for and Evaluation of Mineral Assets* and related amendments to IFRS 1 *First-time Adoption of IFRSs*. We supported the amendments unreservedly. Here is an excerpt:

We commend the Board in acting promptly to alleviate the concerns of constituents caused by the apparent inconsistency between the wording in IFRS 1 paragraph 36B and the discussion in the basis for conclusions on IFRS 6. We support the amendments as proposed in the exposure draft and encourage the Board to complete its redeliberations and issue the amendments in final form by 30 June 2005.

Full text of our letters of comment to IASB (and IASC): www.iasplus.com/dttletr/comment.htm

Full text of our letters of comment (going back to 1995): www.iasplus.com/dttletr/comment.htm

Deloitte letter on day 1 profit disclosures

Deloitte has submitted a letter of comment on IASB's Proposed Drafting for Day 1 Disclosures. The proposed drafting would be included in IFRS 7 *Financial Instruments: Disclosures*, scheduled for release in August.

We generally agree with the proposed drafting of the "Day 1 gain or loss" disclosures to be included in IFRS 7 Financial Instruments: Disclosures. However, we believe an entity should be required to determine categories of instruments for which the "Day 1 gains or losses" issue is relevant (for example, derivative commodity contracts and structured financial products). A requirement to describe these categories should be inserted into IFRS 7.

Deloitte reply to IASB's SME questionnaire

Deloitte has submitted a response to the IASB's *Staff Questionnaire on Possible Recognition and Measurement Modifications for Small and Medium-sized Entities (SMEs)*. We continue to support the IASB's efforts to develop an appropriate and comprehensive reporting regime for SMEs. We make a number of recommendations for recognition and measurement simplifications for SMEs, and we request clarification of several aspects of the Board's approach to SME standards, including the definition of SMEs. Overall, we conclude:

We believe it is very important that the Board develops a set of financial reporting standards for SMEs as soon as possible. Many jurisdictions around the world currently have differential reporting regimes. Full IFRS, with their focus on providing information for making economic decisions in the context of developed capital markets, may not be suitable for SMEs simply because they are not designed to meet the needs of this particular sector. In our experience, users of SMEs' financial statements are looking for standards which result in financial reporting which is likely to be meaningful and comprehensible to them. Standards that provide the least cumbersome method of achieving the accounting treatment and/or disclosure that is not complex are sought. Standards are wanted that provide guidance that is widely relevant to the transactions of SMEs and that are written in terms that can be understood by such businesses. We hope that the outcome of this project will be a simplified accounting regime which provides entities with a means of communicating financial information to their stakeholders in a manner appropriate to that entity's nature.

In our comment letter we have detailed a number of accounting choices which we believe should be left open for SMEs. We note that where an SME chooses a particular accounting model, that decision ought to be treated as an accounting policy choice and applied consistently by that SME in respect of all similar transactions.

News from IFRIC

The press release announcing the appointments is here:

www.iasplus.com/pressrel/0506ifric.pdf

A complete list of IFRIC members is here:

www.iasplus.com/restruct/ifric.htm

New chairman, four members, appointed for IFRIC

The Trustees of the IASC Foundation have announced that Robert Garnett, an IASB member who has served as the acting chairman of the International Financial Reporting Interpretations Committee (IFRIC) following Kevin Stevenson's departure, will become the non-voting chairman of the IFRIC. The Trustees also announced the renewal of the terms of four IFRIC members for terms of three years ending 30 June 2008:

- Phil Ameen, Vice President and Comptroller, General Electric Company, United States
- Michael E Bradbury, Professor of Accounting, Unitec, New Zealand
- Claudio de Conto, General Manager Administration and Control, Pirelli S.p.A, Italy
- Jean-Louis Lebrun, Partner and Chairman of the Supervisory Board, Mazars, France

The full text of IFRIC draft interpretations may be downloaded from the IASB's website during the exposure period:

www.iasb.org

Two draft interpretations on IFRS 2

The International Financial Reporting Interpretations Committee (IFRIC) has published two draft Interpretations relating to IFRS 2 *Share-based Payment*:

- D16 *Scope of IFRS 2*, and
- D17 *IFRS 2: Group and Treasury Share Transactions*.

D16 clarifies that transactions within the scope of IFRS 2 include those in which the entity cannot specifically identify some or all of the goods or services received. D17 provides guidance on whether particular types of transactions should be accounted for as cash-settled or equity-settled share-based payment transactions under IFRS 2.

The full text of IFRIC draft interpretations (including these illustrative examples) may be downloaded from the IASB's website during the exposure period:

www.iasb.org

New illustrative examples on 'service concessions'

On 3 March 2005, the International Financial Reporting Interpretations Committee (IFRIC) released for public comment three related draft interpretations (we reported on these in the April 2005 *IAS Plus Newsletter*):

- D12 *Service Concession Arrangements – Determining the Accounting Model*
- D13 *Service Concession Arrangements – the Financial Asset Model*
- D14 *Service Concession Arrangements – the Intangible Asset Model*

The draft interpretations contain examples illustrating the application of the two accounting models. For illustrative purposes, the examples are based on simplified assumptions – most notably, that the concessions last for a period of only 10 years. In practice, service concessions typically last for longer periods and have more complicated fact patterns than those illustrated in the draft Interpretations. A group of constituents suggested that it would be useful for commentators to see the impact of the proposals on a more life-like example. The IFRIC agreed, and the illustrations prepared by those constituents can now be downloaded from the IASB's website, as can the draft interpretations themselves.

IASC Foundation News

IASC Foundation press release:
www.iasplus.com/pressrel/0506constreviewpr.pdf

Constitution review

At their meeting in Paris on 21 June 2005, the Trustees of the IASC Foundation (IASCF) approved a number of amendments to the IASCF Constitution following their review of the structure and operations of the IASB, IFRIC, SAC, and the IASCF. Presented in the table below is Deloitte's summary of the main changes to the constitution that were adopted by the Trustees:

SUMMARY OF CHANGES TO IASC FOUNDATION CONSTITUTION

ADOPTED 21 JUNE 2005, EFFECTIVE 1 JULY 2005

Incremental rather than fundamental changes. "Having assessed the organisation's progress against the objectives laid out in the constitution, the trustees have concluded that the basic structure, set out by the 2000 constitution, is sound and therefore have not contemplated fundamental change."

Addition to IASCF objectives for SMEs and emerging economies. In fulfilling the objectives of developing and promoting high quality, understandable, and enforceable global accounting standards, take account of the special needs of small and medium-sized entities and emerging economies.

Number of trustees. Expand board of trustees from 19 to 22 members.

Geographical balance of trustees.

- Six from North America (unchanged).
- Six from Europe (unchanged).
- Six (was four) from the Asia/Oceania region
- Four (was three) from any area, subject to establishing overall geographical balance.

Backgrounds of trustees. The constitution will require an appropriate balance of professional backgrounds, including auditors, preparers, users, academics, and other officials serving the public interest. Two will normally be senior partners of prominent international accounting firms. This is essentially unchanged.

Selection of trustees. Trustees will adopt procedures for appointing trustees. Those procedures must include consultation with national and international organisations of auditors (including IFAC), preparers, users, and academics and public solicitation of nominees including self-nominations. To achieve this objective, the trustees plan to establish a high level advisory group of five to seven leaders of official international and regional organisations. The trustees will consult that body before making decisions on trustee appointments. Currently, five trustees are nominated by IFAC and three others are nominated after consultation with certain specified organisations.

Term of chairman. The trustees appoint one of their own number as chairman. While trustees will normally serve a maximum of two three-year terms, the chairman may serve for a maximum of two three-year terms as chairman regardless of prior service as a trustee. Currently all trustees including the chairman serve a maximum of two three-year terms.

Liaison IASB Board Members. Requirement for designating seven IASB members as liaisons with major national standard setters has been removed from the constitution.

Trustee consideration of IASB agenda. The trustees' annual review of the strategy of the IASC Foundation and the IASB and its effectiveness is expanded to include "consideration, but not determination, of the IASB's agenda".

IASB responsibility for its agenda.

- New: IASB has full discretion in developing and pursuing the technical agenda.
- Was: IASB has full discretion over the technical agenda.

(continued on next page)

Trustee oversight of IASB, IFRIC, SAC. In addition to establishing and amending operating procedures for the IASB, IFRIC, and SAC, the trustees will also establish, amend, and review compliance with “consultative arrangements and due process”.

Education. New trustee responsibility would be to foster and review the development of educational programmes and materials.

Number of part-time IASB members. Kept at two.

Main qualification for IASB members. Changed from “technical expertise” to “professional competence and practical experience”.

Geographical mix of IASB members. “Trustees shall ensure that the IASB is not dominated by any particular constituency or geographical interest” (trustees rejected specifying a geographical mix).

Background mix of IASB members.

- New: “Appropriate mix of recent practical experience among auditors, preparers, users and academics”.
- Was: Minimums of five practising auditors, three preparers of financial statements, three users of financial statements, and one academic.

IASB voting. A vote of 9 of the 14 IASB members is required to approve an exposure draft, final Standard, and Interpretation (was 8 of 14).

Due process steps. IASB is required to explain its reasons if it decides not to follow any of the non-mandatory due process steps. Such non-mandatory steps are:

- Publishing a discussion document before an exposure draft.
- Forming working groups.
- Publishing a basis for conclusions.
- Holding public hearings.
- Conducting field tests.
- Appointing a steering committee (now referred to as ‘working groups’ consistent with recent IASB practice).

Chairman of Standards Advisory Council. Appointed by trustees. Will not be a member of the IASB or its staff. Currently the IASB chairman is also the SAC chairman.

Press release:

www.iasplus.com/pressrel/0507sacchairman.pdf

Nelson Carvalho named independent SAC chairman

The Trustees of the IASC Foundation have appointed L. Nelson Carvalho, Professor of Accounting and Finance, University of Sao Paulo, Brazil, as Chairman of the Standards Advisory Council (SAC). The SAC is a forum for organisations and business leaders to advise the IASB on the Board's work programme and priorities. The recent revision of the IASCF's Constitution created the position of an independent chairman of the SAC. In addition to his role at the University of Sao Paulo, Nelson Carvalho serves on the boards of several Brazilian corporations and as an arbitrator for two the International Courts of Arbitration. Professor Carvalho has served as the Head of Banking Supervision of the Central Bank of Brazil (1991-1993) and a Commissioner of the Brazilian Securities and Exchange Commission (1990-1991). He also was a board representative on the IASC, the IASB's predecessor. Professor Carvalho's term as chairman of the SAC expires 31 December 2008.

Press release:

www.iasplus.com/pressrel/0507newtrustees.pdf

IASCF seeks nominations for nine trustees

The IASC Foundation, under which the IASB operates, is seeking to fill nine IASCF trustee positions. Three are newly created positions resulting from the recent expansion of the board of trustees from 19 to 22 members. The six other vacancies arise from the departure of existing trustees who are either ineligible for or do not seek reappointment. Four of the nine appointments will be from the Asia/Oceania region, one from Europe, three from North America, and one from any area of the world.

The Foundation is seeking indications of interest by 14 September 2005. All appointments would be for renewable three-year terms ending on 31 December 2008. One of the newly appointed trustees may be asked to serve as chairman.

Download the IASCF annual review:

www.iasb.org/uploaded_files/documents/8_24_ar2004.pdf

IASC Foundation 2004 annual review is published

The IASC Foundation has published its annual review for 2004. The report includes a review by IASCF Chairman Paul A. Volcker of the trustees' activities during 2004, with emphasis on the constitution review and financing the operations of the IASB, IFRIC, SAC, and IASCF. Also included is a 10-page report from Sir David Tweedie, IASB Chairman. He noted that the IASB's three major objectives during 2004 were:

- To provide a stable platform of acceptable standards for companies changing to IFRSs in 2005.
- To continue, and accelerate, the convergence programme with FASB and other standard-setters.
- To encourage other jurisdictions to join those who either allow or require IFRSs to be used by domestic companies.

Press release:

www.iasplus.com/pressrel/0504dueprocess.pdf

Trustees invite comments on due process, IFRIC

The Trustees of the IASC Foundation have published for public comment two consultation documents:

- Due Process of IASB: Draft Handbook of Consultative Arrangements.
- IFRIC – Review of Operations: Consultative Document.

The deadline for public comment on both documents is 31 July 2005.

See page 9 of this newsletter for Deloitte's responses.

Except for administrative and personnel matters, all of these meetings are open to public observation. Registration forms are on IASB's website: www.iasb.org

Upcoming Meetings

IASB and SAC MEETINGS 2005-2006	
London, UK	19-23 September 2005
London, UK	26-27 September 2005 meeting with world standard setters
London, UK	17-21 October 2005
Norwalk, CT, USA	24-25 October 2005 joint meeting with FASB
London, UK	14-18 November 2005, and 10-11 November 2005 with the Standards Advisory Council
London, UK	12-16 December 2005
London, UK	23-27 January 2006
London, UK	20-24 February 2006, and 27-28 February 2006 with the Standards Advisory Council
London, UK	27-31 March 2006
London, UK	24-26 April 2006, and 27-28 April 2006 joint IASB/FASB meeting
London, UK	22-26 May 2006
London, UK	19-23 June 2006, and 26-27 June 2006 with the Standards Advisory Council
London, UK	17-21 July 2006
London, UK	18-22 September 2006
London, UK	16-20 October 2006
Norwalk, CT, USA	23-24 October 2006 joint meeting with FASB
London, UK	13-17 November 2006, and 9-10 November 2006 with the Standards Advisory Council
London, UK	11-15 December 2006

IFRIC MEETINGS 2005	
London, UK	1-2 August 2005
London, UK	1-2 September 2005
London, UK	3-4 November 2005
London, UK	1-2 December 2005

The proposal is on IFAC's website:
www.ifac.org

Press release:
[www.iasplus.com/
ifac/0507interim.pdf](http://www.iasplus.com/ifac/0507interim.pdf)

Press release:
[www.iasplus.com/
ifac/0506iaasb.pdf](http://www.iasplus.com/ifac/0506iaasb.pdf)

IAASB exposure drafts are available on their pages on IFAC's website:
www.ifac.org.

News from IFAC

IFAC proposes new auditor education requirements

Proposals just released by the International Federation of Accountants (IFAC) call for auditing professionals to have an advanced level of knowledge in three areas: financial statement audits, financial accounting and reporting, and information technology. This advanced level of knowledge is deeper than that expected of other professional accountants. The proposals are set out in an exposure draft, *Competence Requirements for Audit Professionals*.

The ED also would require individuals to gain a period of relevant practical experience (normally a minimum of three years) before having substantial involvement in a financial audit assignment. For audits of financial statements in specific industries (such as banking and finance, extractive industries, and insurance) and specific environments (such as transnational audits), the proposed standard would require that the audit professional possess professional knowledge and experience relevant to those environments or industries.

IAASB standard on reviews of interim information

The International Auditing and Assurance Standards Board (IAASB) has released a new International Standard on Review Engagements (ISRE) to assist auditors engaged to review the interim financial information of an audit client. ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* outlines the general principles of a review of interim financial information, provides guidance on the procedures to be performed, and prescribes the content of the review report.

In addition, an appendix to the standard includes examples of an engagement letter, management representation letter, analytical procedures the auditor may consider when performing the review, and illustrative review reports. ISRE 2410 is effective for engagements to review the interim financial information of an audit client for periods beginning on or after 15 December 2006.

IAASB exposure draft on auditors' report

The IAASB has published the following exposure drafts of proposed International Standards on Auditing (ISAs). Comment deadline is 31 October 2005:

- **Proposed ISA 701, The Independent Auditor's Report on Other Historical Financial Information.** This proposed ISA 701 addresses auditors' reports for a wide variety of engagements, including reporting on a single financial statement, or a specific element of a financial statement. It also provides guidance on determining the acceptability of the financial reporting framework used in preparing and presenting the financial information, and matters the auditor considers in forming an opinion on the financial information, including considerations relevant to financial statements designed to give a true and fair view or fair presentation on the one hand, and to those prepared under a compliance framework on the other.
- **Proposed ISA 800, The Independent Auditor's Report on Summary Audited Financial Statements.** This proposed ISA 800 recognises that criteria for preparing and presenting summary financial statements may not exist. It contains new standards and guidance on the criteria used and procedures performed in an engagement to report on summary financial statements.

The revised code of ethics is available on IFAC's website: www.ifac.org

Ethics Committee exposure drafts are available on their pages on IFAC's website: www.ifac.org.

IFAC releases revised code of ethics and an ED

The Ethics Committee of the International Federation of Accountants has released a revised version of the *Code of Ethics for Professional Accountants*. The revised Code establishes a conceptual framework for all professional accountants to ensure compliance with the five fundamental principles of professional ethics. These principles are integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

Under the framework, all professional accountants will be required to identify threats to these fundamental principles and, if there are threats, apply safeguards to ensure that the principles are not compromised. The framework applies to all professional accountants, those in public practice and those in business, industry, and government. The revised Code is effective 30 June 2006. Earlier adoption is encouraged.

The Ethics Committee has also issued an exposure draft that proposes revisions to the definition of a network firm. Network firms are required to be independent of an audit client of a firm within the network. The proposed changes would classify a firm as a network firm of another firm if the two share a common brand name or if they share significant professional resources or revenues, profits, costs or expenses. The new ED, Proposed Revised Section 290 *Independence – Assurance Engagements*, may be downloaded from IFAC's website. Comments are due by 30 September 2005.

News from the Basel Committee

Basel Committee consultative document: www.iasplus.com/resource/0507baselfvo.pdf

Basel Committee press release: www.iasplus.com/resource/0507baselfpr.pdf

The Basel Committee on Banking Supervision has issued a consultative document *Supervisory Guidance on the Use of the Fair Value Option by Banks under IFRSs* that discusses supervisory guidance on banks' use of the IAS 39 fair value option. Two key areas of supervisory guidance are addressed:

- What constitutes a set of sound risk management and control processes around use of the option?
- How might a bank's use of the option affect supervisory assessments of a bank's risk management systems and regulatory capital? The guidance suggests additional information that supervisors might collect to help them better understand how banks are using the fair value option and how this use impacts the supervisory assessment of banks' financial condition.

The proposal does not impose additional accounting or disclosure requirements beyond those in the June 2005 IAS 39 Fair Value Option Amendment.

Under the approach proposed in the consultative document, for those banks capable of fully meeting the supervisory expectations set out in this paper, no adjustments to regulatory capital would be required as a consequence of their use of the fair value option. One exception to this general approach is the Committee's view, published in June 2004, that gains and losses arising from changes in a bank's own credit risk associated with its liabilities should not be included in a bank's regulatory capital. For banks that do not meet the supervisory expectations set forth in the consultative paper, a range of possible supervisory responses is discussed, including possible supervisory actions with respect to regulatory capital. The comment period ends 31 October 2005.

IFRS-related News from the United States

Download the SEC press release:
www.iasplus.com/usa/0504sec.pdf

Download the European Commission's press release:
www.iasplus.com/Europe/0504ecifrsus.pdf

The ASIC announcement can be found here:
www.iasplus.com/au/0505asic.pdf

SEC 'roadmap' to eliminating IFRS reconciliation

William Donaldson, (former) Chairman of the US Securities and Exchange Commission, and Charles McCreevy, EU Internal Market Commissioner, met on 21 April 2005 in Washington to discuss a range of topics of mutual interest between the SEC and the European Union, including expanding the use of high-quality global accounting standards and eliminating the reconciliation to US GAAP for IFRS filers. An SEC press release about the meeting states:

Chairman Donaldson reaffirmed his support for the convergence program being undertaken jointly by the International Accounting Standards Board and the US Financial Accounting Standards Board. Chairman Donaldson also discussed with Commissioner McCreevy a 'roadmap' developed by SEC staff that highlights the steps needed to eliminate the US GAAP reconciliation requirement for foreign private issuers that use International Financial Reporting Standards, or IFRSs. The roadmap establishes a goal of eliminating the requirement as early as possible between now and 2009 at the latest.

The European Commission highlighted the progress made between the EC and the SEC in a Press Release titled *Accounting Standards: EU Commissioner McCreevy Sees Agreement with SEC as Progress Toward Equivalence*. The reference to 'equivalence' relates to a study currently underway within the European Commission to assess whether US GAAP, Canadian GAAP, and/or Japanese GAAP are 'equivalent' to IFRSs and, therefore, should be allowed for non-European companies in European capital markets. An excerpt from Commissioner McCreevy's press release:

I very much welcome the constructive approach the SEC is taking to moving these critical issues forward. We will work closely together to promote the closer alignment of IFRS and US GAAP and towards the elimination of US GAAP reconciliation requirements for foreign private issuers. These are major steps towards high-quality global accounting standards, which the European Union strongly supports. Clearly there is much to do all round, but the bandwagon has now started. International accounting standard setters, preparers, issuers, auditors and regulators must now accelerate their efforts to seize this unique opportunity. They must set clear goals and deliver the necessary convergence, consistency and enforcement required. I will be pressing all concerned in Europe to play their part.

The Australian Securities & Investments Commission (ASIC) expressed support for the agreement between the SEC and the EC on the 'roadmap'. ASIC sees this as beneficial for Australia because Australian companies listed in the United States would no longer have to prepare the reconciliation. Further, since Australia has adopted IFRS equivalents, "it will also encourage US investment in the Australian capital market and facilitate Australian companies access to US finance if IFRS and US GAAP financial reports are determined to be convergent and provide comparable high quality financial reporting."

You can download the FASB exposure draft here:
http://www.fasb.org/draft/ed_gaap_hierarchy.pdf

Proposed FASB hierarchy includes IFRSs

The US Financial Accounting Standards Board (FASB) has issued an exposure draft of a proposed Statement of Financial Accounting Standards titled *The Hierarchy of Generally Accepted Accounting Principles*. The GAAP hierarchy ranks the relative authority of accounting pronouncements issued by the FASB and its predecessors, the AICPA, and (for public companies) the SEC. Currently, in the United States, the GAAP hierarchy is set out in AICPA Statement on Auditing Standards No. 69 *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*.

FASB proposes that a company using US GAAP may need to look to IFRSs if an issue is dealt with in IASB standards but not in the US accounting literature. Furthermore, FASB's exposure draft notes that "the IASB accords its conceptual guidance a higher standing in its hierarchy than that which the present GAAP hierarchy accords the guidance in the FASB Concepts Statements. Because the FASB's and the IASB's goal is to converge their concepts and standards, the [FASB] acknowledges that it will need to consider whether and how to converge the hierarchy for its accounting literature with that of the IASB as part of the conceptual framework project that the Board is conducting jointly with the IASB."

FASB's press release on Statement 154:
www.iasplus.com/usa/0506fasbpr.pdf

FASB converges treatment of accounting changes

The FASB has issued Statement No. 154 *Accounting Changes and Error Corrections*, which requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. The previous FASB standard had required that most voluntary changes in accounting principle be recognised by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. FASB's news release notes:

Statement 154 is the result of a broader effort by the FASB to improve the comparability of cross-border financial reporting by working with the International Accounting Standards Board toward development of a single set of high-quality accounting standards.

www.iasplus.com/usa/0504nicolaisen.pdf

A Securities Regulator Looks at Convergence'

The US Securities and Exchange Commission has released for public distribution an article titled "A Securities Regulator Looks at Convergence", by SEC Chief Accountant Donald T. Nicolaisen. Mr. Nicolaisen introduces his article as follows:

In the pages that follow I explain why I believe the movement towards use of a single set of globally accepted accounting standards is good for the global capital markets, and for investors and creditors (collectively, investors). I also discuss what I believe this movement means for the US capital markets and, in response to a question I am frequently asked, I attempt to set out a possible roadmap to elimination of the SEC's requirement that foreign private issuers reconcile financial statements prepared under IFRSs to US GAAP. Further, I describe factors that I believe can contribute to successful implementation and to increasingly widespread acceptance and use of IFRSs, or which, if not addressed, could impede progress. Lastly, I express my view that to maximize the benefits from a common set of accounting standards – IFRSs – the many involved parties need to work together on interpretive matters that arise in applying it.

SEC's announcement:
www.iasplus.com/resource/0505secjapan.pdf

Access the SEC's EDGAR system at:
www.sec.gov

Link to complete presentation by Chairman Donaldson:
www.iasplus.com/usa/0505donaldson.pdf

US SEC and Japan FSA discuss global convergence

Former US SEC Chairman William H. Donaldson and Japan Minister of State for Financial Services Tatsuya Ito met on 3 May 2005 in Washington and discussed, among other things, expanding the use of high-quality global accounting standards. The SEC's announcement said that "Chairman Donaldson and Minister Ito affirmed their support for the convergence of accounting standards and agreed that dialogue between the US Financial Accounting Standards Board (FASB) and the Accounting Standards Board of Japan (ASBJ) is an important element in the overall convergence program."

SEC is making comment letters public

Starting 12 May 2005, the US Securities and Exchange Commission began publicly releasing comment letters and response letters sent to registrants relating to disclosure filings made after 1 August 2004 and reviewed by the Division of Corporation Finance and the Division of Investment Management. The letters are being released individually through the SEC's EDGAR system not earlier than 45 days after the review of the disclosure filing is complete.

SEC Chairman Donaldson speaks about convergence

In remarks before The Council on Foreign Relations, former US SEC Chairman William H. Donaldson introduced his comments on the benefits of global financial reporting standards with a quote from the late Walter Wriston: "Capital will always go where it is welcomed, and stay where it is well treated." Chairman Donaldson said:

We are witnessing real progress towards international convergence of accounting and disclosure standards. True convergence will ultimately make it easier for investors to compare competing securities investment opportunities – with little concern about geographical boundaries – and decide which offers the best potential return. Investors will drive the push towards convergence around a transparent system of accounting because the market will penalize investments whose features are not well understood. And if a biotech company in Bangalore offers a better product than a biotech company in Boston, and is transparent in telling its story, common accounting and disclosure standards should make it easier for investors to understand where their capital is likely to be better treated.

There are links to download the following documents relating to the SEC report on the June past news page on the IAS Plus website (story dated 16 June 2005):

www.iasplus.com/pastnews/2005jun.htm:

- Full text of SEC report
- SEC press release
- FASB press release

SEC report on off-balance sheet arrangements and SPEs

The US Securities and Exchange Commission has released a *Staff Report on Off-Balance Sheet Arrangements, Special Purpose Entities, and Related Issues*. The report was prepared pursuant to Section 401(c) of the Sarbanes-Oxley Act of 2002 and, as required by that Act, has been submitted to the President and several Congressional committees. The staff report includes an analysis of the filings of issuers as well as an analysis of pertinent US generally accepted accounting principles and Commission disclosure rules. The report includes several recommendations for potentially sweeping changes in current accounting and reporting requirements for pensions, leases, financial instruments, and consolidation:

- **Pensions:** The staff recommends the accounting guidance for defined-benefit pension plans and other post-retirement benefit plans be reconsidered. The trusts that administer these plans are currently exempt from consolidation by the issuers that sponsor them, effectively resulting in the netting of assets and liabilities in the balance sheet. In addition, issuers have the option to delay recognition of certain gains and losses related to the retirement obligations and the assets used to fund these obligations.
- **Leases:** The staff recommends that the accounting guidance for leases be reconsidered. The current accounting for leases takes an 'all or nothing' approach to recognizing leases on the balance sheet. This results in a clustering of lease arrangements such that their terms approach, but do not cross, the 'bright lines' in the accounting guidance that would require a liability to be recognized. As a consequence, arrangements with similar economic outcomes are accounted for very differently.
- **Financial instruments:** The staff recommends the continued exploration of the feasibility of reporting all financial instruments at fair value.
- **Consolidation:** The staff recommends that the Financial Accounting Standards Board continue its work on the accounting guidance that determines whether an issuer would consolidate other entities – including SPEs – in which the issuer has an ownership or other interest.
- **Disclosures:** The staff believes that, in general, certain disclosures in the filings of issuers could be better organized and integrated.

www.iasplus.com/usa/0506glassman.pdf

SEC Commissioner comments on GAAP reconciliation

In a speech in June 2005 in Washington, US SEC Commissioner Cynthia A. Glassman spoke about elimination of the IFRS-US GAAP reconciliation requirement:

Since October 2002, the Financial Accounting Standards Board and the International Accounting Standards Board have been jointly pursuing a convergence project, and we have been very supportive of this effort. Don Nicolaisen, our Chief Accountant, has proposed a roadmap to convergence that lays out the staff's thinking about conditions and actions that would need to take place prior to ending our reconciliation requirement. Our staff has already begun this analysis, and the Commission is intent on considering the eventual elimination of the reconciliation requirement and the ultimate convergence of IFRS and U.S. GAAP. The consistent application and interpretation of the standards and the pace towards convergence will depend on companies and accounting firms as well as standard-setters and regulators.

The FAF's annual report is available at:
www.fasb.org/annualreport/FAF2004AR.pdf

US FAF annual report discusses international convergence

The 2004 Annual Report of the Financial Accounting Foundation, under which FASB operates, discusses international convergence of accounting standards in numerous places, including an interview with FASB Chairman Robert H. Herz. Mr. Herz notes that “the FASB’s standard-setting activities are guided by three key objectives: (1) improvement of financial reporting, (2) simplification of the accounting literature and the standard-setting process, and (3) international convergence.” Several of the interview Q&A relate to convergence, including this one:

How are constituents responding to the prospect of international convergence of accounting standards?

Broadly speaking, I think we are hearing two different points of view on convergence. The first is: ‘Why is international convergence taking so long?’ which comes from many of the professional users, such as global equity analysts and institutional investors, many foreign-based multinationals, and some U.S.-based global companies. The other is: ‘I’m in favor of convergence, but make them do it our way,’ which is the response from many U.S. preparers.

We are trying to get on with it in a systematic way together with our colleagues at the IASB through coordinating our agendas, through joint projects on major subjects, through working together to improve the conceptual framework, and through proposing changes on both sides to reduce the number of specific areas of differences between U.S. GAAP and international standards. But convergence clearly means change, and we do need to make sure we adhere to thorough due process so that we ensure that it’s not just convergence for the sake of convergence, but also helps improve the quality of the accounting standards and resulting financial reporting. Convergence is a process and a destination with many stations along the way.

News about IFRSs in Europe

Sir David's prepared remarks:
[www.iasplus.com/
 europe/0507tweediearc.pdf](http://www.iasplus.com/europe/0507tweediearc.pdf)

IASB chairman meets with the ARC

IASB chairman Sir David Tweedie met with the European Commission's Accounting Regulatory Committee (ARC) in Brussels to discuss the development of International Financial Reporting Standards and, in particular, the convergence of international and national accounting standards. Sir David was accompanied by IASB Foundation Trustee Max Dietrich Kley. The ARC is composed of representatives of EU Member States and was set up to advise the Commission on proposals to endorse individual IFRSs for use in Europe. An excerpt:

The European Commission, the European Parliament and EU Member States deserve much credit for providing the impetus to our efforts. Your choice of an international approach to accounting standards over a national and regional approach for Europe is a model for others. At the same time, if we are to achieve truly global standards and all the benefits that they will bring, accounting convergence must necessarily involve the United States, which accounts for nearly half of the world's total market capitalisation.

You will find a link to download the report of the May 2005 ARC meeting on the following page:
[www.iasplus.com/
 restruct/euro2005.htm](http://www.iasplus.com/restruct/euro2005.htm)

Report from the 20 May 2005 ARC meeting

At its meeting on 20 May 2005, the Accounting Regulatory Committee, which advises the European Commission on endorsement of individual IFRSs and IFRIC Interpretations for use in Europe, agreed unanimously to recommend endorsement of IFRS 6, IFRIC Interpretations 4 and 5, IFRIC's recent amendment to SIC 12, and the IASB's recent amendment to IAS 19, and related consequential amendments. ARC members also expressed strong support for the Commission's intention to endorse the IASB's proposed amendments to the Fair Value Option in IAS 39, pending publication of the amendments by the IASB. The Commission stated its intention to seek the ARC's approval of these amendments at the ARC's next meeting on 8 July 2005. [Done – see next news story.]

With respect to IFRIC 3 *Emission Rights*, in light of EFRAG's recommendation that the Commission not endorse IFRIC 3 for use in Europe, the Commission asked the IASB to defer the effective date of IFRIC 3.

ARC press release:
[www.iasplus.com/
 europe/0507arcfvo.pdf](http://www.iasplus.com/europe/0507arcfvo.pdf)

ARC endorses revised IAS 39 fair value option

At its meeting on 8 July 2005, the Accounting Regulatory Committee agreed unanimously to recommend endorsement of an amended version of IAS 39 that includes revised provisions relating to the fair value option (FVO). When the Commission adopted IAS 39 last year, the FVO provisions were carved out.

The Commission has already consulted the European Parliament on the revised FVO and, provided Parliament raises no objections, the Commission intends to adopt the amended standard by the end of September 2005. Adoption will be retroactive to 1 January 2005, so that companies can apply the amended standard for their 2005 final statements.

FAQ document:
[www.iasplus.com/
europe/0507faqfvo.pdf](http://www.iasplus.com/europe/0507faqfvo.pdf)

EC 'FAQ' publication on IAS 39 fair value option

The European Commission has published *Frequently Asked Questions – IAS 39 Fair Value Option (FVO)*, providing the Commission's views on the following questions:

- Why did the Commission carve out the full fair value option in the original IAS 39 standard?
- Do prudential supervisors support the IAS 39 FVO as published by the IASB?
- When will the Commission to adopt the amended standard for the IAS 39 FVO?
- Will companies be able to apply the amended standard for their 2005 financial statements?
- Does the amended standard for IAS 39 FVO meet the EU endorsement criteria?
- What about the relationship between the fair valuation of own liabilities under the amended IAS 39 FVO standard and under Article 42(a) of the Fourth Company Law Directive?
- Will the Commission now propose amending Article 42(a) of the Fourth Company Directive?
- What about the remaining IAS 39 carve-out relating to certain hedge accounting provisions?

Information about the status of adoption of IFRSs in Europe can be found on this page:
[http://europa.eu.int/comm/
internal_market/
accounting/ias_en.htm](http://europa.eu.int/comm/internal_market/accounting/ias_en.htm)

EC plans to evaluate the IAS Regulation in 2007

The European Commission has posted to the Internal Market section of its website an updated Evaluation Plan for 2005-2009. Under that plan, the success of a wide range of Internal Market initiatives is being evaluated. Regulation EC 1606/2002 (the 'IAS Regulation') is scheduled for review in 2007.

Information about the IFRS interpretation forum is in Commissioner McCreevy's speech:
[www.iasplus.com/europe/
0505mccreevyfese.pdf](http://www.iasplus.com/europe/0505mccreevyfese.pdf)

Europe may establish an IFRS interpretations 'forum'

In an address to the Federation of European Securities Exchanges, European Commissioner for Internal Market and Services Charlie McCreevy indicated that the EC is considering a proposal for a 'European Forum' to identify and analyse IFRS implementation issues, to allow IFRIC to focus on key issues. While Mr McCreevy did not provide details about the forum, in several recent speeches members of EFRAG have said that EFRAG would seek to be such a forum. An excerpt from Commissioner McCreevy's comments:

The main question in the medium term will be how to ensure consistent application of IFRS within Europe. This is crucial, to have a uniform set of standards and not effectively 25 national standards in place. It is also crucial to the objective of removal of the US GAAP reconciliation. A number of proposals are being considered, including one for a 'European Forum' consisting of interested parties, regulators, standard setters, preparers, and auditors in their peer groups. The forum would be tasked with promoting consistent application.

But we do not want to add layers of interpreting bodies. International Accounting Standards are principles-based and should remain so. I see the chief advantage of a possible European Forum in identifying and analysing issues, acting as a filter and thus allowing the International Financial Reporting Interpretation Committee to concentrate on the key issues requiring their attention.

Both the White House and the EU Presidency issued press releases. Links are in the news story dated 23 June 2005 at: www.iasplus.com/pastnews/2005jun.htm

You can download the Green Paper and its related annexes here: www.iasplus.com/restruct/euro2005.htm

EFRAG's position paper: www.iasplus.com/efrag/0506proactive.pdf

Accounting convergence goal agreed at US-EU summit

On 20 June 2005, at the United States-European Union summit meeting in Washington, the US and the EU jointly announced a series of undertakings designed to implement the Declaration on Enhancing Transatlantic Economic Integration and Growth. One of the undertakings is “promoting convergence of accounting standards as soon as possible”.

EC seeks ‘political accountability’ for IASB

In a *Green Paper on Financial Services Policy (2005-2010)*, the European Commission sets out its financial services policy priorities for the next five years, with the goal of fostering an integrated, open, and competitive financial market “where financial services and capital can circulate freely at the lowest possible cost throughout the EU – with adequate and effective levels of prudential control, financial stability and a high level of consumer protection.” The regulation requiring IFRSs for European listed companies and permitting member states to extend IFRSs to unlisted companies is part of that policy. The Green Paper suggests that the oversight and accountability of the IASB need to be strengthened:

The debate about the future governance, funding and political accountability of global standard-setting bodies, such as the International Accounting Standards Board, are of growing political importance. The Commission considers that public oversight of these structures must be strengthened, to ensure appropriate reflection of stakeholders, satisfactory transparency, due process and sustainable financing.

Annex 1 to the paper discusses the EU-US regulatory dialogue. A key goal of the Commission is to “work towards equivalence/convergence between IAS and US-GAAP – agreeing a roadmap and timetable are now urgent.” The paper notes that the Commission will wait until the end of 2006 or early 2007 before making a decision on the IFRS-equivalence of the major third-country accounting systems (Canadian, Japanese, and US). The Commission has invited comments on its policies by 1 August 2005.

EFRAG seeks to be more ‘proactive’

The European Financial Reporting Advisory Group (EFRAG) has released a position paper on *Proactive Accounting Activities in Europe: EFRAG and the National Standard Setters*. The objectives of the greater proactivity, as agreed by EFRAG and 17 European accounting standard setters, are:

- EFRAG and the national standard-setters (NSS) should work much more closely together to improve the input from Europe to the global standard-setting process.
- By working more closely together and pooling resources, Europe should become more involved in the IASB's work from an early stage.
- Increased co-operation will encourage the development of common views and ensure, as far as is practicable, that the messages Europe gives the IASB are consistent.

You will find various documents relating to CESR's advice here: www.iasplus.com/restruct/euro2005.htm#jul2005

CESR advice on national GAAP equivalence to IFRSs

The Committee of European Securities Regulators (CESR) has published its final technical advice to the European Commission on the equivalence between Canadian, Japanese, and US general accepted accounting principles (GAAP) and IFRSs. CESR's principal conclusion is that "the three countries' GAAPs, each taken as a whole, are equivalent to IFRSs". Therefore, CESR recommends that non-European companies trading in European securities markets be allowed to submit financial statements in Canadian, Japanese, and US GAAP without a full reconciliation of their accounts to IFRSs. However, they must provide information about certain specific differences between those national GAAPs and IFRSs. CESR's advice includes a non-exhaustive standard-by-standard list of differences as of 1 January 2005 for which disclosure of the nature and effect of the differences is required. CESR intends to update the list as of 1 January 2007. In addition, CESR proposes the following:

- Companies that have subsidiaries such as Qualifying Special Purpose Entities (QSPEs) that are not consolidated for third country GAAP purposes, but are required to be consolidated for the purposes of IFRS, must report a pro-forma balance sheet and profit and loss account on their local GAAP basis, but including the unconsolidated subsidiaries.
- Companies reporting under Japanese GAAP that have either accounted for mergers by the pooling of interest method and/or have consolidated subsidiaries on the basis of GAAPs that are not consistent with either IFRS or any of the third country GAAPs should report a pro-forma balance sheet and profit and loss account on the basis of IFRS covering business combinations and consistent accounting policies, respectively.
- Japanese and US issuers must adopt accounting policies for the expensing of stock options on a basis equivalent (but not necessarily identical) to IFRSs, for implementation on or before 1 January 2007. (The US has already adopted such a standard, and Japan is considering doing so.)

The Commissioner's speeches can be downloaded from links on the Europe pages on IAS Plus: www.iasplus.com/restruct/resteuro.htm

EC Commissioner McCreevy Speaks about IFRSs

In a number of speeches over the past several months, Charlie McCreevy, the European Commissioner for Internal Market and Services, has commented on various issues relating to the IASB and IFRSs. Here are a few excerpts:

Application and enforcement of IFRSs in Europe

In a 27 June 2005 speech on "Regulatory and Supervisory Challenges of Financial Integration" in London, Commissioner McCreevy commented on the benefits to Europe of rigorous application and enforcement of IFRSs:

Over the coming months, Europe must show it can deliver on effective application and enforcement of IAS. This will be one of the first tests for our supervisory structures. It is a test we cannot afford to fail. If we do we will lose the prize now within our sights of reducing costs for business through recognition of equivalence of accounting standards. In a globalised economy Europe has to act in a global way – and lead.

Commissioner McCreevy's comments concerning IFRSs, continued

The Commissioner's speeches can be downloaded from links on the Europe pages on IAS Plus: www.iasplus.com/restruct/resteuro.htm

Convergence and Equivalence

In a speech in New York on 20 April 2005, Commissioner McCreevy discussed, among other things, the reconciliation from IFRS to US GAAP, accounting convergence, the internal control provisions of Section 404 of the Sarbanes Oxley Act, and deregistration. An excerpt:

The goal must be mutual recognition of equivalence. You can also call it the home-country principle. If you agree to accept each other's system as equivalent then duplicative requirements disappear. You can then operate in the other country under the rules of your home country. I think we should find more areas in our transatlantic relation where we can apply this principle. In accounting, in insurance, for securities markets and in all the other financial regulation.

Reconciliation of IFRSs and US GAAP

In a speech on "The Commission's Financial Services Policy 2005-2010" in Brussels on 18 July 2005, Commissioner McCreevy spoke about opportunities for easing regulatory burdens in Europe. In that context, he commented on the potential benefits of the current efforts by both the US SEC and the EC to assess the equivalence of IFRSs and US, Japanese, and Canadian GAAPs and, if deemed equivalent, to eliminate the costs and burdens of reconciliations:

The Commission is analysing the issue of US-GAAP, Japanese and Canadian GAAPs as equivalent to IFRS in the European Union. We are carefully examining CESR's advice on this issue at the moment. There are estimates that for each of the 250 or so European issuers in the US reconciliation imposes a yearly burden of between \$5 and \$10 million. Dropping the reconciliation requirements on both sides of the Atlantic would mean great reductions in costs for business. Certainly gains in the low billions of euros per year. I will work with the US and with other partners to achieve similar success in the areas of deregistration, insurance, corporate governance, supervisory cooperation and others.

IFRSs

In a speech on "A Changing Landscape for Business in Europe" at the annual conference of the Institute of Certified Public Accountants in Ireland, Commissioner McCreevy commented as follows:

- **Accounting and auditing: the global challenge for regulators:** *The interrelationship in markets is the primary reason why, five years ago, Europe opted for international accounting standards.... The move was made because it fosters international convergence of accounting standards and keeps our capital markets attractive for overseas issues of securities. But even more importantly it eases our companies' access to other markets where IAS is accepted.*
- **Convergence and equivalence of global standards:** *Reaching IAS/US GAAP technical equivalence would be a significant step forward. But it should not stop there. There should be a clear and permanent recognition of equivalence of accounting standards.*
- **Interpretation of IFRSs:** *One means we are considering to do this is a 'European Forum', which would bring together the interested parties, namely regulators, standard setters, preparers, and the profession.*

You will find the regulation release here:

www.iasplus.com/restruct/euro2005.htm#jul2005

The draft bulletin may be Downloaded from the APB's Website:

www.apb.org.uk

IFRIC 2 is fully adopted in Europe

European Commission Regulation (EC) No. 1073/2005 of 7 July 2005 was published in the *Official Journal of the European Union* on 8 July 2005. Therefore the European Commission has now fully adopted IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments* for use in Europe.

Proposed wording of IFRS audit reports in the UK

The United Kingdom Auditing Practices Board (APB) has issued for comment a draft bulletin titled *Auditor's Reports on Financial Statements*. For all UK companies whose securities are publicly traded in the EU, the APB proposes that the auditor's report refer to conformity with IFRSs adopted for use in the European Union as the primary reporting framework:

In our opinion the group financial statements give a true and fair view, in accordance with those IFRSs adopted for use in the European Union....

The draft bulletin notes that many companies will be in a position of complying with both IFRSs as issued by the IASB and those IFRSs adopted for use in the European Union. If that is the case, and if the entity wants the auditor also to express an opinion about conformity with IFRSs, the draft bulletin proposes that the auditor separately state a second opinion with regards to full IFRSs, as follows:

As explained in Note X, the group in addition to complying with its legal obligation to comply with those IFRSs adopted for use in the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. In our opinion the group financial statements give a true and fair view, in accordance with IFRSs....

You will find the press release here:

www.iasplus.com/resource/0505citigate.pdf

It contains an active link to download an executive summary of the study.

Survey finds equity market unprepared for IFRSs

A survey of 12 leading investment banks and 30 rated investment analysts in London by financial communications consultants Citigate Dewe Rogerson has found that the investment banks are "largely adopting a 'wait and see' approach towards the reconciliation of IFRS changes in financial modelling and forecasting.... The risk is that market valuations and share prices may be affected by a prolonged period of volatility while analysts lack consensus and a consistent approach to the interpretation of financial data under IFRS." The survey found that:

- Only two of the 12 investment banks have provided guidance for their analysts on how to integrate IFRSs into forecast models.
- Three-fourths of the investment banks offered their analysts no formal training at all on the adoption of IFRS.
- Half of the analysts surveyed have not made any changes to their forecast models for companies, while a further 23% have only made partial changes.
- Almost a third of the analysts have received no communication whatsoever from companies on the implications of IFRS. Less than 20% of analysts surveyed stated that companies had provided sufficient data.
- All agreed that the balance sheet and profit and loss account would be the financial statements most impacted by IFRS, thereby implying an increased focus on cash flows.
- Half stated that they would not be changing their valuation methods as a result of the adoption of IFRS, even though many responses highlighted potential impact on EV ratios, 'sum-of-the-parts' analysis, and dividend payments.

Use of IFRSs Elsewhere in the World

Download the comparison from the Canada page on IAS Plus:
www.iasplus.com/country/canada.htm

Comparison of Canadian GAAP and IFRSs

In April 2005, the Accounting Standards Board (AcSB) of Canada invited comments on its draft strategic plan, *Accounting Standards in Canada: Future Directions*. The draft plan includes the AcSB's proposal that public companies in Canada should follow IFRSs rather than Canadian GAAP, with a five-year transition period. (For more information, please see our April 2005 *IAS Plus Newsletter*.) To give commentators on the plan a better basis for understanding the extent of change that the proposed convergence to IFRSs might entail, the AcSB staff have prepared a high-level comparison of Canadian standards and IFRSs as of 31 March 2005. AcSB staff are also developing a more detailed comparison for those interested in comparison at a technical level. That comparison is expected to be available before 31 July 2005.

Our complete list of counties that require or permit IFRSs for domestic listed companies is here:
www.iasplus.com/country/useias.htm

Namibia adopts IFRSs

All domestic listed companies in Namibia are required to comply with IFRSs effective 1 January 2005 under the requirements of the Namibian Stock Exchange Act. Unlisted Namibian companies have the option to use IFRSs or Namibian GAAP. Namibia is working to harmonise national GAAP with IFRSs by 31 December 2007.

Our complete list of counties that require or permit IFRSs for domestic listed companies is here:
www.iasplus.com/country/useias.htm

Israel plans to replace national GAAP with IFRSs in 2008

An agreement has been reached among the Israel Accounting Standards Board, the Institute of Certified Public Accountants in Israel, and the Israel Securities Authority to adopt International Financial Reporting Standards in full, in place of national accounting standards, effective in 2008. In recent years (since 1999) Israeli national accounting standards have been developed on the basis of International Accounting Standards. The change to full IFRS adoption is intended to enhance the worldwide acceptability and understandability of the financial reporting of Israeli companies.

In the United States, Israel has more companies registered with the SEC than any foreign country except Canada (nearly 100 companies). Israel has taken this step in anticipation that non-US companies registered with the SEC will be able to report solely in IFRSs without the US GAAP reconciliation. Many Israeli companies are also listed on European exchanges and, after 2007, those companies will no longer be allowed to use national GAAP for their European regulatory reporting. Additional details will be posted when a formal press release is available.

Our complete list of counties that require or permit IFRSs for domestic listed companies is here:
www.iasplus.com/country/useias.htm

IFRSs are permitted for listed companies in Morocco

We have updated the table on www.iasplus.com summarising the use of IFRSs for reporting by domestic listed companies to reflect the status of IFRSs in Morocco. Under a revision to the Stock Exchange Law (Law 52-01), which took effect in May 2004, all companies listed on the Casablanca Stock Exchange with the exception of banks and other financial institutions have a choice of preparing their financial statements using International Financial Reporting Standards or Moroccan GAAP. Banks and other financial institutions must use Moroccan GAAP.

Mr. Lee's speech:
[www.iasplus.com/
hk/0506hkex.pdf](http://www.iasplus.com/hk/0506hkex.pdf)

Hong Kong Exchange Chairman urges IFRSs globally

In his Remarks at the HKICPA's Financial Reporting Standards Forum in June 2005, Charles Lee, chairman of Hong Kong Exchanges and Clearing Ltd., gave a strong endorsement to the global use of International Financial Reporting Standards. He noted that 36% of the turnover of the Hong Kong exchange is generated by international investors who are best served by a uniform global accounting language. An excerpt from Mr. Lee's comments:

Hong Kong has been a firm supporter of a universal accounting regime, and has participated fully in the work of the IASB. Hong Kong financial reporting standards issued by the Hong Kong Institute of Certified Public Accountants have been fully converged with the International Accounting Standards now known as International Financial Reporting Standards since 1 January 2005. This convergence in many instances requires a change in the accounting policy of listed companies, and has led in some cases to unexpected results....

The financial results of Hong Kong listed companies and the accounting language they use must be easily understood by investors and analysts around the globe, as well as those based in Hong Kong. A uniform accounting platform allows for the comparison of companies and their results in different jurisdictions and leads to greater confidence in the quality and value of our stocks.

Publications from Deloitte

Download these IFRS model financial statements for 2005 and related checklists, without charge, at:

www.iasplus.com/fs/fs.htm

Download these and other Deloitte IFRS publications without charge at:

www.iasplus.com/dttdpubs/pubs.htm

We have, on the IAS Plus website, comparisons of IFRSs and about 15 national GAAPs:

www.iasplus.com/country/compare.htm

You can download this and all other IAS Plus Newsletters here:

www.iasplus.com/iasplus/iasplus.htm

Download this and other Deloitte IFRS publications without charge at:

www.iasplus.com/dttdpubs/pubs.htm

Click on the light bulb icon on the home page of

www.iasplus.com/ to access Deloitte's IFRS e-learning.

IFRS financial statements and presentation/disclosure checklists

We have posted Deloitte's comprehensive Model IFRS Financial Statements and Presentation and Disclosure Checklist for the year ended 31 December 2005. These model financial statements were developed to illustrate the typical financial statement presentation and disclosures that are required of a company with subsidiaries and associates presenting its consolidated financial statements under IFRSs for 2005.

The Model IFRS Financial Statements and Presentation and Disclosure Checklist are available combined in a single document and as two separate PDF documents.

Comparison of IFRSs and Chinese GAAP

Deloitte (China) has published a comparison of accounting standards in the People's Republic of China and International Financial Reporting Standards as of March 2005. The comparison is available in both English and Chinese. China has different levels of accounting standards that apply to different classes of entities. The comparison relates to the standards applicable to the largest companies (including all non-financial listed and foreign-invested enterprises) and identifies major accounting recognition and measurement differences.

We are pleased to grant permission to accounting educators and students to make copies for educational use.

Special IAS Plus Newsletter on fair value option

Deloitte's Global IFRS Leadership Team has prepared a special edition of our *IAS Plus Newsletter* detailing the Fair Value Option Amendments to IAS 39 issued by the IASB on 16 June 2005. The newsletter outlines the categories of financial instruments that may be classified as at fair value through profit or loss, and explains the transitional requirements (both for existing IFRS users and first-time adopters) and the additional disclosure requirements imposed by the amendments to IAS 39.

Introduction to IFRSs in Danish

Deloitte (Denmark) has published *IFRS – Introduction to International Financial Reporting Standards* (in Danish). The publication summarises each IFRS/IAS together with relevant interpretations (IFRIC/SIC) as well as the main differences between IFRSs and Danish GAAP. The publication also includes a short introduction to key factors in a successful conversion to IFRSs as well as helpful checklists on key differences between IFRSs and Danish GAAP and on Danish accounting rules that must be applied even if the company is reporting under IFRSs.

IAS 32-39 Parts II and III e-learning now available

Our IFRS e-learning modules for IAS 32 and IAS 39 Parts II and III are now available. These modules cover the concepts of hedge accounting and derecognition of financial instruments. This brings the total available modules to 35, including the intro-help module, and completes our suite of modules for the 'stable platform' IFRSs for 2005. Well over 250,000 modules have already been downloaded – not counting downloads by Deloitte people, who access IFRS e-learning via an internal network.

Accounting Standards Update in the Asia-Pacific Region

AUSTRALIA

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In June 2005, the Australian Accounting Standards Board (AASB) amended AASB 3 *Business Combinations* to bring it in line with IFRS 3 by:

- removing the definition of “contribution by owners”; and
- excluding combinations involving businesses or entities under common control from the scope of this standard,

The revised AASB 3 is applicable for annual reporting periods beginning on or after 1 January 2006. However, the revised standard can be early adopted on first-time adoption of Australian Equivalents to IFRS (A-IFRS) in 2005.

Also during the second quarter of 2005, the AASB made several revisions to existing A-IFRSs in line with developments in IFRSs. In particular, revisions have been made to AASB 139 *Financial Instruments: Recognition and Measurement* in relation to the fair value option and hedging of foreign currency risk on intragroup transactions. There have also been several consequential amendments to other A-IFRSs.

The Urgent Issues Group (UIG) issued two Australian equivalents to IFRIC Interpretations and three domestic Interpretations:

- UIG 4 *Determining whether an Arrangement Contains a Lease*
- UIG 5 *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
- UIG 1001 *Consolidated Financial Reports in relation to Pre-Date-of-Transition Dual Listed Company Arrangements*
- UIG 1002 *Inventory Rebates and Settlement Discounts*
- UIG 1052 *Tax Consolidation Accounting*

CHINA

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During the last quarter, the Ministry of Finance (the “MOF”) issued a pronouncement on accounting for asset backed securitisation transactions, plus a number of exposure drafts.

Pilot Requirement in respect of the Accounting of Credit Asset Backed Securitisation

In May 2005, the MOF issued the “Pilot Requirement in respect of the Accounting of Credit Asset Backed Securitisation”. This document sets out the criteria for derecognising credit assets when a bank or other financial institution entrusts those assets to another trustee institution. In return, the trustee institution issues beneficiary certificates to the financial institution in the form of asset backed securities. The key requirements are:

- The financial institution should derecognise the credit assets if it has transferred substantially all the risks and rewards of the ownership of the credit assets (95% or above) to the trustee institution. The difference between the carrying amount of the credit assets and the consideration received should be recognised as a profit or loss.
- If the financial institution retains substantially all the risks and rewards of the ownership of the transferred credit assets, it should not derecognise the transferred credit assets. Instead, it should recognise the consideration received as a liability.

Proposed changes to the Accounting Standard for Business Enterprises – the Basic Standard

In May 2005, the MOF issued an exposure draft proposing to revise the *Accounting Standard for Business Enterprises – the Basic Standard*, which was issued in 1992. The new ED covers the basic elements of the IASB Framework but without an in-depth explanation of the topics. It describes the basic concepts by which accounting information are prepared. It serves as a guide for the applying Chinese Accounting Standards to transactions not addressed directly in a specific standard.

CHINA, continued

The ED of the revised Basic Standard:

- defines the quality requirements and the objective of accounting information; and
- defines the basic elements of accounting information (i.e. assets, liabilities, income, expenses, profit, and equity) and the fundamental concepts for recognising and measuring them in financial statements.

Exposure drafts of three Chinese Accounting Standards

In addition, the MOF has issued for comment three exposure drafts of Chinese Accounting Standards in June 2005. They are:

Presentation of Financial Statements

- This ED prescribes the presentation requirement of consolidated financial statements and the individual financial statements of an entity.
- In addition to a balance sheet, income statement, statement of changes in equity and cash flow statement (including relevant notes), the ED also requires the inclusion of a profit appropriation statement.

Translation of Foreign Currency

- This ED sets out the accounting treatment of foreign currency transactions and the translation of foreign operations.
- An entity should determine its own recording currency (the concept of “recording currency” is similar to the concept of “functional currency” under IAS 21) according to its economic environment. However, it should always present the financial statements in RMB.

Segment Reporting

- This ED requires the identification of business segments and geographical segments and sets out the requirement to decide which segment should be disclosed under the primary reporting format and the other under the secondary reporting format.
- This ED is highly similar to IAS 14 *Segment Reporting*.

HONG KONG

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In May 2005, the Hong Kong Institute of CPAs changed the names of all Hong Kong Interpretations as follows:

- HKFRS Interpretations and HKAS Interpretations are renamed as HK(IFRIC) Interpretations and HK(SIC) Interpretations respectively.
- The local Interpretations developed by the Institute, SSAP Interpretations 22, 23, and 24, have been reissued as HK Interpretations 1, 2, and 3.

These changes clarify that the interpretations are not meant to be linked to only a particular category of standards. The changes also distinguish the interpretations in Hong Kong that are based on the equivalent international interpretations (IFRIC and SIC Interpretations) from those that are developed by the Institute locally.

Also in May, a new interpretation, HK Interpretation 4, *Leases – Determination of the Length of Lease Term in Respect of Hong Kong Land Leases*, was issued. HK Interpretation 4 concludes that the lease term of a Hong Kong land lease for the purpose of applying the requirements under HKAS 16 *Property, Plant and Equipment* and HKAS 17 *Leases* shall be determined by reference to the legal form and status of the lease. Renewal of a lease is assumed only when the lessee has a renewal option and it is reasonably certain at the inception of the lease that the lessee will exercise the option. Options for extending the lease term that are not at the discretion of the lessee shall not be taken into account by the lessee in determining the lease term.

MALAYSIA

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A. The Malaysian Accounting Standards Board (MASB) issued the following revised or new standards:

Standard	Title	Standard Superseded	Formerly Known As
FRS 101	Presentation of Financial Statements	FRS 101 (2004)	MASB 1
FRS 102	Inventories	FRS 102 (2004)	MASB 2
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors	FRS 108 (2004)	MASB 3
FRS 110	Events After the Balance Sheet Date	FRS 110 (2004)	MASB 19
FRS 116	Property, Plant and Equipment	FRS 116 (2004)	MASB 15
FRS 121	The Effect of Changes in Foreign Exchange Rates	FRS 121 (2004)	MASB 6
FRS 124	Related Party Disclosures	FRS 124 (2004)	MASB 8
FRS 136	Impairment of Assets	FRS 136 (2004)	MASB 23
FRS 138	Intangible Assets	-	-
FRS 140	Investment Property	FRS 125 (2004)	-
FRS 3	Business Combinations	FRS 122 (2004)	MASB 21
FRS 5	Non-current Assets Held for Sale and Presentation of Discontinued Operations	FRS 135 (2004)	MASB 28

FRS 101 Presentation of Financial Statements

The revision made to FRS 101 is identical to revision of IAS 1 in December 2003. FRS 101 is applicable to annual periods beginning on or after 1 January 2006. Early application is encouraged.

FRS 102 Inventories

The revision made to FRS 102 is identical to revision of IAS 2 in December 2003 except that the scope of IAS 2 (revised) excludes inventories of biological assets and agriculture produce covered in IAS 41 *Agriculture* whereas this is not excluded from the scope of FRS 101 as the MASB is currently reviewing IAS 41. FRS 102 is applicable to annual periods beginning on or after 1 January 2006. Early application is encouraged.

FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors

The revision made to FRS 108 is identical to revision of IAS 8 in December 2003. FRS 108 is applicable to annual periods beginning on or after 1 January 2006. Early application is encouraged.

FRS 110 Events After the Balance Sheet Date

The revision made to FRS 110 is identical to revision of IAS 10 in December 2003. FRS 110 is applicable to annual periods beginning on or after 1 January 2006. Early application is encouraged.

FRS 116 Property, Plant and Equipment

The revision made to FRS 116 is identical to revision of IAS 16 in December 2003. In addition, FRS 116 requires that if an entity has availed itself of the transitional provisions in MASB Approved Accounting Standard IAS 16 *Property, Plant and Equipment*, which permits an entity to continue carrying the revalued amount of an asset as its deemed cost upon implementation of the Standard in 1998, that fact should be disclosed. By

MALAYSIA, continued

virtue of this transitional provision, if an entity is not able to disclose the carrying amount that would have been recognised has the assets carried under the cost model due to the absence of historical records, entity shall disclose that fact. FRS 116 is applicable to annual periods beginning on or after 1 January 2006. Early application is encouraged.

FRS 121 The Effect of Changes in Foreign Exchange Rates

The revision made to FRS 121 is identical to revision of IAS 21 in December 2003. In addition, a paragraph is added to explain that for financial statements presented in Malaysia, the presentation currency shall be in Ringgit Malaysia. FRS 121 is applicable to annual periods beginning on or after 1 January 2006. Early application is encouraged.

FRS 124, Related Party Disclosures

The revision made to FRS 124 is identical to revision of IAS 24 in December 2003 except the following:

1. The definition of “close members of the family” has been amended from that defined in IAS 24 (revised) to be consistent with Malaysian Companies Act, 1965. Close members of the family are his or her spouse, parent, child (including adopted child and step-child), brother, sister, and the spouse of his or her child, brother, or sister; and
2. Exempt entities as defined in MASB SOP 1 *Exempt Entity* need not comply with FRS 124. Exempt entity is defined as an entity that:
 - does not have public accountability;
 - at the balance sheet date, all of its owners are members of the enterprise’s governing body; and
 - is not large.

FRS 124 is applicable to annual periods beginning on or after 1 January 2006. Early application is encouraged.

FRS 136, Impairment of Assets

The revision made to FRS 136 is identical to revision of IAS 36 in 2004. FRS 136 is applicable to:

- goodwill and intangible assets acquired in business combinations for which the agreement date is on or after 1 January 2006; and
- all other assets prospectively from the beginning of the first annual period beginning on or after 1 January 2006.

Early application is encouraged. However, if an entity applies this Standard before the above effective dates, it also shall apply FRS 3 *Business Combinations* and FRS 138 *Intangible Assets* at the same time.

FRS 138, Intangible Assets

The provisions in FRS 138 are identical to IAS 38 (revised) except that measurement of intangible asset and grant at nominal amount is not applicable as FRS 120 *Accounting for Government Grants and Disclosure of Government Assistance* only allows the use of fair value in measuring such asset. FRS 138 is applicable to the accounting for:

- intangible assets acquired in business combinations for which the agreement date is on or after 1 January 2006; and
- all other intangible assets prospectively from the beginning of the first annual period beginning on or after 1 January 2006.

Thus, the entity shall not adjust the carrying amount of intangible assets recognised at that date. However, the entity shall, at that date, apply FRS 138 to reassess the useful lives of such intangible assets. If, as a result of that reassessment, the entity changes its assessment of the useful life of an asset that change shall be accounted for as a change in an accounting estimate in accordance with FRS 108. Early application is encouraged.

MALAYSIA, continued

FRS 140, Investment Property

The provisions in FRS 140 are identical to IAS 40 (revised 2003). Also, consistent with FRS 116, *Property, Plant and Equipment*, this Standard requires an entity that has availed itself of the transitional provision in MASB Approved Accounting Standards IAS 16 to disclose that fact. Under FRS 125 *Accounting for Investments* an entity is permitted to account for its investment property in accordance with MASB Approved Accounting Standard IAS 16 or as long-term investments in accordance with the provisions of that Standard. FRS 140 is applicable to annual periods beginning on or after 1 January 2006. Early application is encouraged.

FRS 3, Business Combinations

The provisions in FRS 3 are identical to IFRS 3. FRS 3 is applicable to the accounting for:

- goodwill arising from a business combination for which the agreement date is on or after 1 January 2006; or
- any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination for which the agreement date is on or after 1 January 2006.

FRS 5, Non-current Assets Held for Sale and Discontinued Operations

The provisions in FRS 5 are identical to IFRS 5. FRS 5 is applicable to annual periods beginning on or after 1 January 2006. Early application is encouraged.

B. 11 Draft Interpretations

The MASB and its Issues Committee (IC) are reviewing all the existing Interpretations of the IFRIC and SIC with a view to adopt them in Malaysia. MASB plans to issue the IC Interpretations in batches.

The Issues Committee, having reviewed all the SIC Interpretations, concurred with the consensuses therein and has exposed them for public comment, as follows:

- IC Interpretation 107, Introduction of the Euro;
- IC Interpretation 110, Government Assistance – No specific Relation to Operating Activities
- IC Interpretation 112, Consolidation – Special Purpose Entities
- IC Interpretation 113, Jointly Controlled Entities – Non-Monetary Contributions by Venturers
- IC Interpretation 115, Operating Leases – Incentives;
- IC Interpretation 121, Income Taxes – Recovery of Revalued Non-Depreciable Assets
- IC Interpretation 125, Income Taxes – Changes in the Tax Status of an Entity or its Shareholders
- IC Interpretation 127, Evaluating the Substance of Transactions Involving the Legal Form of a Lease;
- IC Interpretation 129, Disclosure – Service Concession Arrangements;
- IC Interpretation 131, Revenue – Barter Transactions Involving Advertising Services
- IC Interpretation 132, Intangible Assets – Web Site Costs

The effective dates for all of the above interpretations are 1 January 2006, same as the dates for MASB's financial reporting standards.

C. Exposure Draft on Mineral Resources

MASB issued an exposure draft MASB ED 48 *Exploration For and Evaluation of Mineral Resources*, which is identical to IFRS 6 *Exploration for and Evaluation of Mineral Resources*.

SINGAPORE

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The Council on Corporate Disclosure and Governance (CCDG) has approved the following exposure drafts, amendments to an existing standard, and new interpretations, which are identical to those issued under the IASB's agenda during the 2nd quarter of 2005:

- ED INT FRS Scope of FRS 102 Share-based Payment (Draft IFRIC Interpretation D16);
- ED INT FRS 102 Group and Treasury Share Transactions (Draft IFRIC Interpretation D17);
- Amendments to FRS 19 (IAS 19) Employee Benefits relating to Actuarial Gains and Losses, Group Plans and Disclosures;
- INT FRS 104 Determining whether an Arrangement contains a Lease (IFRIC 4); and
- INT FRS 105 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (IFRIC 5).

The following exposure drafts of proposed standards are still outstanding:

Issued in 2004

- ED FRS Exploration for and Evaluation of Mineral Resources (IFRS 6);
- ED Proposed Amendments to FRS 103 (IFRS 3) Business Combinations – Combinations by Contract Alone or Involving Mutual Entities;
- ED Proposed Amendments to FRS 39 (IAS 39) Financial Instruments: Recognition and Measurement – The Fair Value Option;
- ED Proposed Amendments to FRS 39 (IAS 39) Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- ED Proposed Amendments to FRS 39 (IAS 39) and FRS 104 (IFRS 4) Financial Guarantee Contracts and Credit Insurance; and
- ED FRS Financial Instruments: Disclosures (ED IFRS 7).

Issued in 2005

- ED Proposed Amendments to FRS 101 First-time Adoption of Financial Reporting Standards (IFRS 1).

The following exposure drafts of proposed interpretations are still outstanding:

Issued in 2003

- ED INT FRS Emission Rights (IFRIC Interpretation 3).

Issued in 2004

- ED INT FRS Applying FRS 29 Financial Reporting in Hyperinflationary Economies for the First Time (Draft IFRIC Interpretation D5);
- ED INT FRS Multi-employer Plans (Draft IFRIC Interpretation 6);
- ED INT FRS Members' Shares in Co-operative Entities (IFRIC Interpretation 2);
- ED INT FRS Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions (Draft IFRIC Interpretation D9);
- ED INT FRS Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (Draft IFRIC Interpretation D10); and
- ED INT FRS Changes in Contributions to Employee Share Purchased Plans (Draft IFRIC Interpretation D11).

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Issued in 2005

- ED INT FRS Service Concession Arrangements – Determining the Accounting Model (Draft IFRIC Interpretation D12);
- ED INT FRS Service Concession Arrangements – The Financial Asset Model (Draft IFRIC Interpretation D13);
- ED INT FRS Service Concession Arrangements – The Intangible Asset Model (Draft IFRIC Interpretation D14);
- ED INT FRS Reassessment of Embedded Derivatives (Draft IFRIC Interpretation D15);

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