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**IAS PLUS WEB SITE**

Over 250,000 people visited our [www.iasplus.com](http://www.iasplus.com) web site in 2002 (compared to 90,000 in 2001). Our goal is to be the most comprehensive source of news about IFRS on the Internet. Please check in regularly during 2003.

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**IASB NEWS**

**Exposure Draft on Share-Based Payment.** Expense measured at fair value at grant date. Comments on ED 2, Share-Based Payment, are due 7 March 2003. For an overview of the ED, please see page 3.

**Exposure Drafts on Business Combinations and Amendments to IAS 36 and IAS 38.** Pooling abolished, plus non-amortisation of goodwill with an impairment test. Comments due 4 April 2003. Overview of the EDs: page 4.

**Convergence.** Historic agreement reached between IASB and FASB. FASB takes on a project on convergence. Stories on page 5.

**News from IFAC.** IFAC honours Sir Bryan Carsberg (page 6). Restructuring of International Standards on Auditing (page 6). IAASB ED on compliance with IFRS (page 6). IFAC to study confidence in financial reporting (page 6).

**Ken Wild, Deloitte & Touche (UK) partner, is appointed to IFRIC.** Ken replaces John T. Smith, from Deloitte & Touche (USA), who was appointed as a part-time member of the IASB. Page 7.

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*You can always find an up-to-date timetable at:  
<http://www.iasplus.com/agenda/timetabl.htm>.*

## TIMETABLE FOR IASB PROJECTS

During the fourth quarter of 2002, the IASB published the following proposals:

- ☐ Exposure Draft ED 2, Share-Based Payment.
- ☐ Exposure Draft ED 3, Business Combinations.
- ☐ Exposure Draft, Amendments to IAS 36, Impairment of Assets, and IAS 38, Intangible Assets.

No final Standards or Interpretations were issued.

The table below reflects the timetable for IASB's agenda projects based on IASB announcements and discussion at Board meetings.

TIMETABLE FOR IASB'S ACTIVE AGENDA PROJECTS	
<b>Business Combinations – Phase I</b>	<input type="checkbox"/> Exposure Draft was issued December 2002 <input type="checkbox"/> Final Standard in 2 <sup>nd</sup> half 2003
<b>Business Combinations – Phase II: Application of the Purchase Method</b>	<input type="checkbox"/> Exposure Draft in 1 <sup>st</sup> quarter 2003 <input type="checkbox"/> Final Standard in 2004
<b>Consolidation (including Special Purpose Entities)</b>	<input type="checkbox"/> Timetable not yet established
<b>Convergence Topics</b>	<input type="checkbox"/> Timetable not yet established
<b>Disclosure and Presentation of Activities of Financial Institutions</b>	<input type="checkbox"/> Exposure Draft in 2 <sup>nd</sup> quarter 2003 <input type="checkbox"/> Final Standard in 2004
<b>First-Time Application of IFRS</b>	<input type="checkbox"/> Exposure Draft was issued July 2002 <input type="checkbox"/> Comment deadline 31 October 2002 <input type="checkbox"/> Final Standard in 2 <sup>nd</sup> quarter 2003
<b>IAS 32 and IAS 39 Amendments</b>	<input type="checkbox"/> Exposure Draft was issued June 2002 <input type="checkbox"/> Comment deadline 14 October 2002 <input type="checkbox"/> Final Standard in 2 <sup>nd</sup> half 2003
<b>Improvements to International Accounting Standards</b>	<input type="checkbox"/> Exposure Draft was issued in May 2002 <input type="checkbox"/> Comment deadline 16 September 2002 <input type="checkbox"/> Final Standard in 1 <sup>st</sup> quarter 2003
<b>Insurance Contracts – Phase I</b>	<input type="checkbox"/> Exposure Draft in 1 <sup>st</sup> quarter 2003 <input type="checkbox"/> Final Standard in 2004
<b>Insurance contracts – Phase II</b>	<input type="checkbox"/> Timetable not yet established
<b>Liabilities and Revenue Recognition (Concepts)</b>	<input type="checkbox"/> Timetable not yet established
<b>Performance Reporting</b>	<input type="checkbox"/> This is a partnership project with the UK Accounting Standards Board. <input type="checkbox"/> Exposure Draft in 1 <sup>st</sup> quarter 2003. <input type="checkbox"/> Final Standard in 2 <sup>nd</sup> half 2003.
<b>Share-Based Payment</b>	<input type="checkbox"/> Exposure Draft in November 2002 <input type="checkbox"/> Final Standard in 2 <sup>nd</sup> half 2003

*This Standard, if adopted, would require all companies to recognise all share-based payments – to employees and to others – at their fair value at grant date. Disclosure of the fair value will not be allowed as an alternative to accrual, as it currently is in the United States.*

## IASB PUBLISHES ED 2 ON SHARE-BASED PAYMENT

In November, the IASB published ED 2, Share-Based Payment, a draft International Financial Reporting Standard. The exposure draft would require all entities to recognise the cost of all share-based payment transactions based on their fair value at grant date. This includes grants of share options to employees. Comments on the proposals are requested by 7 March 2003. If the IASB issues a final standard by the end of 2003, they expect it to be effective for periods beginning on or after 1 January 2004.

ED 2 can be downloaded from IASB's web site ([www.iasb.org.uk](http://www.iasb.org.uk)) as three separate PDF documents: Requirements, Basis for Conclusions, and Implementation Guidance.

Accounting standard-setters in the following jurisdictions have published ED 2 (or its equivalent) for public comment almost simultaneously with the issuance of ED 2: Australia, France, Germany, Hong Kong, Japan, New Zealand, South Africa, United Kingdom, and United States. The FASB invitation to comment explains the similarities of and differences between the IASB's recently issued exposure draft on Share-Based Payment and the accounting for stock-based compensation under FASB Statement 123. FASB's Invitation to Comment is available on FASB's web site, [www.fasb.org](http://www.fasb.org).

### KEY PROPOSALS IN ED 2, SHARE-BASED PAYMENT

- ❑ **Expense recognition.** All share-based payment transactions should be recognised in the financial statements, using a fair value measurement basis. An expense should be recognised when the goods or services received are consumed.
- ❑ **Scope.** There are no proposed exemptions from these requirements. The same recognition and measurement standards would apply to both public and non-public companies.
- ❑ **Measurement at fair value at grant date.** In principle, transactions in which goods or services are received as consideration for equity instruments of the entity should be measured at the fair value of the goods or services received, or the fair value of the equity instruments granted, whichever is more readily determinable.
  - For transactions with parties other than employees, there is a rebuttable presumption that the fair value of the goods or services received is more readily determinable.
  - For transactions measured at the fair value of the equity instruments granted (such as transactions with employees), fair value should be estimated at grant date.
  - For transactions measured at the fair value of the goods or services received, fair value should be estimated at the date of receipt of those goods or services.
- ❑ **Use of an option pricing model.** To estimate the fair value of a share option, if an observable market price does not exist, an option pricing model should be used. The exposure draft does not specify which particular model should be used. The entity should disclose the model used, the inputs to that model, and other information about how fair value was measured.
- ❑ **Measuring employee share options.** ED 2 contains various proposals on estimating the fair value of employee share options, to allow for differences between employee share options and traded options. For example, the valuation should take into account all types of vesting conditions, including service conditions and performance conditions. In other words, the grant date valuation should be reduced to allow for the possibility of forfeiture because of failure to satisfy vesting conditions.
- ❑ **Repricing.** Repricing of options (and other changes in terms and conditions) should be accounted for by recognising additional remuneration expense based on the incremental value given on repricing, that is, additional to expenses recognised in respect of the original option grant.
- ❑ **Other proposals.** ED 2 also contains proposals on accounting for cancellation of share or option plans, share-based payment transactions settled in cash, and transactions in which either the entity or the counterparty may choose whether the entity settles in cash or by issuing equity instruments.
- ❑ **Disclosure.** Proposed disclosures include:
  - the nature and extent of share-based payment arrangements that existed during the period;
  - how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined; and
  - the effect of expenses arising from share-based payment transactions on the entity's profit or loss.

*A second phase to IASB's Business Combinations project is under way. Phase II is a joint project with the FASB. It focuses on the specific accounting procedures related to the application of the purchase method. Additionally, the IASB and FASB will explore the merit of fresh-start or new-basis accounting for business combinations. This phase will also address certain issues outside of the scope of the phase I project, such as combinations of entities under common control, combinations of entities to form a joint venture, and combinations to form a reporting entity by contract only without the obtaining of an ownership interest.*

## IASB PUBLISHES EDs ON BUSINESS COMBINATIONS, IMPAIRMENT, AND INTANGIBLES

The International Accounting Standards Board has proposed major revisions to its standards on accounting for business combinations and intangible assets. The proposals are set out in exposure draft ED 3, Business Combinations (which would replace IAS 22), and an Exposure Draft of Proposed Amendments to IAS 36, Impairment of Assets, and IAS 38, Intangible Assets. The IASB invites comments by 4 April 2003.

The most significant proposals are to prohibit the use of the pooling (uniting) of interests method of accounting for business combinations and to require that goodwill and other intangible assets with indefinite lives be tested for impairment but not amortised. Pooling has already been banned in Australia, Canada, Hong Kong, New Zealand, and the United States. Pooling continues to be permitted, however, in France, Germany, Japan, and the United Kingdom.

Four PDF files for the IASB's Business Combinations Exposure Drafts can be downloaded from IASB's web site ([www.iasb.org.uk](http://www.iasb.org.uk)) without charge. They are: an ED of a new IFRS that would replace IAS 22; the basis for conclusions; implementation guidance; and a separate ED proposing amendments to IAS 36 and IAS 38.

In December, we published a Special Edition IASPlus newsletter on business combinations. You can download it without charge from [www.iasplus.com](http://www.iasplus.com).

### KEY PROPOSALS IN ED 3 AND AMENDMENTS TO IAS 36 AND IAS 38

- ❑ **Method of accounting for business combinations.** The purchase method must be used for all business combinations covered by the revised standard. Uniting (pooling) of interests would no longer be permitted. Therefore, an acquirer must be identified for every business combination within the scope of ED 3. The acquirer is the entity that obtains control of the other combining entities or operations.
- ❑ **Indefinite-lived intangible assets.** Goodwill and other intangible assets with indefinite useful lives would not be amortised, but tested for impairment annually (or more frequently if there is an indication of impairment). Reversals of impairment losses with respect to goodwill are prohibited.
- ❑ **Finite-lived intangible assets.** Amortisation continues, plus an impairment test. However, IAS 38's rebuttable presumption of a maximum 20-year life is dropped.
- ❑ **Negative goodwill.** Any negative goodwill remaining after a reassessment of the identification and measurement of the identifiable net assets acquired should be recognised immediately in the income statement as a gain. This includes negative goodwill implicit in the carrying amount of an equity method investment.
- ❑ **Liabilities for terminating or reducing the activities of an acquiree.** Costs expected to be incurred as a result of a business combination to restructure the acquired entity's (or acquirer's) activities would be treated as post-combination expenses, unless at the acquisition date, the acquired entity has an existing liability in accordance with IAS 37.
- ❑ **Date for measuring the cost of the acquisition.** The consideration paid for an entity is measured at the date control passes to the acquirer (or, if control is acquired in stages, at the various earlier dates of exchange).
- ❑ **Initial measurement of identifiable net assets when less than 100% is acquired.** IAS 22 currently allows a choice between (a) acquirer's share of net assets at fair values plus minority interest's share at pre-acquisition carrying amounts and (b) both acquirer's and minority's share measured at fair values. The ED proposes to prohibit choice (a) and require 100% fair value measurement.
- ❑ **Presentation of minority interest.** Minority interest would be presented within equity in the balance sheet, but separately from the parent shareholders' equity.
- ❑ **Finite-life intangible assets.** Intangible assets acquired in a business combination should be recognised separately from goodwill if they arise as a result of contractual or legal rights or are separable from the business. Intangible assets with finite useful lives should continue to be accounted for in accordance with IAS 38 after initial recognition – that is, an amortisation plus impairment test model. The existing rebuttable presumption of a 20-year maximum useful life is eliminated.
- ❑ **Contingent liabilities of the acquiree.** In allocating the cost of an acquisition, the acquirer will recognise separately a contingent liability of the acquiree if its fair value can be measured reliably.

*Like the FASB, the IASB also has a convergence project on its agenda. Plus, a number of the changes to existing IAS proposed in IASB's improvements project are intended to achieve convergence with US GAAP.*

*So far, FASB has identified the following issues as within its convergence project:*

- ❑ *Classification of liabilities on refinancing.*
- ❑ *Classification of liabilities due on demand due to violation of debt covenant.*
- ❑ *Asset exchanges – recognition of gain/loss on exchanges of similar productive assets and intangibles.*
- ❑ *Voluntary change in accounting policies.*
- ❑ *Financial instruments – implications of IASB amendments to IAS 32 and 39.*
- ❑ *Discontinued operations – differences in definition and timing of remeasurement.*
- ❑ *Accounting for costs associated with exit or disposal activities.*
- ❑ *Inventories – idle capacity and spoilage.*
- ❑ *Distinction between changes in accounting policies and changes in accounting estimates.*
- ❑ *Income taxes – differences in application of the temporary difference approach to accounting for income taxes.*
- ❑ *Financial reporting in hyperinflationary economies.*
- ❑ *Joint ventures – differences in definition and use of proportionate consolidation.*
- ❑ *Interim financial reporting – discrete period vs. integral approach.*
- ❑ *Research and development – capitalisation of development costs to be capitalised under certain circumstances.*

## IASB AND FASB REACH AGREEMENT ON CONVERGENCE

The International Accounting Standards Board and the US Financial Accounting Standards Board have jointly issued a Memorandum of Understanding, marking a significant step toward formalising their commitment to the convergence of US GAAP and International Financial Reporting Standards. The IASB and the FASB presented the agreement to the chairs of leading national standard setters at a two-day meeting in London on 28-29 October 2002. The Memorandum of Understanding is the result of an agreement reached by the two boards at their joint meeting in Norwalk, Connecticut, USA on 18 September 2002. At that meeting, they each acknowledged their commitment to the development of high-quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. Both the FASB and IASB pledged to use their best efforts (a) to make their existing financial reporting standards fully compatible as soon as is practicable and (b) to coordinate their future work programmes to ensure that once achieved, compatibility is maintained. To achieve compatibility, the FASB and IASB have agreed, as a matter of high priority, to:

- ❑ undertake a short-term project aimed at removing a variety of individual differences between US GAAP and International Financial Reporting Standards;
- ❑ remove other differences between IFRSs and US GAAP that will remain at 1 January 2005, through coordination of their future work programmes, that is, through the mutual undertaking of discrete, substantial projects that both Boards would address concurrently;
- ❑ continue progress on the joint projects that are currently under way; and
- ❑ encourage their respective interpretative bodies to coordinate their activities.

Numerous organisations announced their support for the agreement, including the US SEC and the European Commission.

## FASB APPROVES AGENDA PROJECT ON CONVERGENCE

The Financial Accounting Standards Board has added to its agenda a short-term international convergence project that will be conducted jointly with the International Accounting Standards Board. Additionally, the FASB voted to authorise its staff to expand its longer-term research project on international convergence. With respect to the short-term project, the FASB established a goal of 31 December 2003 for issuance of a final Statement that would “eliminate or reduce many, if not all, of the differences to be addressed in that project”.

The new US Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley Act), enacted in July 2002, permits the SEC to look to a private-sector accounting standard setter, such as FASB, provided that the standard-setter “considers, in adopting accounting principles, the extent to which international convergence on high quality accounting standards is necessary or appropriate in the public interest and for the protection of investors.”



## IFRS-RELATED NEWS FROM IFAC

*You can find IFAC's news release at [www.ifac.org/News/](http://www.ifac.org/News/)*

### IFAC HONOURS SIR BRYAN CARSBURG

The International Federation of Accountants has presented its prestigious Sempier Award to Sir Bryan Carsberg, former Secretary-General of the IASC. The award recognises an outstanding leader who has made significant contributions to the development of the international accountancy profession over a period of years. As Secretary-General of the IASC from 1995 to 2001, Sir Bryan led the completion of a core body of Standards that has subsequently been endorsed by IOSCO and adopted by the European Union. He is widely recognised for his commitment to promoting worldwide convergence of those standards.

*The IAASB's proposals can be downloaded (total of three documents) from the Board's web site:*

*[www.ifac.org/IAASB/](http://www.ifac.org/IAASB/)*

### RESTRUCTURING OF INTERNATIONAL AUDITING STANDARDS

The International Auditing and Assurance Standards Board (IAASB) has issued an Exposure Draft inviting comment on IAASB's Proposed Terms of Reference; the Preface to the International Standards on Quality Control, Auditing, Assurance, and Related Services; and Operations Policy No 1—Bold Type Lettering. Comments are due 28 February 2003. The IAASB is proposing to restructure the Auditing and Assurance Handbook to include four separate sections covering:

- ☐ **Quality control.** The documents in this section would be called International Standards on Quality Control (ISQCs). They would address firm-wide quality control issues while ISAs and ISAEs will address engagement specific quality control matters.
- ☐ **Audits and reviews of historic financial information.** The documents in this section would continue to be called International Standards on Auditing (ISAs) and International Auditing Practice Statements (IAPSSs).
- ☐ **Assurance engagements on other subject matters.** The documents in this section would be called International Standards on Assurance Engagements (ISAEs), and in time, if needed, International Assurance Engagement Practice Statements (IAEPSs) could be added.
- ☐ **Related services.** The documents in this section would be called International Standards on Related Services (ISRSs), and over time, if needed, International Related Services Practice Statements (IRSPSSs) could be added.

*Download the exposure draft from IAASB's web site:  
[www.ifac.org/IAASB/](http://www.ifac.org/IAASB/).*

### IAASB EXPOSURE DRAFT ON COMPLIANCE WITH IFRS

The International Auditing and Assurance Standards Board has proposed new guidance designed to clarify when financial statements are in full compliance with International Financial Reporting Standards (IFRSs). The exposure draft of an International Auditing Practice Statement (IAPS), Reporting on Compliance with International Financial Reporting Standards, makes clear that when an entity refers to compliance with IFRSs, auditors should issue an audit report with an unqualified opinion only if the entity complies fully with all applicable IFRSs.

*You will find the press release announcing the formation and terms of reference of the task force here:*

*[www.iasplus.com/  
resource/ifactf.pdf](http://www.iasplus.com/resource/ifactf.pdf)*

### IFAC WILL STUDY CONFIDENCE IN FINANCIAL REPORTING

The International Federation of Accountants has appointed a Task Force to address Rebuilding Public Confidence in Financial Reporting. The task force will identify and analyse the causes of the loss of credibility, and consider alternative courses of action to restore credibility. These may include recommendations on principles of best practice in the areas of financial and business reporting, corporate governance, and auditor performance. The task force will be chaired by John Crow, former Governor of the Bank of Canada, and includes representatives from company management, boards of directors, the investment community, and the accountancy profession. They expect to issue their report in mid-2003.

*IASB's press release:  
[www.iasplus.com/  
pressrel/2002tr04.pdf](http://www.iasplus.com/pressrel/2002tr04.pdf)*

*The 19 IASCF Trustees have responsibility to appoint the members of the IASB and IFRIC, review their strategy and budget, approve their operating procedures, and approve amendments to the IASC constitution.*

*You can find more information on the pages of the International Accounting Section on the American Accounting Association's web site:  
[www.aaa-edu.org](http://www.aaa-edu.org).*

*More information:  
[www.xbrl.org](http://www.xbrl.org).*

## **KEN WILD OF DELOITTE & TOUCHE (UK) IS APPOINTED TO IFRIC**

Ken Wild, Global IAS Leader for Deloitte Touche Tohmatsu and a partner in Deloitte & Touche (United Kingdom), has been appointed to the International Financial Reporting Interpretations Committee (IFRIC). Ken joined Deloitte & Touche in 1980 and was made a Partner in 1984. He is a member of the UK Accounting Standards Board and a member of its Public Sector and Not-for-Profit Committees. He is also a member of the Financial Reporting Advisory Board to the UK Treasury. On IFRIC, Ken replaces John T. Smith of Deloitte & Touche (USA), who recently became a member of the International Accounting Standards Board.

## **TWO NEW IASC FOUNDATION TRUSTEES APPOINTED**

Max Kley, Deputy Chairman, BASF AG, and Dennis Weatherstone, former Chairman, J.P. Morgan & Co., have been appointed to the Board of Trustees of the IASC Foundation effective 1 January 2003. They fill the vacancies left by the departures of Hilmar Kopper and William Steere, respectively.

## **IASB HIGHLY VISIBLE AT WORLD CONGRESS**

The IASB was highly visible at the 16<sup>th</sup> World Congress of Accountants, held in Hong Kong on 18-21 November 2002. IASC Foundation Chairman Paul Volcker and IASB Chairman Sir David Tweedie were both speakers at the opening plenary session. Mr. Volcker spoke on *Accounting, Accountants, and Accountability in an Integrated World Economy*. Sir David spoke on *The Accounting Language of the 21<sup>st</sup> Century*. IAS/IFRS were also widely discussed by other plenary speakers and at a number of workshops.

## **NEW JOURNAL OF INTERNATIONAL ACCOUNTING RESEARCH**

The International Accounting Section of the American Accounting Association has published the inaugural edition of its new annual journal, The Journal of International Accounting Research. The journal aims to publish articles that increase understanding of the development and use of international accounting and reporting practices or attempt to improve extant practices. International accounting is broadly interpreted to include the reporting of international economic transactions; the study of differences among practices across countries; the study of interesting institutional and cultural factors that shape practices in a single country but have international implications; and the effect of international accounting practices on users.

## **IFRS XBRL TAXONOMY IS PUBLISHED**

The XBRL International Steering Committee has released the IAS Primary Financial Statements Taxonomy as an approved XBRL Recommendation. The Committee has also released, as a Public Working Draft, the IAS Explanatory Disclosures and Accounting Policies Taxonomy. Both taxonomies are available on the Internet from the XBRL Organisation Taxonomy Resource Centre.

*An observer from Deloitte Touche Tohmatsu attends every IASB meeting, and we publish the Board's tentative decisions on our web site, [www.iasplus.com](http://www.iasplus.com), usually the next day.*

*The US Financial Accounting Standards Board has recently added to its agenda a project to identify and eliminate a number of current differences between US GAAP and IFRS. See our news story on page 5.*

## IASB AGENDA PROJECT UPDATES

On the next several pages, we note some of the key decisions made by the Board in the fourth quarter of 2002 on some of its agenda projects in addition to business combinations and share-based payment, which are discussed earlier in this newsletter. More detailed project information can be found on our web site and on the IASB's web site.

### PROJECT UPDATE: CONVERGENCE TOPICS – PENSIONS

The Board has tentatively decided to eliminate the 'corridor' approach in IAS 19, Employee Benefits, and require that the actual return on plan assets be recognised in the performance statement. At the same time, the Board has decided to propose a multi-column performance statement that separates income from current period operations from remeasurements (see our story on page 11). The Board has tentatively agreed on the following presentation relating to pensions in the two-column performance statement:

	Income and Expenses Other than Remeasurements	Remeasurement
Business operations	Service Costs	Actuarial gains and losses on the pension liability
		Actual return on plan assets (similar to other assets held by the company)
Financing	Interest Costs	

As a result of this decision, an entity must decide whether the pension assets are available for sale, held for trading, or held to maturity at the purchase date. The change in the value of pension assets would be accounted for similarly to respective assets held outside of the pension plan under IAS 39, Financial Instruments: Recognition and Measurement.

The Board reiterated its earlier tentative decision that pension assets and liabilities should be reported on a net basis on the balance sheet.

The Board tentatively decided to amend the definition of a defined benefit plan to encompass any plan where the employer may have an obligation in the future, thus reclassifying certain plans that are currently categorised as defined contribution plans under IAS 19.

Certain defined contribution plans provide the participants with the opportunity to share in the contributions forfeited by people who leave the plan. In many cases an employer will have the ability to reduce future contributions as a result of the forfeited benefits to date. The Board concluded that the ability to reduce future contributions is an asset that should be recorded at its present value with the offset to pension expense for the period.



*Link to the Deloitte Touche  
Tohmatsu comment letter to IASB  
on the First-Time Application  
exposure draft:  
[www.iasplus.com/  
dttltr/edfta0210.pdf](http://www.iasplus.com/dttltr/edfta0210.pdf)*

## PROJECT UPDATE: ED 1, FIRST-TIME APPLICATION OF IFRS

On 31 July 2002, the IASB issued Exposure Draft 1, First-Time Application of IFRS. Comments were due 31 October. ED 1 would allow an entity to restate information by applying either:

- ❑ **The existing SIC 8 approach.** This approach requires retrospective restatement using the Standards applicable at the date of transactions (and their subsequent revisions and transitional provisions if applicable); however, that the exception to restatement because “the amount cannot be reasonably determined” will not be available; or
- ❑ **An “opening balance sheet approach”.** Under this approach, an entity is required to use every IFRS current at the end of the reporting period in which it first adopts IFRS. At least one year of comparative information prepared using those same IFRSs is required.

First-time adopters of IFRSs must disclose how the transition to IFRS affected the entity’s financial position, performance, and cash flows.

### DELOITTE TOUCHE TOHMATSU COMMENTS ON ED 1

Overall, Deloitte Touche Tohmatsu supports the opening balance sheet approach of ED 1. We believe the approach addresses the practical problems of applying the previous requirements under SIC 8, First-Time Application of IASs as the Primary Basis of Accounting, and the IASB has accomplished its objective of ensuring that an entity’s first IFRS financial statements contain high quality information. Nonetheless, our review of ED1 identified a number of issues that arise from applying the different options and exemptions under the opening balance sheet approach that we believe should be addressed by the IASB. You can download the DTT comment letter (and all of our earlier comment letters to IASB and IASC) at [www.iasplus.com](http://www.iasplus.com).

*You can download our letter of  
comment to the IASB at:  
[www.iasplus.com/  
dttltr/3239rev.pdf](http://www.iasplus.com/dttltr/3239rev.pdf)*

## PROJECT UPDATE: EXPOSURE DRAFT ON AMENDMENTS TO IAS 32 AND IAS 39

In July 2002, the IASB proposed some major changes to IAS 32 and IAS 39 on financial instruments. The principal changes would:

- ❑ Allow an entity to designate any financial instrument (including its own outstanding debt) irrevocably at initial recognition as an instrument to be measured at fair value, with changes in fair value recognised in profit or loss.
- ❑ Allow an entity to designate any originated loans and receivables as available for sale, resulting in measuring them at fair value in the balance sheet.
- ❑ Require that all fair value changes for available-for-sale financial instruments be recognised as a separate component of equity, with ‘recycling’ through net profit or loss when the financial asset is sold (the option to recognise such fair value changes immediately in net profit or loss would be eliminated).
- ❑ Add guidance for recognising impairment losses in groups of loans.
- ❑ Prohibit reversal of impairment losses previously recognised for available-for-sale financial assets.
- ❑ Treat hedges of firm commitments as fair value hedges rather than as cashflow hedges.
- ❑ Prohibit ‘basis adjustment’ for hedges of forecasted transactions, though continue to require basis adjustment for fair value hedges.
- ❑ Establish the principle of ‘no continuing involvement’ for deciding whether a financial asset should be derecognised. Derecognition would not be permitted to the extent that the entity could, or could be required to, reacquire control of the transferred asset, or could receive or be required to pay compensation based on the performance of the asset.

## PROJECT UPDATE: AMENDMENTS TO IAS 32 AND IAS 39, continued

### DELOITTE TOUCHE TOHMATSU COMMENTS ON THE EXPOSURE DRAFT

Overall, Deloitte Touche Tohmatsu believes that the amendments would make the standards clearer and easier to consistently implement. The amendments also would increase the quality of financial reporting for financial instruments under IFRS.

Nonetheless, our review of the Exposure Draft identified a number of significant issues that we believe should be addressed by the IASB before the revisions are finalised. In some cases, we were able to identify potential alternative solutions for the Board's consideration. Our comments are organised into the following areas:

- ❑ **General comments on scope.** We believe it is very important for the scopes of IAS 32 and IAS 39 to be the same. There may be some areas in which a lack of clear delineation of what is considered within or outside the scope may cause confusion or raise questions.
- ❑ **Comments on IAS 32, Financial Instruments: Disclosure and Presentation.** We provide our responses to the questions posed in the Invitation to Comment and suggest an alternative approach to determining classification of derivatives on an entity's own shares. We also provide specific comments on the following parts of the Exposure Draft: summary of main changes, scope, definitions, liability-equity presentation, classification of compound instruments, transactions in an entity's own equity instruments, offsetting, disclosures, and the appendices.
- ❑ **Comments on IAS 39, Financial Instruments: Recognition and Measurement.** We provide our responses to the questions posed in the Invitation to Comment and suggest an alternative approach to the accounting for assets and liabilities associated with the failure of an asset transfer to qualify for derecognition. We also provide specific comments on the following topics in the Exposure Draft, among others: financial guarantees, derecognition, impairment, recognition of gains and losses related to hedging activities, and embedded derivatives.

### PUBLIC FORUMS ON PROPOSED CHANGES TO IAS 32 AND 39

The IASB has announced that the comments received on its proposed amendments to IAS 32 and IAS 39 "have represented a wide range of opinion and raised numerous questions". Consequently, the IASB will hold a series of public roundtable forums to discuss the proposed amendments with those who provided comments on the proposals. The forums will begin with the IASB's Standards Advisory Council on 24-25 February 2003 and continue, during the week of 10 March 2003, with other respondents. The IASB decided to host roundtable discussions following their review of more than 150 comment letters regarding the proposals.

### NEW TIMETABLE FOR ISSUING REVISED IAS 32 AND 39

The IASB has indicated that it now plans to issue its final revisions to IAS 32 and IAS 39 in the second half of 2003.

### COMMENT LETTERS TO IASB ON PROPOSED AMENDMENTS TO IAS 32 AND IAS 39 CAN BE DOWNLOADED

The IASB has posted on its web site ([www.iasb.org.uk](http://www.iasb.org.uk)) 142 comment letters it has received on its proposed amendments to IAS 32 and IAS 39, plus another 24 letters that were sent to the UK Accounting Standards Board.

*The replacement for IAS 30 will focus on activities (deposit-taking, lending, and securities business) regardless of the type of entity that undertakes those activities.*

## PROJECT UPDATE: ACTIVITIES OF FINANCIAL INSTITUTIONS

The IASB's advisory committee on disclosure of financial activities has recommended:

- ☐ a financial risk disclosure principle and requirements applicable to all entities, including disclosure of:
  - credit risk;
  - quality of assets – past due and impaired financial assets;
  - liquidity risk; and
  - market risk;
- ☐ balance sheet and income statement disclosure requirements; and
- ☐ a plan for moving the project forward.

The Board expressed general support for the advisory committee's recommendations.

The advisory committee had recommended certain operational risk disclosures that the Board concluded would better be addressed in the IASB's planned project on narrative reporting (MD&A).

The IASB plans to issue an Exposure Draft on Activities of Financial Institutions in the second quarter of 2003, with a final Standard now planned for some time in 2004.

*Key principles that the Board has adopted in its Performance Reporting project:*

- ☐ A single performance statement reflecting all changes in net assets during the period other than transactions with owners.
- ☐ No recycling.
- ☐ Performance should not be based on a notion of realisation.
- ☐ Distinguish between trading gains and holding gains.
- ☐ Report operating gains/losses separately from financing gains/losses.
- ☐ Categorise changes in fair values of assets based on causes of the change.
- ☐ Extraordinary item category should be abolished.

## PROJECT UPDATE: PERFORMANCE REPORTING

The following represents the Board's tentative thinking about the format of the performance statement:

	<b>Column 1</b> Total (Column 2 + Column 3)	<b>Column 2</b> Income and Expenses Other than Remeasurements	<b>Column 3</b> Income and Expenses Resulting from Revisions to Prior Expectations about Future Periods (Remeasurements)
Operations	xxx	xxx	xxx
Financing and Investing Activities	xxx	xxx	xxx
Income Taxes	xxx	xxx	xxx
Discontinuing Operations	xxx	xxx	xxx
Net Income or Comprehensive Income	xxx	xxx	xxx

Subtotals within comprehensive income (for example, 'operating profit') will be prohibited except when they are subtotals of other amounts required to be displayed on the face. The Board will consider how to report per share amounts in the future.

The Board agreed to change the title of the Standard, most likely to 'Income Statement'. The Board is also reconsidering the term used for the total (perhaps 'net income' might be more appropriate than 'comprehensive income'). Also, the total column has been moved to the first (left) column, rather than as the last (right) column.

*In May 2002, the IASB decided to split the insurance contracts project into two phases, so that European (and other) insurance companies that will be adopting IFRS for the first time as of 2005 will have some guidance on how to apply existing IASs and IFRSs to insurance contracts. Phase II is a comprehensive project on accounting for insurance contracts taking a fresh look at all issues.*

*An Exposure Draft on Phase I is planned for the first quarter of 2003, with a final IFRS in 2004. The IASB has not yet set a timetable for Phase II.*

## PROJECT UPDATE: INSURANCE CONTRACTS – PHASE I

Phase I is addressing how to apply existing IAS to accounting for insurance contract. Tentative decisions to date:

**Definition of insurance contract.** The Board is using the following working definition:

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk by agreeing with another party (the policyholder) to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary (other than an event that is only a change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variable).

Once the definition is finalised, it will replace the definition of insurance or insurance contracts in other Standards.

**Insurable interest.** For a contract to be classified as an insurance contract, there must be an insurable interest at inception of the contract. If a payment under the contract is not linked to an actual loss, the contract would not be an insurance contract but would most likely be a financial instrument.

**Insurable risk.** To qualify as an insurance contract, there should be a reasonable chance of insurance risk arising. This will be defined based on factors such as the probability of the risk arising, and the possible amount of the effect.

**Reinsurance.** Reinsurance contracts will be treated as insurance contracts subject to their meeting the definition. No special treatment is proposed for reinsurance contracts.

**Reclassifications.** A contract will be treated as an insurance contract from when it meets the definition of an insurance contract and for as long as it meets the definition.

**Scope exclusions.** The Board agreed that the following would be excluded from the scope of insurance contracts:

- ☐ financial guarantees, including credit insurance;
- ☐ product warranties issued directly by a manufacturer, dealer, or retailer. Those issued by a third party would be included;
- ☐ employers' assets and liabilities under employee benefit plans, including equity compensation plans;
- ☐ retirement benefit obligations reported by defined benefit plans;
- ☐ contingent consideration payable or receivable in a business combination;
- ☐ contractual rights or contractual obligations that are contingent on the future use of, or right to use, a non-financial item (for example, certain licence fees, royalties, contingent lease payments, and similar items), as well as a lessee's residual value guarantees embedded in a finance lease. Residual value guarantees under operating leases would be classified as insurance contracts;
- ☐ contracts for which the issuer is permitted or required to settle its obligations by:
  - acquiring new financial liabilities or equity instruments to be issued by the holder of the contract if the insured event occurs, or
  - issuing equity instruments as defined in IAS 32.

**Recognition and measurement.** The Board agreed that insurance contracts should be exempted from paragraphs 5 and 6 of IAS 8, which state how accounting policies should be determined in the absence of a Standard.

## PROJECT UPDATE: INSURANCE CONTRACTS – PHASE I, continued

### Existing practices :

- ☐ **Catastrophe provisions.** Will not be allowed.
- ☐ **Loss recognition costs.** It is proposed that if there is a loss recognition requirement in local GAAP that does not smooth the effect of the loss and that is based on a current estimate of future cash flows, that requirement should be applied. Otherwise IAS 37 should be applied to determine a minimum liability.
- ☐ **Embedded value.** If it is acceptable in local GAAP, then it can be used.
- ☐ **Offsetting of reinsurance.** Reinsurance should be accounted for on a gross basis and not offset.
- ☐ **Effect of reinsurance on measurement.** The taking of reinsurance would not change the measurement basis of the original insurance contract, but it may provide greater information in determining measurement.
- ☐ **Uniform accounting policies.** An entity's use of uniform accounting policies for all insurance contracts will not be required if its past practice has been otherwise; but there will be a requirement to disclose the different components subject to the differing policies.

*The Board's timetable calls for final revised Standards to be issued during the first quarter of 2003.*

## PROJECT UPDATE: IMPROVEMENTS TO IAS

The Board received over 150 letters of comment on the Exposure Draft. It has begun its reconsideration of the proposals in the ED. The following tentative decisions have been made to date:

### Improvements to IAS 1

The Board decided tentatively **not** to modify the following proposals:

- ☐ **Override.** If an entity believes that a 'true and fair override' is appropriate but local law prohibits the override, the entity would not override the IFRS in question. However, disclosure would be required.
- ☐ **Extraordinary items.** The category of extraordinary items will be abolished.
- ☐ **Debt classification.** A post-balance sheet agreement to refinance a short-term obligation on a long-term basis (more than 12 months) does not justify classifying the short-term obligation as non-current (disclosure of the agreement will be required).
- ☐ **Debt classification.** If a borrowing agreement has a covenant that makes a liability payable on demand if certain conditions related to the borrower's financial position are breached, and those conditions are breached (without a waiver) at the balance sheet date, the liability is classified as current, even if corrected after balance sheet date.
- ☐ **Disclosure of judgements.** Significant judgements made by management in applying accounting policies should be disclosed.
- ☐ **Disclosure of key assumptions.** Key assumptions about the future and other sources of measurement uncertainty should be disclosed.

### Improvements to IAS 16

- ☐ Exchanges of similar items of property, plant, and equipment and intangibles should be measured at fair value, with gain or loss recognised. The gross proceeds should not be reported as revenue.
- ☐ The Board decided to modify its proposal that depreciation should continue when a depreciable asset becomes temporarily idle or is retired from active use and held for disposal. Under the modified approach, depreciation would continue unless the asset (a) is not being used, (b) is held for disposal, and (c) is available for immediate delivery to a buyer.



## PROJECT UPDATE: IMPROVEMENTS TO IAS, continued

### Improvements to IAS 17 and IAS 40

The Board did not change its proposals regarding leases of land. Therefore:

- ❑ A lease of land and building(s) should be separated into two elements – lease of land and lease of building(s).
- ❑ A property interest held under an operating lease can be classified as investment property provided that the rest of the definition of investment property is met and the lessee uses the fair value model as set out in IAS 40.27-49.

A lessor will be required to capitalise and amortise over the lease term any incremental initial direct costs. The current IAS 17 option of immediate expensing will be eliminated.

Though commentators raised a number of other issues relating to IAS 17, the Board decided not to address any of them as part of the Improvements Project. It also decided not to consider, in the Improvements Project, whether to eliminate the choice in IAS 40 between the cost model and the fair value model.

### Improvements IAS 27

- ❑ **Exemption from presenting consolidated financial statements.** The Board agreed that where a partially owned subsidiary does not prepare consolidated financial statements, the approval required from the minority would be worded so that it applies where an objection from a minority shareholder is received.
- ❑ **Publicly traded.** Certain commentators requested clarification of the words “its securities are not publicly traded” and “in the process of issuing securities in public securities markets” used in conjunction with the above exemption. The Board agreed to develop more detailed explanations of “securities” and “publicly traded”.
- ❑ **Parent company financial statements.** The Board agreed to retain the proposed accounting for subsidiaries in parent company financial statements. Disclosure of the names of significant subsidiaries would be required in parent company financial statements.
- ❑ **Temporary control.** The Board concluded that extending the temporary control exemption beyond 12 months was not appropriate except where the sale of an acquired subsidiary was required by a competition authority and the necessary permission to sell was delayed beyond 12 months.
- ❑ **Undue cost and effort.** Some commentators expressed concern about the use of the words “undue cost and effort” and “impracticable” in standards. The Board agreed to develop explanations as to the intended meaning of these words.

### Improvements IAS 28

- ❑ **Venture capital organisations.** The Board reaffirmed that investments in associates by a venture capital organisation meet the definition of “held for trading” and the change in fair value of such investments should be reported in the income statement.
- ❑ **Long-term receivables.** The Board agreed that long-term receivables should be excluded from the investment in an associate unless the receivable is in substance part of the investment in the associate. It was noted that where the associate incurs losses, these would be used to reduce such receivables, which would then also be subject to the impairment requirements of IAS 39.
- ❑ **Timeliness of information.** If an investor is unable to obtain financial information for the associate that is within three months of the investor’s reporting date, the investor may not have “significant influence”. Therefore, the investor should consider measuring the investment at fair value with value changes reported in income.

The table below and on the three following pages summarises the status of the various projects that are on the agenda of the International Financial Reporting Interpretations Committee as of 31 December 2002.

**UPDATE OF IFRIC AGENDA ITEMS AND DISCUSSIONS – Page 1 of 4**

**Financial instruments - distributions at the discretion of the issuer**

- ☐ In deciding whether to classify an instrument as a liability or as minority interest in group financial statements, rights and obligations of all parties in the group are considered, not just the rights and obligations of the entity within the group that issued the instrument. So, for example, if a subsidiary issues an instrument and its parent agrees directly with the holders of the instrument additional terms (such as a guarantee) that could affect whether distributions are judged to be discretionary, those additional terms must be considered. The IFRIC agreed to ask the IASB to consider rewording IAS 32.17 to clarify this point as part of the project on Improvements to IAS 32.

**IAS 19 Employee benefits - limitation on recognition of the asset**

- ☐ A pension asset recognised by an employer is limited to the present value of any economic benefits available in the form of refunds from the plan and reductions in future contributions to the plan. An interpretation would provide guidance on measuring that present value. Accordingly, this issue would address the following questions about the asset ceiling test in IAS 19.58(b)(ii):
  1. How should the present value of any economic benefits available in the form of refunds to the entity from a defined benefit plan be calculated?
  2. How should the present value of any economic benefits available in the form of reductions in future contributions by an entity to a defined benefit plan be calculated?
- ☐ IFRIC noted an inconsistency in the definition of an asset in the IASB Framework (which requires an entity to have a right to the benefits from an asset) and in the basis for the asset ceiling in IAS 19 (which does not require the entity to have an absolute right but rather a likelihood of obtaining benefits). Because of this inconsistency, IFRIC decided not to issue an interpretation but, rather, to draw the issue to the Board's attention.

**Employee benefits: changes in employment benefits and actuarial assumptions**

- ☐ If an entity significantly increases the salaries of employees in return for decreasing their post-employment benefits, should that be accounted for as two separate transactions or as one change?

**Various revenue-recognition issues**

- ☐ **Framework – earning process vs. liability definition.** To what extent should revenue recognition be determined by (a) the notion of completion of an earning process or (b) the definition of a liability. IFRIC members generally agreed that under the IASB Framework, revenue recognition is driven by recognition of assets and liabilities (a balance sheet approach), whereas IAS 18 looks to the earning process as the driver of revenue recognition. IFRIC expects to provide its views to the IASB as input to IASB's project on liabilities and revenue recognition.
- ☐ **Sale of goods with right of return.** When can an entity reliably estimate returns, and how to determine whether (and to what extent) revenue should be recognised. In particular, how does a right of return interact with the revenue recognition condition that the buyer has received the significant risks and rewards of ownership.
- ☐ **Barter transactions.** Under IAS 18.12, revenue is not recognised when goods or services are exchanged or swapped for other goods or services of a similar nature and value. IFRIC is considering how that principle relates to recognition of revenue from barter transactions.
- ☐ **Multiple element revenue arrangements.** IFRIC considered principles that should be used to identify the unit(s) of account in a multiple element revenue arrangement. IFRIC discussed two models being used by the US EITF in its Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables. IFRIC agreed to continue to follow progress of the EITF. It will also continue to consider two other revenue recognition issues: loyalty programmes and sales with specified trade-in rights.

**Transactions with owners and common control transactions**

- ❑ IFRIC is discussing whether transactions with owners and common control transactions should be accounted for on a fair value basis or historical cost basis.
- ❑ Concepts discussed: (1) The reporting entity is distinct from its owners. (2) Equity is a residual interest in the assets of the entity after deducting all of its liabilities; measurement of equity depends on measurement of assets and liabilities.
- ❑ IFRIC plans to submit its views to the IASB rather than issue an interpretation.

**Financial instruments – economic compulsion**

- ❑ IFRIC is discussing whether and how economic compulsion should be considered in classifying a financial instrument as a liability or equity. The IFRIC is considering the IASB's proposal to delete the economic compulsion example contained in IAS 32.22.
- ❑ IFRIC agreed that an instrument whose legal form does not give rise to an obligation might implicitly obligate ('economically compel') an entity due to the way its terms and conditions operate. IFRIC will transmit its conclusions to the IASB as input to the IASB project to improve IAS 32.

**Linkage of transactions**

- ❑ Entities sometimes enter into two or more transactions or contracts where the accounting treatment varies depending on whether the transactions/contracts are accounted for separately or together. IFRIC is discussing whether, in some circumstances, it is necessary to look at the overall effect of the contracts, taken together, to determine the 'correct' accounting treatment.
- ❑ IFRIC has tentatively agreed on the following points:
  - It is necessary to consider all of the terms and conditions of an arrangement and their effect when determining the appropriate accounting treatment.
  - If a right or obligation is non-substantive – that is, it has no practical effect – it should have no effect on the accounting treatment.
  - When one contract (or feature of a contract) completely offsets another, the combination should be viewed as having no effect.
  - The form of a transaction does not affect whether transactions should be linked or the consequent accounting treatment. Similarly, the fact that rights and obligations are contained in two or more contracts as opposed to one should not affect the accounting treatment.
  - When a transaction is priced on off-market terms, this indicates that there is another feature or transaction that needs to be identified and that the transactions may need to be linked. However, it is not necessary that transactions are at off-market prices before linkage needs to be considered.
  - When preparing consolidated accounts, transactions with different companies in the same group may need to be linked when accounting for the combination from the perspective of the group. This reflects the basic principle of consolidation that group financial statements reflect transactions entered into by the various members of the group as those of a single economic entity.
  - When a Standard or Interpretation applies to two or more linked contracts in their entirety, that Standard or Interpretation should take precedence over the requirements set out above.

**Rights of use of assets**

- ❑ The issue is whether certain rights to use assets (for instance, in outsourcing arrangements) should be accounted for as assets under a finance lease. Three key questions are (1) whether the asset in the arrangement must be explicitly specified in the agreement, or can it be implicit; (2) must the right to use an asset be an exclusive right; and (3) can the asset be a component of a larger asset.
- ❑ IFRIC will develop an interpretation with examples that will clearly distinguish a lease from a service contract. Rights of use that result in derivatives or intangibles would be excluded. IFRIC will also consider adding to its agenda, as separate projects, related issues such as (a) guarantees inherent in take-or-pay contracts, (b) asset componentisation, and (c) the distinction between a lease and a derivative.
- ❑ The staff plans to send a pre-ballot draft to the members to be further discussed at the February 2003 IFRIC meeting. The draft would state that a contract should be considered a lease if all three of the following criteria met:
  - the arrangement depends on a specific item of property, plant, or equipment ('the asset')
  - the entity obtains control over that asset; and
  - the entity in substance pays for its right to use the asset and is obliged to pay whether or not it needs the asset.

### Employee Benefits – IAS 19: undiscounted vested benefits

- ❑ If benefits under a defined benefit plan are vested at the balance sheet date and payable when the employees leave the entity, the amount that would be payable if the employees left the entity at the balance sheet date (the vested benefit obligation) will usually be higher than the present value of the defined benefit obligation, which will be discounted to reflect the expected later date of payment.
- ❑ IFRIC is considering the following question: How should vested benefit obligations that exceed the present value of the defined benefit obligation be accounted for under IAS 19? In particular, can the liability recognised under IAS 19 be based on the undiscounted vested benefit?

### Derivatives on interests in subsidiaries, associates, and joint ventures

- ❑ An entity that has a subsidiary, associate, or joint venture may enter into a contract (such as a forward, or a put or call option) either to buy some of the shares in the investee that it does not already own or, alternatively, to sell some of the shares it already owns. How should such derivatives be accounted for?
- ❑ Key issues are (1) whether transactions between the majority owner of a subsidiary and the minority interest give rise to gains and losses and (2) equity vs. liability classification of contracts on an entity's own equity. IFRIC will consider whether to develop an interpretation or, alternatively, to provide input to the IASB for IASB's project on improvements to IAS 32 and IAS 39.
- ❑ IFRIC has discussed the Board's decisions in the Improvements Project to classify minority interest in equity and on classifying derivatives on own equity instruments as equity or assets/liabilities. IFRIC expressed concern about the implications of those decisions, particularly non-recognition of changes in the fair value of derivatives on interests in subsidiaries, and agreed to communicate its concerns to the IASB.

### Emission rights

- ❑ The issue is how to account for schemes that are based on a 'cap and trade' model whereby participants are allocated (typically by a government body) emissions rights equal to a 'cap' (that is, a target level of emissions) and are permitted to trade those emission rights.
- ❑ The staff has proposed that on receipt of the rights, the entity should recognise an asset gross of any liability. They further proposed that the asset should be classified as an intangible asset and that intangible assets tradable in an active market should be remeasured at each reporting date to fair value, with gains and losses recorded in profit and loss. An alternate proposal also discussed was that the asset could be classified as a financial asset as it is tradable and readily convertible into cash and could be analogised to a government bond. The majority of IFRIC supports the view that:
  - an asset should be recognised when the rights were received, and that it should be classified as an intangible asset;
  - the asset should initially be recognised at cost, if there was a cost, or at fair value if there was no initial cost;
  - the asset should not be subsequently remeasured at fair value; however they noted the staff's concerns around potential mismatches between recording the asset at cost and remeasuring to fair value at each reporting date any emission liabilities recognised under IAS 37;
  - when an asset is recognised, a liability should be recognised in the amount of the minimum obligation assumed by accepting the asset;
  - these would differ in each situation, and consequently the asset and liability would not necessarily be recognised initially at the same value. To the extent the initial values of the asset and liability differed, IFRIC believed the remaining credit should be treated as deferred income under IAS 20, Accounting for Government Grants and Disclosure of Government Assistance.

### Possible amendment of SIC 12

- ❑ The Board has recently begun a project on consolidation policies and practices, including their application to special purpose entities (SPEs). That project is likely to result in a replacement of both IAS 27 and SIC 12 in due course. The Board has asked IFRIC to consider whether an appropriate interim solution would be for IFRIC to make a limited amendment to SIC 12 to clarify that a "majority" of benefits or risks is intended to refer to exposure to the majority of the variability of expected economic outcome (rather than the absolute economic outcome).

### Non-cash dividends

- ❑ The issue is whether non-cash dividends should be measured at fair value or carrying amount.

### Decommissioning funds

- ❑ Some companies have obligations to decommission assets or for environmental rehabilitation that are recognised as provisions under IAS 37, Provisions, Contingent Liabilities and Contingent Assets. In some cases, the company contributes to a fund established to meet the costs of the decommissioning or environmental rehabilitation. The fund may be set up to meet the decommissioning costs of a single contributor or for several contributors. The initial discussion focused on the following four main accounting issues related to the contributor:
  1. Should such funds be consolidated by contributors? IFRIC has generally agreed that all the relevant factors should be considered to determine whether an entity applies IAS 27, 28, or 31 and all respective SIC interpretations, particularly SIC 12.
  2. If the funds are not consolidated, do they give rise to (a) a net asset or liability (the attributable fund assets offset by the decommissioning obligation) or (b) a separate asset (rights to fund assets) and a liability (the decommissioning obligation)?
  3. Sometimes, if the contributor becomes bankrupt and is unable to make its scheduled contributions, the future contributions of all other contributors are increased. If so, what is the nature of the potential additional liability that will arise on the bankruptcy of another contributor?
  4. If a separate asset is recognised under issue 2 above, what is the nature of that asset?

### IAS 37 - Changes in decommissioning liabilities

- ❑ The IFRIC is considering the accounting treatment for the following certain changes in decommissioning provisions: (a) changes in the discount rate as defined in paragraph 47 of IAS 37 and (b) changes in estimated cash flows. In particular, it is considering whether the effect of the changes should be capitalised or recognised in profit and loss.

### IAS 19 - Money purchase plans with a minimum guaranteed return

- ❑ This issue involves accounting for plans that have a stated contribution level but provide a minimum guaranteed return. Under IAS 19 these would technically be defined as defined benefit plans because of the minimum guarantee.

### IAS 19 – Multi-employer plan exemption

- ❑ The IFRIC is considering whether to provide guidance for determining how to apply the exemption criteria.

*You can download the three papers from the IOSCO web site: [www.iosco.org/](http://www.iosco.org/) or from the “Resources” page on our web site: [www.iasplus.com/resource/ref.htm](http://www.iasplus.com/resource/ref.htm)*

## IOSCO STATEMENTS OF PRINCIPLES ON DISCLOSURE, INDEPENDENCE, AND OVERSIGHT

The Technical Committee of the International Organization of Securities Commissions (IOSCO) has issued statements of principles to guide securities regulators in dealing with three critical areas necessary for investor confidence in securities markets. The principles describe essential features of regulatory systems requiring transparency and disclosure by listed entities; the independence of external auditors; and the need for public oversight of the audit function. The three IOSCO papers are:

- ❑ Principles for Ongoing Disclosure and Material Development Reporting by Listed Entities.
- ❑ Principles of Auditor Independence and the Role of Corporate Governance in Monitoring an Auditor’s Independence.
- ❑ Principles for Auditor Oversight.



*Except for administrative and personnel matters, all of these meetings are open to public observation. Registration forms are on IASB's web site.*

*IASB Foundation Trustees have not yet announced any 2003 meeting dates.*

## **UPCOMING MEETINGS OF IASB, SAC, AND IFRIC**

### **International Accounting Standards Board**

- ☐ 22-23 January, London
- ☐ 19-25 February (24-25 February: Meeting with the Standards Advisory Council), London
- ☐ 19-21 March, London
- ☐ 24 April-2 May (24-25 April: Meeting with National Chairs), London
- ☐ 21-23 May, London
- ☐ 16-20 June (19-20 June: Meeting with the Standards Advisory Council), Rome
- ☐ 23-25 July, London
- ☐ 17-23 September (22-23 September: Meeting with National Chairs), London
- ☐ 22-24 October, Toronto
- ☐ 17-21 November, (20-21 November: Meeting with the Standards Advisory Council), London
- ☐ 17-19 December, London

### **Standards Advisory Council**

- ☐ 24-25 February 2002, London
- ☐ 19-20 June, Rome
- ☐ 20-21 November, London

### **International Financial Reporting Interpretations Committee**

- ☐ 4-5 February, London
- ☐ 1-2 April, London
- ☐ 1-2 July, London
- ☐ 30-31 July, London
- ☐ 30 September-1 October, London
- ☐ 2-3 December, London

## **NEWS FROM THE UNITED STATES**

### **US GAO ISSUES REPORT ON RESTATEMENTS**

The United States General Accounting Office (GAO) has published a 262-page report on Financial Statement Restatements, Trends, Market Impacts, Regulatory Responses, and Remaining Challenges. The eight-month study identified 885 companies (including 689 publicly traded companies) who made a total of 919 restatements during the 5½ years ending in June 2002. The principal finding is that, while the number of restating companies continues to make up a small percentage of all publicly listed companies annually, the number of restatements due to accounting irregularities grew significantly during the 5½ years studied. "The proportion of listed companies on NYSE, Amex, and NASDAQ identified as restating their financial reports tripled from less than 0.89 percent in 1997 to about 2.5 percent in 2001 and may reach almost 3 percent by the end of 2002."

From January 1997 through June 2002, about 10% of all listed companies announced at least one restatement. Share prices of restating companies dropped by an average of 10% within one day after the restatement was announced.

Issues involving revenue recognition (misreported or nonreported revenue) accounted for almost 38% of the 919 announced restatements. Issues relating to improper recognition or capitalisation of costs and expenses accounted for another 16% of the restatements.

*The full text of the GAO report is available on our web site in two forms:*

*PDF file (5,270 kb)  
[www.iasplus.com/  
resource/gao0210.pdf](http://www.iasplus.com/resource/gao0210.pdf)*

*or*

*ZIP file of the PDF (3,008 kb)  
[www.iasplus.com/  
resource/gao0210.zip](http://www.iasplus.com/resource/gao0210.zip)*

## WILLIAM DONALDSON WILL HEAD THE US SEC

William Donaldson has been nominated to be the new chairman of the US Securities and Exchange Commission, replacing Harvey Pitt, who resigned amid questions relating to the SEC's effort to select candidates for the five-member Public Company Accounting Oversight Board. Mr. Donaldson co-founded the investment banking firm Donaldson Lufkin & Jenrette. He was also chairman and CEO of the New York Stock Exchange and of Aetna Inc.

## SEC STAFF PRESENTATIONS AT AICPA SEC CONFERENCE

Among the presentations by senior SEC staff people at the AICPA's annual Current SEC Issues conference that are relevant to the international accounting community are these:

*Mr. Cutler's remarks:*  
[www.sec.gov/news/speech/spch121202smc.htm](http://www.sec.gov/news/speech/spch121202smc.htm)

*Mr. Day's remarks:*  
[www.sec.gov/news/speech/spch121202jmd.htm](http://www.sec.gov/news/speech/spch121202jmd.htm)

*Mr. Day's remarks:*  
[www.sec.gov/news/speech/spch121302jmd.htm](http://www.sec.gov/news/speech/spch121302jmd.htm)

- ❑ **Remarks of Stephen M. Cutler, Director of the SEC Division of Enforcement.** Mr. Cutler noted that the SEC has the authority to bring enforcement actions, both in federal court and administratively, against accounting firms based on the conduct of individual partners, on matters other than independence violations. He suggested that while the Commission has been reluctant to do so in the past, it is likely to be more aggressive in this area in the future.
- ❑ **Remarks of Jackson M. Day, Acting Chief Accountant.** In a presentation titled Changing the Future, Mr. Day addressed the Sarbanes-Oxley Act; the new Public Company Accounting Oversight Board; standard setting; the SEC's willingness and interest in working with registrants to resolve issues on a timely basis; and what accountants can do to change the future and better serve the interests of investors. On the subject of standard-setting, Mr. Day said: "While I am on the issue of international accounting, I am going to say just one thing: If you are a single product domestic manufacturer whose customers only reside in the U.S. – and you do not believe that international accounting matters to you – you should come to the session tomorrow on international accounting." [See next item.]
- ❑ **Another presentation by Jackson M. Day, Acting Chief Accountant.** In a presentation titled International Developments: Convergence and You, Mr. Day said:

*Convergence of accounting standards is the centerpiece of the efforts to build a global financial reporting infrastructure. And, the desire for convergence of accounting standards is greater than ever. Achieving this would greatly aid cross-border investing and decision-making....*

*IAS will soon be applied in at least fifteen different countries in Europe and in other regions of the world. We recognize that achieving the right balance of sufficiently detailed principles and base implementation guidance is extremely important. Appropriate use of national and international interpretative bodies, such as the Emerging Issues Task Force in the U.S. and the International Financial Reporting Interpretations Committee, or IFRIC, is a critical element to the success of this effort. While not every question can be answered, there cannot be fifteen answers to a pervasive question as well. That would undermine the credibility of the system.*

*The SEC's regulation can be found at:*  
[www.sec.gov/rules/final/33-8099.htm](http://www.sec.gov/rules/final/33-8099.htm)

## FOREIGN ISSUERS IN US MUST FILE ELECTRONICALLY

New US rules requiring foreign private issuers and foreign governments to file most of their Securities Act and Exchange Act documents on EDGAR became effective 4 November 2002. EDGAR is the SEC's Electronic Data Gathering, Analysis, and Retrieval System.

FASB's press release is on our web site:  
[www.iasplus.com/pastnews/resource/fasb0210.pdf](http://www.iasplus.com/pastnews/resource/fasb0210.pdf)

The full proposal can be downloaded at [www.fasb.org](http://www.fasb.org)

## POSSIBLE US MOVE TO PRINCIPLES-BASED STANDARDS

The US Financial Accounting Standards Board has invited comment on a proposal for a principles -based approach to accounting standard setting. The proposal discusses how that approach might improve the quality and transparency of financial reporting and affect development of future standards. Comments are requested by 3 January 2003.

The proposal responds to concerns about the increase in the level of detail and complexity in accounting standards. Principles -based standards would focus on establishing general principles derived from the conceptual framework, reflecting the recognition, measurement, and reporting requirements for the transactions covered by the standards. The standards would provide few, if any, exceptions to the general principles and would limit additional guidance for applying the general principles to typical transactions, encouraging professional judgment in applying the general principles to other transactions specific to an entity or industry.

FASB held a roundtable discussion on the topic on 16 December 2002. Referring indirectly to International Accounting Standards, FASB Chairman Robert H. Herz stated:

*The FASB is committed to improving US financial accounting standards. Many believe that moving to broader, more principles-based accounting standards such as those used in other parts of the world would facilitate better reporting in the United States. Others, however, are concerned that a principles-based approach could reduce the comparability of financial information and leave too much room for judgment by companies and auditors.*

Link to Mr. Cutler's remarks:  
[www.sec.gov/news/speech/spch604.htm](http://www.sec.gov/news/speech/spch604.htm)

## SEC'S CHANGING APPROACH TOWARD ENFORCEMENT

While he did not address International Accounting Standards directly, SEC Enforcement Division Director Stephen M. Cutler's recent Remarks at the University of Michigan Law School address (among other things) accounting fraud, transformation of the accounting profession, and regulatory responses. An excerpt:

*Perhaps also inhibiting the Commission's effectiveness at deterring financial fraud, particularly by gatekeepers, is its historical reluctance to sue accounting firms and attorneys. Through the exercise of its prosecutorial discretion, the Commission generally has reserved suing both groups for only the most egregious cases. In the case of accounting firms, the rationale generally has been that it is unreasonable to expect a firm to control the actions of thousands of employees conducting audits nationwide. Instead, in the typical case involving wrongdoing by a single accountant, the Commission has pursued only the individual. This practice stands in contrast to the Commission's approach to similar fact patterns at regulated entities, like broker-dealers. For instance, when the Commission charges an individual broker for a securities violation, it is not uncommon to also charge the firm with which the broker is associated. This reluctance to charge accounting firms, as well as attorneys, may have had the unintended consequence of holding both groups to a lower standard rather than to the high standard their special roles demand....*

*Today, of course, it's a whole new ballgame.*

*For convenience, we have put the full text of the Sarbanes-Oxley Act on our web site:  
[www.iasplus.com/resource/usreform.pdf](http://www.iasplus.com/resource/usreform.pdf)*

*SEC rules and proposed rules can be found on their web site:  
[www.sec.gov/](http://www.sec.gov/)*

## **SARBANES-OXLEY ACT NEWS**

- ❑ The SEC held two interactive roundtable meetings on 17 December 2002 to discuss the international impact of its proposed rules on auditor independence and attorney conduct to be promulgated under the Sarbanes-Oxley Act of 2002.
- ❑ The SEC has proposed rules pursuant to the Sarbanes-Oxley Act that would:
  - ❑ Require auditors to retain specific types of records.
  - ❑ Require certain disclosures and reports by auditors and set conditions under which auditing firms would not be considered independent for purposes of performing audits of public company financial statements. Among other things, the proposed rules cover restricted services, partner rotation, approval of non-audit services by the audit committee, auditor communications with audit committees, and public disclosure of audit and non-audit fees and services.
- ❑ The SEC has proposed new rules concerning standards of professional conduct for attorneys who appear or practice before the Commission on behalf of an SEC registrant. The rules would apply to both in-house and outside counsel, including attorneys licensed, or otherwise qualified to practice, in foreign jurisdictions who appear and practice before the Commission.
- ❑ The SEC has proposed two new financial reporting rules to implement the Sarbanes-Oxley accounting reform legislation:
  - ❑ Disclosure of non-GAAP financial information (including 'pro forma' information).
  - ❑ MD&A disclosure about off-balance sheet arrangements, contractual obligations, and contingent liabilities and commitments.
- ❑ The SEC has proposed that both domestic and foreign registrants include the following new disclosures in their Exchange Act filings:
  - ❑ The number and names of the 'financial experts' serving on the company's audit committee and that they are independent of management, as determined by the company's board of directors.
  - ❑ Whether the company has adopted a code of ethics for its senior officers, or if not, why not; and any amendments to or waivers from the code.
  - ❑ A company would be required to file, in its annual report, an internal control report of management stating:
    - management's responsibilities for establishing and maintaining adequate internal controls and procedures for financial reporting for the company,
    - management's conclusions about the effectiveness of the company's internal controls and procedures for financial reporting as of the end of the company's most recent fiscal year, and
    - that the company's registered public accountant has attested to, and reported on, management's evaluation of the company's internal controls and procedures for financial reporting.

*Link to the full text of Mr. Herz's comments:  
[www.iasplus.com/resource/herz0211.pdf](http://www.iasplus.com/resource/herz0211.pdf)*

## **WIDE-RANGING POLICY ADDRESS BY FASB CHAIRMAN**

In a major policy address at the Annual Current Financial Reporting Issues Conference of Financial Executives International in November 2002, FASB Chairman Robert H. Herz addressed many aspects of convergence of US GAAP and IFRS and the implications of a principles-based approach to setting accounting standards in the United States. He also outlined the FASB's current examination of whether modifications in the current structure of US accounting standard setting – including the roles, composition, and processes of the EITF and AcSEC – would improve the overall quality and effectiveness of US accounting standard setting.

On our website

[www.iasplus.com](http://www.iasplus.com), we maintain a comprehensive summary of IAS-related events taking place in Europe. Presented here are the key events of the past three months.

Euronext press release:

[www.iasplus.com/  
resource/euronext0212.pdf](http://www.iasplus.com/resource/euronext0212.pdf)

Download the report:

[www.iasplus.com/  
resource/highlevel.pdf](http://www.iasplus.com/resource/highlevel.pdf)

## NEWS ABOUT IFRS IN EUROPE

### EU AMBASSADOR TO THE UNITED STATES URGES GLOBAL ACCOUNTING STANDARDS

In a Speech at the European Institute in Washington in December 2002, Guenter Burghardt, European Union Ambassador to the United States, spoke about Creating a Transatlantic Securities Market: EU/US Regulatory Convergence. He supported a market in which investors on both sides of the Atlantic have access to adequate and timely information based on one set of principles-based global accounting rules:

*The EU will adopt International Accounting Standards from 2005, greatly reducing the burdens and costs on companies looking to do business cross-border on the basis of accounts prepared in accordance with high quality international standards. However, those looking to do business in the US will still be faced with the costs of reconciling those accounts to US GAAP standards.*

### EURONEXT REQUIRES DISCLOSURE OF THE EFFECT OF IFRS BY MID-2004

Euronext (the pan-Europe stock exchange combining the exchanges in Amsterdam, Brussels, Lisbon, and Paris) has published rules for transition to IFRS/IAS by its Next Prime and Next Economy listed companies. No financial information that complies with IFRS will be required for 2003. However, a company that has not yet adopted IFRS as of the start of 2004 or earlier will be required to disclose, in its second quarter financial statements for 2004 at the latest, information on the effects of applying IFRS on its opening balance sheet of the year 2004 and on its performance.

### EU IFRS ENDORSEMENT PROCESS HAS BEGUN

Adoption of an accounting regulation in European Union in June 2002 did not, of itself, legally require the 7,000 European listed companies to follow IFRS starting in 2005. Two further steps are required: (1) translation of IFRS into the European languages and (2) endorsement of the IFRS by a new Accounting Regulatory Committee established by the European Commission to give them legal standing in Europe. Both the translation and endorsement processes are now under way. The EU has indicated that their goal for completing both steps is Spring 2003.

### PROGRESS TOWARD A SINGLE PROSPECTUS IN EUROPE

The Council of Finance Ministers from the 15 EU member states has approved a Directive that would create a single prospectus to be used throughout Europe.

### REPORT ON EUROPEAN COMPANY LAW IS PUBLISHED

The European Commission's High-Level Group of Company Law Experts has published its final report on A Modern Regulatory Framework for Company Law in Europe. The report covers such corporate governance issues as the role of non-executive and supervisory directors; management remuneration; responsibility of management for financial statements; and auditing practices. The Commission is considering the presentation of an action plan for company law in early 2003. Among the recommendations:

- ☐ The costs of all share incentive schemes should be properly reflected in the annual accounts.
- ☐ The responsibility for supervision of the audit of the company's financial statements should lie with a committee of non-executive or supervisory directors who are at least in the majority independent.
- ☐ The Commission should review the Seventh Company Law Directive's provisions in the light of the need for better financial disclosure, and consider whether improvements can be made consistent with International Accounting Standards.



*You can download the CESR  
paper from our web site:  
[www.iasplus.com/  
resource/cesr0210.pdf](http://www.iasplus.com/resource/cesr0210.pdf)*

## **CESR PAPER ON ENFORCEMENT OF ACCOUNTING STANDARDS IN EUROPE**

The Committee of European Securities Regulators (CESR) has issued a consultation paper that contains a Proposed Statement of Principles (SOP) of Enforcement of Accounting Standards in Europe. The SOP will be used for developing standards of best practice on enforcement among CESR members. Principle 1 set out in the SOP states that “competent independent administrative authorities set up by member States should have the ultimate responsibility for enforcement of compliance of the financial information provided by the companies identified by Principle 7 [listed companies and those applying for listing] with the reporting framework.” This seems to support the establishment of oversight boards in EU member States similar to the PCAOB set up in the United States by the Sarbanes-Oxley Act of 2002. The CESR requests comments by 15 January 2003.

The CESR is composed of high-level representatives of the national public authorities in the field of securities regulation. Before the European Commission created the CESR in June 2001, the European securities regulators had cooperated in an organisation called the Forum of European Securities Commission (FESCO). All of the standards and work of FESCO have been taken over by the CESR.

## **NATIONAL ADOPTIONS OF IAS**

*Link to the press release of the  
Institute of Chartered Accountants  
of New Zealand:  
[www.iasplus.com/  
resource/nzifrs0211.pdf](http://www.iasplus.com/resource/nzifrs0211.pdf)*

### **LISTED COMPANIES IN NEW ZEALAND WILL USE IFRS STARTING IN 2007**

New Zealand’s Accounting Standards Review Board (ASRB) – the government appointed body that approves accounting standards – has announced that it is recommending to government that listed issuers be required to comply with International Financial Reporting Standards by 2007. They would have the option to adopt IFRS earlier, say by 2005. The ASRB also reaffirmed its policy of aiming for a single set of standards to apply to both the private and public sectors. The ASRB is currently consulting with government, the stock exchange, the Securities Commission, the Office of the Auditor General, and others on their decision. Australia has also announced a plan to move to IFRS (by 2005), and ASRB is working with Australia regarding the transitional issues.

*You will find the past two years’  
issues of Deloitte Touche  
Tohmatsu Australian Accounting  
Alerts here:  
[www.iasplus.com/  
au/alerts.htm](http://www.iasplus.com/au/alerts.htm)*

### **MORE ON ADOPTION OF IFRS IN AUSTRALIA**

We have posted to our web site [www.iasplus.com](http://www.iasplus.com) a new Australia Accounting Alert that explains the planned adoption of International Accounting Standards as Australian GAAP for reporting periods beginning on or after 1 January 2005. Because of the need to present prior period comparatives, the transitional calculations will commence for reporting periods beginning on or after 1 January 2004. A few Australian accounting standards do not have an international counterpart, including concise financial reports, general and life insurance, and extractive industries. Those are expected to be retained until IASB standards are developed.

### **TANZANIA TO REQUIRE IFRS IN 2004 FOR LISTED COMPANIES**

All listed companies and non-listed international companies in Tanzania will be required to prepare their financial statements using International Financial Reporting Standards starting in 2004. Other companies will continue to use Tanzanian GAAP, which is generally modelled along IFRS lines.

### **UKRAINE REQUIRES IFRS IN 2003 FOR ALL COMPANIES**

All companies in Ukraine will be required to prepare their financial statements using International Financial Reporting Standards starting in 2003. Previously, only banks in Ukraine were required to follow IFRS.

## PUBLICATIONS FROM DELOITTE TOUCHE TOHMATSU

*All of the back issues of our IAS Plus Newsletter can be found at:  
[www.iasplus.com/iasplus/iasplus.htm](http://www.iasplus.com/iasplus/iasplus.htm)*

*You can find all of the editions of Accounting Roundup here:  
[www.iasplus.com/country/usa.htm](http://www.iasplus.com/country/usa.htm)*

*Link to our web site's publications page:  
[www.iasplus.com/dttpubs/pubs.htm](http://www.iasplus.com/dttpubs/pubs.htm)*

*You can find our model financial statements here:  
[www.iasplus.com/fs/fs.htm](http://www.iasplus.com/fs/fs.htm)*

*Our comparison of IAS and US GAAP is also available on our web site's publications page:  
[www.iasplus.com/dttpubs/pubs.htm](http://www.iasplus.com/dttpubs/pubs.htm)*

*Link to our web site's publications page:  
[www.iasplus.com/dttpubs/pubs.htm](http://www.iasplus.com/dttpubs/pubs.htm)*

### IAS PLUS NEWSLETTER: YEAR 2002 IN REVIEW

We published a special Year 2002 in Review issue of IAS Plus. You can download a copy on our web site [www.iasplus.com](http://www.iasplus.com).

### ACCOUNTING ROUNDUP: YEAR 2002 IN REVIEW

Accounting Roundup is a bimonthly newsletter published by Deloitte & Touche (US) and available on our web site [www.iasplus.com](http://www.iasplus.com). The Year 2002 in Review issue of Accounting Roundup summarises all of the 2002 issues of the newsletter, updating the stories where appropriate and adding links to locations where additional information can be found on each topic.

### PRACTICAL GUIDE TO IFRS IS PUBLISHED

Deloitte Touche Tohmatsu has published the third edition of International Financial Reporting Standards: A Practical Guide. This 236-page book provides practical guidance for applying IFRS in preparing financial statements. It enables readers to see at a glance what their financial statements would look like, provides a quick summary of the standards and interpretations, and details the numerous disclosure requirements in an easy-to-check tabular format. You can download a copy at [www.iasplus.com](http://www.iasplus.com). The guide is also available in an abbreviated version without the summaries of standards and interpretations (just model statements and checklist).

### UPDATED IFRS MODEL FINANCIAL STATEMENTS AND DISCLOSURE AND PRESENTATION CHECKLIST

We have updated our Model Financial Statements and Presentation and Disclosure Checklist to reflect International Financial Reporting Standards and Interpretations effective for 2002.

### CHINESE TRANSLATION OF IFRS / PRC-GAAP COMPARISON

We have published the Chinese translation of **GAAP Differences in your Pocket: IAS and GAAP in the People's Republic of China**. This booklet identifies and explains differences between International Financial Reporting Standards and Chinese GAAP. It also includes a comprehensive foreword that reviews the development of financial reporting standards in China. You can download both the Chinese and English versions on our web site [www.iasplus.com](http://www.iasplus.com). We are pleased to grant permission to accounting educators and students to make copies of those publications for educational use.

### QUALITY OF FINANCIAL POSITION

Deloitte Touche Tohmatsu has published **Quality of Financial Position: The Balance Sheet and Beyond**, the third in our series of booklets on Integrity and Quality intended to help members of management, audit committees, boards of directors, and others better understand and assess key accounting, business, and other issues that companies currently face. This booklet reviews many of the qualitative and quantitative factors that influence a company's financial position, including factors that may not necessarily be evident from the financial statements themselves. You can download it from our web site [www.iasplus.com](http://www.iasplus.com).

## ACCOUNTING STANDARDS UPDATE IN THE ASIA-PACIFIC REGION

### AUSTRALIA

Contact: *Bruce Porter*  
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In November 2002, the Australian Accounting Standards Board (AASB) issued AASB 1020B, Amendments to Accounting Standard AASB 1020 and Australian Accounting Standard AAS 3. This amendment defers the operative date of AASB 1020/AAS 3, Income Taxes, to periods beginning on or after 1 January 2005.

In addition, the AASB recently issued the following Exposure Drafts:

- ☐ Exposure Draft ED 108, Request for Comment on IASB ED 2, Share-based Payment.
- ☐ Exposure Draft ED 109, Request for Comment on:
  - ☐ IASB ED 3, Business Combinations,
  - ☐ IASB ED of Proposed Amendments to IAS 36, Impairment of Assets, and IAS 38, Intangible Assets, and
  - ☐ AASB added material.

These Exposure Drafts are based on exposure drafts issued by the International Accounting Standards Board (IASB). In line with Australia adopting International Accounting Standards in 2005, the AASB expects to mandate the application of the proposed Standards for reporting periods beginning on or after 1 January 2005. However, ED 108 is likely to be partially applicable in relation to share-based payment transactions with employees (including directors) from 1 January 2004.

The Urgent Issues Group (UIG), a sub-committee of the AASB, issues Abstracts that give interpretations of existing AASB Accounting Standards. Since the last IAS Plus newsletter, the UIG has agreed on the following Consensuses, which will be subject to veto by the AASB:

- ☐ Recovery of Unfunded Superannuation of Universities (Proposed Abstract 51).
- ☐ Income Tax Accounting Under the Tax Consolidation System (Proposed Abstract 52).

The UIG has also agreed on a Proposed Appendix 3, Implementation Guidance under the 1989 Standard, for Abstract 39, Effect of Proposed Tax Consolidation Legislation on Deferred Tax Balances. This guidance addresses the scope of potential adjustments to deferred tax balances as a result of the implementation of the tax consolidation regime.

### CHINA

Contact: *Patrick Tsang*  
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Current accounting standards projects at the Ministry of Finance (MOF):

#### **Exposure draft already issued; final standard expected 2003:**

- ☐ Accounting for Government Grants and Assistance
- ☐ Presentation of Financial Statements
- ☐ Earnings per Share
- ☐ Segment Reporting
- ☐ Foreign Currency Translation
- ☐ Discontinuing Operations

#### **Both exposure draft and final standard expected 2003:**

- ☐ Business Combinations
- ☐ Consolidated Financial Statements
- ☐ Impairment
- ☐ Disclosure by Banks and Other Financial Institutions
- ☐ Disclosure and Presentation of Financial Instruments
- ☐ Agriculture
- ☐ Oil and Gas
- ☐ Other Extractive Industries (mining, etc.)
- ☐ Income Taxes
- ☐ Liquidation Accounting

In addition to the above accounting standards projects, MOF is also formulating an accounting system for small-sized enterprises.

## HONG KONG

Contact: *Stephen Taylor*  
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During the final quarter of 2002, the Hong Kong Society of Accountants (HKSA) issued the following documents:

- ☐ Interpretation 19, Intangible Assets–Web Site Costs (effective 15 October 2002). This Interpretation is identical to SIC 32 of the same title. Under the specific transitional provisions set out in INT 19, web sites that were previously recognised as assets but that do not meet the criteria for recognition under SSAP 29, Intangible Assets, should be derecognised from the effective date of the Interpretation. In contrast, web sites that were not previously recognised but would meet the criteria for recognition under SSAP 29 should not be recognised at the date when the Interpretation becomes effective;
- ☐ SSAP 36, Agriculture, which is based on IAS 41 of the same title. SSAP 36 is effective for accounting periods beginning on or after 1 January 2004, although earlier implementation is permitted; and
- ☐ an Exposure Draft for a Standard based on IAS 29, Financial Reporting in Hyperinflationary Economies. The deadline for comments is 30 January 2003

In addition, in line with its policy of convergence with IFRS, the Society has issued the following IASB Exposure Drafts for comment :

- ☐ ED 2, Share Based Payment; and
- ☐ ED 3, Business Combinations and related Exposure Draft of Proposed Amendments to IAS 36, Impairment of Assets, and IAS 38, Intangible Assets.

In relation to share-based payment, the proposed IFRS (which, it is proposed, would be adopted as a Hong Kong Standard with the same effective date as the IFRS) would introduce the first measurement rules in this area in Hong Kong. Although both the Listing Rules and SSAP 34, Employee Benefits, contain detailed disclosure requirements in relation to share options granted to directors and employees, there is currently no requirement to recognise a cost for such instruments. The deadline for submission of comments on ED 2 to the HKSA is 15 February 2003.

The proposals on Business Combinations are of significant interest in Hong Kong. Although the proposed abolition of the pooling of interests method of accounting will have no effect, since that method is already prohibited in Hong Kong other than in the circumstances of qualifying group reconstructions, the proposals for revisions to the rules for amortisation of goodwill, negative goodwill, and intangible assets would result in significant changes to Hong Kong GAAP. In addition to the matters raised for comment by the IASB, the HKSA has identified one item specific to Hong Kong relating to the transitional arrangements for goodwill and negative goodwill on which they invite comment.

As permitted by the transitional provisions set out in the current SSAP 30, Business Combinations, some entities continue to carry goodwill and negative goodwill arising on business combinations before 1 January 2001 in reserves (equity). Because of the HKSA's desire for convergence with IFRS, and for consistency of accounting treatment between entities, they propose that all goodwill in reserves should be reinstated on the balance sheet at its carrying amount at the date of adoption of the new standard. Negative goodwill held in reserves will be transferred to retained earnings.

The deadline for submission of comments on ED3 to the HKSA is 15 March 2003.

The Financial Accounting Standards Board (DSAK) of the Indonesian Institute of Accountants is continuing its policy of harmonising Indonesian Financial Accounting Standards (PSAK) with IFRS.

Exposure drafts issued and outstanding are as follows:

- ☐ Revision to PSAK 8, Events after the Balance Sheet Date. Issued in July 2002. This standard would replace that portion of PSAK 8, Contingencies and Events after the Balance Sheet Date, that addresses events after the balance sheet date. The portion of PSAK 8 that addresses contingencies is replaced by PSAK 57, Estimated Liabilities, Contingent Liabilities, and Contingent Assets. In preparing this exposure draft, DSAK referred to IAS 10 (Revised 1999), Events after Balance Sheet Date.
- ☐ Limited Revision to PSAK 58, Discontinuing Operations. Issued in August 2002. The revision to PSAK 58 is limited to paragraph 40 on presentation of disclosures.
- ☐ Revision to PSAK 16, Fixed Assets. Issued in August 2002. This exposure draft would replace PSAK 16, Fixed Assets and Other Assets, particularly regarding accounting treatment for revaluation of fixed assets. In this exposure draft, the accounting treatment for fixed assets is harmonised with other PSAKs such as:
  - ☐ PSAK 22, Accounting for Business Combinations.
  - ☐ PSAK 26 (Revised 1997), Borrowing Costs.
  - ☐ PSAK 46, Accounting for Income Tax.
  - ☐ PSAK 48, Impairment of Assets.
  - ☐ PSAK 57, Estimated Liabilities, Contingent Liabilities, and Contingent Assets.

In preparing this exposure draft, DSAK referred to IAS 16 (Revised 1998), Property, Plant and Equipment, and local regulations on related matters.

In addition, another board – known as The Central and Regional Governmental Accounting Standards Committee (KSAP) – was established under a decree of the Minister of Finance to develop governmental accounting standards. KSAP issued the following exposure drafts in October 2002:

- ☐ Conceptual Framework for Governmental Accounting.
- ☐ Governmental Accounting Standards (PSAP) 1, Presentation of Financial Statements.
- ☐ PSAP 2, Budget Realisation Statements.
- ☐ PSAP 3, Cash Flow Statements.

In preparing the above exposure drafts, KSAP referred to sound international practices, considered the specific situation in Indonesia, including regulations, accounting practices, and human resources, and a transition period to tolerate the preparedness of reporting entities. Specifically, KSAP referred to:

- ☐ International Public Sector Accounting Standards (IPSAS) of IFAC.
- ☐ PSAK.
- ☐ Governmental Accounting Standards developed by the US Governmental Accounting Standards Board.
- ☐ Financial Accounting Standards developed by the US Financial Accounting Standards Board.



**JAPAN**Contact: *Kunio Kishino**kunio.kishino@tohmatu.co.jp*

The following accounting and auditing standards and related publications were issued in Japan during the second half of 2002:

Issued (2002)	Issuer*	Document Description
25 Sept.	ASBJ	Financial Accounting Standard, No. 2, Accounting Standard for Earnings Per Share
25 Sept.	ASBJ	Financial Accounting Standards Implementation Guidance No. 4, Implementation Guidance for Accounting Standard for Earnings Per Share
25 Sept.	ASBJ	Financial Accounting Standards Implementation Guidance No. 5, Implementation Guidance for Accounting Standard for Treasury Stock and Reduction of Legal Reserves (No. 2)
9 Sept.	ASBJ	Report of Practical Issues No. 5, Temporary Treatment of Accounting for Tax Effects to Be Applied Under Consolidated Tax Return System (No. 1)
9 Sept.	ASBJ	Report of Practical Issues No. 6, Practical Treatment of Creditor's Accounting for Debt-to-Equity Swap Transactions
9 Sept.	BADC	Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets
9 Sept.	BADC	Opinion Concerning Revision of Auditing Standards for Semi-Annual Financial Statements (Exposure Draft)
11 July	JICPA	Auditing Standards Committee Report No. 20 (Interim Report), Assessment of Control Risk
11 July	JICPA	Auditing Standards Committee Report No. 21 (Interim Report), Sufficient and Appropriate Audit Evidence
29 July	JICPA	Auditing Standards Committee Report No. 22 (Interim Report), Auditor's Consideration of Going Concern Assumption
29 July	JICPA	Auditing Standards Committee Report No.23 (Interim Report), Understanding of Business and Internal and External Management Environments
3 Sept.	JICPA	the revision of Auditing Standards Committee Report No. 1 (Interim Report), Analytical Procedures
3 Sept.	JICPA	Revision of Auditing Standards Committee Report No. 13 (Interim Report), Audits of Accounting Estimates
17 Sept.	JICPA	Revision of Accounting Committee Report No. 14, Practical Guidelines Concerning Accounting for Financial Instruments
6 Nov.	JICPA	Auditing Committee Report No. 74, Disclosures Concerning Going Concern Assumption
6 Nov.	JICPA	Revision of Auditing Standards Committee Report No. 9 (Interim Report), Sample Tests
6 Nov.	JICPA	Revision of Auditing Standards Committee Report No. 14 (Interim Report), Use of Work of Specialists
6 Nov.	JICPA	Revision of Auditing Standards Committee Report No. 19 (Interim Report), Confirmations
*ASBJ = Accounting Standards Board of Japan BADC = Business Accounting Deliberation Council JICPA = Japanese Institute of Certified Public Accountants		

## SINGAPORE

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The Singapore government has issued Companies (Accounting Standards) Regulations 2002. The regulations require all Singapore-incorporated companies to follow Singapore Financial Reporting Standards (FRS) approved by the new Council on Corporate Disclosure and Governance (CCDG) starting 1 January 2003. With few exceptions, the CCDG has adopted existing IAS as Singapore FRS. Further, CCDG has said that FRS will be “closely modelled after the International Accounting Standards and International financial Reporting Standards issued by the International Accounting Standards Board”.

The following exposure drafts of proposed standards were issued:

- ☐ ED/FRS 2, Share-based Payment (ED/IFRS 2).
- ☐ ED/FRS 3, Business Combinations (ED/IFRS 3).

The following exposure draft of proposed standard issued in 2000 is still outstanding:

- ☐ ED/SAS 40, Investment Property (IAS 40).

The following exposure draft of proposed standards issued in 2002 are still outstanding:

- ☐ ED/SAS 47, Proposed Improvements to Statements of Accounting Standards.
- ☐ ED/SAS 48, Proposed Amendments to SAS 32 (IAS 32) Financial Instruments: Disclosure Presentation and SAS 33 (IAS 39) Financial Instruments: Recognition and Measurement.
- ☐ ED/FRS 1, First-time Application of Financial Reporting Standards (ED/IFRS 1).

The following exposure drafts of proposed Interpretations issued in 2001 are still outstanding:

- ☐ ED/INT 21, Reporting Currency – Measurement and Presentation of Financial Statements under SAS 20 (IAS 21) and SAS 38 (IAS 29) (SIC 19).
- ☐ ED/INT 22, Classification of Financial Instruments – Contingent Settlement Provisions (SIC 5).
- ☐ ED/INT 28, Reporting Currency - Translation from Measurement Currency to Presentation Currency (SIC 30).

The revision to the following standard relating to the term “same investment”, which was operative for annual financial statements covering periods beginning on or after April 1, 2003 has been deferred indefinitely:

- ☐ SAS 25, Accounting for Investments (IAS 25).

## TAIWAN

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The Accounting Research and Development Foundation (ARDF) of Taiwan has revised SFAS 1, The Framework of Financial Accounting Concepts and Financial Report Preparation, in the fourth quarter of 2002. The revised standard is effective for accounting periods ending on or after 31 December 2003. In an effort to harmonise Taiwan Accounting Standards with International Financial Reporting Standards, this revision is based on the IASC Framework and intended to serve as a guide to ARDF in developing accounting standards and as a guide to resolve accounting issues that are not addressed directly in the Statements of Financial Accounting Standards in Taiwan.

## THAILAND

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The Institute of Certified Accountants and Auditors of Thailand (ICAAT) has issued a total of 56 accounting standards of which 29 standards are currently effective, 9 standards are not yet required by Thai law, and 18 standards have been superseded.

Under the Accountancy Act B.E. 25434, Thai Accounting Standards (TAS) must be approved by the Ministry of Commerce in Thailand (MOC) and placed into law before companies are required to adopt such standards.

In December 2001, the ICAAT issued an announcement that exempted non-public companies from adopting the following accounting standards:

- ☐ TAS 24, Segment Reporting
- ☐ TAS 25, Cash Flows
- ☐ TAS 36, Impairment
- ☐ TAS 44, Consolidation
- ☐ TAS 45, Equity Accounting
- ☐ TAS 47, Related Parties
- ☐ TAS 48, Financial Instruments

Non-public companies at their option may elect to voluntarily adopt these accounting standards for financial reporting purposes.

The Department of Commercial Registration has introduced new formats for financial statements under the Accountancy Act. These new formats are effective for accounting periods subsequent to December 31, 2001.

The Board of Supervision of Audit Practices has requested that the ICAAT, the Securities and Exchange Commission (SEC), and the Bank of Thailand (BOT) work together to issue clarifications regarding TAS No. 34, Troubled Debt Restructuring, and the SEC's proposals to use fair value of collateral as the recoverable value of debt restructured, the usage of the cost of funds as the discount rate used to present value future cash flows, and as an alternative allow reporting entities to use the original contract rate as a discount rate. Although, the TAS No. 34 was effective as of January 1, 2002, legal adoption of this accounting standard under the Accountancy Act that was scheduled for September 1, 2002 has not been finalised.

During 2002, the ICAAT issued a draft accounting standard relating to Agriculture. The exposure draft was based on IAS No. 41, Agriculture.

The ICAAT has also drafted guidelines relating to securities borrowing and lending activities and short sales of securities. The draft guidelines were based on TAS 36, and on FASB Statements of Financial Accounting Standards (SFAS) No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings, and No. 114, Accounting by Creditors for Impairment of a Loan.

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