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IASC NEWS

The IASC Trustees have announced the membership of the restructured International Accounting Standards Board (see page 18).

The old Board was busy in its last months, approving a final Standard, IAS 41 on *Agriculture*, and limited revisions to three existing Standards: IAS 12, *Income Taxes*, IAS 19, *Employee Benefits*, and IAS 39, *Financial Instruments: Recognition and Measurement*. In addition, the old Board approved a transition report of issues for the new Board to consider and published an issues paper on financial reporting in the extractive industries.

IASC's Standing Interpretations Committee has also been busy, with two final Interpretations (SIC 19 on reporting currency and SIC 24 on earnings per share) and two proposals (SIC D26 on results of incidental operations and SIC D27 on lease and leaseback).

Reminder: IAS 10, 22, 36, 37, and 38 took effect for calendar year 2000 financial statements, and IAS 12, 19, 39, and 40 take effect in 2001.

GAAP 2000

A new international survey comparing national accounting rules in 53 countries to IAS has been published jointly by the large accounting firms. The study looks at 60 key accounting measures. The report can be found at: <http://www.ifad.net>.

G4+1

In this issue of **IAS PLUS**, we have included a section on the G4+1 group of accounting standard-setters – Australia, Canada, New Zealand, United Kingdom, and United States, with IASC as observers. The G4+1 is at the cutting edge of key issues such as stock compensation (their reports favour expense recognition), leases (capitalise all of them), business combinations (abolish pooling of interests), joint venture accounting (prohibit proportionate consolidation), and new basis measurement (whether a parent's cost basis for the assets and liabilities held by subsidiaries that it controls should be "pushed down" to the subsidiary's own books).

JOINT WORKING GROUP ON FINANCIAL INSTRUMENTS

IASC and a group of national standard-setters have published for comment the proposals of a Joint Working Group on Financial Instruments. The proposals call for measuring all financial assets and liabilities at fair value, with fair value changes in net income, and no hedge accounting at all.

EUROPEAN COMMISSION

One of 10 "quantum leap" priorities announced by the EC in November to achieve a single financial market in Europe making IASC Standards mandatory for all listed European companies by 2005. That proposal was endorsed by Council of European Economic and Finance Ministers of the 15 European states. In January 2001, EC Internal Market Commissioner Frits Bolkestein announced that the Commission intends to directly impose IAS for European listed companies via regulation, rather than seek new legislation.

IAS PLUS WEB SITE

Our new site is up and running, though still in an early stage of development. Please check it out at <http://www.iasplus.com> and give us suggestions for improvement. We plan to include the latest IASC and SIC news, summaries of all proposed and final Standards and Interpretations, updates on ongoing projects, and reference materials. Also there are links to other useful web sites.

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RECENT IASC STANDARDS

International Accounting Standards are issued on approval of at least 12 of the 16 IASC Board members. Proposed Standards are first published for comment, and for larger projects a discussion paper is issued for comment before the proposal.

Five new or revised IAS came into effect in 2000: IAS 10, 22, 36, 37, and 38. Two others take effect in 2001: IAS 39, and 40. Most companies will be significantly affected by 36 (Impairment), 37 (Provisions), 38 (Intangibles), and 39 (Financial Instruments). And all of these will affect quarterly and half-yearly reports, not just annual reports. Deloitte Touche Tohmatsu can help with the transition.

EFFECTIVE DATES OF NEW IASC STANDARDS		
	New IAS	Effective for Periods Beginning on or After
IAS 10	Events After the Balance Sheet Date*	1 January 2000
IAS 22	Business Combinations*	1 July 1999
IAS 36	Impairment of Assets*	1 July 1999
IAS 37	Provisions, Contingent Liabilities and Contingent Assets*	1 July 1999
IAS 38	Intangible Assets*	1 July 1999
IAS 39	Financial Instruments: Recognition and Measurement*	1 January 2001 (financial years beginning on or after)
IAS 40	Investment Property*	1 January 2001
IAS 41	Agriculture**	1 January 2003
IAS 12, 19, and 39	Limited Revisions to IAS 12, 19, and 39 and Other Related Standards**	1 January 2001

*This new IAS was summarised in **IAS PLUS**, October 2000 (still available at <http://www.iasplus.com>).

This new IAS is summarised in this issue of **IAS PLUS.

IAS 41 applies to livestock, crops, orchards, forests, vineyards, and nurseries, among other kinds of agricultural activity. It requires that all living plants and animals be measured at fair value, with value changes in net profit or loss, unless it is impossible to make a reliable estimate of fair value.

IAS 41, AGRICULTURE

At its meeting in December, the IASC Board approved IAS 41, *Agriculture*, the last Standard that will be promulgated by the “old” IASC Board. Because it requires fair value accounting for biological assets – a major change for many agricultural enterprises – IAS 41 has a relatively long phase-in period. It will take effect for periods beginning on or after 1 January 2003, though earlier application is encouraged.

Among the key provisions of IAS 41:

- ❑ Agriculture is the management by an enterprise of the biological transformation of biological assets (living animals and plants) to yield agricultural produce. Thus, agriculture ends at the point of harvest.
- ❑ All biological assets should be measured at fair value minus expected point-of-sale costs.
- ❑ Agricultural produce at the point of harvest should be measured at fair value minus expected point-of-sale costs.
- ❑ IAS 41 presumes that fair value can be measured reliably. However, that presumption can be rebutted for a particular asset if market-based prices are not available and there is no other way to make a reliable value estimate, in which case that asset is measured at cost less accumulated depreciation and impairment losses.

IAS 41, AGRICULTURE, continued

- ❑ The change in fair value of biological assets during a period is reported in net profit or loss.
- ❑ The quoted price in an active market in the intended location of sale is the best estimate of fair value. If an active market does not exist, IAS 41 provides guidance for estimating fair value.
- ❑ Some contracts for the sale of biological assets or agricultural produce are not within the scope of IAS 39, *Financial Instruments: Recognition and Measurement*, because the enterprise expects to deliver the commodity, not cash. Under IAS 41, such contracts are measured at fair value until the biological assets are sold or the produce is harvested.
- ❑ The change in fair value of biological assets is part physical change (growth, etc.) and part unit price change. IAS 41 encourages but does not require separate disclosure of the two components.
- ❑ Fair value measurement stops at harvest. Processing of the produce after harvest (for instance, making wine from grapes) is outside of the scope of IAS 41. Other IASs, such as IAS 2, *Inventory*, apply.
- ❑ For agricultural land, follow IAS 16 or, if it is investment property, IAS 40. Crops and trees are agricultural assets separate from the land.
- ❑ Unconditional government grants received in respect of biological assets measured at fair value are reported as income when the grant becomes receivable.

On adoption of the new Standard, remeasurement to fair value will be accounted for as a change in accounting policy under IAS 8. IAS 8 allows a benchmark treatment of retrospective restatement (unless the adjustment relating to prior periods is not reasonably determinable) and an allowed alternative of including the cumulative effect of the change in net profit or loss but with supplemental prior period information on a retrospectively restated basis (again, unless prior period amounts are not reasonably determinable).

These fairly minor amendments to existing Standards address the income tax consequences of dividends, pension plan assets, and a few technical application issues on financial instruments. They were proposed in Exposure Drafts E66, E67, and E68, and a large majority of respondents supported revisions.

LIMITED REVISIONS TO IAS 12, 19, AND 39

In November, IASC published limited revisions to three International Accounting Standards; IAS 12, *Income Taxes*, IAS 19, *Employee Benefits*, and IAS 39, *Financial Instruments: Recognition and Measurement*. The revisions to IAS 39 resulted in consequential changes to IAS 27, *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*, IAS 28, *Accounting for Investments in Associates*, IAS 31, *Financial Reporting of Interests in Joint Ventures*, and IAS 32, *Financial Instruments: Disclosure and Presentation*. The revisions were set out in a combined publication that is not itself a numbered IASC Standard. They will be reflected directly in the Standards in IASC's 2001 Bound Volume and the next CD ROM update.

The revisions address the income tax consequences of dividends, pension plan assets, and technical application issues on financial instruments. The revisions had been proposed in Exposure Drafts E66, E67, and E68.

All of the revisions are effective for financial statements covering periods beginning on or after 1 January 2001. Earlier application is encouraged.

THE REVISIONS TO IAS 12

The revisions to IAS 12, *Income Taxes*, concern when and how to account for the income tax consequences of dividends.

In some jurisdictions, income taxes are payable at a higher or lower rate if part or all of the net profit or retained earnings is paid out as a dividend. In other jurisdictions, income taxes may be refundable if part or all of the net profit or retained earnings is paid out as a dividend.

If different tax rates apply depending on whether earnings are paid out as a dividend or retained, current and deferred taxes must be measured using the tax rate applicable to undistributed profits. Distribution or refund should not be assumed.

THE REVISIONS TO IAS 12, continued

The accounting issue is whether to assume a distribution or refund that has not occurred but that is deemed probable. The revision to IAS 12 says no, such a distribution or refund should not be assumed. Therefore, current and deferred tax assets and liabilities are to be measured using the tax rate applicable to undistributed profits.

The revision to IAS 12 also clarifies that the income tax consequences of dividends are recognised when a liability to pay the dividend is recognised, and, in most cases, included in net profit or loss for that period. Further, withholding taxes on dividends paid or payable to tax authorities on behalf of shareholders are charged to equity as a part of the dividends.

As amended in 1999, IAS 10, *Events after the Balance Sheet Date*, requires disclosure, and prohibits accrual, of a dividend that is proposed or declared after the end of the reporting period but before the financial statements are authorised for issue. The revision to IAS 12 requires disclosure of the tax consequences of such dividends as well as disclosure of the nature and amounts of the potential income tax consequences of dividends.

The old definition of pension plan assets excluded assets that will be reimbursed to the employer when the employer has paid benefits directly to the employees. The revised definition includes such assets. The definition of plan assets is critical because plan assets reduce the unfunded pension obligation that the employer reports as a liability.

THE REVISIONS TO IAS 19

IAS 19, *Employee Benefits*, was revised to broaden the definition of plan assets to include not only assets held by a legally-separate employee benefit fund but also:

- ❑ assets that are returned to the reporting enterprise to reimburse it for employee benefits already paid, and
- ❑ qualifying insurance policies whose proceeds can be used only to fund employee benefits under a defined benefit plan and are not available to the reporting enterprise's own creditors, even in bankruptcy, and cannot be paid to the reporting enterprise unless the plan is overfunded or to reimburse for plan-related costs.

E67 had not proposed to include the qualifying insurance policies in plan assets, but they are included in the revisions as adopted because those plans have similar economic effects to funds whose assets qualify as plan assets under the revised definition.

The revisions also introduce recognition and measurement requirements for certain reimbursements of employee benefits, including reimbursements under insurance policies that are not qualifying insurance policies.

THE REVISIONS TO IAS 39

The IASC Board approved five limited revisions to IAS 39, *Financial Instruments: Recognition and Measurement*, and other related Standards. None of the revisions alters a fundamental principle in IAS 39. Instead, the changes address technical application issues that have been identified following the approval of IAS 39 in December 1998. IAS 39 went into effect for financial years beginning 1 January 2001.

- ❑ One change brings about symmetry in the dates for recognising purchases and sales of financial assets. As revised, IAS 39 requires that purchases and sales of each broad category of financial assets be accounted for consistently using either trade date or settlement date accounting. As originally approved, IAS 39 had allowed an enterprise to choose between trade date and settlement date for purchases but had permitted only settlement date accounting for sales.
- ❑ Another change replaces the original IAS 39 requirement for a lender to recognise certain collateral received from a borrower in its balance sheet with a requirement for note disclosure about collateral.
- ❑ The revisions clarify that impairment of financial assets (for instance, bad debt and loan loss provisions) should be recognised individually for significant financial assets. A portfolio basis is only acceptable for individually insignificant items.

Several small amendments to correct problems identified by companies implementing IAS 39, including:
– *Symmetry in use of trade date or settlement date for both purchases and sales.*
– *Disclosure, rather than balance sheet recognition, by the recipient of collateral.*
– *Bad debts or loan losses for individually significant receivables or loans cannot be ignored by adopting a "portfolio" approach to impairment.*

THE REVISIONS TO IAS 39, continued

- ❑ Another revision brings about consistent accounting for temporary investments in equity securities between IAS 39 and IAS 27, *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*, IAS 28, *Accounting for Investments in Associates*, and IAS 31, *Financial Reporting of Interests in Joint Ventures*.
- ❑ Certain disclosure requirements for hedges in IAS 32, *Financial Instruments: Disclosure and Presentation*, that are regarded as redundant to the IAS 39 disclosures, have been eliminated.

We can summarise this in one word: None.

Since the last issue of IAS PLUS, the IASC Board has approved two final SIC Interpretations (19 and 24) and SIC has issued two new proposals (D26 and D27).

OUTSTANDING IASC EXPOSURE DRAFTS

With the completion of a final Standard on Agriculture in December and limited revisions to IAS 12, 19, and 39 in October, the IASC Board has completed work on all of its outstanding Exposure Drafts.

RECENT IASC INTERPRETATIONS

IASC's Standing Interpretations Committee develops draft Interpretations and exposes them for public comment. Final Interpretations must be approved by the IASC Board.

EFFECTIVE DATES OF NEW IASC INTERPRETATIONS		
	<i>New SIC Interpretation</i>	<i>Effective Date</i>
SIC 14	Property, Plant and Equipment – Compensation for the Impairment or Loss of Items*	Annual periods beginning on or after 1 July 1999
SIC16	Share Capital – Reacquired Own Equity Instruments (Treasury Shares)*	Annual periods beginning on or after 1 July 1999
SIC 17	Equity – Costs of an Equity Transaction*	Periods beginning on or after 30 January 2000
SIC 18	Consistency – Alternative Methods*	Periods beginning on or after 1 July 2000
SIC 19	Reporting Currency – Measurement and Presentation of Financial Statements Under IAS 21 and IAS 29**	Annual financial periods beginning on or after 1 January 2001
SIC 20	Equity Accounting Method – Recognition of Losses*	Periods beginning on or after 1 July 2000
SIC 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets*	Effective on 15 July 2000
SIC 22	Business Combinations - Subsequent Adjustment of Fair Values and Goodwill Initially Reported*	Annual periods ending on or after 15 July 2000
SIC 23	Property, Plant and Equipment – Major Inspection and Overhaul Costs*	Effective on 15 July 2000
SIC 24	Earnings Per Share – Financial Instruments and Other Contracts that May Be Settled in Shares**	1 December 2000
SIC 25	Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders*	Effective on 15 July 2000

*This new Interpretation was summarised in **IAS PLUS**, October 2000 (still available at <http://www.iasplus.com>).

This new Interpretation is summarised in this issue of **IAS PLUS.

Despite some words in IAS 21 that might suggest otherwise, an enterprise cannot randomly select the currency in which it initially records its transactions. In effect, SIC 19 adopts a notion similar to FASB Statement 52's functional currency: "the currency of the economic environment in which cash is generated and expended by the entity".

SIC 19, REPORTING CURRENCY – MEASUREMENT AND PRESENTATION OF FINANCIAL STATEMENTS UNDER IAS 21 AND IAS 29

SIC 19 resolves an important area of disagreement regarding how an enterprise chooses the currency in which it prepares its primary financial statements under IAS 21, The Effects of Changes in Foreign Exchange Rates (revised 1993). Paragraph 4 of IAS 21 begins: "This Standard does not specify the currency in which an enterprise presents its financial statements." Some people had interpreted this as allowing free choice of reporting currency. SIC 19 says no – an enterprise cannot randomly select a currency for measuring items in its financial statements. Management must select a currency that provides information that is useful and reflects the economic substance of the underlying events and circumstances relevant to the enterprise.

Because the primary reporting currency also affects how assets, liabilities, and income are measured, SIC 19 makes it clear that a measurement currency should provide information about the enterprise that is useful and reflects the economic substance of the underlying events and circumstances relevant to that enterprise. If a particular currency is used to a significant extent in, or has a significant impact on, the enterprise, that currency may be an appropriate measurement currency. All transactions in currencies other than the measurement currency should be treated as transactions in foreign currencies when applying IAS 21.

Once an enterprise has selected a measurement currency, SIC 19 notes that it should not be changed unless there is a change in the underlying events and circumstances relevant to that enterprise.

Although an enterprise normally presents its financial statements in the same currency as the measurement currency, SIC 19 indicates that it may choose to present its financial statements in a different currency. The method of translating the financial statements of a reporting enterprise from the measurement currency to a different currency for presentation should not lead to reporting in a manner that is inconsistent with the measurement of items in the financial statements.

Any instrument or contract that might result in issuing more dilutive ordinary shares must be reflected in computing earnings per share, even if the issuer or the holder has a choice of payment in cash or in shares.

SIC 24, EARNINGS PER SHARE – FINANCIAL INSTRUMENTS AND OTHER CONTRACTS THAT MAY BE SETTLED IN SHARES

SIC 24 addresses the treatment of instruments which may be settled by a reporting enterprise either by payment of financial assets or by issuance of ordinary shares of the reporting enterprise to the holder. Under SIC 24, all instruments that may result in the issuance of ordinary shares of the reporting enterprise to the holder of the financial instrument or other contract, at the option of the issuer or the holder, are potential ordinary shares of that enterprise. Under IAS 33, Earnings Per Share, if a potential ordinary share is dilutive, (that is, its conversion to ordinary shares would decrease net profit per share from continuing ordinary operations), then its dilutive effect must be included in calculating diluted earnings per share.

OUTSTANDING DRAFT INTERPRETATIONS

Incidental operating income during construction of long-lived asset must be reported in net profit or loss, not as a reduction of the asset's cost.

D26, PROPERTY, PLANT AND EQUIPMENT – RESULTS OF INCIDENTAL OPERATIONS

This draft Interpretation addresses income earned and expenses incurred from operations that are incidental to the construction or development of property, plant, or equipment before the asset is fully operational. The proposed consensus is that the results of these incidental operations should be recognised in net profit or loss for the period. They should not be recognised as an adjustment of the cost of the related property, plant, or equipment asset. Comment deadline was 30 November 2000.

If a property owner “leases” the property out to an investor for financing or tax reasons and simultaneously leases the property right back, so that the investor does not, in substance, have the right to use the asset for an agreed period of time, the transaction is most likely not a lease under IAS 17.

D27, TRANSACTIONS IN THE LEGAL FORM OF A LEASE AND LEASEBACK

The issue is whether a transaction that takes the legal form of a lease of assets from an enterprise and a lease of the same assets back to the same enterprise is a lease under IAS 17. The draft Interpretation establishes the principle that the accounting should reflect the substance of the transaction. All aspects of a transaction should be evaluated to determine its substance, and whether a series of transactions are linked in such a way that the effect cannot be understood without reference to the series of transactions as a whole and should be accounted for as one transaction. The draft Interpretation identifies the following as examples of indications that the transaction is not a lease:

- ❑ the lease/leaseback transactions are linked together such that, in substance, during the sublease period the enterprise retains control of the underlying asset and enjoys substantially the same rights to its use as before the arrangement, or
- ❑ the transaction has been arranged predominantly for a particular purpose other than leasing (for instance, solely to generate tax benefits that can be shared or increase off-balance-sheet borrowings).

Most of these transactions involve a fee, and the draft Interpretation proposes guidance on whether to recognise fee income when execution of the “lease” agreement is finalised or to defer all or a portion of it to future periods. There is also guidance on determining whether separate investment account and sublease payment obligations should be recognised. Comment deadline was 20 December 2000.

IASC ISSUES PAPER ON EXTRACTIVE INDUSTRIES

IASC has published an issues paper on financial reporting for exploration and production activities by mining and oil and gas companies – collectively called the extractive industries. Comment deadline is 30 June 2001.

The issues paper identifies the important accounting and disclosure issues, evaluates the merits of alternative solutions to those issues, and invites public comment. The IASC project focuses only on “upstream activities” – exploration and production. It does not include “downstream” activities such as refining, marketing, and transportation.

Among the critical issues are:

- ❑ which costs of finding, acquiring, and developing mineral reserves should be capitalised;
- ❑ how to depreciate (amortise) capitalised costs;
- ❑ the extent to which quantities and values of mineral reserves, rather than costs, should affect recognition, measurement, and disclosure; and
- ❑ how to define, classify, and measure mineral reserves.

Currently, accounting standards and practices in the petroleum and mining industries vary widely both between and within countries. Nearly all enterprises use historical costs, rather than values, as the basis of their accounting (though many disclose some measure of estimated reserve values). The two most common cost-based methods – known as successful efforts accounting and full cost accounting – illustrate the wide variety of accounting practices today.

IASC has begun work on several industry-specific projects, one of which addresses accounting for “upstream” activities by an oil, gas, or mining exploration and production company. The recent substantial increase in the price of crude oil is likely to spark new exploration activity, making this project especially timely.

EXTRACTIVE INDUSTRIES, continued

Under successful efforts accounting – which is used by most large oil and gas companies and by some mining enterprises – costs that lead directly to finding mineral reserves are capitalised, while costs that do not lead directly to mineral reserves are charged to expense. On the other hand, under full cost accounting, all costs incurred in searching for, acquiring, and developing mineral reserves in a large cost centre such as a country or continent are capitalised as part of the cost of whatever reserves have been found, even though a specific cost was incurred in an effort that was clearly a failure. Full cost accounting is used by many mid-size to small petroleum enterprises, but rarely by mining enterprises. Many mining companies use an approach that is somewhere between the successful efforts and the full cost methods.

Moreover, there is no single successful efforts method or full cost method – many variations are found in practice. Accounting differences go well beyond cost capitalisation, including such matters as how to depreciate and recognise impairment of capitalised costs and how to provide for future site clean-up costs. The extractive industries also have unique accounting issues in such areas as revenue recognition, inventories, and arrangements that allow two or more entities to share the risks of exploring and developing mineral reserves.

Because of widespread interest in the project, IASC has sent the issues paper to senior financial officials of over 300 extractive industries companies worldwide, asking that they consider the issues and provide IASC with comments by the 30 June 2001 deadline.

The issues paper is over 400 pages in length, and IASC has published a separate booklet summarising the issues. The issues summary may be viewed on the IASC web site: <http://www.iasc.org.uk>.

To provide a focus for commentators, the issues paper sets out the tentative views that the IASC steering committee has developed on the significant issues. Here are the most fundamental of those conclusions:

- ❑ The primary financial statements of an extractive industries enterprise should be based on historical costs, not on estimated reserve values.
- ❑ The Steering Committee favours adoption of a cost-based method more consistent with the traditional successful efforts concept than with other concepts such as full costing. The following table sets out the Steering Committee's proposals on costs incurred in various phases of upstream activities:

Pre-acquisition prospecting, appraisal, and exploration costs	Charge to expense when incurred
Direct and incidental property acquisition costs	Recognise as an asset
Post-acquisition exploration and appraisal costs	Initially recognise as an asset pending the determination of whether commercially recoverable reserves have been found. Some "ceiling" should be imposed.
Development costs	Recognise as an asset
Construction costs that relate to a single mineral cost centre	Capitalise as part of the costs of that cost centre
Construction costs that relate to more than one mineral cost centre	Account for them in the same way as other property, plant, and equipment under IAS 16
Post-production exploration and development costs	Treat the same as any other exploration or development costs

EXTRACTIVE INDUSTRIES, continued

- ❑ Costs should be accumulated by area of interest or geological units smaller than an area of interest (for example, the field or the mine).
- ❑ All members of the Steering Committee favour disclosure of reserve quantities. The Steering Committee is divided regarding disclosure of reserve values.
- ❑ Disclose proved and probable reserves separately, and within proved disclose proved developed and proved undeveloped reserves separately.

IAS 39 was preceded by two failed proposals, E40 in 1991 and E48 in 1994. In March 1997, an IASC Steering Committee published a Discussion Paper essentially proposing full fair value accounting for all financial assets and financial liabilities, with value changes recognised in income, and hedge accounting limited to deferring in equity the value changes on instruments used to hedge some anticipated transactions. To say that this proposal met with resistance is perhaps an understatement.

Since late 1997, the JWG has been exploring full fair value accounting based on the principles in the March 1997 discussion paper. Their final proposal endorses and builds on those principles and goes a bit further – no hedge accounting at all. IASC and a number of other standard-setters are inviting comment on the JWG proposals.

JOINT WORKING GROUP (JWG) ON FINANCIAL INSTRUMENTS

While quite comprehensive in its scope, IAS 39, *Financial Instruments: Recognition and Measurement*, is not necessarily a long-term solution as to how best to account for financial assets and financial liabilities. When IASC undertook the IAS 39 project in late 1997, it agreed to continue to explore the possibility of requiring full fair value measurements in the primary financial statements (sometimes called mark-to-market) for all financial assets and financial liabilities. As part of that exploration, IASC has, for the past three-and-a-half years, participated in a Joint Working Group (JWG) on Financial Instruments with standard setters representing 13 countries.

The JWG has now completed a “draft standard” and turned it over to its participating bodies. The IASC Board discussed the draft at its October 2000 meeting and approved issuing it for comment subject to JWG completing its work without major changes to its proposals. That work is now complete, and the IASC issued the JWG document on 14 December 2000 for comment. The other participating standard-setters either have already done the same thing or are in the process of doing so.

Although the Board of IASC has discussed most aspects of the draft standard, the views expressed in the document do not necessarily reflect the views of the IASC Board. And while written in the form of a draft standard, it is not an IASC draft standard or exposure draft. Nonetheless, it represents three and a half years of hard work by representatives of over a dozen countries and, as such, is likely to command considerable attention by the new IASC and by national accounting standard-setters.

Here is a summary of the key provisions of the JWG draft:

- ❑ Recognise all financial instruments at fair value when acquired or contracted.
- ❑ Remeasure them to fair value at each reporting date.
 - Fair value is exit (sales) price based on market transactions.
 - Do not adjust market price for size of holding or thinness of market.
- ❑ The fair value of liabilities reflects changes in the enterprise’s own creditworthiness.
- ❑ Gains and losses arising from all changes in fair value of financial assets and financial liabilities are reported in net income when they arise.
- ❑ Interest revenue and interest expense should be calculated on a fair value basis using current yield-to-maturity, not the contractual interest rate.
- ❑ All forms of hedge accounting for financial instruments are prohibited, including hedges of commitments and forecasted transactions. Certain “hedging” note disclosures would be allowed.

The standards in IAS 39 are consistent with the direction that the JWG is proposing, but they go only part way toward measuring financial assets and liabilities at fair value and only part way toward including the value changes in net profit or loss.

FINANCIAL INSTRUMENTS JWG, continued

IASC indicated that it would be most helpful if comments were received by 30 June 2001 but that all comments received by 30 September 2001 will be considered.

Interestingly and unusually, the Board of Governors of the United States Federal Reserve System has written to both the US Financial Accounting Standards Board and IASC. On the one hand, the Fed said that they support “efforts to develop meaningful, comprehensive accounting and disclosure standards for financial instruments.” On the other hand, they said that “we do not view fair value accounting in the primary financial statements as inherently superior to historical cost information (including risk disclosures) at this time.” The Federal Reserve urged a disclosure approach rather than income recognition of value changes.

Until recently, IASC Standards had addressed issues of general applicability to all enterprises, rather than industry-specific issues (with the exception of bank disclosures required by IAS 30). IASC has now begun to address industry issues – mining and oil and gas, agriculture, bank disclosures (revisited), and insurance. The insurance project covers accounting and disclosure for both general insurance (such as property and casualty) and life insurance contracts, as well as reinsurance contracts.

IASC’S INSURANCE PROJECT: A PROGRESS REPORT

The IASC project focuses on accounting for insurance contracts rather than all aspects of accounting by insurance companies. An issues paper was published in December 1999. The Steering Committee is developing a Draft Statement of Principles (a sort of pre-exposure draft) that will take into account the views expressed in the responses to the issues paper.

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

To date, the Steering Committee has reached these key tentative decisions:

- ❑ The accounting objective should be to measure the assets and liabilities that arise from insurance contracts (an asset-and-liability measurement approach), rather than to defer income and expense so that they can be matched with each other (a deferral-and matching approach).
- ❑ General insurance companies and life insurance companies should follow the same approach.
- ❑ Insurance liabilities should be based on current estimates of future cash flows from the current contract, discounted. Future cash flows from renewals are included only if the current contract commits the insurer to a specific price for those renewals.
- ❑ Catastrophe and equalisation reserves are not liabilities and should not be recognised.
- ❑ The sale of a long-term insurance contract may lead in some cases to the immediate recognition of income, a major change from current practice in many countries.
- ❑ Overstatement of insurance liabilities should not be used (either by companies or by regulators) to impose implicit solvency or capital adequacy requirements.
- ❑ Acquisition costs should not be deferred as an asset.
- ❑ All changes in the carrying amount of insurance liabilities should be recognised as they arise.
- ❑ Portfolios of insurance contracts should be measured at fair value. (The Steering Committee has indicated that they reached this conclusion on the assumption that IAS 39 will be replaced by a Standard reflecting the JWG’s “mark-to-market” proposal discussed earlier in this **IAS PLUS**.)
- ❑ The accounting for reinsurance by a reinsurer should be the same as the accounting for direct insurance by a direct insurer.

The Steering Committee is working toward publication of the Draft Statement of Principles some time in mid-2001.

Nearly 10 years ago, accounting standard-setters from five countries and the IASC formed a think tank to analyse cutting edge accounting issues. Their objective: to seek common solutions to financial reporting issues that best serve the capital markets.

G4+1 STANDARD SETTERS

WHO ARE THEY?

The “G4+1” is an association of the following accounting standard-setting bodies:

- ☐ Australian Accounting Standards Board
- ☐ Canadian Accounting Standards Board
- ☐ New Zealand Financial Reporting Standards Board
- ☐ United Kingdom Accounting Standards Board
- ☐ United States Financial Accounting Standards Board

The International Accounting Standards Committee participates in the work of the G4+1 as an observer.

The G4+1 organisations have set out the following broad objectives of the group:

- ☐ To develop quality financial reporting standards for the primary purpose of providing information useful to capital market participants.
- ☐ To seek common solutions to financial reporting issues.
- ☐ To develop standards based on a conceptual framework accepted by all G4+1 members.
- ☐ To resolve the issues within the context of the conceptual framework.

Among other things, they analyse financial reporting issues by conducting research and publishing reports and by exchanging information and ideas by correspondence and at periodic meetings.

WHAT ARE THEY UP TO?

Issues currently under discussion by the G4+1 group include:

New Basis Measurement. Which, if any, external events should trigger a remeasurement of an entity’s assets and liabilities. For instance, should the carrying amounts of assets and liabilities of a subsidiary be adjusted to reflect the controlling entity’s (parent’s) carrying amounts for those assets and liabilities at the date the parent acquires control?

Measurement Alternatives for Nonfinancial Items. This project includes issues of revaluation and impairment loss recognition for land, buildings, investment properties, machinery, commodities, and other nonfinancial assets.

Interests in Joint Ventures. A 1999 G4+1 study proposes :

- ☐ A definition of joint venture for accounting purposes: “no one party alone has the power to control its strategic operating, investing, and financing decisions, but two or more parties together can do so, and each of the parties sharing control (joint venturers) must consent”.
- ☐ That a joint venturer should use the equity method of accounting (proportionate consolidation would not be permitted).
- ☐ Disclosures for interests in a joint venture and other forms of joint arrangements.

Intangibles. The study includes the definition of intangible assets, recognition criteria for both acquired and self-created intangible assets (including whether separability is essential), and measurement principles both at and subsequent to acquisition.

Liability Recognition Criteria. This project address whether and when to accrue liabilities particularly when the timing or amount is uncertain.

G4+1 STANDARD SETTERS, continued

Financial Instruments. All of the G4+1 member bodies are participating in the Joint Working Group (JWG) on Financial Instruments. The JWG is developing a proposed comprehensive accounting standard on the recognition and measurement of financial instruments using fair value as the basis of measurement, value changes reflected in net profit or loss, and no hedge accounting. A more complete discussion of the JWG's work can be found elsewhere in this issue of **IAS PLUS**. The G4+1 members are inviting comment on the JWG document in each of their jurisdictions.

Revenue Recognition. Among the issues being discussed are barter transactions, shipping and handling fees, sales incentives, and multiple-element revenue recognition arrangements (for instance, computer software sold with technical support and upgrades).

Leases. The G4+1 has published two discussion papers on leases, one in 1996 and another last year that builds on the 1996 recommendations. The 1996 study concluded that the distinction between operating leases and finance leases that is required by existing accounting standards is arbitrary and unsatisfactory because lessees' balance sheets omit material assets and liabilities arising from operating leases. This affects, for example, reported levels of indebtedness, debt-to-equity ratios, return on assets employed, and interest coverage.

The 1996 Discussion Paper suggested that the comparability (and hence usefulness) of financial statements would be enhanced if the present treatment of operating leases and finance leases were replaced by an approach that applied the same requirements to all leases. Taken together, the two studies propose the following:

- ❑ For lessees, the objective should be to record, at the beginning of the lease term, the fair value of the rights and obligations that are conveyed by the lease.
- ❑ Leases that are at present characterised as operating leases (and therefore not included in the lessee's balance sheet) would give rise to assets and liabilities – but only to the extent of the fair values of the rights and obligations that are conveyed by the lease. Thus if a lease is for a small part of an asset's economic life, only that part would be reflected in the lessee's balance sheet.
- ❑ The fair value of the rights obtained by a lessee would in general be measured as the present value of the minimum payments required by the lease, plus any other liabilities incurred.
- ❑ Lessors should report financial assets (representing amounts receivable from the lessee) and residual interests as separate assets, since they are subject to quite different risks. The amounts reported as financial assets by lessors would, in general, be the converse of the amounts reported as liabilities by lessees.

The Deloitte Touche Tohmatsu comment letter to IASC on the G4+1 proposal is discussed elsewhere in this issue of **IAS PLUS**.

Business Combinations. A December 1998 G4+1 discussion paper concluded that the use of a single method of accounting for all business combinations is preferable to two (or more) methods, and that the purchase method is the appropriate method. The study proposes that uniting of interests (pooling of interests) accounting be abolished.

Share-Based Payments (“Stock Compensation”). A G4+1 study published in 2000 recommends:

- ❑ If an entity obtains goods and services from other parties, including employees and suppliers, with payment in shares or share options, the transaction should be recognised in the financial statements, with a corresponding charge to the income statement when those goods or services are consumed.

G4+1 STANDARD SETTERS, continued

- ❑ Such a transaction should be measured at the fair value of the shares or options issued. In most cases, an option-pricing model should be applied to establish the fair value of an option.
- ❑ Vesting date is the appropriate measurement date. Vesting date is the date on which the other party (the employee or supplier), having performed all of the services or provided all of the goods necessary, becomes unconditionally entitled to the options or shares.
- ❑ If the shares or options are granted before the other party (employee or supplier) has fully performed, an estimate of the transaction amount should be accrued over the performance period between grant date and vesting date.

The study also addresses the treatment of lapsed options, options that are repriced or otherwise modified, employee share plans with cash alternatives, and share appreciation rights.

The Deloitte Touche Tohmatsu comment letter to IASC on the G4+1 proposal is discussed elsewhere in this issue of **IAS PLUS**.

Reporting Financial Performance

Generally, the income statement is used to report an enterprise's financial performance for a period. However, some gains and losses today are reported directly in equity outside the income statement, for example, property revaluations, changes in fair values of certain financial instruments, and some foreign currency translation gains and losses. Additionally, some aspects of performance are reported in the notes, for instance, operating results by line of business and geographical area. Other aspects of performance are reported by subtotals in the income statement, for example continuing and discontinuing operations, or by segregating unusual items.

IASC and some national GAAPs have added a "second performance statement" to capture in one place those gains and losses that are not reported in the income statement. Several jurisdictions require a combined or comprehensive performance statement.

The G4+1 study addresses how to achieve greater consistency to reporting practice without destroying the usefulness of existing practice. The main G4+1 proposals are:

- ❑ Financial performance should be presented in one financial statement rather than two or more statements.
- ❑ The single statement of financial performance should be divided into three components:
 - the results of operating (or trading) activities;
 - the results of financing and other treasury activities; and
 - other gains and losses.
- ❑ Recycling should not generally be permitted (recycling is reporting the same item of income, expense, gain, or loss in two different periods in two different types of performance measures, for example, first in "other gains and losses" and subsequently in the results of operating activities).
- ❑ The category of extraordinary items should be abolished, and abnormal or exceptional items should not be reported as a separate category of revenue or expenses.
- ❑ Continuing and discontinued operations should be segregated.
- ❑ Changes in accounting policy should be reported by retrospectively applying the new policy with restatement of prior periods.

Equity Method. The project is examining whether, and in what circumstances, the equity method of accounting for noncontrolling investments in ordinary shares is appropriate.

Conceptual Framework. The G4+1 is also doing a comparison of the conceptual frameworks of their member organisations.

ARE G4+1 STUDIES AUTHORITATIVE?

The studies by themselves are not authoritative national or international accounting standards. However, the G4+1 organisations are among the most respected accounting standards bodies in the world. The G4+1 members are committed to working together to harmonise accounting standards. While the respective boards do not approve or endorse the recommendations in the studies when they are published, the studies do provide a foreshadowing of things to come.

WILL G4+1 PROPOSALS BECOME IASC STANDARDS?

Not necessarily, but chances are that they will get serious IASC consideration. In several of the cases, IASC is actually ahead of the G4+1 initiative. For example, IASC recently completed standards on impairment, intangibles, and provisions. The IASC Board was the first to publish the Joint Working Group proposals on reporting all financial assets and liabilities at fair value. The “old” IASC Board will turn over to the new Board a project in progress on business combinations.

TRANSITION STATEMENT OF “OLD” IASC BOARD

In late December, the outgoing IASC Board published a statement in contemplation of handing over its functions to a new IASC Board. Regarding projects in progress, the old Board recommends that the new Board continue work on business combinations, discounting, reporting financial performance, extractive industries, insurance, and financial instruments.

The statement also sets out the old Board’s views on other matters including the style of accounting standards, the need for a project on convergence of national GAAPs and IAS, fair value measurements, discussion of financial results, electronic financial reporting, public sector reporting, standards for small enterprises, and enforcement. Also recommended is a project to review and make “relatively minor improvements” to existing standards and a comprehensive review of the IASC Framework for the Preparation and Presentation of Financial Statements.

CURRENT IASC WORK PLAN

You can find the full text of the IASC Board statement at: <http://www.iasplus.com/resource/iascstmt.pdf>

Projects in various stages of progress that will be turned over to the “new” IASC include discounting, performance reporting, financial instruments, internet reporting, emerging markets, insurance, extractive industries, bank disclosures, and business combinations.

PROJECTS HANDED OVER TO RESTRUCTURED IASC	
Discounting (Present Value)	Issues paper expected soon
Reporting Financial Performance	Committee is developing a Draft Statement of Principles
The proposal by the Joint Working Group on Financial Instruments for full fair value accounting for financial assets and liabilities	IASC published the JWG draft standard for comment in December 2000
Guidance on internet reporting	IASC published an issues paper in November 1999
Additional implementation guidance for IAS 39	Four batches of Q&A were approved and a fifth released for comment, and additional guidance is under development
Study on barter accounting (part of a project on emerging markets)	IASC is developing an issues paper
Extractive industries - mining and petroleum	IASC published an issues paper in November 2000
Insurance	IASC published an issues paper in November 1999
Bank disclosures	Revised IAS 30 being drafted
Business Combinations	IASC published the G4+1 study in December 1998

Deloitte Touche Tohmatsu submits a firm-wide global response to all IASC public comment documents.

For share options, Deloitte Touche Tohmatsu favours the minimum value method (not value using an option pricing model) and measurement at grant date (not vesting date).

EXCERPTS FROM DELOITTE TOUCHE TOHMATSU COMMENT LETTERS TO IASC

Position Paper – Accounting for Share-Based Payments

This Position Paper was developed by the G4+1 group (see article in this issue of **IAS PLUS**) and was published by IASC for comment. The key proposal is that payments to employees and others using shares or share options should be recognised in the financial statements at the fair value of the shares or options on vesting date, with a corresponding charge to expense when those goods or services are consumed. Here are excerpts from the DTT comment letter dated 8 December 2000 (full text available at <http://www.iasplus.com/links/comment.htm>):

The issue of accounting for share-based payments to employees has been extremely controversial in the United States. In 1993, the Financial Accounting Standards Board (FASB) proposed that employee stock options be recognized in the financial statements at their fair value. In the response to that proposal, the United States firm of Deloitte & Touche urged the FASB to change its direction and adopt a disclosure-based approach instead of a recognition-based approach and to retain the then current standard. Deloitte & Touche also recommended that, nonetheless, if the FASB proceeds with a recognition-based approach instead of disclosure, it should use the minimum value method to estimate the fair value of the compensation to employees.

If the IASC undertakes the development of an accounting standard for share-based payment, we encourage the board to strive to achieve a solution that can be accepted globally. If the IASC decides to implement a recognition-based model, we recommend the use of the minimum value method for employee stock options because of their unique attributes. While we believe that, conceptually, share-based payments should be recognized at fair value, we also believe that it is generally not possible to obtain reliable estimates of fair value for employee stock options that are not transferable.

While we believe a recognition model can be supported conceptually, we do not agree with some of the key recommendations concerning recognition in the Position Paper. We do not understand the recommendation to use vesting date as the measurement date. It seems to us that, when an option is granted, the option holder is given the freedom to decide whether to exercise it. Exercising an option typically means paying the exercise price. However, for an employee stock option it also means continuing employment through the vesting date. While we agree with the recommendation in the Position Paper to accrue an estimate of the transaction amount over the performance period, we observe that this recommendation is inconsistent with the use of the vesting date as the measurement date.

We also are unconvinced that fair values can be determined reliably for equity instruments that are not quoted on an active market. We believe that subjective nature of the estimate of fair value will yield diversity and confusion in the marketplace, and still not address the real key issue: can reliable estimates of fair value be obtained for such instruments? We observe that the difficulty of determining fair value reliably is recognized in IAS 39. While IAS 39 contains a presumption that fair values of financial instrument can be determined reliably, it acknowledges the difficulty of making a reliable estimate of fair value for equity instruments that are not traded. It specifies that the presumption can in fact be overcome for equity instruments that are not traded. While an estimate of fair value can be made with greater precision when the underlying equity share is traded in an active market, there exists considerable subjectivity in estimating fair value when an equity option itself or a comparable option is not traded in an active market.

. . . We believe that traditional option-pricing models will result in highly subjective and potentially unreliable estimates of fair value for options that are not transferable. Given the subjectivity of the estimate and the inability of the employee to convert the volatility value of the option into cash, we believe the IASC should consider recognizing only the financing cost component of the time value of options granted to employees. While it is not fair value, we believe a traditional options-pricing model also is not fair value in circumstances in which the option is prohibited from being sold.

Deloitte Touche Tohmatsu favours consistent accounting for all leases rather than the finance lease versus operating lease split in IAS 17 today.

Position Paper – Leases: Implementation of a New Approach

This is another G4+1 position paper published by IASC for comment. The principal recommendations of the Position Paper – capitalise the rights and obligations in all leases – were discussed earlier in this issue of **IAS PLUS**:

Today, of course, IAS 17, Leases, requires radically different accounting (both in the lessee's and the lessor's financial statements) for transactions classified as finance leases and those classified as operating leases.

Excerpts from the DTT comment letter dated 8 December 2000 (full text available at <http://www.iasplus.com/links/comment.htm>):

We support the continual development of the rights and obligations approach for accounting for lease transactions. We support the general concept that the rights and obligations under leases should be reported at fair value, and with much of the guidance in the Position Paper. We also support the concept of providing for the recognition in lessees' balance sheets of assets and liabilities arising from operating leases. We believe under current standards, the distinction between operating leases and finance leases is arbitrary and inadequate. We believe that the comparability of financial statements will be enhanced if such a model is introduced.

We support the fair value concept for lease accounting if reliable measures of fair value can be established. We understand that the most reliable measure of fair value should be the present value of the minimum payments (assuming that the lease is negotiated on an arm's length basis). However, there may be instances where the present value of the minimum payments is not the most reliable measure of fair value. For example, if there are active trades on an open market for the asset leased, a quoted market price may be more reliable. Given the significance of the concept of fair value in the context of leases, we believe that the discussion of fair value in the Position Paper should be considerably expanded.

Because of the restructuring of IASC, at the moment only SIC has a firm future meeting schedule.

UPCOMING IASC AND SIC MEETINGS

The “old” IASC Board held its final meeting in December 2000. A date has not yet been set for the initial meeting of the restructured IASC.

The Standing Interpretations Committee (SIC) will continue under the new IASC structure. It will meet next on 12-13 February 2001, in Tokyo, Japan. Currently on SIC’s agenda for discussion:

- ❑ **Transactions Among Enterprises Under Common Control.** IAS 22 excludes from its scope “transactions among enterprises under common control”. SIC is developing guidance to identify which transactions qualify as common-control transactions, but the guidance will not address the accounting for such transactions. In transactions among enterprises under common control, old carrying amounts generally continue. But for non-common-control transactions, measurement (carrying amount or current fair value) becomes an issue.
- ❑ **Reporting Currency – Translation from Measurement Currency to Presentation Currency.** How to translate financial statements from a measurement currency to a different currency for presentation purposes (sometimes called a “convenience translation”).
- ❑ **Advertising Barter Transactions.** SIC is examining the circumstances in which fair value may be reliably measured in an advertising barter transaction, particularly in an e-commerce environment.
- ❑ **Business Combinations – Measurement of Shares Issued.** At what date should the value of shares be measured and, if there is a quoted market price, must that price always be used without adjustment.
- ❑ **Website Costs.** Application of IAS 38, Intangible Assets, in the context of costs incurred to develop and maintain a website, both by an enterprise whose website forms the basis of its business activities and an enterprise whose website supplements its existing business.

Potential SIC agenda items include the following:

- ❑ **Service Concessions.** Disclosure of arrangements by which a private sector enterprise agrees to provide services of the type normally considered public (government) services.
- ❑ **Indefeasible Right of Use of Assets.** Accounting and disclosure for arrangements by which an enterprise contracts for either exclusive or joint use of infrastructure assets generally of an infrastructure or utility nature such as telecom cabling or an oil or g pipeline.

UPDATE ON RESTRUCTURING THE IASC

In last quarter's **IAS PLUS**, we reported on the restructuring of IASC that is currently under way. The current IASC Board is being replaced by a new 14-person Board with 12 full-time and two part-time members. The new Board – known as the International Accounting Standards Board – will operate under an independent organisation such as a foundation (the exact structure depends on an examination of legal alternatives now under way). The 19 Trustees of that organisation were appointed last May, and in late January they announced the selection of the 14 initial members of the new IASC Board. Here is a brief summary of steps to date in the IASC restructuring:

CHRONOLOGY OF THE IASC RESTRUCTURING	
September 1996	IASC Board approves formation of a "Strategy Working Party" (SWP) to consider what IASC's strategy and structure should be when it completes the "Core Standards" work programme.
December 1998	SWP publishes a Discussion Paper, <i>Shaping IASC for the Future</i> , and invites comments.
April to October 1999	Various meetings of SWP to discuss the comments on their initial proposal and to develop final recommendations.
December 1999	SWP final report, <i>Recommendations on Shaping IASC for the Future</i> . IASC Board passes a resolution supporting the report and appoints a Nominating Committee for the initial Trustees.
January 2000	Nominating Committee elects SEC Chairman Arthur Levitt as its Chair and invites nominations from public.
March 2000	IASC Board approves a new Constitution reflecting the SWP proposals.
May 2000	Nominating Committee announces initial Trustees (see table below).
May 2000	IASC Member Bodies approve the restructuring and the new IASC Constitution.
June 2000	Trustees appoint Sir David Tweedie as the first Chairman of new IASC Board.
Starting in July 2000	Trustees invite nominations for membership on the new IASC Board, narrow the list to approximately 45 finalists, and conduct interviews in London, New York, and Tokyo.
January 2001	Trustees invite nominations for membership on the new Advisory Council.
January 2001	Trustees appoint the members of the International Accounting Standards Board

INTERNATIONAL ACCOUNTING STANDARDS BOARD MEMBERS	
Board Member*	Most Recent Affiliation
Sir David Tweedie, Chairman	Full-time chairman of the U.K. Accounting Standards Board
Thomas E. Jones, Vice Chairman	Principal Financial Officer of Citicorp and Chairman of the IASC Board
Mary E. Barth	Professor of Accounting, Stanford University, U.S.
Hans-Georg Bruns**	Chief Accounting Officer for DaimlerChrysler, Germany
Anthony T. Cope	Member, U.S. Financial Accounting Standards Board
Robert P. Garnett	Executive Vice President of Finance for Anglo American plc, South Africa
Gilbert Gélard**	Partner at KPMG, France
Robert H. Herz	Partner at PricewaterhouseCoopers, U.S.
James J. Leisenring**	Member, U.S. Financial Accounting Standards Board
Warren McGregor**	Stevenson McGregor, Australia and Australian Accounting Research Foundation
Patricia O'Malley**	Chair, Accounting Standards Board of Canada
Harry K. Schmid	Senior Vice President, Nestle, Switzerland.
Geoffrey Whittington**	Professor of Financial Accounting, Cambridge University, U.K.
Tatsumi Yamada**	Partner at ChuoAoyama Audit Corporation, Japan

*Ms. Barth and Mr. Herz will serve part time, the others full time.

**Will have formal liaison responsibility with their national standard-setting bodies.

ACCOUNTING STANDARDS UPDATE IN THE ASIA-PACIFIC REGION

AUSTRALIA

Contact: *Bruce Porter*

The Australian Accounting Standards Board (AASB) is continuing its policy of harmonising Australian Accounting Standards with IAS.

The AASB has recently reissued the following accounting standards since the last **IAS PLUS** newsletter as part of the harmonisation program:

- ❑ AASB 1012 (revised), Foreign Currency Translation (applies to annual reporting periods beginning on or after 1 January 2002) (IAS 19)
- ❑ AASB 1027 (revised), Earnings per Share (applies to annual reporting periods beginning on or after 1 July 2001) (IAS 33)
- ❑ AASB 1029 (revised), Interim Financial Reporting (applies to annual reporting periods beginning on or after 1 July 2001) (IAS 34)

Standards issued by the AASB as part of the harmonisation program do not necessarily conform to the IAS in every respect.

The Urgent Issues Group (UIG), a sub-committee of the AASB, issues Abstracts that give interpretations of existing AASB Accounting Standards. The UIG is also responsible for reviewing SIC Interpretations to determine whether they should apply to Australian reporting entities. The following final Abstracts have been issued since the last **IAS PLUS** newsletter:

- ❑ UIG 15 (revised), Early Termination of Foreign Currency Hedges
- ❑ UIG 18 (revised), Early Termination of Gold Hedges
- ❑ UIG 25 (revised), Redesignation of Hedges
- ❑ UIG 29 (revised), Early Termination of Interest Rate Swaps
- ❑ UIG 32 (revised), Designation as Hedges – Rollover Strategies
- ❑ UIG 36, Non-Monetary Contributions Establishing a Joint Venture Entity

The AASB has issued a number of exposure drafts, which are currently being considered for issue as Standards. The topics of those exposure drafts are:

- ❑ Provisions and Contingencies (IAS 37)
- ❑ Employee Benefits (IAS 19)
- ❑ Impairment of Assets (IAS 36)
- ❑ Provision of Public Sector Infrastructure by Other Entities (this project deals with accounting for build, own, operate and build, own, operate, transfer infrastructure arrangements)

Other projects on which the AASB is expected to issue Exposure Drafts in the next twelve months are:

- ❑ Related Party Disclosures (IAS 24)
- ❑ Director and Executive Disclosures
- ❑ Consolidation (IAS 27)
- ❑ Investment Properties (IAS 40)

The AASB has recently commenced a project on accounting for intangible assets.

BRUNEI DARUSSALAM

Contact: *Daniel Ng Hui Hua or Pengiran Haji Maksin*

The Ministry of Finance (MOF) is currently revising the relevant sections of the Companies Act to make IAS mandatory for all limited companies by 1 January 2002. Auditors will be required to qualify their report for those not in compliance with IAS.

The Brunei Darussalam Institute of Certified Public Accountants (BICPA) in collaboration with MOF and a number of other bodies, has formed a Technical Committee for the Implementation of IAS in Brunei Darussalam. That Committee has initiated an IAS awareness programme. BICPA also has written to all accounting firms and the Chambers of Commerce on their recommendation for the adoption of IAS before the mandatory date.

CHINA

Contact: *Patrick Tsang*

For the near future, the Ministry of Finance has given high priority to completion of seven standards. They are on borrowing costs, leases, intangible assets, fixed assets, inventories, interim financial reporting, and basic business of banks.

In addition, MOF is now in the process of combining the existing industrial based standards, regulations, and guidance – other than those for enterprises operating in special industries such as banking and insurance – into a comprehensive set of standards applicable to large and medium size enterprises.

For year 2000 financial reports of listed companies, the China Securities Regulatory Commission (CSRC) has adopted certain new disclosure requirements including information about:

- ❑ Whether the listed company's management, assets, and finance and treasury functions are independent from its major shareholders
- ❑ Profit distribution plans for the current year and in the next year

Also, CSRC is requiring that annual reports be posted on designated websites:

- ❑ Companies listed on the Shanghai Stock Exchange:
<http://www.sse.com.cn>
- ❑ Companies listed on the Shenzhen Stock Exchange:
<http://www.cninfo.com.cn>

CSRC and the two stock exchanges have also adopted new corporate governance rules that require listed companies to disclose detailed related party transaction information relating to intangible assets.

HONG KONG

Contact: *Stephen Taylor*

In January 2001, the Hong Kong Society of Accountants (HKSA) approved six new Hong Kong Statements of Standard Accounting Practice (SSAP). These standards are compliant in nearly all respects with the related IAS. All six standards are effective for periods beginning on or after 1 January 2001:

- ❑ SSAP 28, Provisions, Contingent Liabilities and Contingent Assets (IAS 37)
- ❑ SSAP 29, Intangible Assets (IAS 38)
- ❑ SSAP 30, Business Combinations (IAS 22)
- ❑ SSAP 31, Impairment of Assets (IAS 36)
- ❑ SSAP 32, Consolidated Financial Statements and Accounting for Investments in Subsidiaries, (IAS 27)
- ❑ SSAP 9 (revised), Events after the Balance Sheet Date, (IAS 10)

There are two significant differences between the new Hong Kong Standards and the equivalent IAS:

- ❑ SSAP 30 deals only with acquisition accounting whereas the equivalent IAS 22 deals with both acquisition accounting and merger accounting (pooling of interests).
- ❑ The definition used for subsidiary in SSAP 30 and SSAP 32 differs from the equivalent in IAS insofar as Hong Kong incorporated companies are concerned.

The first of these differences arises because, with the publication of INT 7, Application of Acquisition Accounting, the Hong Kong Society of Accountants has effectively banned the use of merger accounting other than in the circumstances of certain group reconstructions. This action reflects the HKSA's anticipation of future developments in this area internationally.

HONG KONG continued

The second difference arises as a result of legal opinion obtained by the HKSA to the effect that the definition of subsidiary to be applied in preparing financial statements for Hong Kong incorporated companies must be as stated in the Companies Ordinance. If financial statements were to encompass enterprises that were not subsidiaries as defined in the Ordinance, then they would not comply with the law. Unfortunately, this has the effect of the standard setting different rules for Hong Kong and non-Hong Kong incorporated companies – an anomaly that we hope will be addressed on a timely basis by a change in the law.

Interpretation 10, Earnings Per Share – Financial Instruments and Other Contracts that May Be Settled in Shares, was issued in December 2000. It is closely modelled on the equivalent SIC 24.

INDIA

Contact: *Narendra Sarda*

Accounting standards in India are formulated by Accounting Standards Board of the Institute of Chartered Accountants of India. In formulating the standards, ASB will give due consideration to International Accounting Standards issued by IASC and try to integrate them to the extent possible, in the light of the conditions and practices prevailing in India.

Recent accounting standards have been issued for the following:

- ☐ AS 16, Borrowing Costs
- ☐ AS 17, Segment Reporting
- ☐ AS 18, Related Party Disclosures
- ☐ AS 19, Leases

Exposure Drafts have been issued for the following:

- ☐ Earnings Per Share
- ☐ Consolidated Financial Statements

An exposure draft for Income Taxes is under final stages of preparation.

INDONESIA

Contact: *Lianny Leo*

The Financial Accounting Standards Board (Dewan Standar Akuntansi Keuangan) of the Indonesian Institute of Accountants (IAI) is continuing its policy of harmonising Indonesian Financial Accounting Standards (PSAK) with IAS.

The following Standards are effective for periods beginning on or after 1 January 2000 (their equivalent IAS is indicated for reference):

- ☐ PSAK 45, Financial Reporting for Non-profit Organizations
- ☐ PSAK 48, Impairment of Assets (IAS 36)
- ☐ PSAK 52, Reporting Currencies

The following Standard is effective for periods ending on or after 31 December 2000 (the equivalent IAS is indicated for reference):

- ☐ PSAK 56, Earnings per Share (IAS 33)

The following Standards will be effective for periods beginning on or after 1 January 2001 (their equivalent IAS is indicated for reference):

- ☐ PSAK 19 (Revised 2000), Intangible Assets (IAS 38)
- ☐ PSAK 31 (Revised 2000), Accounting for Banking (including disclosure requirements in IAS 30)
- ☐ PSAK 46, Income Tax Accounting (IAS 12)
- ☐ PSAK 55 (Revised 1999), Accounting for Derivatives and Hedging Activities

The following Standards will be effective for periods beginning on or after 1 January 2002 (their equivalent IAS is indicated for reference):

- ☐ PSAK 5 (Revised 2000), Segment Reporting (IAS 14)
- ☐ PSAK 58, Discontinuing Operations (IAS 35)

INDONESIA, continued

The Board has issued an exposure draft on Provisions, Contingent Liabilities and Contingent Assets (IAS 37) that is currently being considered for issue as Standard PSAK 57.

Another project on which the Board is expected to issue an Exposure Draft in the next twelve months is Accounting for Syariah Banking.

MALAYSIA

Contact: *Kim Tiam Hiew*

The following new MASB standards (their equivalent IAS is indicated) are effective for accounting periods beginning on or after July 1, 2001:

- ☐ MASB 17, General Insurance Business
- ☐ MASB 18, Life Insurance Business
- ☐ MASB 19, Events After The Balance Sheet Date [IAS 10(revised)]
- ☐ MASB 20, Provisions, Contingent Liabilities and Contingent Assets [IAS 37]
- ☐ MASB 21, Business Combinations [IAS 22(revised)]

New exposure draft issued for comments:

- ☐ ED 28, Goodwill

NEW ZEALAND

Contact: *Denise Hodgkins*

The Financial Reporting Standards Board (FRSB) is continuing with its policy of harmonising New Zealand Financial Reporting Standards with International Accounting Standards and Australian Accounting Standards.

FRS-15: Provisions, Contingent Liabilities and Contingent Assets, was issued in November 2000 and applies to periods ending on or after 31 October 2001. FRS-15 is in substantial agreement with IAS-37 (1997), Provisions, Contingent Liabilities and Contingent Assets. Differences concern the application of parts of the standard to the Crown, the definition of contingent assets, the treatment of reimbursements, and certain additional disclosure requirements.

Financial Reporting Standards issued but not yet applicable:

- ☐ FRS-5, Events After Balance Date: periods ending on or after 30 June 2001.

Exposure drafts that are likely to give rise to financial reporting standards in the foreseeable future are:

- ☐ ED 82, Accounting for Property, Plant and Equipment
- ☐ ED 83, Accounting for Acquisitions Resulting in Equity Combinations
- ☐ ED 84, Consolidating Investments in Subsidiaries
- ☐ ED 87, Accounting for Intangible Assets
- ☐ ED 89, Summary Financial Statements (Submissions close 31 January 2001)

PAKISTAN

Contact: *Usman Ghani Akbani*

The Securities and Exchange Commission of Pakistan has adopted three new International Accounting Standards as part of company law, making them mandatory for all listed companies:

- ☐ IAS 35, Discontinuing Operations
- ☐ IAS 37, Provisions, Contingent Liabilities and Contingent Assets
- ☐ IAS 38, Intangible Assets

Adoption of IAS 39, Financial Instruments: Recognition and Measurement, is under consideration.

PHILIPPINES

Contact: *Melissa S. Delgado*

The Accounting Standards Council (ASC) approved the following Statements of Financial Accounting Standards (SFAS), both effective 1 January 2001:

- ❑ SFAS No. 31, Segment Reporting (based on IAS 14).
- ❑ SFAS No. 30, Interim Financial Reporting (based on IAS 34).

Also, ASC approved a Framework and four revised SFAS based on IAS:

- ❑ Framework for the Preparation and Presentation of Financial Statements. The Framework, which is based on the IASC Framework, sets out the basic concepts and definitions that underlie SFAS.
- ❑ SFAS No. 1 (revised 2000), Presentation of Financial Statements. Based on IAS 1.
- ❑ SFAS No. 4 (revised 2000) Inventories. Based on IAS 2.
- ❑ SFAS No. 13 (revised 2000), Net Income or Loss for the Period, Fundamental Errors and Changes in Accounting Policies. Based on IAS 8.
- ❑ SFAS No. 22 (revised 2000), Statement of Cash Flows. Based on IAS 7.

In addition, ASC has approved two new exposure drafts, both proposed to be effective 1 January 2002:

- ❑ Exposure Draft 43, Discontinuing Operations.
- ❑ Exposure Draft 44, Impairment of Assets.

SINGAPORE

Contact: *Dinyar Framjee*

The Institute of Certified Public Accountants of Singapore (ICPAS) is continuing its policy of harmonising Singapore Statements of Accounting Standard (SAS) with IAS. The ICPAS has announced their plan to simultaneously issue exposure drafts and standards with the IASC and to make the standards effective in the quarter following adoption. None of the outstanding exposure drafts listed in the October 2000 issue of **IAS PLUS** was adopted by 31 December 2000.

However, in late 2000 the Disclosure and Accounting Standards Committee of the Institute of Certified Public Accountants of Singapore, which was formed to propose changes to the Singapore Companies Act, announced its recommendation that Singapore adopt the IAS and US standards as the only acceptable accounting standards in Singapore. If this is done, Singapore accounting standards would be eliminated.

VIETNAM

Contact: *Rowell Tan*

The Ministry of Finance (MOF) has adopted program for creating a system of accounting and auditing standards for Vietnam. The accounting standards will be based on International Accounting Standards (IASs) approved by the International Accounting Standards Committee, and the auditing standards will be based International Standards on Auditing (ISAs) approved by the International Auditing Practices Committee of the International Federation of Accountants (IFAC). The standards will be applicable to all enterprises and auditing firms operating in Vietnam.

The Vietnamese Standards on Accounting and Auditing Committee of the MOF has completed reviewing the first four drafted accounting standards, covering inventory, tangible assets, intangible assets, and revenue. Comments obtained from the members of the Committee are currently being considered. It is envisaged that these accounting standards will be finalised in the second quarter of 2001.

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